Fertiliser Market Outlook

June 2016, Issue 4

AGRICULTURE & HORTICULTURE DEVELOPMENT BOARD

Market Overview

CF Industries and OCI terminate proposed merger

On the 23 May 2016, CF Industries and OCI announced the termination of the proposed merger of CF and OCI's European and North American distribution business. The consolidation under discussion was of immense proportions and was valued at US$8 billion (£5.4 billion).

The merger would have been the most significant M&A development within the nitrogen industry in recent history and would have possibly streamlined distribution and production of CF products in Europe and the UK. It highlighted the surge of acquisitions and industry consolidations in which CF has been involved. The most significant of these consolidations was CF's acquisition of the remaining 50% interest in UK based nitrogen producer, GrowHow, from Yara in July 2015, and the sale of its 50% stake in Swiss based fertiliser trading company, Keytrade AG.

In October 2014, Yara and CF terminated similar merger discussions to the OCI deal, leaving CF still attempting to gain additional presence in the global nitrogen industry with the proposed OCI merger announced in August 2015. Initially, the plan was solidly approved by both companies' boards of directors, and CF was set to gain OCI's nitrogen production site in the Netherlands and soon-to-be built nitrogen project in Iowa in the United States, as well as its global distribution business.

In a press release issued by both CF and OCI, the global commercial environment and regulatory framework was stated as the principal reason for the end of negotiations. The initial agreement between CF and OCI included the rehoming of CF's headquarters to the UK, which then became the Netherlands in a move aimed to improve the company's tax status. Ultimately, the plan succumbed to the US Treasury's clampdown on tax-inversion practices.

As well as the two failed CF deals, in October 2015 PotashCorp also withdrew its US$8.8 billion (£6 billion) bid for K+S, a major potash supplier in Europe. In the face of weak fertiliser prices and demand and currency volatility, there is reduced appetite for deal-making in the fertiliser industry. Nonetheless, overcapacity in some regions points to opportunities for consolidation and begs the question – who will make the next move?

Key points

- Global market remains fundamentally oversupplied across all nutrients
- Downward pressure on pricing continues across all nutrients as a result of global supply glut
- Chinese exports down across all products
- Merger between CF Industries and OCI halted
- Demand limited across all nutrients with most buyers in wait-and-see position

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Nitrogen

Demand

The global nitrogen market has continued to be in a slump, with no major changes in demand noted. Stocks remain depleted rather than new purchases to replenish taking place.

In the UK, poor springtime weather led to domestic distributors holding off deliveries of outstanding urea cargo to farms. Moreover, the lack of domestic demand remained largely unchanged, although there was a slight upturn in AN demand in April.

There is some optimism about a rise in demand for urea heading into June, but there is caution among buyers, who are keen to avoid being stuck with high priced product if they do replenish stocks.

Supply

Oversupply remains rampant in the global nitrogen market, which has continued to drive prices down and left many producers uncertain as to when demand will pick up.

There was a noted drop in exports of nitrogen fertilisers from China seen in Q1, as reported by Chinese customs authorities. China exported 3 million tonnes of urea in Q1 2016. This is nearly a third less than in the same quarter in 2015, when China exported 4.4 million tonnes. A similar trend was also noted in AN, UAN and AS, all experiencing weak exports in response to downward pressure on pricing and a worldwide glut of supply.

Despite the excess supply, there are a variety of substantial projects in the US which are making headway towards completion. This will boost global capacity for nitrogen fertilisers by roughly 6 million tonnes by the beginning of 2018. It is expected that these projects will cut imports of nitrogen into the US, applying further pressure to global supply.

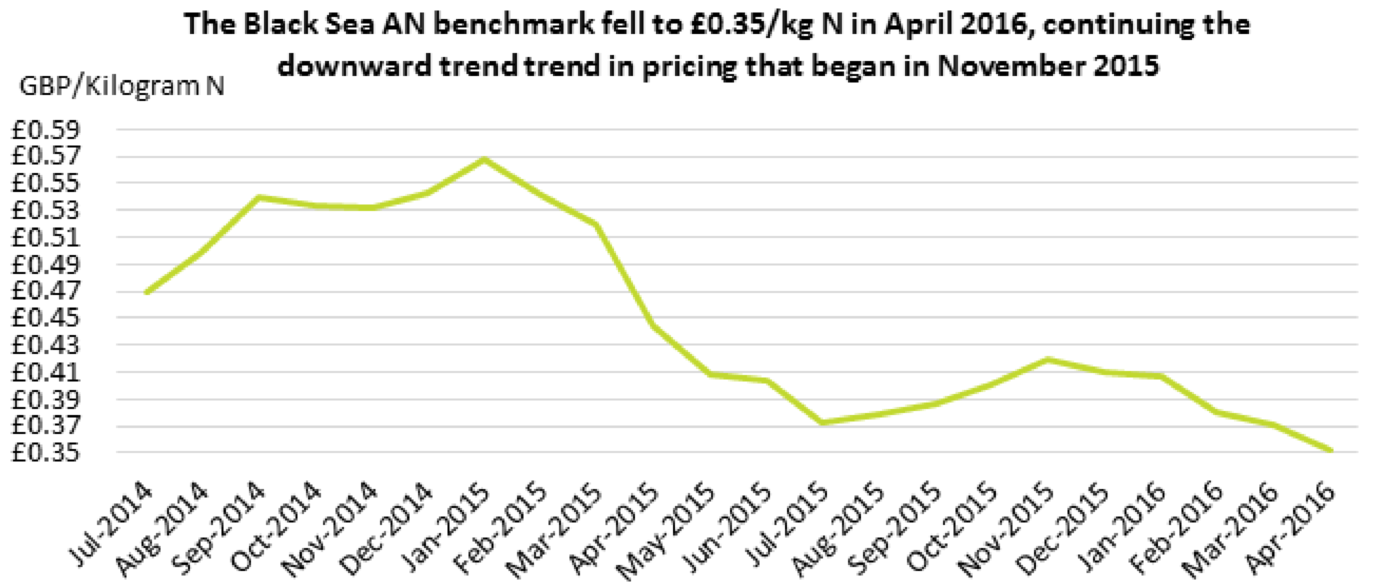
Prices

Pricing across nitrogen products has continued to remain weak over the past two months, as downward pressure on pricing continued, due to global oversupply. The Black Sea AN price dropped to £0.35/kilo N in April 2016, the lowest recorded price in nearly six years.

There is a similar situation in urea as prices continue to fall. Granular urea hit an average of £0.32/kilo N in March and April 2016.

There has yet to be a trigger for a pricing upturn in 2016 across all nitrogen products, as end users continue to deplete stocks instead of purchasing.

The decrease in Chinese nitrogen exports has not had an impact on prices so far. Most buyers are in a wait-and-see position, hoping to avoid being stuck with higher priced inventories, as prices continue to slip with no floor yet to be reached.



Source: ICIS Fertilizers

Note: AN = ammonium nitrate. Prices are FOB Black Sea and displayed in GBP per kilogram and in nutrient terms, assuming 33.5% nitrogen

P Phosphates

Demand

In Europe, including the UK, the application season is coming to a close, and demand is generally subdued. There is a lack of demand seen across Europe, with only some small replenishment demand taking place.

The impending monsoon season in India is set to begin in June. There is speculation that buyers may begin to make DAP purchases in preparation for the heavy rains.

There remains a lack of demand for MAP in the Brazilian market, as buyers in the region are yet to complete purchases. Farmers and distributors are waiting to see if prices will reduce further, and are therefore depleting stocks rather than purchasing more MAP.

Supply

There was continued oversupply of phosphate fertiliser in April and May and as a result, some producers were seen cutting production and export volumes in order to curb the oversupply and reduce the downward pressure on pricing.

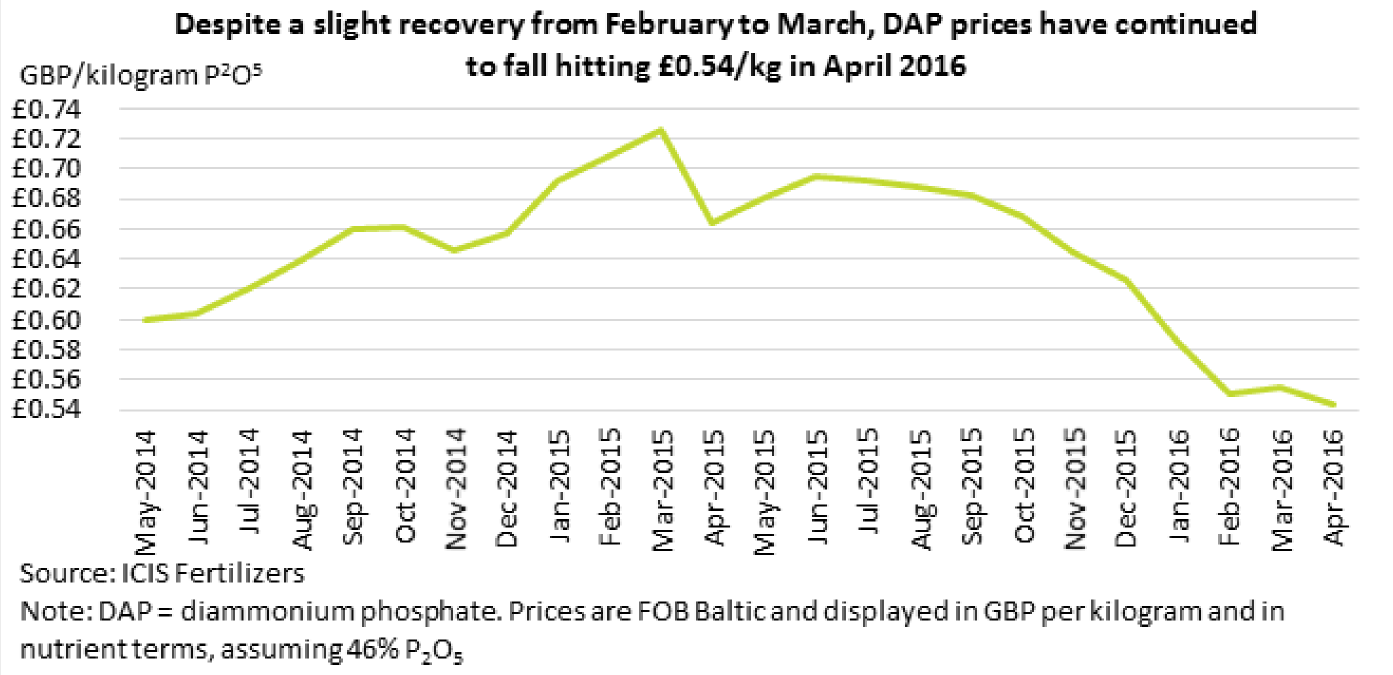
The reduction in export volumes was seen most notably in China. The latest Chinese customs data showed that phosphate exports were down by 40% year-on-year in Q1 2016, reaching just over 0.5 million tonnes. Chinese sellers have struggled to place tonnage on the global market throughout Q1 2016, with clashing price expectations between Chinese sellers and foreign buyers noted .

Prices

The pricing of phosphate products remains weak, with persistent downward pressure caused by global overabundance and lacklustre demand.

Despite a slight upturn in pricing seen between February and March to £0.56/kilo P_2O_5, the pricing continued to slip heading into April. The average DAP price (FOB Baltic) for April 2016 rested at £0.54/kilo P_2O_5, reaching its lowest recorded point since December 2013.

The reduction in exports and production from producers has yet to increase prices. Stronger demand from the Indian market could potentially trigger an upturn in the coming months.



K Potash

Demand

Demand for potash has remained stagnant globally, as buyers continue in a wait-and-see position for Chinese contracts to be settled. There are some indications that the Chinese contracts are expected to be settled in June, which should kickstart global demand, with some buying expected in Europe and the UK as a result.

Supply

Intrepid Potash announced that it would be idling its 380,000 tonne per year West mine near Carlsbad, New Mexico in the US in May. The suspension is seen as a reaction to the testing pricing conditions that are rippling through the market in 2016.

On 13 April mining operations were temporarily suspended at ICL's Boulby mine, located in Redcar and Cleveland, due to a fire. The mine was closed for one day following the blaze, which left seven workers needing treatment for smoke inhalation. There was no consequential effect on production.

Prices

Prices have continued their downward trajectory over the past two months, with the MOP (FOB Vancouver) price reaching £0.28/kilo K_2O in April, down from £0.35/kilo K_2O in April 2015.

2016 has yet to see a pricing upturn, and pricing is reaching near decade lows as producers struggle to find a pricing floor. Buyers continue to wait for Chinese contract negotiations, hoping it may give some stability to pricing.

Explanation of pricing

Black Sea AN, Yuzhny Urea, Vancouver MOP and Baltic DAP prices are international benchmark prices. Prices into the UK will vary from those shown in the report, depending on local market conditions and additional freight and taxes.

The fertiliser prices are converted into GBP £ terms from US dollars, in which the prices are originally reported. The price is also converted from product tonnes into nutrient kilogram (kg) terms. An example of how the nutrient and kg adjustment adjusts the price is shown in the table below.

Spec. of Product / Product Price	AN	Urea	TSP	MOP
	33.5%	46.0%	46.0%	60.0%
	Nitrogen	Nitrogen	Phosphate	Potash
	335 kg N/t	460 kg N/t	460 kg P_2O_5/t	600 kg K_2O/t
GBP/t	**GBP/kg N**	**GBP/kg N**	**GBP/kg P_2O_5**	**GBP/kg K_2O**
£400/t	£1.19/kg	£0.87/kg	£0.87/kg	£0.67/kg
£375/t	£1.12/kg	£0.82/kg	£0.82/kg	£0.63/kg
£350/t	£1.04/kg	£0.76/kg	£0.76/kg	£0.58/kg
£325/t	£0.97/kg	£0.71/kg	£0.71/kg	£0.54/kg
£300/t	£0.90/kg	£0.65/kg	£0.65/kg	£0.50/kg
£275/t	£0.82/kg	£0.60/kg	£0.60/kg	£0.46/kg
£250/t	£0.75/kg	£0.54/kg	£0.54/kg	£0.42/kg
£225/t	£0.67/kg	£0.49/kg	£0.49/kg	£0.38/kg
£200/t	£0.60/kg	£0.43/kg	£0.43/kg	£0.33/kg
£175/t	£0.52/kg	£0.38/kg	£0.38/kg	£0.29/kg
£150/t	£0.45/kg	£0.33/kg	£0.33/kg	£0.25/kg
£125/t	£0.37/kg	£0.27/kg	£0.27/kg	£0.21/kg
£100/t	£0.30/kg	£0.22/kg	£0.22/kg	£0.17/kg

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