Ample supplies keep fertiliser prices in check

THE recently released Rabobank Global Fertiliser Outlook suggests that phosphate prices are at their lowest level in more than 10 years, with a significant drop-off in demand and additional supplies expected to continue to keep a lid on prices into 2020.

In response to lower demand, driven by weather issues in the US and India during last year's planting season, some phosphate producers cut production temporarily, although the report says a resumption in production is expected in 2020. And this is likely, it says, to keep prices below the 2019 average during the first half of this year.

But looking further forward, a firmer recovery during the second half of 2020 will depend on whether crop commodity prices rise, lifting demand for fertiliser.

In nitrogen markets, the report says prices have been supported by increased import demand from India, with the global urea price expected to increase further in the first half of 2020 due to an improvement in US demand and ongoing Indian import demand.

That said, "given recent increases in capacity and China's continued presence in the international market", the report says the current level of production is likely to limit prices below last year's average.

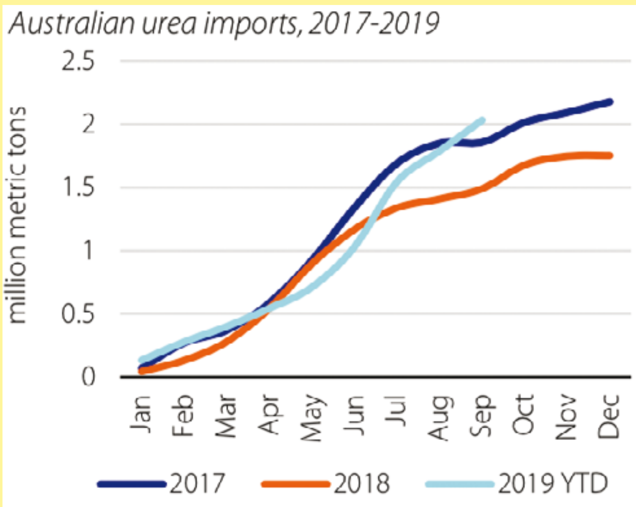
Australia

For Australia, the report says below-average local demand is set to keep prices in line with global values.

Agricultural analyst Wes Lefroy says Australia is heavily reliant on imports of fertiliser, ensuring local prices are dictated by global price movements.

"While global benchmarks are the key driver of farmgate fertiliser prices, currency movements – as well as ocean and road freight costs – also play a key role," he says.

FIGURE 1: Australian urea markets are well supplied ahead of 2020



Source: CRU, Rabobank 2019

In 2020, Wes says, Australian farmers are likely to be more conservative with their fertiliser programs, which will also keep a lid on any demand-driven local price rises – especially for nitrogen.

"If healthy rainfall arrives prior to the upcoming winter crop planting season, we expect farmers will take a conservative strategy towards their nutrient application, as many recover from drought or a below-average crop," he says.

During the 2018–19 season, Wes says, despite tough seasonal conditions, demand for phosphate was in line with previous years, with sales (according to Fertiliser Australia) up slightly by 0.3 per cent (year-on-year), an increase of 1.2 per cent on the five-year average.

"Demand for phosphate is determined by the area planted to crop, whereas nitrogen application rates fluctuate according to how the season is playing out," he says. "And we saw this last season, with Fertiliser Australia reporting a 5.3 per cent drop in nitrogen sales year-on-year."

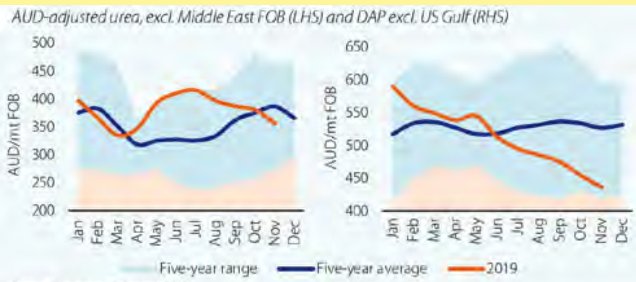
Wes says once the season turns, local urea (nitrogen) stocks are well supplied and this will help mitigate any localised shortages witnessed during the 2019 winter.

"As of September 2019, year-to-date urea imports are well ahead of imports for the same period from 2017 and 2018," he says.

Conservative application strategies will keep a lid on any demand-driven price rises during 2020

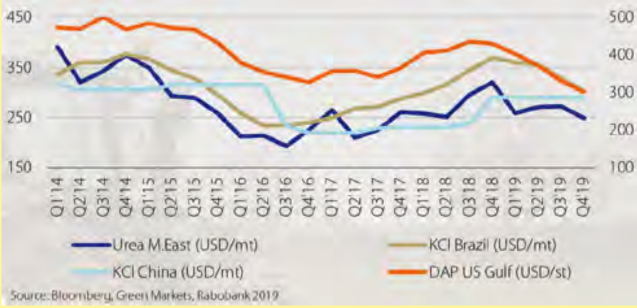
- If healthy rainfall arrives prior to winter crop planting next season, Rabo expects farmers will take a conservative strategy toward nutrient application, as many recover from drought or a below-average crop in 2019. As a result, we expect below-average demand will keep Australian fertiliser values in line with global benchmarks during 2020.
- Heading into 2020, local urea stocks are well supplied, which will help mitigate any localised shortages witnessed during the 2019 winter. According to the latest import data supplied By CRU, 2.03 million tonnes (mt) made its way to Australian shores in 2019. This is well above the 1.86 and 1.49 mt imported during the same time period in 2017 and 2018, respectively.
- The Australian dollar is expected to weaken against the US

FIGURE 2: AUD-adjusted global prices of urea and DAP are now below the five-year average



Source: Bloomberg, Rabobank 2019

FIGURE 3: Fertiliser prices – USD/tonne (LHS), USD/short ton (RHS)



dollar in 2020 and to trade at 0.65 by November. A weaker currency will reduce local importers' purchasing power and bring some upward pressure to local fertiliser prices.

International fertiliser market

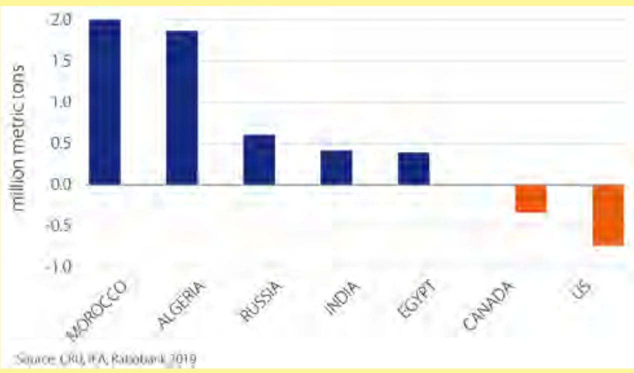
Nitrogen

- Urea imports into India were boosted in the second half of 2019, as delayed subsidy payments reduced domestic production. This additional demand for second-semester volumes, together with higher imports from Australia and uncertainties regarding Iran and China, gave some support to prices.
- But Chinese exports appeared very solid from July onward, forcing prices down. Despite the restrictions on nitrogen production, a sum of factors, such as lower local demand, reduction on energy costs, zero export tariffs, and a weak CNY vs. USD, has led to an excess of supply and driven companies to foreign markets.
- In the US, the soybean/corn ratio fell below 2.4 at CBOT, and the relatively high price of wheat is expected to stimulate US farmers to switch away from soybean crops and increase nitrogen demand for the next crop season.

Rabobank expects prices to recover during the first half of 2020 in response to the improvement of US demand and the maintenance of Indian demand at higher levels. But given recent increases in capacity and China's continued presence in the international market, the current level of production is likely to limit prices to below last year's average.

FIGURE 4a: DAP/MAP imports of selected countries by quarter, 2016–19[e]

FIGURE 4b: Processed phosphates' capacity change forecast, 2018–23[f]



Phosphate

Processed phosphate prices are at their lowest level in more than 10 years

The phosphate market faced a significant reduction in demand during 2019, due to weather issues in the first half of the year in the US and India, higher fertiliser prices, and relatively low commodity prices.

Weather issues in the US during planting season reduced spot demand, which, combined with record imports from October 2018 until March 2019, resulted in higher stocks.

Aside from the demand decrease, the steady increase of new phosphate capacity in 2017 and 2018 finally hit the market in 2019. By November, MAP and DAP prices had lost one-third of their value in 12 months and now are at their lowest levels in more than 10 years.

A temporary reduction of production – for maintenance or because of negative margins – is likely to promote a small recovery in DAP and MAP prices, in spite of low demand. For the first half of 2020, the resumption of production may keep prices below the 2019 average. A firmer recovery during the second half of 2020 will depend on commodity prices.

Potash

Lower global demand and higher stocks have put pressure on prices.

The strong demand for potash in the US, Brazil, and China supported prices during the first half of 2019, but slowing demand in the northern hemisphere after plantings revealed the excess of supply.

Aside from the weather issues in the US that cut demand, commodity prices (palm oil, soybeans, cotton, and coffee) have leveled off at five-year lows, giving no support to higher potash prices.

In order to control local inventories, some companies are temporarily cutting the less efficient production plants. This may balance the potash supply-and-demand scenario and, together with Chinese contracts, create some support for price recovery. Until then, the lack of demand will keep pressuring prices down.