

Potash the new crude

Chinese agency agrees to hike price by \$400 US a tonne

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Saskatchewan potash is the new crude oil, according to one market analyst monitoring the historic rise in value of the plant nutrient.

On Wednesday, the same day crude reached a record high, shares in potash companies spiked based on news the largest distributor of fertilizer products in China -- Sinofert Holdings Ltd. -- has agreed to pay \$400 US more per tonne of Saskatchewan potash this year than in 2007. The Port of Vancouver FOB price of \$576 US that Sinofert agreed to in negotiations with Canpotex Ltd., the offshore marketer for Saskatchewan potash producers, is higher than most analysts expected, said Patricia Mohr, vice-president of economics at Scotiabank in Toronto.

"It's up as much as crude oil and maybe a little more," Mohr said in a telephone interview. "It's very good news for the potash producers in Saskatchewan and for shareholders."

Due to the timing of the agreement and demand from other world markets Canpotex, which has prorated China's 2008 volumes, has only one million tonnes of potash it can commit to China through the remainder of the year. In 2007, Canpotex sent 2.5 million tonnes of Saskatchewan potash to the Asian country.

Still, Saskatchewan's potash industry will gain momentum from the agreement with Sinofert and a recent negotiation with India seeing distributors in that country pay \$625 US per delivered tonne this year, an increase of \$355 US per tonne over 2007, said Mohr.

"It puts the industry on a very firm footing, so all the different kinds of equipment and supplier industries to the potash industry will be doing quite well. And the province's tax take from the industry, the tax revenue, will be going up a lot, I assume," she said. "It will eventually percolate down to suppliers and there will be a lot of jobs opening up in construction for some of the mine expansions that the companies have, so there will be more job opportunities."

Richard Downey, director of investor relations for Agrium Inc., one of the three Saskatchewan potash producers represented by Canpotex, (the others are Mosaic Co. and Potash Corp. of Saskatchewan) said the closely watched agreement with Sinofert is still a good deal -- even though less product is heading to the Asian nation than last year.

"The reality is the market was extremely tight, and with the Indian deal behind us we would be hard-pressed to supply a lot of potash to China anyway, especially in the near future," Downey said from his Calgary office.



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A shortage of labour and equipment in Western Canada is a challenge for the industry which sees the problems working to push commodity prices higher, he said.

"Just with all the projects that are going on with all the commodities, the minerals, the oil and gas as well as the potash side of things, it makes the time horizon a little tougher and it makes the costs a little higher."

But nothing is pushing potash prices higher than farmers working to meet world food and fuel demand, said Denita Stann, PotashCorp's director of investor relations. Speaking from the company's Northbrook, Ill., office, Stann said global tastes are turning to protein-rich diets.

"They key to really understanding what's driving this globally is the pressure on food production and the shifting diets that you're starting to see in China and other areas in southeast Asia," she said. "In terms of what's driving our business, that is it."

PotashCorp, which supplies 54 per cent of Canpotex's potash supply and also owns 20 per cent of Sinofert, understands the amount of potash that the world needs is going to continue to grow, she said.

"The volumes, I think, reflect the fact that there's tremendous pressure on potash globally. It's a very tight market and it really all comes back to the intense pressure on food production around the world," Stann explained. "Farmers are trying to bring their yields up and really, fertilizer is a critical part of that."

At the end of trading Wednesday, PotashCorp's stock value on the TSX exchange had risen by \$10.35, or 5.5 per cent to close at \$199.08, a clear indication that the company isn't the only group that sees a strong future in potash. Last year, PotashCorp recorded a record net income of \$1.1 billion. The company is currently experiencing a year-over-year share price increase of 201 per cent.

Agrium's value rose by \$6.20, or 7.7 per cent, to \$86.70 Wednesday while Mosaic's value, which trades on the New York Stock Exchange, rose by \$9.22 US, or 7.23 per cent, to close at \$136.82 US.

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