Rabobank Fertiliser Quarterly Q4: Cloudy with a change of Spring demand

**As fertiliser supply appears set to outweigh demand globally, the forecast for Q1 2015 looks rather cloudy in terms of pricing according to Rabobank’s latest *Fertliser Quarterly* report. While Spring demand in the Northern Hemisphere will prevent prices from slipping significantly, Rabobank believes that lower farmer margins will make that farmers will be more prudent in fertiliser application, but a strong demand destruction is unlikely.**

An increase in urea supply in the first quarter of 2015 will set the tone for global urea prices. Supply is likely to outstrip demand in Q1 2015 as rumoured brand new capacity in Algeria and Egypt comes on-line and the just-announced change in Chinese export tariff is likely to boost urea availability. China will replace its tax seasons by a single flat tariff of 80 CNY/tonne for urea

“Chinese urea export availability could improve by another 10-15% in FY 2015, as China seems very close to abolishing its policy of separate tax windows”, says Rabobank analyst Suzanne Pera. “This would amount to 11.6- -12.1 million tonnes based for FY 2015”

However, spring demand for urea in the Northern Hemisphere could prevent prices from slipping significantly, providing a floor for the global urea market. The Southern Hemisphere is mostly out of season, and demand is largely covered.

Spring demand in the Northern Hemisphere would normally provide upside in phosphates as well when combined with supply management. However, the new Chinese tax policy of 100 CNY/tonne for DAP, will will provide downside, as ailability of phosphates would improve If prices decline significantly, some buyers might be inclined to lock in prices.

Meanwhile, the potash market is awaiting the outcome of negotiations between suppliers and China for the Q1 2015 price direction. Continued pressure on farmer margins in the US and Europe is likely to drive spring potash applications lower by as much as 5%. Relatively high inventories and downward price pressure on grains and oilseeds will put a lid on further price increases.

“Reduced global demand and relatively high inventories in significant spot markets give China pricing power, despite producer-managed supplies and a flooding accident at one of the Russian mines”, says Global Strategist Dirk Jan Kennes.

Rabobank believes that for now the most likely scenario is that China will roll-over on its 305 USD/tonne CFR contract.

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