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Short-Term Fertilizer Outlook 2012 – 2013

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This Short-Term Fertilizer Outlook was prepared by Patrick Heffer, Director of the IFA Agriculture Service, and Michel Prud'homme, Director of the IFA Production and International Trade Service. It presents an overview of short-term prospects for world agriculture and fertilizer demand, as well as the global fertilizer supply and trade situation in 2012 and 2013.

This report is available to the general public on the IFA web site, or by request to the IFA Secretariat.

The Short-Term Fertilizer Outlook draws on the final versions of two IFA reports presented at the 38th IFA Enlarged Council Meeting held in Rome in November 2012: *Short-Term Prospects for World Agriculture and Fertilizer Demand 2011/12-2013/14* (A/12/168) and *Global Fertilizer Supply and Trade 2012-2013* (A/12/144b). These two comprehensive reports are restricted to IFA members only.

The first part of the Short-Term Fertilizer Outlook looks at the global economic context and agricultural situation. The second part provides updated fertilizer consumption estimates for 2011/12 and demand forecasts for 2012/13 and 2013/14. The third part presents IFA's perspective on fertilizer supply and supply/demand balances for 2012 and 2013.

PART 1 – GLOBAL ECONOMIC CONTEXT AND AGRICULTURAL SITUATION

1.1. Global Context

World economic recovery is fragile and subject to significant risks

Following 3.8% growth in world output in 2011, economic activity has suffered a new setback in 2012. According to the International Monetary Fund (IMF), world growth has slowed to 3.3%. This disappointing output gain is mostly due to the global impact of the euro crisis. GDP expansion is projected to be 1.3% in advanced economies and 5.3% in emerging and developing economies. In 2013, recovery of economic growth would remain hesitant and uneven. Global output is seen as rising by 3.6%, but growth in most economies would remain well below that in 2010. Risks to the outlook remain high.

Weak economic activity has an impact on commodity prices. After a strong rebound in 2010 and 2011, oil prices are seen as almost unchanged in 2012 while non-fuel commodity prices would contract by some 10%. IMF's projections to 2013 show marginally declining average prices for both oil and non-fuel commodities. Geopolitical risks, especially in the Middle East, could strongly affect the oil outlook.

Easing food insecurity remains a high priority in developing countries

In the current context of high agricultural commodity and food prices, food security is a major topic on the policy agenda of most developing countries.

Biofuel production has been an important driver of world agriculture over the past decade. Output growth has started to decelerate since 2009 because production is approaching the 'blend wall' in the United States (US), leaving little room for further increase, while biofuels are losing political support in the European Union (EU) and investments in renovating aging cane plantations in Brazil have been insufficient since 2008.

The US and the EU are renegotiating their respective agricultural policies (the Farm Bill in the US and the Common Agricultural Policy in the EU) under budgetary cut pressures, as the current policy focus in developed countries is on debt reduction and economic recovery.

On the trade side, the Doha Round of Trade Negotiations is making little progress. In August Russia became the 156th member of the World Trade Organization (WTO).

Environmental policies were at the forefront of political negotiations in June during the United Nations Conference on Sustainable Development (Rio+20). Green growth in the context of sustainable development and poverty eradication was prominent in the debates.

1.2. Agricultural Situation

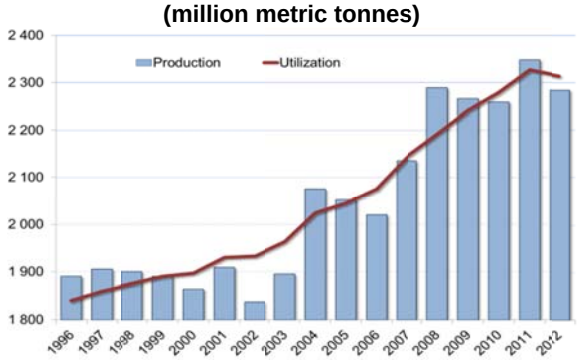
Drought in the US and the CIS trigger exceptionally tight grain market conditions

Unfavourable weather events negatively impacted agricultural production in 2012 in some of the major producing and exporting regions. La Niña conditions severely impacted the 2012 soybean harvest in Argentina, Paraguay and the southern states of Brazil. As a result, the 2012 South American soybean output is seen as down by 15% compared to previous year. Later in the year, the US experienced its worst drought in decades. The US maize yield dropped by 17% compared to 2012, and by as much as 26% compared to the record of 2009. Despite a larger planted area, domestic maize output contracted by 13% year-on-year. A major dry spell also affected southeastern Europe and Central Asia during most of the growing season. In both Russia and Ukraine, the 2012 wheat and coarse grain harvests dropped by 30 and 13%, respectively.

In 2012, farmers responded to tight market conditions and attractive grain prices but their attempts to increase productivity were constrained by adverse weather conditions. Forecasts by the Food and Agriculture Organization of the United Nations (FAO), the United States Department of Agriculture (USDA) and the International Grains Council (IGC) all point to a contraction of global cereal output by 2.7 to 3.7% compared to the previous season, with a strong drop for wheat, a smaller crop for coarse grains and a marginal gain for rice. The major production shortfall in developed countries (-10%) would be partly offset by gains in developing countries (+2.7%). The 2012 cereal harvest is seen as only 1.1% above the average for the past five years, but it would still be the third largest cereal output ever after the 2011 and 2008 bumper crops.

Wheat and coarse grain production would be well below previous highs, reflecting unfavourable weather in the US and the Commonwealth of Independent States (CIS). In contrast, the 2012 rice output would reach a new record. World oilseed production dropped by 3.4% in 2011/12 due to the drought-affected South American harvest. The aggregate oilseed output is seen as rising by 4.8% in 2012/13, boosted by record plantings and an expected return to average yields in Brazil and Argentina. With cane productivity seen as rebounding in Brazil, global sugar production would expand by 2% in 2012/13. In contrast, world cotton output would decline by 6% in response to very large inventories and declining prices.

World Cereal Production and Utilization (million metric tonnes)



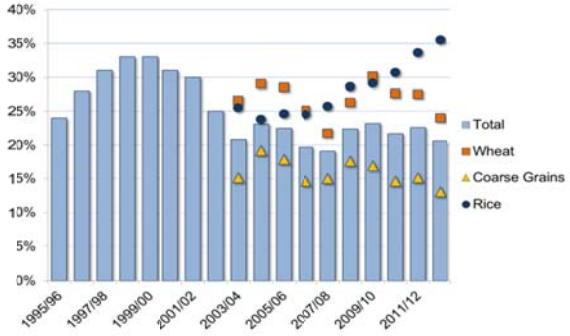
Source: FAO

High wheat prices are expected to stimulate winter wheat plantings in the northern hemisphere. Assuming normal weather conditions during the winter and the growing season, the 2013 global wheat harvested area is forecast to be up by 2%.

World cereal utilization is seen as dropping in 2012/13 because feed and industrial uses are impacted by high grain prices. This would be the first year-on-year contraction in cereal uses for at least 15 years. Global oilseed uses would also slightly retreat.

World cereal utilization is anticipated to surpass production in 2012/13, resulting in a deficit and declining inventories. The world cereal stock-to-use ratio is seen as comfortable for rice, low for wheat, and very low for coarse grains. The wheat ratio would decline for the third consecutive year and would drop to its lowest level since 2007/08; the ratio for coarse grains would contract to its lowest level since at least 1980; and the ratio for rice would increase for the sixth consecutive year. In the case of soybean, global inventories are relatively low but are seen as rebounding in 2013, assuming there is a bumper crop in South America.

Global Cereal Stock-to-Use Ratio



Source: FAO

In this context of very tight supply-demand balances for some of the most strategic agricultural commodities, international prices of wheat, maize and soybean have surged in 2012. They are likely to remain firm and volatile until harvest in the southern hemisphere, if not spring plantings in the northern hemisphere. In contrast, because of ample availabilities and/or rebuilding inventories, rice, sugar and cotton prices are either stable or trending down.

PART 2 – GLOBAL FERTILIZER DEMAND

Crop prices and fertilizer subsidies drive farmers' fertilization practices

Current high agricultural commodity prices should stimulate fertilizer demand in countries where farmers respond to market signals, notably in North and South America, Europe and Oceania. Nitrogen (N) fertilizer demand should benefit more from this situation than demand for phosphorus (P) and potassium (K) fertilizers. However, farmers may take this opportunity to replenish their soil P and K reserves, which they are mining for a long period of time in many grain-producing areas. In countries less responsive to price signals, consumption is largely influenced by fertilizer subsidies and crop procurement prices. Implementation of the Nutrient Based Subsidy in India has resulted in a rapid increase in domestic retail prices for P and K fertilizers, and in a fast-rising price differential between urea and non-urea fertilizers. This change has triggered a significant drop in domestic P and K fertilizer demand, widespread adoption of unbalanced fertilization practices, and steadily declining fertilizer N use efficiency.

Following weak growth in 2012/13, world fertilizer demand is seen as reaching a new record in 2013/14, at 182 Mt nutrients

Following a strong recovery in 2010/11, global fertilizer demand is estimated to have increased by 2.4% in 2011/12 to 176.8 million metric tonnes (Mt) nutrients, reflecting attractive prices for most agricultural commodities since the middle of 2011. Changes to fertilizer subsidies in India impacted P and K consumption trends. N fertilizer demand rose by an estimated 3.0% to 107.5 Mt N. World P fertilizer demand grew much more moderately (+1.2%) to 41.1 Mt P_2O_5, as consumption dropped in both China and India. K demand continued its rebound (+2.1%), to 28.2 Mt K_2O. Demand is estimated to have increased in all the regions but West Asia, Western and Central Europe and South Asia.

Global Fertilizer Consumption (Mt nutrients)

	N	P_2O_5	K_2O	Total
2007/08	100.8	38.5	29.1	168.4
2008/09	98.3	33.9	23.1	155.3
2009/10	102.2	37.6	23.6	163.5
2010/11	104.3	40.6	27.6	172.6
2011/12 (e)	107.5	41.1	28.2	176.8
Change	*+3.0%*	*+1.2%*	*+2.1%*	*+2.4%*
2012/13 (f)	109.1	40.0	28.2	177.3
Change	*+1.5%*	*-2.7%*	*+0.1%*	*+0.3%*
2013/14 (f)	110.7	41.4	29.5	181.6
Change	*+1.5%*	*+3.5%*	*+4.5%*	*+2.4%*

Source: IFA

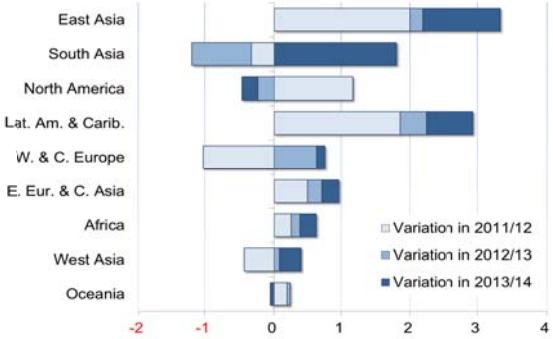
In response to extremely tight supply-demand balances for maize, wheat and soybean, and attractive international prices for these crops, world fertilizer demand is seen as rising moderately (+0.3%) and reaching a new record at 177.3 Mt. Global N demand would increase by 1.5% to 109.1 Mt, as farmers optimize yields to benefit from current high crop prices but, simultaneously, improve N use efficiency. World P demand is seen as contracting by 2.7% to 40.0 Mt, driven by further declines in both China and India. K demand would remain virtually unchanged at 28.2 Mt. Total fertilizer demand is forecast to drop in South Asia and North America. It would rebound in Western and Central Europe and West Asia. It is seen as almost unchanged in East Asia and would expand in all the other regions.

Forecasts to 2013/14 are speculative in view of the uncertain global economic outlook. Nevertheless, tight grain markets are expected to stimulate fertilizer demand. As a result, global demand in 2013/14 is seen as rising at a higher rate than in 2012/13 because P and K fertilizer demand in India is expected to recover progressively. Aggregate demand is forecast to be up by 2.4%, to 181.6 Mt.

Demand for P and K fertilizers would grow firmly: +3.5% to 41.4 Mt for P, and +4.5% to 29.5 Mt for K. A more moderate increase of 1.5%, to 110.7 Mt, is projected for N.

Demand is forecast to expand in all the regions with the exception of North America and Oceania.

Projected Evolution of Aggregate Regional Fertilizer Demand (Mt nutrients)



Source: IFA

Risks to the P and K fertilizer outlook are mainly oriented to the upside

The baseline forecast for 2013 and the first half of 2014 has a relatively high level of uncertainty, with risks to the downside and the upside. The main risks relate to the evolution of world economic activity, weather shocks in the main agricultural regions, and the evolution of the Nutrient Based Subsidy in India. For N, risks to the upside and the downside are seen to be of similar magnitude, while risks for P and K are seen as higher to the upside, especially in 2013/14 because there is a need to rebalance fertilization in many parts of the world.

PART 3 – GLOBAL FERTILIZER SUPPLY

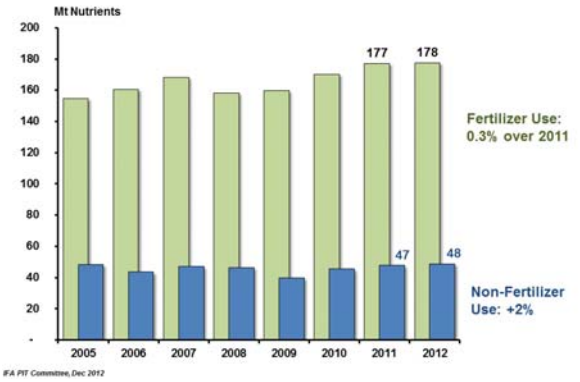
World nutrient sales marked an unexpected pause in 2012, which affected global fertilizer production and trade levels. Global fertilizer demand was static, with lower consumption seen in key consuming countries.

This slowdown was dictated by economic uncertainties in several large countries, unfavourable weather conditions, and variations in exchange rates.

Global nutrient sales in 2012

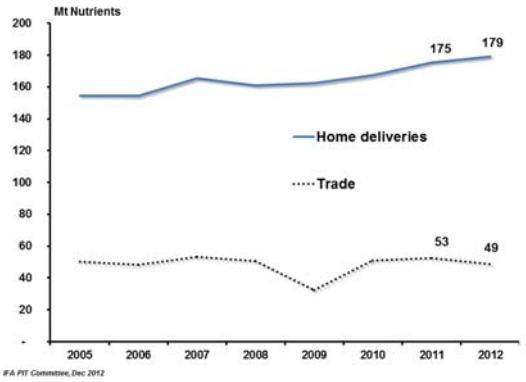
Total nutrient sales in 2012 decreased to 226 Mt *nutrients* on account of depressed fertilizer demand and significant carry-over stocks in distribution systems and at the consumer end. Fertilizer sales, which accounted for 80% of total sales, were estimated at 178 Mt *nutrients*, growing by 0.3% over 2011.

Global Nutrient Uses 2005-2012



World nutrient sales were wholly supported by growing domestic deliveries, as exports dropped by an overall 7.7%, to 48 Mt *nutrients*. Home deliveries rose by 2.1% to 178 Mt *nutrients*, contributing 80% of total sales.

Global Nutrient Deliveries 2005-2012

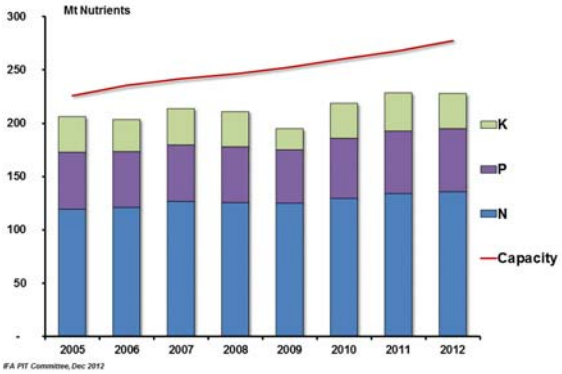


Key developments in the international trade of the main nutrients and raw materials in 2012 comprised lower trade volumes for nearly all fertilizer products, intermediates and raw materials, and a recovery of fertilizer demand and imports in North America and East Asia. China re-emerged as a prominent importer of potash and sulphur and was the world's largest exporter of DAP and urea, despite facing seasonal export tariffs in 2012.

Short-term capacity developments

Global nutrient demand was adequately supplied in 2012, with supply covered from production tonnage and important stock carry-overs. Global production of ammonia, phosphate rock and potash totalled 227.8 Mt *nutrients*. Globally, the fertilizer industry operated at 82% of installed capacity (compared to 85% in 2011), with a reduction seen in all segments of the fertilizer industry.

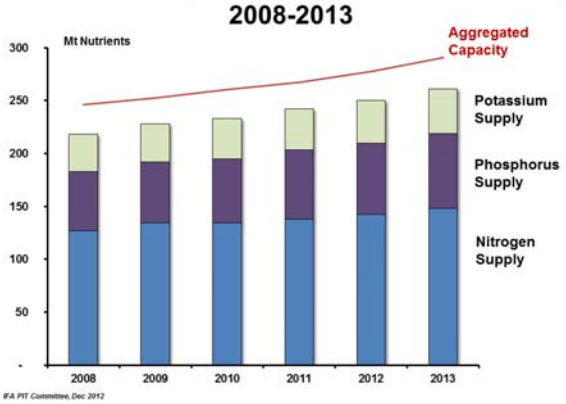
Global Capacity and Nutrient Production 2005-2012



In 2012, global nutrient capacity grew at an aggregate rate of 4% over 2011, adding close to 10 Mt *nutrients.* However, one-quarter of planned capacity additions in 2012 have been postponed to 2013 and, in certain cases, to 2014. Close to 140 capacity expansion projects would be completed in 2012 and 2013, of which about half would be located in China.

Global nutrient capacity is projected to continue to expand in 2013, with an overall increase of 5% compared to 2012, while overall supply would grow by 4% to 236 Mt *nutrients.* Increases in supply capacity are projected for all three major nutrients, with the following projected growth rates: 4% for nitrogen, 5% for phosphorus, and 5% for potassium.

Global Capacity and Nutrient Potential Supply 2008-2013



Since 2008, the fertilizer industry has invested massively to ensure that fertilizer supply adequately meets the growth in global nutrient demand. Several of these projects are now winding down. Major urea projects are projected to start commercial production in Algeria, China and Qatar (2012). New merchant phosphoric acid capacity is seen in Tunisia (2012) and Jordan (2013/14), while new granulation units for MAP and DAP will be completed in China and Morocco (2013/14). Potash projects in Belarus, Canada, Chile, China, Laos and Russia will add incremental capacity between 2012 and 2013/14.

Sales and trade prospects in 2013

Growth in fertilizer supply continued to be affected by variable regional factors, including government fiscal policy, trade measures affecting fertilizers and raw materials, and access to feedstock supply. The prospects of global sales in 2013 would show 2-3% growth, reaching 232 Mt nutrients.

Global trade is seen as expanding at moderate growth rates ranging between 3% and 7% for most products. A potential upside recovery is anticipated for potash, and some relative tightness is foreseen for seaborne ammonia and sulphur.