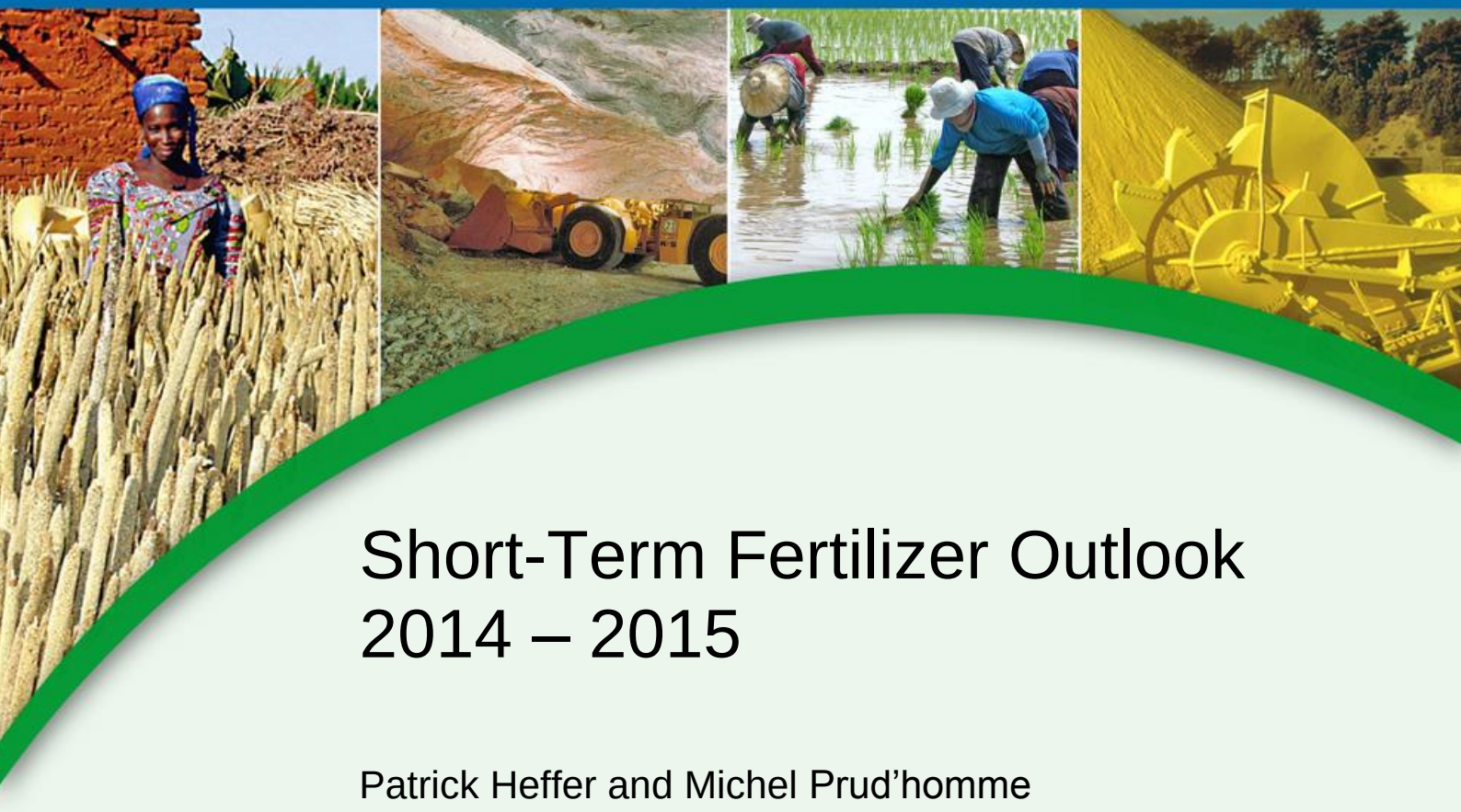
International Fertilizer Industry Association

A/14/140b
November 2014

IFA Strategic Forum
Marrakech (Morocco), 19-20 November 2014



Short-Term Fertilizer Outlook 2014 – 2015

Patrick Heffer and Michel Prud'homme
International Fertilizer Industry Association (IFA)

International Fertilizer Industry Association (IFA) – 28, rue Marbeuf – 75008 Paris – France
Tel. +33 1 53 93 05 00 – Fax +33 1 53 93 05 45/47 – ifa@fertilizer.org – www.fertilizer.org

This public summary was prepared by Patrick Heffer, Senior Director of the IFA Agriculture Committee, and Michel Prud'homme, Senior Director of the IFA Production and International Trade Committee on the occasion of the IFA Strategic Forum held in Marrakech, Morocco in November 2014. It draws on two reports that were prepared for the IFA Strategic Forum; these detailed reports are restricted to IFA members only: *Short-Term Prospects for World Agriculture and Fertilizer Demand: 2013/14-2015/16,* and *Global Fertilizer Supply and Trade: 2014-2015*.

ECONOMIC AND POLICY CONTEXT

Economic growth is seen as accelerating, following weak activity in the first half of 2014

World economic activity was disappointing in the first half of 2014 due to weaker activity in the United States and China in the first quarter of the year, geopolitical tensions in Eastern Europe and West Asia, stagnation in the euro area, and slower growth in Latin America. Assuming that growth will gain momentum in the second half of the year, especially in advanced economies, the world output is projected to increase by 3.3% in 2014 and 3.8% in 2015. China's output growth would decline to some 7%, still the highest growth level among the leading economies. Geopolitical tensions and their potential impact on the energy market, possible deflation in the euro area, and financial risks and volatility are some of the main uncertainties in the outlook.

There has been relatively weak growth in trade in goods and services, which is projected to remain lethargic and expand by only 3.8% in 2014. Stronger expansion of trade volumes (+5.0%) is projected in 2015. Commodity prices in general, and crude oil prices in particular, have been contracting in 2014 due to weak demand and ample supply. In the absence of major deterioration of the geopolitical context, downward pressure on commodity prices is seen as continuing in 2015. The current context influences exchange rates, with the Ukrainian, Russian, EU and Brazilian currencies depreciating vis-à-vis the US dollar and the value of the Indian rupee remaining low.

Will India revise its urea subsidy policy in 2015?

Fertilizer use is considerably influenced by agricultural and nutrient management policies. On the agricultural side, biofuel policies have had the greatest impact over the past decade. However, with delays in the development of advanced ethanol and biodiesel, policy support to biofuels is declining and, in turn, biofuels are no longer playing the same role as an engine of agricultural growth.

Fertilizer subsidies have a central influence on the way farmers manage fertilizers, especially in developing countries. Today it is estimated that more than half the fertilizer used globally is subsidized. While an increasing number of Sub-Saharan African countries (about 20) subsidize fertilizers, several Asian countries, especially India, are reconsidering the effectiveness of their subsidy policies. In India there are increasing signals that the urea subsidy policy may be amended in 2015. If this occurs, it could have a major impact on national, regional and global fertilizer demand.

Nutrient management policies are likely to gain importance in the future. These may take the form of government regulations or, increasingly, sustainability standards set by the food industry or food retailers, which they impose on their suppliers. Recently China's President Xi Jinping called for improving fertilizer use efficiency to reduce both agricultural production costs and nutrient-related pollution. In view of the size of the Chinese market and the current low fertilizer use efficiency achieved by Chinese farmers, any change in domestic fertilizer management policy could have a sizable impact on world demand.

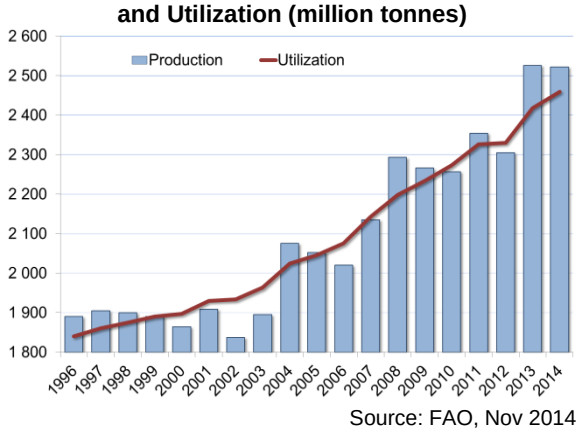
AGRICULTURAL SITUATION

Two consecutive bumper crops completely change the outlook

At the end of the 2012/13 marketing campaign, world grain inventories were very low. A combination of high crop prices and favourable weather boosted plantings and yields in 2013, resulting in a record harvest for all major cereal and oilseed crops. Global cereal inventories and stocks held by the major exporters at the end of the 2013/14 campaign sharply rebounded, triggering declining prices, but prices remained relatively attractive compared to historical trends.

The 2014/15 cereal harvest is seen as almost matching last season's record, led by a bumper maize crop in the United States (US).

World Cereal Production and Utilization (million tonnes)



Source: FAO, Nov 2014

World closing inventories are forecast to rise again, reflecting another sizable surplus. The

stock-to-use ratio for all cereals would increase to comfortable levels. The ratio for maize, which was at its lowest level for decades in 2012/13, is forecast to jump in two years to its highest level for more than ten years. Two consecutive big US maize harvests have completely reversed the outlook. Ending stocks of soybean, sugar and cotton are also anticipated to increase. In a context of large export availabilities and relatively weak import demand, international cereal, oilseed, sugar and cotton prices have declined further in 2014, to their lowest level since 2010. Prices of most commodities are expected to remain under downward pressure in the coming months.

Preliminary forecasts for 2015/16 suggest an increase in the wheat area, following plantings under favourable conditions in the northern hemisphere.

FERTILIZER DEMAND

Declining crop prices affect world fertilizer demand

In response to sharply declining crop prices, commercial farmers have reduced their fertilizer application rates in 2014. World fertilizer demand is forecast to rise by only 0.6% in 2014/15, to 183.8 million tonnes (Mt). Global P demand would stagnate for the third consecutive year at 41.5 Mt P_2O_5, while demand for N and K would increase by less than 1% to 111.9 Mt N and 30.4 Mt K_2O, respectively. Fertilizer demand is forecast to contract in North America, Eastern Europe and Central Asia (EECA), Western and Central Europe, and West Asia. Demand would rebound in South Asia. It would continue to grow firmly in Africa and Latin America, while more modest expansion is anticipated in East Asia and Oceania. The largest year-on-year increases in volume are seen in East Asia, South Asia and Latin America, and the largest drop in North America.

Global Fertilizer Demand (Mt nutrients)

	N	P_2O_5	K_2O	Total
2011/12	107.9	41.6	28.2	177.6
2012/13	108.7	41.4	29.2	179.3
2013/14 (e)	111.1	41.5	30.1	182.7
Change	*+2.1%*	*+0.3%*	*+3.4%*	*+1.9%*
2014/15 (f)	111.9	41.5	30.4	183.8
Change	*+0.7%*	*0.0%*	*+0.8%*	*+0.6%*
2015/16 (f)	114.0	42.2	31.2	187.4
Change	*+1.9%*	*+1.8%*	*+2.6%*	*+2.0%*

Source: IFA Agriculture, Nov 2014

Demand in 2015/16 will be affected by low agricultural commodity prices, which are expected to impede a stronger rebound in fertilizer use. Uncertainty about possible changes to India's fertilizer subsidy policy, and the evolution of the geopolitical situation, adds risk to the outlook.

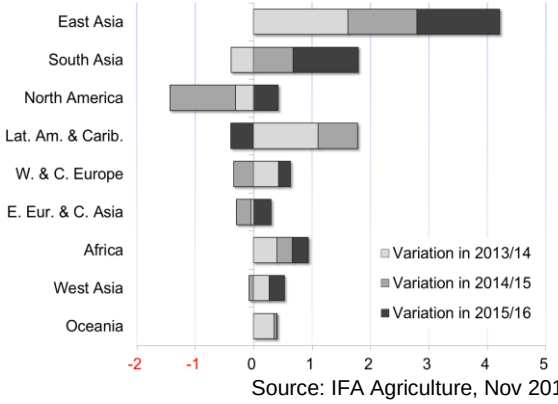
Assuming no major changes to agricultural market fundamentals, a progressive change in fertilizer subsidy rates in India that would help rebalance fertilization, and continuous improvement of fertilizer use efficiency in China, global fertilizer demand is forecast to expand by 2.0% to 187.4 Mt in 2015/16. The growth rates for the three nutrients would be of similar magnitude: +1.9% for N to 114.0 Mt; +1.8% for P to 42.2 Mt; and +2.6% for K to 31.2 Mt. Fertilizer demand is forecast to contract in Latin America, in response to low crop prices following consecutive years of strong growth; it would rise in the rest of the world, with rebounds anticipated in West Asia, EECA, North America, and Western and Central Europe. The main year-on-year increases in volume are anticipated in East Asia and South Asia.

Large increases are forecast in East Asia and Africa

Between 2012/13 and 2015/16, global demand is expected to increase by 6.9% for K, 4.8% for N and 2.0% for P.

Over the same period, North America would be the only region to record negative growth. The strongest expansion in volume is forecast in East Asia (+4.2 Mt) and the largest relative increase is seen in Africa (+18%), led by robust growth in some Sub-Saharan African countries such as Nigeria and Ethiopia.

Anticipated Evolution of Aggregate Regional Fertilizer Demand (Mt nutrients)



Source: IFA Agriculture, Nov 2014

The forecast remains subject to significant uncertainties

IFA's baseline forecast is subject to a number of uncertainties, in particular the evolution of the world economic and geopolitical context, weather-related crop shortfalls, the evolution of agricultural commodity prices and of fertilizer prices relative to crop prices, the evolution of biofuel mandates, the evolution of fertilizer subsidy regimes, and new policies aimed at improving nutrient management performance and increasing recycling of organic nutrient sources.

Changes to the fertilizer subsidy policy in India in 2015 constitute the main risk to the outlook.

FERTILIZER SUPPLY

World nutrient sales showed modest growth in 2014. Fertilizer demand was relatively static in Europe and East Asia, while robust growth prevailed in Latin America and Africa. There was soft demand in North America, South Asia and West Asia. Global fertilizer demand in 2015 is projected to show a moderate recovery, increasing 1.1% to 185.9 Mt *nutrients.*

Global nutrient sales for all uses in 2014 were estimated at 237 Mt *nutrients*, increasing 2% over 2013. Fertilizer sales, which accounted for 78% of total sales, were estimated at 184 Mt *nutrients*, growing a mere 0.5% over 2013. Net industrial uses and non-allocated tonnages reached 53 Mt *nutrients.*

Global nutrient demand was adequately supplied in 2014, with supply covered from rising production tonnage. On average, the fertilizer industry operated at 78% of installed capacity.

The prospects for 2015 point to 1.5-2.0% growth in global nutrient demand, reaching 240 Mt *nutrients*; however, deliveries may be lower as a result of large imports in the second half of 2014 and the consequent year-end carryovers in some key consuming countries.

Sustained capacity expansions in 2014-2015

Close to 90 expansion projects are expected to come on stream in 2014 and 2015, in addition to ten projects related to phosphate rock mining.

Between 2013 and 2015, global fertilizer products and raw materials capacity is expected to increase by 8% or 50 Mt products.

Nitrogen Outlook

Large ammonia capacity increases in Asia

Global ammonia capacity is projected to grow 4% to 223.7 Mt in 2015. New capacity is seen in Brazil, China, Egypt, India, Indonesia, Russia and Vietnam.

Stagnant seaborne ammonia supply

Global seaborne availability in 2015 is projected at 18.6 Mt. No major new source of supply is seen, while export availability from Saudi Arabia would decline. Pressure from growing demand would likely trigger some arbitrage between ammonia and urea output by exporters with production flexibility.

Rising potential nitrogen surplus in 2015

In 2015 the global nitrogen balance shows a rising potential surplus, due to rapid supply growth and a moderate recovery in overall demand.

New urea capacity in East Asia, Africa and North America

Close to 30 new units are planned to come on stream in 2014 and 2015. Global urea capacity would increase by 2% in 2014 to 208 Mt, and by 6% in 2015 to 221 Mt. China will contribute half of the net increase in global capacity in 2014/15. The main additions to capacity outside China will occur in Brazil, Egypt, India, Indonesia, Saudi Arabia, the United States and Vietnam. Global urea supply is estimated at 183 Mt in 2014 and 187 Mt in 2015.

Firm demand growth in industrial uses and modest growth in agriculture

Global urea demand in 2014 was stagnant at 168 Mt due to weak urea fertilizer use, especially in China. Global demand in 2015 is projected at 174 Mt, representing an increase of 4% over 2014. Urea use in fertilizers would recover in 2015, growing 2%, while industrial urea demand would show more rapid growth, contributing two-thirds of the incremental increase over 2014.

The global urea supply/demand balance would show lower potential surplus in 2015 on account of stronger demand, growing at 4% compared with supply at 2%.

New exportable supply would emerge in EECA, Africa, West Asia and China, while production for domestic use would expand in North America, Latin America and South-east Asia. Higher demand and higher imports are seen in West Europe, South Asia and South-east Asia.

Phosphate Outlook

Large supply of phosphate rock emerging in Africa, East Asia and West Asia

Global phosphate rock supply in 2015 would expand 2.6% to 230 Mt. Expansion will mostly occur in China, Jordan and Morocco. Together these three countries would account for 85% of this 6 Mt supply increment over 2014.

Growing phosphoric acid capacity in Morocco, China and Jordan

Global phosphoric acid capacity is projected at 55.6 Mt P_2O_5 in 2014 and 57.6 Mt P_2O_5 in 2015. No new merchant grade phosphoric acid (MGA) supply will emerge in the short term.

The main increases in phosphoric acid capacity in 2014-15 are expected in Morocco, China and Jordan. Global supply of phosphoric acid is estimated at 47 Mt P_2O_5 in 2015.

Moderate demand growth and new supply leading to gradual increase of potential surplus

The prevailing global surplus would increase in 2015, as a continuation of the trend in 2014. Rising supply from Africa, West Asia and China is expected to offset incremental demand in South Asia and South-east Asia.

China will remain the most dominant player, with resilient structural over-capacity and flattening demand.

Large expansion of export-oriented capacity in Morocco

About eight new units for processed phosphates are planned in 2014 and 2015. China will account for half these units. Global processed phosphates capacity would reach 43.1 Mt P_2O_5 in 2014 and 44.6 Mt in 2015. DAP is expected to account for nearly all the capacity increment between 2013 and 2015, which would mostly occur in China and Morocco.

Potash Outlook

Significant capacity additions in 2014-2015

Global potash capacity in 2014 rose 5% to 51.5 *Mt* K_2O, or 87.1 Mt products. In 2015 global potash capacity is projected to expand 8% to 55.6 *Mt* K_2O (94 Mt products). The main capacity additions in 2014/15 would occur in Canada, Russia, Belarus and China. In product terms, global potassium capacity in 2015 is estimated at 94 Mt products, including 89 Mt MOP.

North America and EECA would account for 78% of world incremental supply over 2014

Global potash supply is projected at 42.5 Mt K_2O in 2014, growing to 44.6 Mt K_2O by year-end 2015. In terms of MOP equivalent, global potash supply would reach 71 Mt MOP in 2014 and 74 Mt in late 2015. Regional supply would increase in North America and EECA.

Moderate growth of potash demand in 2015

Global demand for potassium in 2015 is estimated at 34.8 Mt K_2O (58 Mt MOP equivalent), expanding 1.1% over 2014.

Large expansions of potash supply generating higher potential surpluses

The derived potash balance shows a growing potential surplus in both 2014 and 2015, with the potential to reach 10 Mt K_2O in late 2015. This would result from a gradual ramp-up of effective capacity and commissioning of new capacity in Canada, Russia and Belarus. Potash ore availability at one mine in Russia, which faced water inflows in November 2014, could impact short-term potash supply from this country. Deficits are seen as rising in Asia and Africa, while declining in Latin America in anticipation of depressed demand in Brazil in 2015.

Sulphur Outlook

Growing sulphur production in most regions

Global output of elemental sulphur in 2014 rose 5.7% to 58.3 Mt *S*, compared with a 3% increase in demand to 60 Mt. A rebound in fertilizer production was combined with firm demand in industrial sectors. In 2015 world elemental sulphur production is forecast to grow 6.2% to 61.9 Mt *S*. Large increases in sulphur recovery are projected in Asia and EECA; these two regions would contribute 95% of the projected expansion in 2015. Exportable output from Abu Dhabi, Turkmenistan and Saudi Arabia is expected to expand.

Firm sulphur demand in industrial sectors, and moderate growth in the fertilizer sector

Global consumption of elemental sulphur is projected to increase 1.3% to 60.7 Mt *S*. Firmer demand is anticipated in industrial sectors, compared with relatively stable consumption of sulphuric acid for the manufacturing of fertilizers.

Supply/demand deficit shifting to potential modest surplus

The global supply and demand deficit of the past decade will shift to a potential surplus, exceeding 1.3 Mt *S* in 2015. Potential annual surpluses would grow rapidly thereafter.