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2016 End-of-year US Fertilizer Viewpoints

VIEWPOINT: US UREA MARKET ENTERS POST-EXPANSION ERA

Houston, 30 December (Argus) — The US urea market's reduced dependence on imports could shake up traditional trade flows in 2017 as a spate of domestic expansions reach completion.

But the timing of the new supply's arrival will likely be the biggest factor affecting prices for the spring planting season.

Next year marks the end of a multiyear nitrogen plant building spree, including a $5.2bn expansion by CF Industries. The building plans have been fueled by the US shale boom and historically low natural gas prices. An oversupplied global market that led to key urea benchmarks hitting their lowest points in 12 years in 2016 has shelved other planned greenfield US plants for the time being.

US granular urea prices bottomed out in the $160s/st fob Nola in July 2016, the lowest since 2004.

In early 2017 the market will focus on Port Neal, Iowa, where CF's new 1.35mn st/yr urea plant should begin production soon, according to the producer's last update in November. If that ends up being January, then Port Neal supply will play a factor during the spring and could add pressure to urea prices prior to the peak nitrogen season.

If start-up is closer to the end of the first quarter, the supply's effect will be felt more during the summer shoulder season.

Beyond CF's expansion at Port Neal, 2017 will also see new urea capacity come online at OCI Iowa Fertilizer (Wever, Iowa); Koch (Enid, Oklahoma); Agrium (Borger, Texas) and Dakota Gas (Beulah, North Dakota).

Much of the new capacity is located in the US interior near key consuming regions, which could lead to a change in traditional trading patterns. Typically, key wholesale river markets near the Corn Belt are priced at Nola plus freight and margin. But more production is now located at inland locations which will likely trade at a discount to the Nola netback, a trend that already happened temporarily in the fall in the Northern Plains.

Nola imports will remain important, especially in the early part of 2017. Delayed buying down the supply chain pushed Nola prices low and failed to attract typical import volumes during the first half of the 2016-17 fertilizer year. From July to January, the US is set to import 700,000t less than during the same period a year ago, according to customs data and Argus estimates. Even after factoring in new domestic production, that leaves a sizable gap in needed import tonnes to meet spring needs.

Nola barge prices have seen volatility in recent weeks, largely as a result of the international market. US prices moved above $230/st fob Nola in November on tighter-than-expected supply, but fell back to around $215/st fob Nola in early December after India canceled a major purchase tender. India and the undersupplied US will be the key markets in determining global price direction in the early part of 2017.

VIEWPOINT: US POTASH MARKET LOOKS TO EXTEND RECOVERY

Houston, 30 December (Argus) — The US potash market enters the spring season on firmer ground in 2017 as strong demand and lower output look set to reduce North American inventory levels.

Low global potash prices drove North American producers to make production cuts in 2016. In total, about 5mn t/yr of nameplate capacity was removed through idling of mines and changes in product mixes over the last year.

North American production rates could shift during the first quarter of 2017 as Mosaic may bring its 2.6mn t/yr Colonsay, Saskatchewan, mine back online early in 2017 because of low inventory levels in Brazil and supply drawdowns in China and India. Mosaic idled Colonsay operations in July of 2016.

Additionally, PotashCorp will begin full production at its Rocanville, Saskatchewan, mine early next year following an eight-year expansion that doubled the facility's nameplate capacity to 6mn t/yr and significantly reduced production costs. PotashCorp expects to begin its Canpotex, Saskatchewan, proving run — producing at full rates to prove capacity — sometime during the first quarter of 2017. To account for the increased output, PotashCorp will curtail production at two other Saskatchewan mines beginning in the first quarter. In the third quarter of 2017, PotashCorp will transition the production at its Cory mine to white potash only, reducing the operational capacity of the facility by 600,000 t/yr to 800,000 t/yr.

K+S will begin production at its Greenfield Legacy solution mine in Saskatchewan next year. First production is expected in the second quarter of 2017, with full rates of 2mn t/yr reached by the end of the year.

The delayed settlement of the Chinese and Indian supply contracts in late July jump-started a recovery in potash prices after nearly two years of declines caused by global oversupply. Nola MOP barge and Corn Belt prices climbed by $45/st and $37.50/st, respectively, from the eight-year lows experienced in July 2016. The Nola MOP barges price rose to a high of $217.50/st fob Nola by the end of September before stabilizing in the low-$210s/st for the duration of the fall season, a $70/st decline from the price levels seen during the same time last year. MOP Corn Belt pricing improved to $245/st in late September, an $80/st discount to this time last year, and has held firm at that level all fall.

That situation has domestic producers expecting stable-to-higher US prices and stronger farmer demand for winter fill tons this offseason, after suffering through three years of depressed prices.

Because of the delay is settling the Chinese and Indian supply contracts, North American MOP exports are down by 15pc from January-October, but exports from August — when the annual supply settlement was established — to October were up by 2pc year-over-year to 4.7mn t, according to the latest trade data. Brazil was the world's top export destination as year-to-date tonnage was up by 14pc from last year. Brazil is expected to be a priority export market in 2017 as corn and soybean acres are projected to climb by 2.32mn acres to 124mn acres, according to Brazil's agricultural governing body Conab.

VIEWPOINT: US SULPHUR MARKET ADAPTS NEW MELTER

Houston, 29 December (Argus) — The US sulphur market will adapt in 2017 as Mosaic ramps up output from its new Florida melter and producers sell excess volumes abroad.

US production is expected to be stable from 2016, when it rose by 3pc year-to-date through October to 7.5mn t, according to the US Geological Survey. New sulphur regulations for gasoline are expected to have a limited impact and changes in sulphur content for the crude slate are not expected to significantly change overall output.

The 1mn lt/yr Mosaic melter in New Wales, Florida, will also ensure that North America's leading consumer will be able to keep prices close to international levels. The buyer did not use the melter consistently in the first half of 2016, but utilization picked up going into the end of the year. Vessel imports fell by 27pc to 195,000t in 2016 from 2015 year-to-date through October. Volumes by vessel did pick up from the UAE, Canada, the Netherlands and Trinidad.

US vessel exports increased in 2016 because of the production growth, and are expected to be steady in 2017. US Gulf exports rose by 37pc year-over-year through October at 985,000t, with California shipments growing by 11pc at 708,000t.

US exports will face a competitive international market in 2017. The Middle East is expected to see increased supply and ship significant volumes to Brazil, the leading buyer from the US. Producers off the US west coast will also compete with Middle Eastern supplies in

China, and with Canadian supply that should be stronger in 2017 after recovering from lower output from the wildfires this year.

On the domestic demand side, there is upside potential for sulphur consumption from the phosphate sector. Mosaic forecast phosphate shipments of 66.1mn-68mn t for 2017 from a 65.1mn-66.2mn t forecast for 2016 based on stronger demand from international markets.

In 2017, length in the international market may lead Mosaic to ramp up utilization. The weaker Chinese phosphate market suggests the current above $100/t cfr sulphur pricing level is not sustainable, as Chinese phosphate producers are already operating at low rates and could cut further because of how lower DAP prices.

The global sulphur market is also estimated to have a surplus of a little over 3mn t in 2017 compared with slightly more than 1mn t in 2016, as projects in the Middle East and FSU ramp up, according to Argus estimates. Mosaic has already imported sulphur from both regions and appears poised to take advantage of the excess supply.

Canadian rail volumes to the US are expected to rise in 2017, remaining similar to the months in 2016 outside of the second quarter when the Alberta wildfires curtailed production. Shipments were down by 24pc at 1.17mn t through October 2016 from the corresponding period in 2015, primarily as a result of the wildfires.

The US market could see demand improvement from phosphate producers, but increased Canadian production and steady domestic supply should keep the market balanced-to-long in 2017.