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# HALLGARTEN + COMPANY

Sector Coverage

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## Potash Sector Review Geopolitics Provides the Mood Music January 2025

# Potash Sector Review

## Geopolitics Provides the Mood Music

- + **US and EU sanctions on Belarus have had a major impact on the global potash sector**
- + **Trump's tariffs on Canada could be a great opportunity for expanding Canadian potash production**
- + **Fertilizers are a critical domestic political issue for Brazil. Going forward, fertilizer lobbyists will be holding their cards close to their chest as Bolsonaro and Lula go to battle**
- + **Saudi Arabia is in a great position to become one of the Middle East and North Africa's top mineral fertilizers suppliers**
- ✗ **There's a long game competition for mining strategies when it comes down to LFP batteries versus phosphate fertilizers**
- ✗ **US farmers should diversify their sources of MAP/DAP fertilizers and animal feed to reduce dependence on Morocco**
- ✗ **Ideas that weed out potash and phosphate mining would be a grave mistake for global food security**

### **It's All in the Geopolitics**

The geopolitical issues revolving around the Belarus potash sanctions remain an uncertain factor looming over EU fertilizer supply and demand in the future, especially since Russia is another key supplier of nitrogen fertilizers to the EU markets. This all began with successful attempts by US sanctions to put pressure on Belarus for its military cooperation with Russia in 2021. For example, the US sanctions led to Lithuania cutting off the country's Baltic maritime transport routes from Belarusian potash supplies. This was significant for the Minsk government since the potash market soared to over \$1,000 per tonne in the 2021-2022 marketing year.

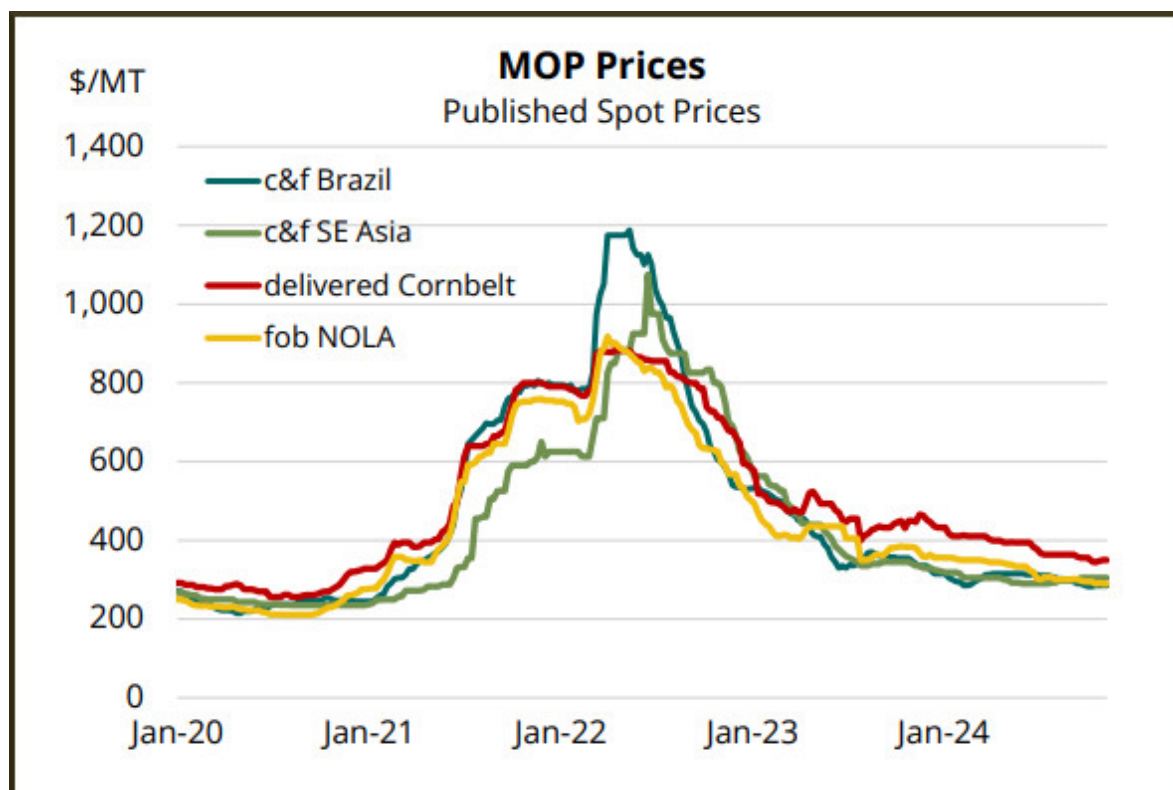
Due to the US and EU sanctions that have already been placed on Belarus's potash sector, the Lukashenko regime decided to re-route potash supplies through Russia and onward to Chinese shipping companies using the Northern Sea Route. Belarus state-owned potash producer Belaruskali appears to be pivoting to markets east of the Suez.

### **The Trump Effect**

US President Donald Trump's tariffs on Canada have some people in the commodities industry talking about near term disruption to potash imports in the US markets. The tariffs will not make a difference

for Canada’s fertilizer exports since the Saskatchewan potash is mined at the lowest production cost; and there is a diversified global market for muriate of potash (MOP) and sulfate of potash (SOP) supplies. It’s open season for Saskatchewan: any US tariffs on Canada could even be a great opportunity for expanding Canadian potash production. Future potash producers, notably BHP Group, will have to compete with potash production from Nutrien Ltd and The Mosaic Company under their fertilizer marketing joint venture, Cantopex. Saskatchewan potash could always find its way into emerging markets, albeit at a much lower volume than the US market. Other US potash players, such as The Mosaic Company and Intrepid Potash, are facing significant headwinds due to declining investments, lower potash prices and other regulatory concerns for future production capacity.

The US Department of Energy awarded \$1.26 billion in loans to Michigan Potash Company, but the project hasn’t reached commercial capacity, and it only intends to produce 800,000 tons of potash a year at full production capacity. Overall, the US is a bearish market for potash mining.



Source: Mosaic/Argus

### Enter Brazil

Brazil Potash (NYSE: GRO) debuted its initial public offering (IPO) on the NYSE at the end of 2024. The company’s Autazes Project in Manaus has anticipated potash and salt (KCl) production of 2.4 million stpa. Since the IPO, Brazil Potash has already signed offtake agreements for the potash, in addition to a

\$1 million royalty option agreement with Franco-Nevada. Brazil is the world's biggest import market for potash, and there will be domestic competition from all the major fertilizer players in this sector, particularly Russia's Eurochem and Brazil's Petrobras.

Petrobras will take its profits from oil and gas operations to invest in domestic fertilizer plant expansions. The company has committed itself to the Brazil fertilizer sector in the past. Brazil's National Fertilizer Plan, unveiled by former President Jair Bolsonaro in 2022, was a key political issue between Bolsonaro and Silva during the last election campaign in Brazil. Fertilizers will continue to be a critical domestic political issue in Brazil going forward. Either way, it's not going to be a matter of political risk for fertilizer companies in Brazil, but never disregard any coup attempts in this era of backlash against mining CEOs. Put that in your pipe and smoke it, fertilizer lobbyists!

### **LFP – the Rising Application**

The newcomers to the phosphate markets will be leading the push for LFP battery production in the near term, while also serving as key indicators for how the buyers will react to rising prices for DAP/MAP fertilizers in the long term. DAP/MAP fertilizer products cannot simply be replaced by green energy sources in any given net-zero scenario—it's going to be a long game competition for mining strategies when it comes down to LFP batteries versus phosphate fertilizers. The companies to watch in the nascent phosphate space are MinBos (in our Model Resources Portfolio), First Phosphate (our [Initiation is here](#)) and Arianne Phosphate.

MAP/DAP will be the tightest supply market of any fertilizers in the near term. Phosphate prices are still higher than their five-year average, while potash and nitrogen prices have come down to their pre-Covid levels. Volatile phosphate prices in the \$800-\$900 per ton range are a new reality in the global fertilizer markets. These higher phosphate prices will find their way into higher prices for NPKs, and other specialty fertilizer products as well, despite downward pressures on N and K prices.

### **Saudi Arabia – Aiming for Greatness**

Saudi Arabia is in a great position to become one of the Middle East and North Africa's top mineral fertilizers suppliers, seizing the opportunity of Morocco's diminishing prospects to supply US markets for phosphates. Saudi Arabia is pushing aggressively into the global MAP/DAP market. The Saudi mining company Ma'aden acquired a full ownership stake from The Mosaic Company for its domestic phosphate mine at Wa'ad Al Shamal. This deal includes all marketing rights for the phosphates, which will give Saudi's Ma'aden a key advantage to not only produce phosphate minerals, but also in the decision-making about where to send the supplies in the future. Phosphates could turn into a geo-political issue, so don't mess with MBS if you want to be food secure, Ethiopia!

### **Morocco – Legal Travails Cramp the Outlook**

Morocco will view 2024 as its own kind of trail of tears given that the country's phosphate exports got slammed with countervailing duties (CVDs) by the US. The case at the United States International Trade

Court (USITC) is ongoing, even as The Mosaic Company announced its withdrawal from the case after the ruling of the 2.12% rate. Unfortunately for OCP North America, the 2.12% rate was not the final ruling, and the higher tariff rate has been set at 16.81% until further notice, although that means the tariff rate will go into effect immediately. This CVDs case revolves around global agriculture market trends and government subsidies; however, farmers should be concerned about how LFP battery demand will disrupt the supply of DAP/MAP for phosphate fertilizers.

Phosphates are not only a key crop input for fertilizers, but also for animal feed products—it's no wonder that US live/feeder cattle market prices have trended higher along with phosphate prices. While the agriculture community frets over declining US cattle inventories, culling the herd is a rational option when you can't see the forest for the trees—US farmers should diversify their sources of MAP/DAP fertilizers and animal feed to reduce dependence on Morocco.

### **Conclusion**

The future production of specialty fertilizers will make or break around global commodities markets. Prices for natural gas will especially have a big impact on the production capacity of NPKs and other specialty blends made for particular soils and geographies. Investments in the research and development of specialty fertilizers are commendable, but the idea that potash and phosphate mining will become less relevant to global fertilizer supply and demand would be a grave mistake.

Green, blue, grey (and whatever other colors are out there) ammonia sources cannot simply replace potash and phosphates like they intend to do for nitrogen fertilizer products. Fertilizer supplies enhance a country's soft power capabilities, by providing crucial fertilizer supplies to developing countries that are dependent on domestic agriculture production for food security. The Russia-Ukraine war has been a lesson for us all that scarce fertilizer supplies translate into higher prices for grains, cereals and much more.

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