

Fertiliser prices hit the fan

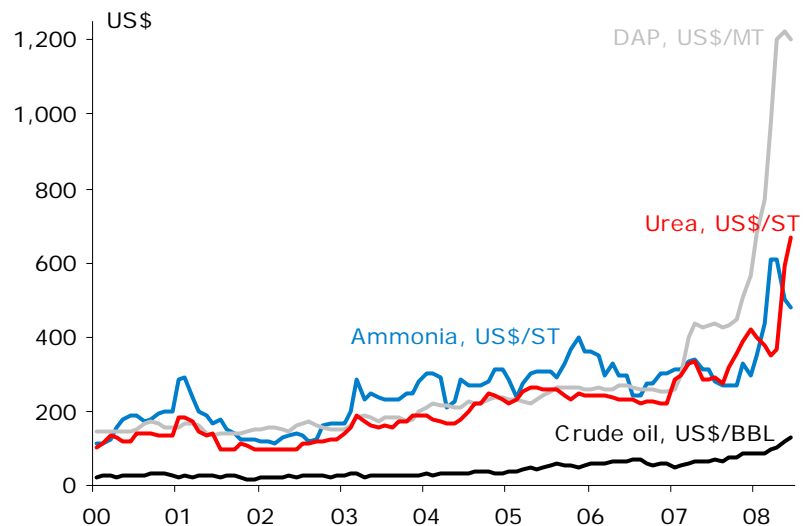
Fertiliser prices already double in 2008

World oil prices have dominated the headlines again in recent weeks, but astronomical price rises for key fertiliser ingredients have been just as startling. For Australian farmers struggling to recover from drought, the prices charged for the three most common types of fertiliser — urea, monoammonium phosphate (MAP) and diammonium phosphate (DAP) — are already up more than 60% in 2008 to date. Further price rises are expected over the remainder of the year. Australia is a 'price taker' in the fertiliser market, so Australian farmers must wear the world prices.

The only consolation for local fertiliser buyers is that the strong Australian dollar (against the US\$) has taken some of the edge off these mostly imported essential inputs. Even so, MAP and DAP costing AU\$800/MT last year (and AU\$450/MT two years ago) costs up to AU\$1,400/MT today.

Bulk ammonia (a key ingredient in MAP) traded at around US\$300/ST for most of 2007, before jumping to \$610 in March this year. It has since dropped, but was still trading over \$480 in late May. Spot prices for DAP have been even more alarming, tripling from an already high trading range of US\$400-450/MT in 2007 to over \$1200/MT in April. Urea has also jumped, from US\$400/ST in January to \$667/ST in June. Super phosphate has also doubled, from around US\$200 to US\$400/t. These prices make the recent oil price hikes look like a sneeze! They are comparable to the much-publicised recent strides made in black coal contract prices.

DAP prices have tripled, urea and ammonia prices have doubled, in less than 6 months!



Source: Thomson Datastream

So what is behind these price hikes? It seems fertilisers have been caught up in the global price boom for raw materials of all kinds, as have many other products derived from energy and mineral commodities. Increased demand due to global growth in broadacre crops for food, feedstock and biofuels (especially for wheat, canola, rice and other grains) has also put upward pressure on prices. As a globally traded product, fertiliser has also been hit with the rising shipping transport costs affecting other goods.

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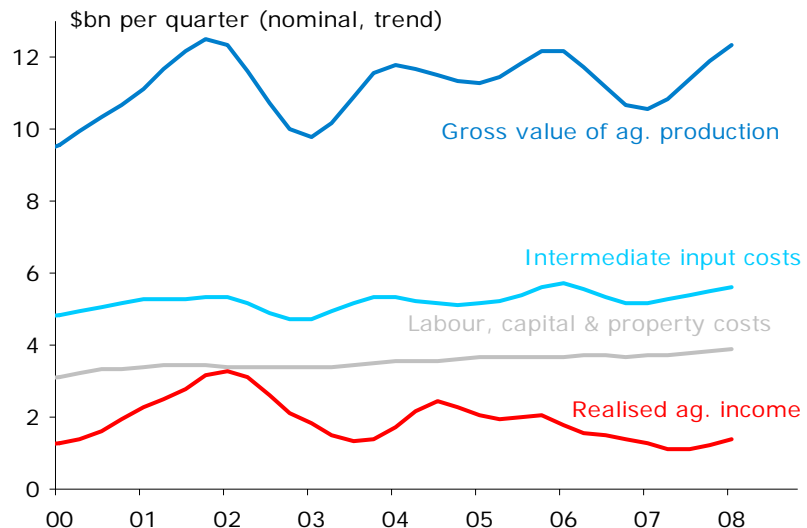
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Unfortunately, the response by some governments has only made matters worse. In an effort to contain local prices, China imposed a new 100-135% duty on exports of chemical fertilisers (including urea, MAP and DAP) and related raw materials in April. This was the second increase in fertiliser export duty this year (a duty of 25-35% commenced in February). This reaction has curbed Chinese fertiliser exports as intended, but has also sent global prices even higher.

For Australian farmers, this has of course added significantly to already rising input costs as agricultural production begins to recover from the long drought. As a result, realised farm income has increased only marginally as production gets back into gear. This is part of the pattern normally seen following an Australian drought, whereby production and input costs rise well before income does. Many growers saw the latest price rises coming and were able to stock up early, but will face the new prices next time. One positive outcome from an environmental perspective is that high prices are forcing landowners to apply fertilisers more sparingly than in the past and/or only where necessary. Alternatives to chemical fertilisers are also being examined by more landowners.

For fertiliser manufacturers, strong prices and demand are enabling terrific profit growth, despite escalating raw materials and transport costs. INCITEC Pivot for example, posted profit growth of close to 300% for the first half of 2007-08.

Q1 2008: farm production is back up, but so too are farm input costs



Source: ABS

Where to from here?

Even before the latest oil price spikes, Credit Suisse and others were expecting prices for key fertiliser ingredients including phosphate, sulphur and potash to rise by at least 30% more in 2008. In recent weeks, ammonia and phosphate have come down from their lofty peaks, but further rises are expected on the back of international commodity price developments. As always, high prices are encouraging increased supplies. Indeed, new phosphate and potash mining facilities are already in train around the world. Demand from the hungry boom economies of India and China however, is likely to keep growing even faster.

Data and information sources

Data: ABS and Thomson Datastream.
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