



Grain prices to fall back to earth - 'by 2013'

When will the rally in grain prices end? Credit Suisse forecast that it would take until 2012 for values to "normalise", as the bank lifted forecasts for fertilizer prices into next year and upgraded shares in Yara International.

The investment bank forecast stocks of agricultural commodities building "only modestly" this year, despite a rise in sowings, keeping a prop under prices and encouraging "high plantings" in 2012 too.

"Farmers will be planting more acres [this year] but the increased production will not be enough to make up the shortfall created by last year's adverse weather conditions," Credit Suisse analysts said.

US growers will actually earn more this year than in 2010, with cotton farmers more than doubling their profits (as measured by crop returns minus variable costs), before a slide in agricultural fortunes in 2012.

"Grain stocks will rebuild", with prices "to normalise by 2013".

'Simply sold out'

The weaker crop prices ahead will be reflected in fertilizer values too, the bank said, forecasting a dip in prices of all three major types – nitrogen, phosphate and potash – in 2013.

However, this decline would only come after firmer-than-expected prices over the rest of this year and 2012, Credit Suisse said, lifting its estimates for the range of nutrients, citing the impact of strong grain prices on farmer demand.

"Strong grain prices in combination with attractive input costs should boost demand for all three nutrients in 2011 as farmers strive to maximise yields."

Prospects for potash looked especially bright, with prices of the nutrient now looking on track to hit \$500 a tonne next year supported by tight production prospects as well as increased demand.

Currently, "most producers are simply sold out and have large volume commitments to other regions like China", while looking over the next two-to-three years, "there is limited new supply outside of PotashCorp expansions which should keep the market tight over this period".

PotashCorp, the world's biggest potash producer, is the only major producer with excess capacity, of some 1.5m tonnes, Credit Suisse said.



'Tight markets'

For phosphates, the long-awaited Ma'aden project in Saudi Arabia is set to bring fresh volumes onstream in earnest in the second half of the year, ramping up to full capacity in 2012, although higher raw material prices, besides farmers' desire to maximise yields, will mitigate against a steep fall in prices of the fertilizer.

For 2011, "we continue to expect tight [phosphate] markets," the bank said.

Nitrogen prices, meanwhile, were, for ammonia at least, being lifted by production problems in Algeria and Trinidad, linked to cutbacks in supplies of natural gas, a major raw material.

And urea prices would recover from temporary weakness blamed on a rejig of China's export window.

'More upside to be had'

The bank lifted from "hold" to "outperform" its rating on shares in Yara International, the Norwegian-based nitrogen giant, after a fall of 16% in the stock from a January peak.

"While the stock has rallied in the last few days on positive grain price movements, we believe there is more upside to be had," Credit Suisse said.

"The market underestimates the underlying strength in fertilizer markets mirrored by strong demand and pricing for nutrients that are most efficient for farmers to use when striving to maximize yields."

Yara shares stood 0.9% higher at NOK295.30 in afternoon trade in Oslo.

Shares in PotashCorp, which the bank also rates as "outperform", opened 1.4% higher at Can\$58.80 in Toronto.

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