Global fertilizer outlook:
It’s nearly all about China

Outline of today’s presentation

Commodity forecasting
Who is CRU?

Australia’s market position
N, P, K share of production/consumption

Reviewing the past year...
Oversupply in a challenging market

... the medium term outlook
Prices in an oversupplied market
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Australia: a small slice of the fertilizer pie

Australian Urea: Middle East Imports Dominate

2014 Global consumption of urea: 161m tonnes

- China: 37%
- Middle East: 1%
- Others: 34%
- Indonesia: 6%
- India: 18%
- USA: 6%
- Brazil: 4%

Australian Urea Consumption (million tonnes)

- Production
- Middle East
- Indonesia
- China

2010: 0.0, 0.5, 1.0, 1.5, 2.0
2011: 0.0, 0.5, 1.0, 1.5, 2.0
2012: 0.0, 0.5, 1.0, 1.5, 2.0
2013: 0.0, 0.5, 1.0, 1.5, 2.0
2014: 0.0, 0.5, 1.0, 1.5, 2.0
2015: 0.0, 0.5, 1.0, 1.5, 2.0

2014 and 2015 data are estimates.

Australian Phosphates: Significant domestic production

2014 Global consumption of phosphate in fertilizer: 43.7m tonnes P₂O₅:

- China: 29%
- Others: 35%
- India: 13%
- USA: 10%
- Brazil: 11%
- Australia: 7%

Australian P₂O₅ Consumption (million tonnes)

- Production
- Total Consumption
- Exports

2010: 0.0, 0.2, 0.4, 0.6, 0.8, 1.0
2011: 0.0, 0.2, 0.4, 0.6, 0.8, 1.0
2012: 0.0, 0.2, 0.4, 0.6, 0.8, 1.0
2013: 0.0, 0.2, 0.4, 0.6, 0.8, 1.0
2014: 0.0, 0.2, 0.4, 0.6, 0.8, 1.0
2015: 0.0, 0.2, 0.4, 0.6, 0.8, 1.0

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Australian Potash: Canada dominate imports

2014 Global consumption of potash 33.3m tonnes K₂O

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Global fertilizer demand overview

- Continues to gradually expand
- Practically flat, hit by low crop prices in 2015
- Phenomenal growth in 2014, but subdued in 2015

Generally weak commodity prices in 2015
But fertilizers holding up okay...
2015 pricing so far...
Are prices about to slip?

Don’t expect any nearby support from grain prices
Urea: production costs lowered...

... and competition intensifies.

1. A decade of high nitrogen prices, a wide global cost arbitrage and cheap capital created a perfect environment for capacity investment.

2. Coinciding with a Chinese drive for self-sufficiency in urea. Spurred by the government China went from a net importer to the largest exporter.

3. This combination has created a dramatic expansion that has oversupplied the market and depressed pricing.
China: Govt aiming to improve efficiency
13% rebate on fertilizer sales abolished

AS of 1st September, 13% VAT rebate on sales of domestically-produced fertilizer is abolished. VAT at 13% is also extended to sales of imported fertilizer.

The effect of the VAT change on the N&P market will be less than the K market because:

a) producers can offset VAT on inputs and
b) China isn’t dependent on P imports so producers’ margins are better able to absorb the tax

Brazilian demand has fallen off a cliff...

- Fertilizer investment has been pinned on continued demand growth in Brazil
- However, farmer credit issues, inflation, low commodity prices and a rapidly devaluing BRL has seen imports fall significantly in 2015...

Jan-Aug imports...
Urea: -38% y/y
MAP: -27% y/y
MOP: -15% y/y
... recovery in India has offered some respite. But will this last?

India is particularly important for the urea & phosphate markets.
High import volumes have supported global markets in 2015.

HOWEVER, THE RUPEE IS SLIDING AND MONSOON IS FAILING IN KEY CONSUMPTION REGIONS

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Pressure to continue into 2016...

- China reform... Not going to have a major impact on their presence in the export market.
- Can Brazil turn around? The economy is in deep trouble, but agriculture provides some light at the end of the tunnel.
- How badly will the India monsoon finish. Will they turn their back to the market?

... and the impact on Australia?

- Plentiful supply in a competitive global market...
- The AUD will hurt the import dominated environment (but don’t forget the benefit to grain prices)

Source: CRU internal economics team
The what to look out for in the medium term

- We are yet to reach the bottom of overcapacity
- By 2017, incremental demand will outpace capacity growth
- This, combined with a recovery in energy markets, will provide a better price environment by the end of the decade.

- Competition between Morocco, Saudi Arabia and China in key markets
- Can India sustain its 2015 recovery and defy the doubters?
- Can Brazil turn around... A lot of suppliers are banking on it

- Prices set to dip in 2016
- Downside risk over coming 12 months. Watch South East Asian tenders closely
- Can the oligopoly remain disciplined in a tighter demand environment?

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Thank you for your attention

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CRU Fertilizers

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- **Fertilizer Week**: price discovery, news and analysis
- **Market Outlooks**: medium term and long term demand, supply and price forecasting
- **Cost Data Services**: reports, profiles and cost curves for the nitrogen, phosphates, potash, sulphur and sulphuric acid industries.

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