

# Potash mania fertilises local hopes



## PURE SPECULATION

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NOTHING like a bit of irrational exuberance in the market, and we saw it again last week on the subject of potash.

On the back of the bid by **BHP Billiton (BHP)** for Canada's Potash Corporation of Saskatchewan, investors dived into local stocks. **Reward Minerals (RWD)** rose 15.6 per cent, **Elemental Minerals (ELM)** was up 10.9 per cent, and a further 26.7 per cent the next day, **South Boulder Mines (STB)** rose by 13.6 per cent, **Red Metal (RDM)** by 18.2 per cent and **Rum Jungle Uranium (RUM)** — which had the presence of mind to put out an ASX announcement doing nothing more than reminding people it had some early stage potash ground — lifted by 14.3 per cent.

Talk about overreaction. The BHP move had no relevance to the viability (or not) of the potash projects owned by these juniors, but more to do with the long-term strategy of the looming food crisis. The price of this fertiliser feedstock is rising, but very slowly and not even the most optimistic forecasts see its gains over the next year or two as being much more than gradual.

Moreover, apart from RWD, all the juniors are at very early stage exploration, and RWD itself has a way to go.

That said, there is concern among fertiliser producers that the potash is controlled by two groups — the Canadians on one hand, and the Belarus-Russian mob on the other. As with rare earths and China, any newcomer in potash will be welcomed as a break on a market stranglehold.

It is also worth reminding readers that *Pure Speculation* has been a potash (and phosphate) bull for a while. Just back in late

April, the headline on this Monday column was unequivocal: "It's time to punt on potash".

It was tempting to start today's effort in light of the BHP move with "we told you so", but *Pure Speculation* is bigger than that.

The bottom line, we have consistently argued, is that the world's population is rising and many more people are able to afford better food, against which you have declining arable land. According to figures from the Food & Agricultural Organisation, arable land area has declined by about one-third since 1980 in per capita terms.

Over the weekend we saw hints that China's Sinochem may make a counterbid for Potash Corporation. As for the food story, there were huge gains in live cattle and pork bellies contract prices at the Chicago Mercantile Exchange late last week, along with soaring wheat prices worldwide and jumps in coffee and sugar prices in New York.

The world seems headed for much higher food prices after two years of declining fertiliser application and soil nutrients.

Potash (and phosphate) are going to be among the star commodities in coming years. But local investors may be getting ahead of themselves with local potash stocks, especially considering all the woes that are weighing down equities and the global economy at the moment.

Oil prices fell below \$US74/barrel in New York on Friday night, the Dow was down yet again, and now we have some figures from the research arm of Denmark's Danske Bank showing that China may not be a bottomless pit after all. Year on year, China's imports of copper have fallen by 16 per cent, of iron ore by 12 per cent and of aluminium by a whopping 70 per cent.

### Strong demand

WHILE last week's price spikes for local potash stocks were seriously premature, longer term any company that actually gets into production will probably have many keen customers.

We mention RWD with trepidation as it will no doubt trigger another wave of emails from this junior's enthusiastic cheer-squad.

Reward has an established resource at its Lake Mackay project on the Northern Territory-West Australian border. Its main advantage is that the potash there is just two or three metres below ground, as opposed to more than 1000m in Saskatchewan. The primary disadvantage is the location,

which means trucking it to the Darwin railway at some considerable cost.

MD Michael Ruane acknowledges this but argues that he will be competing with imported potash, which also has to be shipped here. Along with the middlemen charges, potash is sold in Australia at about double its present spot price, which means RWD will be able to compete.

The junior is now in talks with the local landowners and, apparently, these are going well.

We also saw a presentation from **STB** last week.

This junior is now drilling in Eritrea and the first assays are expected by next week. Its potash lies between 25m and 400m below the surface and is just 70km from the port of Mersa Fatma, whence it can be shipped to India and China.

But there is one potash play which seems to have slipped the market's notice. The restructured **East Coast Minerals (ECM)** has lost its enthusiasm for underground coal gasification and is now pinning its hopes on ground south of Carnarvon, Western Australia.

There's also a mystery element. Back in the 1960s, the then Conoco drilled the ground for oil and logged a 38m-thick potash belt nearly 1200m below the surface. ECM knows the Americans did a detailed report on the potash at the time, but no one has been able to find a copy.

It will be an expensive business to check the potash, with each drill hole estimated to cost at least \$750,000. But ECM is also pegging the ground for oil and gas, encouraged by the Geological Survey of Western Australia drilling there in 1997.

### Alumina shines

CREDIT Suisse has put an "outperform" recommendation on **Alumina (AWC)** as the best way to play the structural change in alumina pricing.

The report says that margins for alumina producers will be in-

creased by a move away from the present system — linked to a percentage of the aluminium price — to an unlinked spot index. This, Credit Suisse believes, could double the company's discounted cashflow to \$4.65 a share.

The stock closed at \$1.78 on Friday.

All it now needs is for the market leader Alcoa to be aggressive in pushing the pricing change next year, something it has indicated will happen when negotiating supply contacts in 2011. Although forecasting weak earnings for AWC in the present six-month period, index pricing could substantially lift the company's income.

Credit Suisse sees an alumina spot price mid-2011 of \$US335/tonne lifting to \$US410/tonne by the end of 2012 and \$US433 by 2014. Earnings margins — before interest, tax, depreciation and amortisation — could climb to previous historic highs.

The delinking of the aluminium-alumina pricing is the key at a time when aluminium smelting is beset by over-capacity, compared with alumina where there is a natural barrier to entry in terms of having to own a quality bauxite deposit.

### Green threat

NOTING that the newly empowered Greens want to ban not only the mining of, but even exploration for, uranium in Australia, we suggest projects beyond the repressive reach of these energy Luddites.

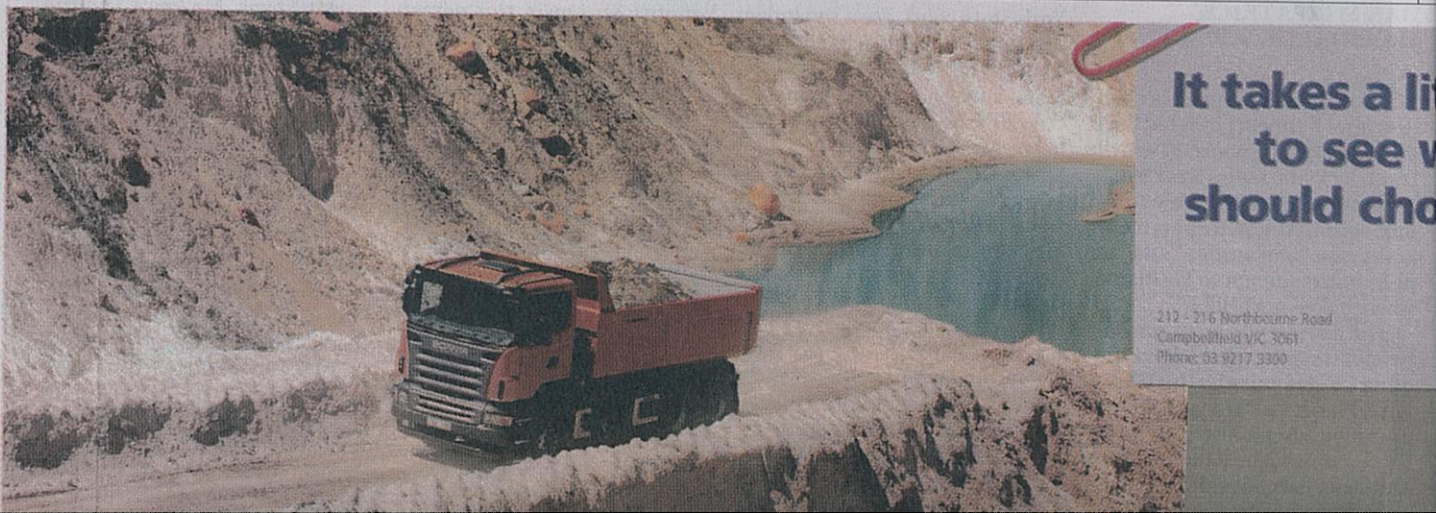
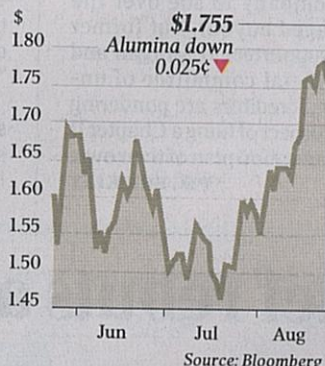
One such play is the US. In the past few days we have seen **White Canyon Uranium (WCU)** report a maiden resource from Utah of 525 contained tonnes of U3O8, while **Australian-American Mining Corp (AIW)** began drilling on Saturday at its Apex uranium project in Nevada.

Earlier mining of this ore body was at an average grade of 0.24 per cent, while AIW's drilling is aimed at lifting the present JORC grade of 0.077 per cent.

Down in Chile, **Hot Chili (HCH)** has picked up extra ground at its Productora uranium-copper-gold project, extending the strike length by 2.5km.

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*The writer implies no investment recommendation and this report contains material that is speculative in nature. Investors should seek professional investment advice. The writer does not own shares in any company mentioned.*



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