Fertiliser prices will soar if sanctions restrict Russian exports

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Much of the commentary from the agricultural perspective has focused on how the global agricultural market will be directly affected by the Russia-Ukraine war through price volatility and a supply crunch in grains and oilseeds. Still, there is a lot to be said about the fertiliser market too.

According to data from Trade Map, Russia is the world's leading exporter of fertiliser materials in value terms, followed by China, Canada, the US, Morocco and Belarus. These fertiliser mixtures include minerals or chemicals, nitrogenous fertilisers, phosphoric fertilisers and potassic fertilisers.

As with the grains and oilseeds market, the actual disruption of export activity is yet to unfold fully, but the sanctions imposed by the West, including the agreement to exclude some Russian banks from some global payments systems such as SWIFT, could negatively affect its trading activity. This disruption could add upside pressure to already higher global fertiliser prices.

Fertiliser prices increased sharply throughout 2021 and remained elevated at the beginning of this year. In January international ammonia, urea, di-ammonium phosphate and potassium chloride prices were up by 220%, 148%, 90% and 198%, respectively, compared with January 2021.

There are many factors behind these sharp input cost increases, such as the supply constraints in critical fertiliser-producing countries, mainly China, India, the US, Russia and Canada. Rising shipping costs and oil and gas prices are also contributing factors to the price increases, along with firmer global demand from growing global agriculture.

The Russia-Ukraine conflict will add upside pressure to these already high fertiliser prices, specifically if Russia's exports are restricted through sanctions. The primary markets for Russia's fertiliser material are Brazil, Estonia, China, India, the US, Finland, Mexico, Poland, Romania and Latvia.

Still, even countries with minimal direct fertiliser imports from Russia such as SA — we are Russia's 36th-largest fertiliser materials market — will experience knock-on price pressures from the international market. US agriculture secretary Tom Vilsack recently expressed similar concerns about the potential price increases, even if the US is able to produce and meet its domestic fertiliser needs in the near to medium term.

Unlike the US, SA's domestic fertiliser production capacity is weak, in part because of the lack of some input minerals. SA imports about 80% of its annual fertiliser consumption and is a minor player, accounting for 0.5% of total global consumption. Therefore, local prices tend to be influenced by developments in the major producing and consuming countries, such as Russia and the other major fertiliser players mentioned above.

From the domestic usage perspective, much of the fertiliser imported by SA is used in maize production, accounting for roughly 41% of total fertiliser consumption. The second-largest consumer is sugar cane farming at 18%.

Fertiliser constitutes about 35% of grain farmers' input costs and a substantial share in other agricultural commodities and crops. Planting in the summer crop farming areas is complete and there will be no need to procure fertilisers until about midyear and into the third quarter of the year, when they prepare for the 2022/2023 production season. Depending on the Russia-Ukraine conflict time frame and the extent of the response measures such as sanctions by other countries, fertiliser prices could still be elevated when the next planting season starts.

In the near term we are most worried about the winter crop-producing areas such as wheat, barley, canola and oats, which have to start the new planting season at the end of April. The farmers and agribusinesses that have not secured their supplies could be exposed to upside price shocks. Horticulture farmers and agribusinesses could also be affected to an extent by the higher input costs in the near term.

A lot remains unknown about the coming weeks and months, but the agricultural markets will certainly be affected by these geopolitical events to some extent. SA agribusinesses and farmers will not be insulated, and the impact will primarily be through price transmission.

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