Peak Phosphate

Your Food: What Should Really Concern You

By Ian Cooper

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It may not be the sexiest story of 2011. It may not even make the front page of *The Wall Street Journal*...

But it'll make you a killing — if Jack Lifton has anything to say about it.

Lifton is the guy who sounded the rare earth supply alarm shortly before rare earths became one of the most respected and hottest sectors of 2010 — and shortly before REEs made my readers a small fortune.

But it's his *next* prediction that should scare the hell out of you. Because this supply-demand story affects something more valuable than green tech, computers, cell phone batteries, and military guidance missiles...

It affects our *food.*

It's the supply-demand story of 2011 that many haven't even heard about. And it all has to do with fertilizer.

Fertilizer for Thought

Fertilizer is made up of three primary nutrients: nitrogen, potassium, and phosphate. Without these, crops will not produce as they should.

And it's not the potassium or the nitrogen supply that's an issue; it's the phosphate supply that's the problem.

As Lifton points out, a large portion of the world's phosphate supply is sitting in unstable parts of the world, like Morocco (which accounts for more than a third of all phosphate exports after taking over the phosphate-rich desert in 1976), South Africa, and Jordan (which control 80% of the world's phosphate).

China also poses a problem, imposing a “super-tax” for most DAP exports for the year. Much like potash, phosphate is added to the soil to boost yields. It's also commonly referred to as diamomoinum phosphate (DAP).

Unfortunately, there is no substitute for phosphate. All agricultural crops require phosphate for growth.

And prices could still surge well above current levels...

No Phosphate, No Food

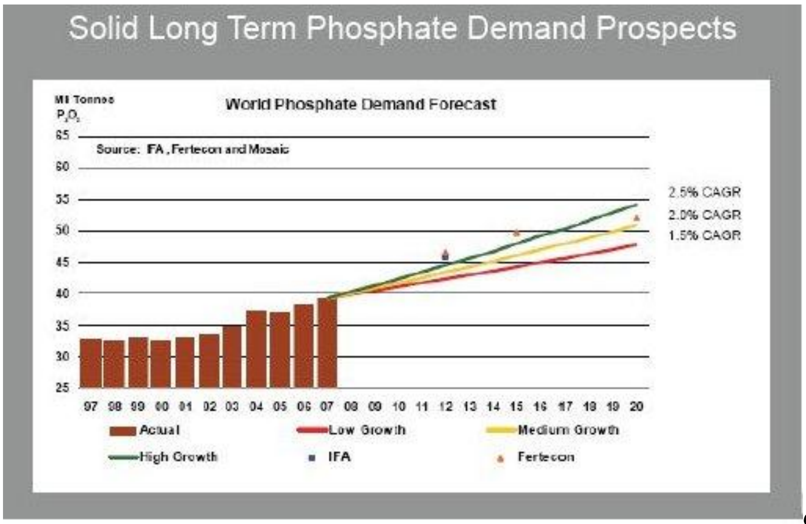
Demand for fertilizer will continue to grow exponentially.

In China and India, agricultural demand accounts for more than 40% of fertilizer. The emerging markets of Asia and Latin America account for two-thirds of fertilizer demand. And as populations in emerging economies increase food demand and purchasing power, countries will have to up farming yields — increasing the demand for fertilizer *and phosphate* as a result.

Food crises continue around the globe as yields diminish and population grows. Global economic and agricultural leaders project the world's population will surpass nine billion by 2050. Think about that. Food production would have to jump some 70% just to meet that demand.

DuPont now believes billions of dollars will be needed if global food production is to meet growing demand: “People are starting to recognize that food demand is outstripping supply," says Executive Vice President Jim Borel.

BHP Billiton understands the need for phosphate. The global resources company recently offered $39 billion for Potash Corporation of Saskatchewan, which included an $11 billion valuation for the company's phosphate and nitrogen assets.



click charts to enlarge

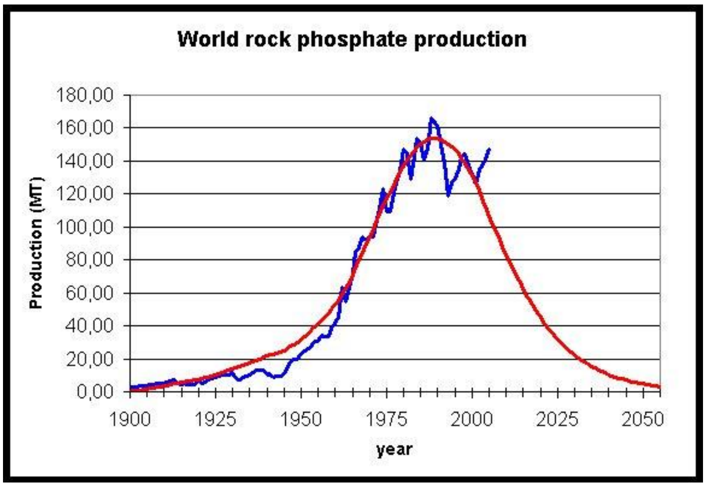
As Lifton explains:

> *Academics at Sydney’s University of Technology believe “peak phosphate” could become a reality as soon as 2030. They also include Professor Stuart White, who suggests that the price of this indispensible soil nutrient could then skyrocket as supply is consequently eclipsed by demand.*
>
> *In turn, such a shortage could pose a serious threat to global food supplies as much higher prices for crop staples become a stark reality.*

How to Trade Phosphate Demand

If you're smart, you'll follow Lifton — just as we did when he warned of a rare earth shortfall.

You see, there's a real boom that lies ahead for the fertilizer sector, thanks in large part to phosphate shortfalls...



And it may just benefit a small company called **Legend International (OTCBB: LGDI).**

The company has plans to commercialize its phosphate deposit adjacent to Mount Isa in Queensland, Australia, by 2012 or 2013, depending on prices. If all goes well, this project could become "one of the world's few remaining high-grade phosphate mines", according to Lifton.

Another way to play this is with Celamin Holdings (Australia: CNL), which has a phosphate project in Tunisia. Celamin saw its stock fall with Tunisia's uprising; since then, work has resumed and the company expects to produce at $35 a ton, compared to the market price of $170 a ton.

Plus, consider the fact that the Commonwealth Bank of Australia took a 5% stake in the junior miner. (To have such a large bank invest in a company of $24 million says a lot.)

If you can buy CNL, do so. If you can't, here's a third way to trade phosphate...

The newly established Global X Fertilizer ETF is the first of its kind to hold fertilizer and potash stocks. It goes by the symbol SOIL and holds 29 holdings, including CF Industries (CF), Potash Corporation of Saskatchewan (POT), Agrium (AGU), Mosaic (MOS), and Syngenta (SYT).

How to Make Even More Money

What if I told you that you could make 8% on Mosaic (MOS) for every 1% move higher in the stock? You'd be on that like white on rice...

All you'd have to do is buy a call option, which would give you 100 shares for every one Mosaic call option contract. Getting that 8% for every 1% in the stock is easy. For every $1 the underlying MOS stock moves up, you could make 56 cents on your option — if for example, you bought a December 2011 MOS 67.50 call option.

Did I lose you with that?

A call option gives you the right — but not the obligation — to own a stock. Rather than pass on the trade, you can buy one call option on Mosaic in anticipation of its value rising in the future. This gives you the right to buy those 100 shares at your desired strike price at or before options expiration for a much lower cost.

For that right, you pay the option seller to "hold" the shares for you at that set price until expiration (in other words, the premium).

To execute an option buy, the official lingo is "buy to open."

So having looked at MOS's options chain, you decide to buy the $67.50 call, which expires in seven months...

With $67.50 as your strike price, you now have the right to buy those 100 MOS shares for $67.50 a piece any time before the expiration date on the third Friday of December 2011.

Ideally, you want the shares to be higher than $67.50 by expiration, thus enabling you to either buy them for less than the current market price — or make you a handsome profit on your call option.

This is the beauty of buying call options: *You greatly increase your leverage.*

Now if this was all Greek to you, fear not. I cover options in depth with my *Options Trading Coach* service. I will be sending readers a How-To Guide in next few weeks, so keep an eye out for that.

Stay Ahead of the Curve,