

THE MARKET

FERTILIZER NEWS AND ANALYSIS

13 November 2008

The Market is a daily fertilizer newsletter produced in London, England. It monitors the worldwide fertilizer business and produces up-to-the-minute reports on the latest prices and developments. Below you will find our latest overview of the international urea, DAP and ammonia markets.

To find out more about **The Market's** accurate and comprehensive coverage of the fertilizer business, please e-mail stephen.mitchell@icis.com

Latest Spot Market Prices \$ per tonne fob			
Product	13 November	6 November	Tendency
Prilled Urea Yuzhny	240-250	240-250	Stabilised
Granular Urea Mid East	255-265	244-246	Stronger
Granular Urea USG s.ton	270-285	300-305	Dipping
DAP Tampa	550-600	780-830	Dropping
Ammonia fob Yuzhny	240-270	240-285	Weaker
Ammonia cfr Tampa	350	400-425	Declining
Sulphur fob Vancouver	45-60	45-60	Weak

Latest International Business					
Urea	Ukraine	Turkey	6-8	255-260 FOB	N
	Russia		35	235 FOB	N
	Russia	Europe	10-15	240 FOB	N
	Yuzhny	Turkey	10	282 CFR 180d	N
	Yuzhny	Turkey	10	275 CFR 180d	N
	Russia	Pakistan	30	284.90 CFR	N
	Qatar	Pakistan	30	284.90 CFR	N
		Pakistan	40	284.90 CFR	N
	Russia	Indonesia	25	275 CFR	N
	FSU	Philippines	35	290-300 CFR	N
Granular	Egypt	France	20	290-300 FOB	D
	Malaysia	Mex/US	25	245-250 FOB	N
AN	Russia	Turkey	10	185 CFR 180 d	N
	Russia	Turkey	10	190 CFR 180 d	N
Ammonia	Yuzhny		70	240-250 FOB	N/D
	Libya	Turkey	20-23	250s FOB	N
	Iran	India	12	240 CFR cash	N
Sulphur	Canada	China	60	Low/mid 50s CFR	
	M East	China	30	56-57 CFR	N
sMOP	N.America	Malaysia	35?	1000 CFR	Q1 09
	FSU	Bangladesh	25	1050 CFR	N

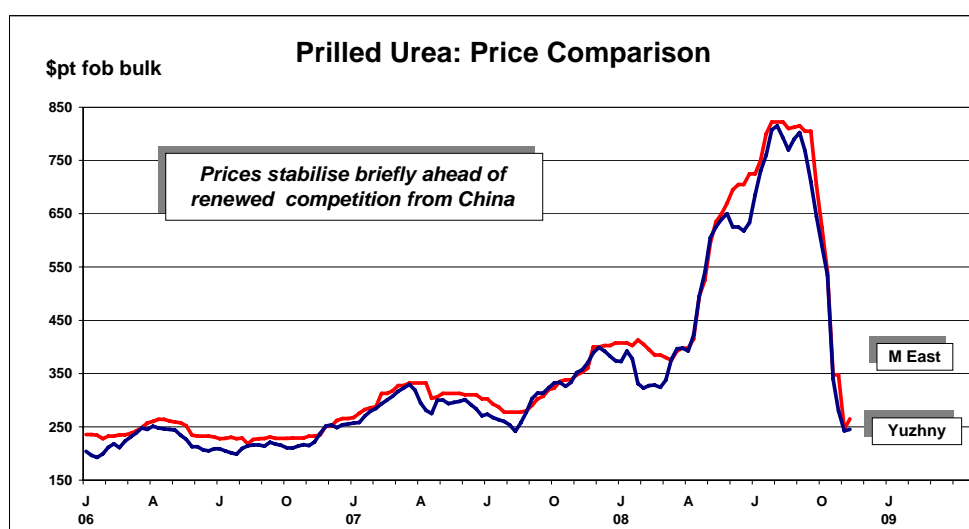
Urea

Urea prices have stabilised and even edged back up a few dollars over the past week. More sales have taken place at \$240-250/tonne FOB Yuzhny and producers are comfortable for the balance of the month, given reduced output due to plant closures.

Middle East producers have lined up business in Pakistan and Ethiopia at prices netting to \$265-275/tonne FOB. This represents an increase of \$20-30/tonne on last week's sales to India.

Demand is evident in several markets, with buying continuing in Turkey and Asia. New Pakistani and Indian tenders are anticipated, closing in 10-14 days' time for urea for December shipment.

The prospects of any price rebound have been dealt a severe blow, however, by the announcement of a new policy in China designed to boost exports to combat slowing economic growth rates. This will see urea exports resuming as from December.



The current 175% export tax on urea will be replaced by a new scheme with effect from 1 December. This will feature a base price of Rmb 2,300/tonne FOB, equivalent to \$337/tonne, for export urea.

The year will be split into low and high seasons. During low season months, exports at or below the base price will be subject to a 10% tax. During high season months, the export tax will be 110%.

Low season months, when exports will be possible, are December, January, June and July. Offers of urea are already circulating at \$250/tonne FOB, including the 10% tax. The additional supply foreseen from China is likely to depress prices from other origins and traders are now trying to sell short wherever possible.

North America

In the **US**, granular urea prices were holding at \$285-295/short ton FOB Nola in the early part of the week, but have dipped to \$270-275/short ton FOB at presstime, with Koch reportedly a seller at that level. There is a stand-off at dealer level, where farmers are unwilling to purchase urea. This is leading to slow demand from dealers to producers and traders.

The news from China this week is likely to mean traders start to work granular urea for the US again for December and, particularly, January shipment. Based on offer prices around

\$250/tonne FOB Chinese port, plus freight of \$25/tonne, urea could land in the US Gulf below \$240/short ton.

Demand elsewhere in Latin America is very light. Helm has been checking freight from Qatar and Egypt for its sale into Chile. Indagro and Keytrade are also being linked with sales in Mexico.

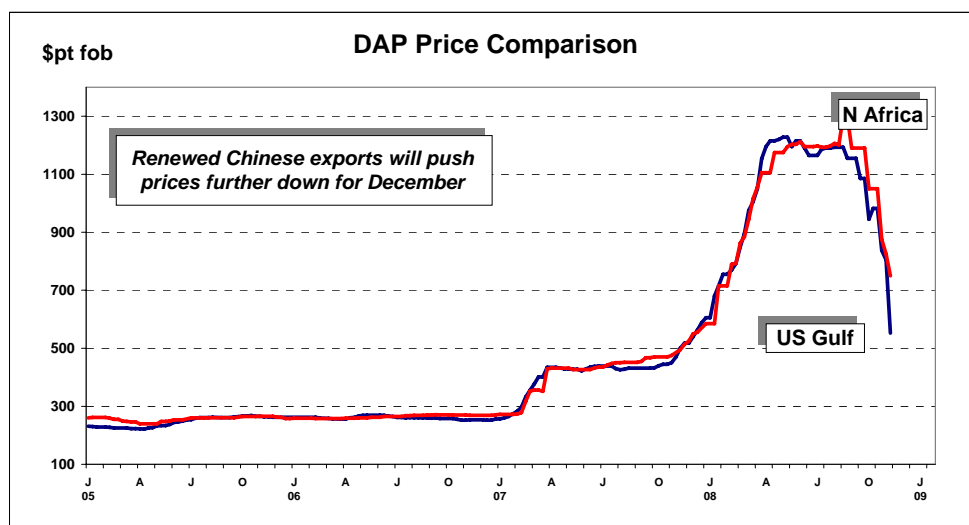
DAP

The phosphates market is increasingly bearish. DAP prices dropped substantially in the Ethiopian tender this week and the market is starting to assess the impact of China's decision to cut export taxes on fertilizers.

Given the huge inventories of DAP, MAP and TSP in China, a lot of Chinese phosphates will be offered into the market for December and January shipment. Finding a market for additional quantities will not be easy, regardless of a sharp fall in price.

The most likely outcome is further significant erosion in international DAP, MAP and TSP prices. Increased Chinese availability will offset the supply reductions implemented in all other major exporting countries.

Over 500,000 tonnes of DAP were offered in this week's tender in Ethiopia, against a requirement of 150,000 tonnes. The lowest offer was from Russia, netting back to about \$460/tonne FOB Black Sea. Keytrade's offer from the US reflected \$550-555/tonne FOB US Gulf.



Demand in India remains strong but further imports are dependent on the government making subsidy payments and little interest for further DAP imports emerged this week. Nevertheless, lower prices internationally will encourage the government to push private importers to import more DAP later in November for December arrival. The near total cessation of phosphoric acid shipments to India also means less domestic DAP production.

Of major concern to US producers will be the weakness in the domestic market. Barge prices have plummeted by \$150/short ton this week, partially due to the aggressive offer of US DAP in Ethiopia and the poor weather in parts of the Corn Belt curtailing demand. More producers have lowered production as a result.

On the supply side, OCP Morocco is set to stop granulation and acid production completely at Jorf Lasfar and curtail output of both at Safi. JPMC also looks set to cut DAP output in

the face of low demand. Bulgaria's Agropolychim will shut down phosphoric acid and TSP due to low demand.

North America

In the **US**, Keytrade offered two lots of CF DAP in Ethiopia at a price thought to net back to \$550-555/tonne FOB.

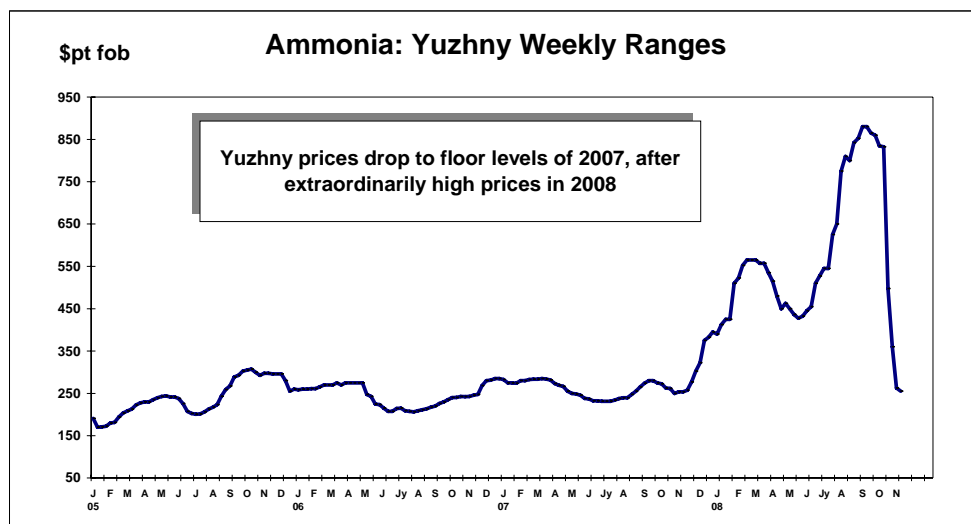
Domestically, dealers are long on DAP and inventories are generally high across the country due to poor fall application. This is due to poor weather (particularly in the upper Cornbelt) and high prices, which are putting farmers off further purchases.

Oakley has been offering barges at \$550/short ton FOB Nola but with no interest reported. Price ideas are falling: the Keytrade offer in the Ethiopian tender is equivalent to around \$510/short ton FOB Nola. One trader said it could probably buy at \$525/short ton FOB Nola.

Agrifos is running its Pasadena facility at 80% of capacity. The warehouse is expected to be fully repaired by next week, after which full production will be possible.

Ammonia

Ukrainian producers have made different choices in order to come out of the impasse seen in recent weeks. The lowest cost producers have decided to reduce prices, as low as \$240-250/tonne FOB Yuzhny, and keep running the plants, even if below break-even levels. The ones, which are located farther away from Yuzhny and have higher production costs, will have to reduce ammonia production. In addition to this, Togliatti will export 100-140,000 tonnes less than usual in November and December. The plant turnarounds in Trinidad will also remove close to 150,000 tonnes of supply from the market over the next month or so.



Despite the heavy supply cutbacks, the sentiment is still bearish as demand remains relatively weak, particularly from the industrial side in Europe, Asia and the US. The recent fall in prices has prompted some demand and the Yuzhny line-up is now relatively healthy for November. However, there is still some overflow in the system and this may take a while before being absorbed. More demand from Europe is likely eventually as prices for imported ammonia are now cheaper than domestic production.

The sentiment is even more bearish in the east, where Asian demand is slack and Middle East producers are sitting on unsold ammonia. Prices have dropped \$100/tonne this week and may be forced below \$200/tonne FOB AG before long to secure new sales.

North America

In **Tampa**, Yara has agreed a price of \$350/tonne CFR with customers for second half November contract deliveries, down \$225/tonne from the initial November price. Due to reduced bunker costs, freight Yuzhny-Tampa for 35,000 tonne vessels is currently put at \$60-65/tonne. However, owners are still asking around \$1m/month for hiring 35,000 tonne vessels, which would suggest higher voyage rates.

The unusual second settlement for the contract month followed a further sharp fall in Black Sea ammonia values. The original November settlement had been reached in late October in the absence of solid market information amid a general retreat in commodity values.

Global financial and commodity markets were in a state of extreme flux at the time of the original November settlement, and Yuzhny prices were ill-defined. The settlement was agreed with a mutual desire to reflect falling values while not going so far as to prompt ammonia plant closures that would likely last through the northern hemisphere winter. The subsequent further fall in Black Sea prices prompted the parties to the Tampa contract to decide to set another price for the second half of the month, with a drop to around \$425/tonne having been originally contemplated. But market conditions became even weaker than expected just days before the second settlement. As well as the weaker Yuzhny market, reduced DAP production by Mosaic and weather-delayed progress in the fall ammonia season were dragging down US market sentiment.

The ever-deepening recession scenario for the US and the rest of the world was playing its part on sentiment, too. Industrial consumers of ammonia were estimated to have around 50% of their capacity offline.

Five ammonia plants in Trinidad have already brought forward maintenance plans because of the weak conditions.

There is some good news for ammonia demand from the US **Midwest**, where improved weather conditions across the corn belt have helped the harvest reduce its lag to historical norms and improved the prospects for the ammonia application season, which was slowed by earlier wet weather. Ammonia market sources have held mixed views about the prospects for the current ammonia application season. A source at a major fertilizer supplier predicted that 30% less ammonia than in 2007 would be put into the fields this season. After the slow start to the application, there was only so much time left before the ground freezes and farmers must call a halt. Another supplier was more optimistic that the weather might turn into a positive factor, if temperatures remain warm enough to extend the application season into December.