THE MARKET
FERTILIZER NEWS AND ANALYSIS

4 December 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	**4 December**	**27 November**	**Tendency**
Prilled Urea Yuzhny	230-235	230-240	Softer
Granular Urea Mid East	260-265	260-265	Stable
Granular Urea USG s.ton	228-232	235-240	Weakening
DAP Tampa	450-500	500-550	Falling
Ammonia fob Yuzhny	n.m.	240-245	Weak
Ammonia cfr Tampa	125	250-350	Weak
Sulphur fob Vancouver	45-60	45-60	Holding

Latest International Business					
Urea	Ukraine	Pakistan	38-40	230 FOB	D
	Baltic	Europe		253 FOB d free	D
	Russia	Europe	40	Formula	D/J
	Baltic?	Turkey	6	240 FOB 180d	D
	Black Sea	Vietnam	25	275 CFR	D
	Baltic	Mexico ec	25	250 CFR	D
AN	Black Sea	Turkey	6	158 FOB 180d	D
	Black Sea	Turkey	6	150 FOB	D
UAN	Belarus	France	20	180 FOB?	D
	Belarus	Belgium	15	180 FOB?	D
	Belarus	France	7-8		D
	Romania	Spain	6	€185-190 CIF	D
	Egypt	France	20	190-200 FOB	D
DAP	China	India	10-15	395 CFR	D
	China	Vietnam	10	430-450 FOB	
Ammonia	Caribbean	Turkey	23.5	149 CFR	D/J
		Tampa		125 CFR	D
	Egypt	Turkey	9-10	230 CFR	N
Sulphur	Iran	China	30	54 FOB	D
	Germany	S Africa		70 CFR?	D
Sul acid	Spain	Turkey		30 CFR 180d	

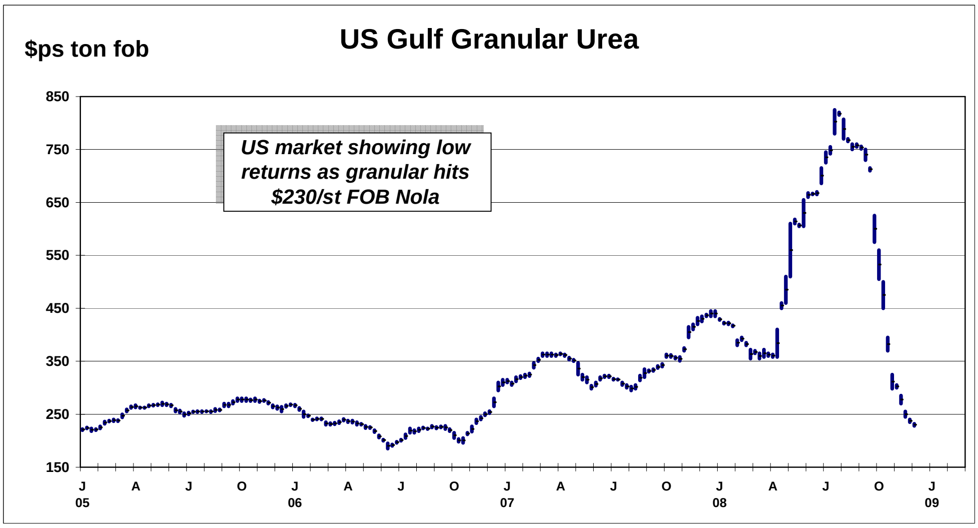
Urea

Urea prices have changed little this week. Yuzhny FOB prices are in the range $230-235/tonne and producers have enough sales on the books to avoid much deterioration for December. Crucially, Chinese producers have maintained their asking prices above $270/tonne FOB. This means Chinese urea is uncompetitive in world markets and has allowed traders to sell more Black Sea urea East of Suez.

This is helping to support prices in the west, where demand is very weak. For example, tenders in Sri Lanka, plus a large part of the awards in last week's Pakistan tender, will be covered from Yuzhny.

It remains to be seen how long Chinese producers will hold prices steady and accept low or zero export business, but so far there is no tidal wave of urea coming from China.

To avoid further weakening in January, however, the urea market needs new tenders in India and Pakistan. There is no firm news yet, but both countries are expected to tender for urea in mid/second half December for January delivery. Even then, with large parts of the world inactive from mid December through to mid January, these purchases will only serve to stabilise rather than raise prices.



Granular urea producers are facing an uphill struggle to sell all their material. Two of the world's largest markets, the US and Thailand, are taking less urea than usual, while increased output in Egypt is leading to a surplus of urea for European markets. Prices for Egyptian urea are dropping, with latest sales reported at $260/tonne FOB. Sabic has floated a panamax of granular urea for the US.

North America

In the **US**, demand is small for urea for prompt delivery. Buyers are holding back, waiting for prices to touch the floor before stepping in. Offers of granular urea barges have dropped to $230/short ton FOB Nola from Koch, but no sales are reported.

CF reduced its list prices for granular urea on 2 December. It is now offering $235/short ton FOB Donaldsonville for December-January, $240 for February and $245 for March and April.

Sabic has a spot 60,000 tonne cargo of granular urea on the water for late-December/early-January arrival in the US Gulf. It is reportedly planning to offload the vessel into barges to be sold later in the season and is not offering at present.

There is more activity in the interior of the country, where dealers are starting to buy urea against prepay demand.

DAP

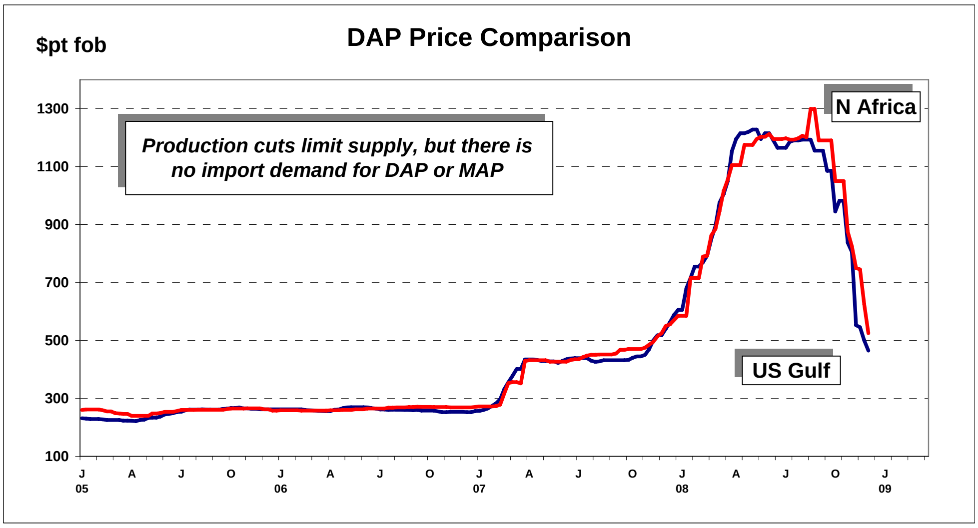
While DAP suppliers vainly try to find a price level acceptable to buyers, they are starting to contemplate plant closures extending into Q1 2009. Mosaic indicated this week that it is prepared to cut phosphate production by another 1m tonnes during the early part of 2009. Depending on the outcome of phosphoric acid negotiations in India, North African producers may also face continued output restrictions in Q1.

DAP offer prices have dipped close to $425/tonne CFR in India, reportedly for Chinese and Russian material. One sale is reported at $395/tonne CFR for a small parcel. Buyers are still hesitating, however, uncertain whether this is close to the floor or whether it is just a step on the way down.

Lack of demand in any other market suggests that Indian buyers can hold out for lower prices. In the nitrogen market, where the correction in prices has already played out, production cost economics are now the main driver. The same situation may occur for DAP.

A concomitant of the low production rates in the phosphate industry is falling raw material costs. Demand for sulphur and ammonia has slumped. Tampa buyers have driven ammonia prices down to $125/tonne CFR for December shipments. This is $225/tonne lower than for November and represents a fall of $806/tonne from the peak level seen in September and October 2009.

For those companies still making DAP based on captive phosphate rock, therefore, production costs have fallen significantly. We estimate that cash costs of production for an integrated producer in Florida are in the range $200-210/tonne.



North America

In the **US** , several barges of DAP have traded this week at $385/short ton FOB Nola for December as traders have finally found a level at which buyers will take material.

This is equivalent to $424-425/tonne FOB for export DAP. There are no offers for export at this level as it would be too high to be competitive in India.

Mosaic announced on 2 December that it may reduce phosphate production by another 1m tonnes in January-May 2009 if market conditions continue to be slower than normal.

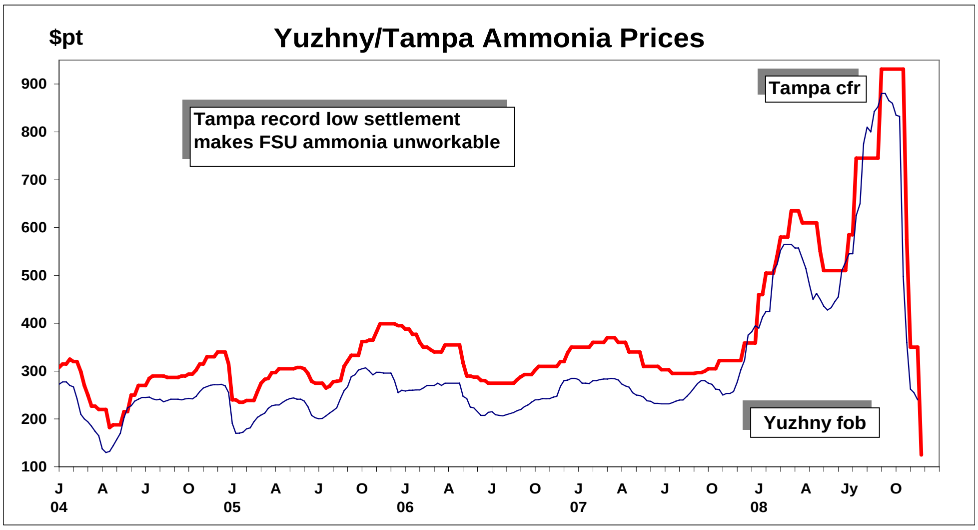
Mosaic confirmed that it is cutting DAP/MAP output by 1m tonnes in the October-December 2008 period.

The company revealed that phosphate sales volumes were 1.3m tonnes in September-November 2008, about 800,000 tonnes lower than the previous quarter.

Ammonia

The ammonia market is in disarray, with no specific price reference or guidance at the moment. Buyers are hard to find and any rare sale opportunity forces producers to concede strong price reductions. The Yuzhny price, which has historically been the benchmark for most markets, is no longer a reference and the market worldwide seems to be at loss over which price to use as a reference.

The sale of a Caribbean cargo at close to $150/tonne CFR Turkey sent shock waves through the market worldwide this week and subsequently allowed Tampa buyers to achieve $125/tonne CFR for December, the lowest price since August 2002. These prices would reflect netbacks well below break-even levels for Ukrainian as well as Russian producers. But production in regions other than Europe is still remunerative and this will force a reshape of the market in future months.



Middle East and Asian prices are much higher than in the rest of the world, but adjustments may have to take place there too if demand continues to remain low over the next month or so. Sales outside the region will now dictate netbacks much lower than $160/tonne FOB, as buyers in Africa, NW Europe and the US will now want to match the levels recently achieved in Turkey and Tampa.

North America

In **Tampa**, negotiations toughened over the December price this week after news emerged that Koch had sold a Caribbean cargo to Turkey at a very low price, which buyers pointed out was equivalent to $125/tonne CFR, considering a market freight. Yara finally had to agree a 64% reduction to $125/tonne CFR for the whole of December, down from $350/tonne in second half November and a peak at $931/tonne in October.

Suppliers were initially hoping to hold the December price at around $250/tonne CFR or just below, but the sentiment was bearish because of a virtual collapse in demand from both the fertilizer and industrial sectors. The sale of the Caribbean cargo gave US buyers a powerful lever in the December outcome.

The collapse in demand has been due in part to weather-related delays to the US corn harvest, which have held back ammonia application. With freezing winter temperatures and snow now setting in, the window of opportunity for farmers has been closing fast. **Midwest** conditions are mixed but the overall picture is one of dampened demand due to the weather-related harvest delays. Relatively mild weather in the week to 30 November had allowed one ammonia supplier with a terminal in Illinois to complete distribution of about 85% of its pre-paid ammonia, but subsequent snowfall has slowed activity again. The situation for others has not been as rosy. Some terminals have managed to move only about 30% of their ammonia.

Market sources have been divided about how much ammonia would go onto US fields this year. Estimates vary from a drop of around 20% in Illinois compared with 2007, while Iowa could slip as much as 50%. On the other hand, the reduced yields from this year's harvest may tighten the corn market, enticing farmers to favour corn over soybeans next spring and leading to an uptick in ammonia use. As well as the weather, the sharp fall in fertilizer prices has kept farmers cautious. But the Tampa settlement might make many think the bottom has now been reached.