

THE MARKET

FERTILIZER NEWS AND ANALYSIS

15 May 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	15 May	8 May	Tendency
Prilled Urea Yuzhny	635-650	620-630	Rising
Granular Urea Mid East	630-655	600-630	Rising
Granular Urea USG s.ton	605-608	610-618	Weaker
DAP Tampa	1160-1230	1225-1230	Firm
Ammonia fob Yuzhny	427-430	432-440	Weaker
Ammonia cfr Tampa	550	550	Bearish
Sulphur fob Vancouver	680-700	680-700	Firm

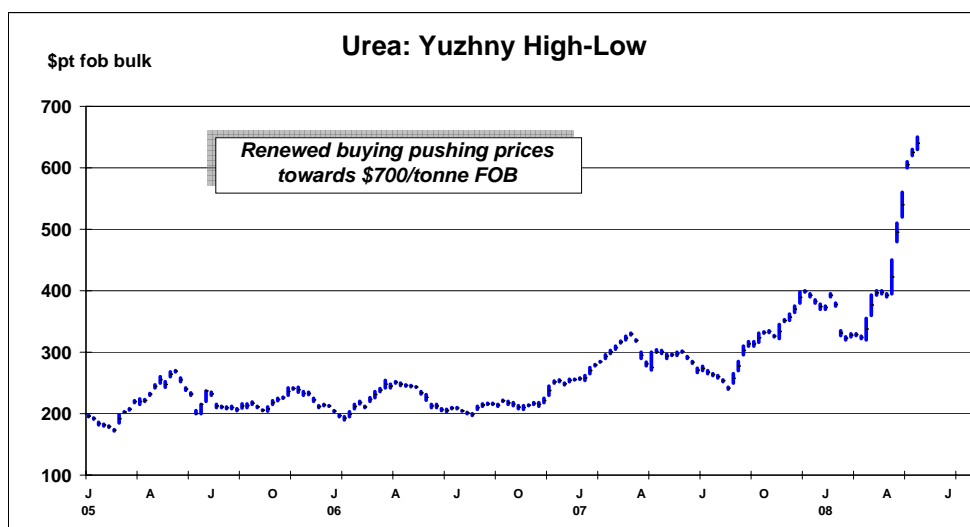
Latest International Business					
Product	Origin	Destination	'000t	Spt	Ship
Urea	Yuzhny		5	640 FOB	M
	Yuzhny		15	650 FOB	J
	Baltic	Chile		730-735 CFR	J
	Baltic		20-25	620 FOB	J
	Baltic	Germany/UK		620 FOB	J
Granular	Egypt		15	675 FOB	M
	Egypt	Brazil	15	740 CFR	M
	China	South Korea	10	720 CFR	J
DAP	US	India	35-40	1278 CFR	J-J
	Open	India	50-60	1285 CFR	J
	Aust/open	India	40-80	1297 CFR	M-J
MAP	US	S Africa	6.5	\$1255 FOB	M
	Russia	Uruguay	12	1300 CFR	M
TSP	Tunisia	Brazil	25	990 FOB	M
Ammonia	Yuzhny		20?	427-430 FOB	M
	Yuzhny	Turkey	6-10	460 CFR	M
	S Arabia	US	35		M
Sulphur	Iran	China?	25	747 FOB	M
		Brazil		750-760 CFR	J?
MOP	FSU	Sri Lan/Thail	30	1000 CFR	Jy
	FSU	Indonesia	10	1000 CFR	Jy

Urea

Urea prices hit \$650/tonne FOB Yuzhny this week, a heady \$350/tonne higher than the same time last year. Traders are buying to maintain modest long positions, having sold urea in Brazil, Turkey and other markets and have been obliged to pay the asking price.

The absence of Chinese urea from the international market will ensure a large supply deficit over the months to September, particularly in Asia. Prices are forecast to move substantially higher during May and June, although buyers in southeast Asian countries are struggling to accept prices above \$700/tonne CFR.

Indian buying has yet to resume but, when it does, it is likely to prompt a period of rapid price escalation. STC and IPL have a mandate to buy 1.3m tonnes of urea probably for June-July shipment.



Middle East producers have sold little spot urea over the past month and will be the major beneficiaries of Indian buying. However, the tight supply position may mean that the buyers are unable to cover all the urea required.

Brazilian buyers have stepped into the market this week, apparently deciding to book May and June cargoes ahead of India. Prices agreed have risen to \$670-680/tonne CFR for prilled urea, reflecting around \$600/tonne FOB Yuzhny/Baltic.

Freight rates have leapt over the past week, with a shortage of handysize vessels evident for May loading. One trader has fixed a urea vessel at \$127/tonne for Yuzhny-WC Mexico. Rates to Brazil are above \$80/tonne.

North America

In the **US**, granular urea prices have dipped below \$610/short ton FOB in very light trading. Single barges have changed hands at \$607-608/short ton FOB Nola, with traders saying it was no longer possible to achieve the levels seen last week above \$610/short ton FOB. Enthusiasm for buying barges for the summer has waned. There is a substantial demand to come from buyers for the rice season in the south, but interest has eased further north.

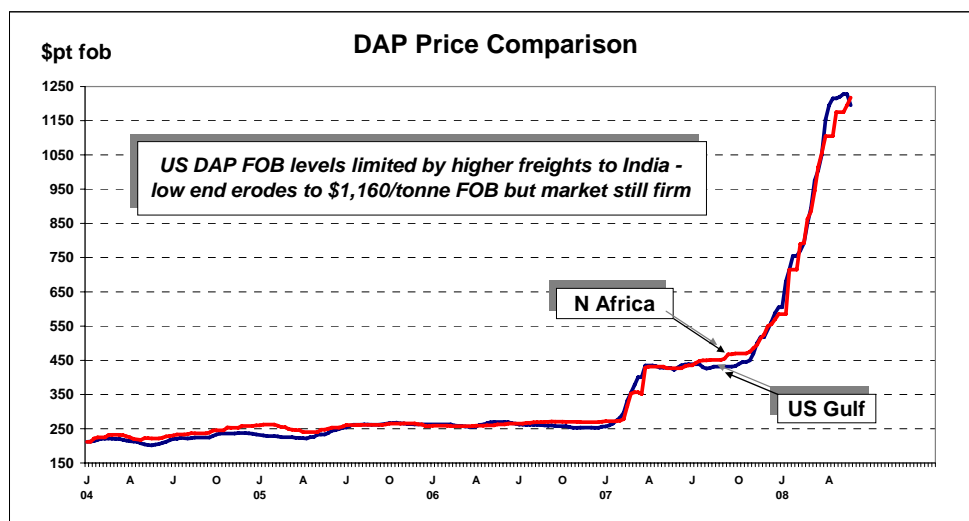
Drier weather in parts of the Cornbelt has seen farmers catch up some of the backlog of plantings and there is optimism that the switch into soybeans will be less than forecast.

DAP

The hiatus in the global phosphates market continues ahead of the IFA conference in Vienna. For the first time, farmers in key markets such as Brazil are citing increasing MAP prices as well as fuel and transportation costs as making soyabean crops unprofitable.

This resistance, coupled with full stocks in Argentina and delayed application in the US, have halted fresh purchases outside India, which remains the centre of activity. IFFCO bought an additional 210,000 tonnes of DAP this week. There is demand for a further 600-700,000 tonnes of imports, and possibly more given low domestic DAP production in April. But even here, prices have not risen as expected, with Kisan's stock of US DAP establishing a relatively low ceiling price.

In this pre-IFA lull, price development has been limited, with US MAP sold into South Africa at \$1,255/tonne FOB and some North African DAP sold at \$1,225/tonne FOB to various markets. US Tampa DAP prices actually retreated this week to \$1,160-1,170/tonne FOB at the low end of the range due to rising freight rates to India. Tunisian TSP also sold at lower levels with business in Brazil concluded at \$990/tonne FOB, down \$50/tonne on last business, providing further evidence of a more bearish market sentiment in Latin America.



The lull is expected to last until IFA and probably 1-2 weeks beyond. Most producers are still in no hurry to sell, waiting for the combined effects of re-emerging demand in Latin America, further sales in India and the US domestic market restarting to provide new impetus to prices.

A further bullish factor is likely to be the lack of exports from China to year end. The earthquake in Sichuan province is reported to have badly damaged at least three phosphate plants with a combined capacity of nearly 1m tonnes/year. Some reports suggest that two of these plants have collapsed.

The earthquake may bolster the Chinese government's resolve to curtail DAP/MAP exports beyond Q3 when the export tax is scheduled to fall, in order to prioritise domestic fertilizer supply. Chinese sources close to the government are reported to have unofficially warned traders not to expect any DAP/MAP exports in Q4.

It is too early to say whether the market for DAP and MAP has peaked. But producers do face a dilemma into Q3, as rising input costs will put a greater squeeze on margins. For example, there are reports this week that Q3 phosphate rock is on offer from North African suppliers and Jordan at over \$400/tonne FOB. Sulphur prices will also rise in second half contracts.

North America

In the **US**, PhosChem has sold 6,500 tonnes of MAP at \$1,255/tonne FOB, reportedly to ConAgra for shipment to South Africa. It also offered one DAP cargo in the IFFCO India tender at a price netting back to \$1,235/tonne FOB. No business was concluded.

Keytrade has sold a parcel of US DAP to India at a price estimated to netback \$1,160-1,170/tonne FOB Tampa due to rising freight rates.

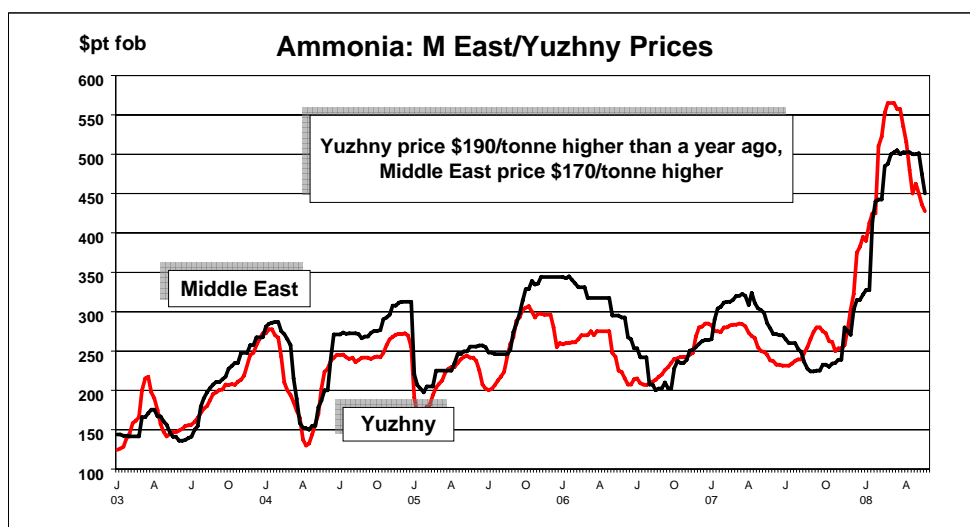
Domestically, Mosaic has sold DAP at \$1,070/short ton FOB Nola and MAP \$25/short ton higher in Central Florida.

US DAP exports were 292,771 short tons in April according to the latest TFI data. This was down 5% on April 2007 levels. The main recipient was India, with 167,042 short tons, 57% of the total.

US MAP exports were 139,777 short tons in April, down 21% on the April 2007 level.

Ammonia

With their inventories building up because of reduced Indian demand and prices falling in Yuzhny, Middle East ammonia producers have had little choice but to turn to the US this week, as the market which could secure, if not better netbacks, at least some sales. Sabic is loading a 35,000 tonne cargo to the US before the end of the month and other producers are also looking at combining another large vessel. At current US levels, the netback would be around \$450/tonne FOB, but CFR prices will be lower in the US by the time the cargoes arrive and therefore the netback will be lower.



In Yuzhny, prices have dropped another notch this week, with sales concluded in the high-\$420s/tonne FOB. Supply is tighter than initially expected, due to the Gorlovka turnaround in Ukraine, as well as in Algeria and Trinidad, which have prompted more sales to the US. However, it remains to be seen whether prices will hold or continue to drop as June progresses.

Competition between AG and Yuzhny tonnage will probably reinforce Tampa buyers' arguments to break the \$500/tonne CFR benchmark for June prices. Ample discussions will take place during the IFA conference next week on the outlook for Yuzhny and US prices.

North America

In **Tampa**, negotiations to settle June contract prices will probably start next week, but may not be concluded before the last week of May. Citing higher bunker costs, which have pushed up freight rates, suppliers will probably argue that the Tampa price should not fall below \$520-530/tonne CFR. However, the news that Sabic is taking a 35,000 tonne cargo to the US for end-June arrival/early-July arrival and that the Yuzhny KIP has been further reduced will reinforce buyers' arguments for lower levels, possibly close to \$500/tonne CFR, as choice of supply is plentiful.

In the **US Gulf**, CF Industries has apparently bought a cargo from PCS for June arrival and has been looking for two more cargoes for July and August arrival. Apparently, Middle East ammonia was offered, possibly by more than one supplier.

Yara has agreed to take a Yuzhny cargo from Nitrochem on the Hekabe to fulfil its monthly contract commitment to Terra/Donaldsonville. It may have bought another cargo from Nitrochem, possibly for Tampa.

Midwest prices are still around \$810/short ton ex-terminal, although movements have been slow this week because of more rain. However, application is still expected to take place until the end of June and the summer refill is expected to be strong.