

THE MARKET

FERTILIZER NEWS AND ANALYSIS

21 August 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 | 21 August | 14 August | Tendency |
| Prilled Urea Yuzhny | 760-780 | 785-800 | Waiting |
| Granular Urea Mid East | 770-898 | 770-898 | Stable |
| Granular Urea USG s.ton | 750-760 | 765-770 | Weaker |
| DAP Tampa | 1170-1215 | 1170-1215 | Holding |
| Ammonia fob Yuzhny | 825-860 | 800 | Strong |
| Ammonia cfr Tampa | 745-920 | 745 | Rising |
| Sulphur fob Vancouver | 650-700 | 800-820 | Weak |

| Latest International Business | | | | | |
|-------------------------------|-----------|----------------|---------|----------------|------|
| Product | Origin | Destination | '000t | \$pt | Ship |
| Urea | Russia | NW Europe | 4-4,500 | 720 FOB | A/S |
| Granular | Egypt | Europe? | 10 | 870-890 FOB | A |
| AS | Black Sea | Turkey | 3-5 | 368-375 FOB | A/S |
| UAN | Belarus | Arg/Can? | 25 | \$500 FOB | A/S |
| DAP | US | India | 25-50 | \$1268 CFR | S |
| | Morocco | Iran | 30 | \$1368 FOB | S |
| TSP | Moroc/Leb | Iran | 60 | €779 FOB | S |
| Ammonia | Yuzhny | | 50 | @860 FOB | S |
| | S Arabia | Korea | 8 | 890 CFR | S |
| | Iran | F East | 8 | Low-840s FOB | S |
| | Qatar | India | 10 | 779.63 CFR 60d | A |
| | Yuzhny | Korea/China | 10 | @900 CFR | A |
| | Trinidad | Donaldsonville | 10 | 925 CFR | S |
| Sulphur | AG? | India | 18 | 755 CFR | A |
| | AG? | India | 30-35 | 680 CFR 60d | O |
| | UAE | S Africa | 35-40 | 800 CFR | A/S |
| | UAE | Brazi; | 30 | | A |
| MOP | FSU | Iran | 30 | €735 CFR | S-O |
| SOP | Belgium | Iran | 40 | €885 FOB | S-O |

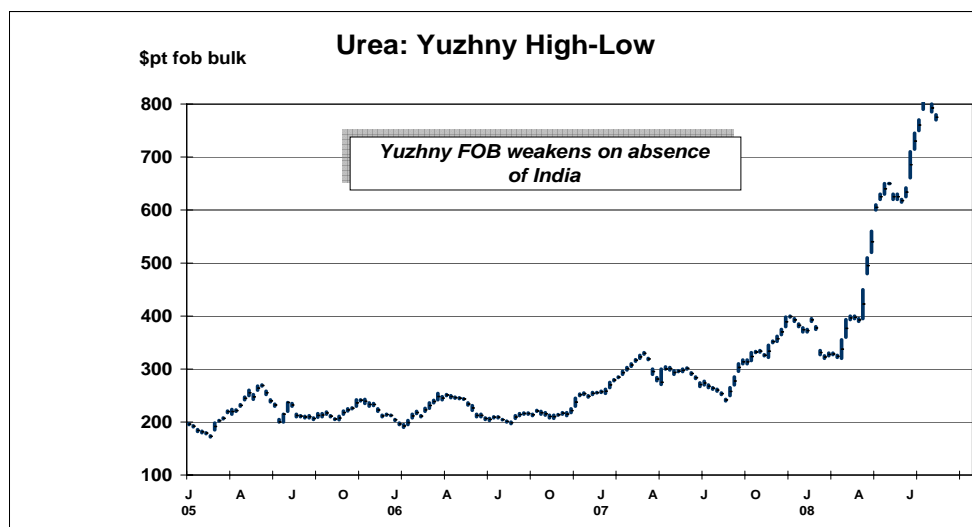
Urea

The urea market lacks a clear indication exactly when the next buying activity is going to take place. In the absence of this, prices have started to slide.

Large scale Indian buying is expected imminently. However, the process will start with long term, formula-based contract talks. India is aware it is the only major urea buyer at present, and with prices softening, it is encouraged to remain absent for the time being, despite requiring substantial tonnages in the short-medium term.

Alongside this, the Brazilian market is extremely quiet, with high inventory levels and low end user demand. Thus, this outlet for Yuzhny and Baltic urea is not available at present, adding to the bearishness in both markets.

With no obvious end market to place tonnes, traders have withdrawn from the market or bid at levels lower than producers are willing to accept.



There is a general expectation that urea exports will be limited out of China in Q4. However, in the absence of a formal announcement, this expectation alone has not been able to support current urea price levels.

US barge prices have continued to steadily move downward as the summer lull takes effect. With no application-based requirement to buy immediately and sensing further weakness to come, buyers are content to sit and watch prices soften.

North America

In the **US**, barge prices have softened to around \$750-760/tonne FOB Nola, awaiting fresh demand.

With prices steadily drifting downwards, and no immediate application requirement, most buyers are content to stay out of the market.

Koch's terminal price remains at \$780/short ton FOB Enid, while terminal operators at Inola are still pricing higher.

Koch's terminal price has applied downward pressure on the barge market as workable prices based on this reference are in the low/mid-\$750s/short ton FOB Nola.

Buying activity remains fairly low, but is expected to pick up soon with the onset of the winter wheat season.

The TFI record for July showed that US urea production was 256,000 short tons, up 29% from June but down 3% from July 2007. Closing inventory was 245,000 short tons, up 15% from June but down 25% on July 2007. Producer disappearance was 225,000 short tons, down 8% from June but up 10% on July last year.

DAP

The phosphate market remains in the doldrums with only India and Iran providing any significant outlet for major exporters this week.

Latin American demand is almost non-existent, and the strength of its eventual return, coupled with renewed interest in the US domestic market and the continued absence of Chinese DAP in the supply chain, will go a long way to defining how prices proceed over the next 30-60 days.

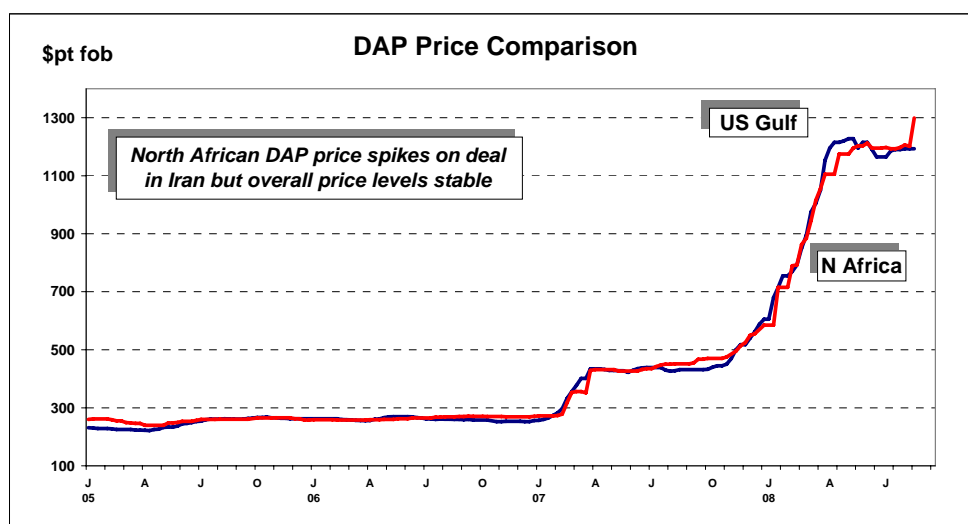
It seems unlikely that China will change the level of export duty applicable to DAP with the current 135% level deemed more than adequate to contain exports.

In Brazil, farmers are still adopting a wait-and-see approach before drawing down high fertilizer inventories. Argentina remains very depressed, due to a lack of demand and uncertainty over government policy on export taxes on crops.

In the absence of other market activity, CFR levels in India are static with the latest sale of US DAP made at the prevailing \$1,268/tonne CFR level.

India still requires around 300,000 tonnes for rabi, and Pakistan, which looks likely to settle its subsidy issue in the next few days, will probably take a further 100,000 tonnes of imported DAP in 2008.

The major price movement this week has been witnessed in Iran, where OCP sold DAP at the equivalent of nearly \$1,370/tonne FOB and TSP at \$1,145/tonne FOB. These are major hikes, with DAP increasing by \$130/tonne and TSP by almost \$100/tonne on last business. The price hike is not considered representative of the DAP market internationally, given the nature of the Iranian market.



Overall, the market looks stable for the next 30 days with most producers covered into September and North African producers concentrating on phosphoric acid shipments

North America

In the **US**, Gavilon has sold 25-50,000 tonnes of US DAP to India at a price estimated to netback to \$1,170-1,180/tonne FOB Tampa. PhosChem reports no new sales this week.

The domestic DAP market is quiet. Barges notionally remain in the \$1,060-1,070/short ton FOB Nola range for prompt shipment although it is believed that a price sub-\$1,060/short ton is possible. CF is reported to have dropped its price to \$1,060/short ton FOB. However there are very few barges available with traders placing significant tonnage in the export market. Warehouses are full and further application is required before product will start moving.

In central Florida, Mosaic reports prompt sales of significant volumes at \$1,080/short ton FOB.

The USDA corn production estimate has been revised to 12.3bn bushels for 2008. Corn prices have rallied by 40 cents, fuelled by short covering and concerns that this year's crop will be susceptible to an early frost, according to the TFI. Planted acreage was 1m acres higher than indicated in the March prospective plantings report, despite adverse spring weather.

The soyabean crop estimate by USDA was revised to 3.0 bn bushels. Planted acreage matched March intentions and abandonment will be much lower than indicated in USDA's June report. Stocks will stay tight with supply and demand balanced.

Latest TFI data for July showed US DAP production reached 802,000 short tons, up 15% on June and 8% on the same month of 2007. MAP production reached 432,000 short tons, up 30% from June but down 12% on July 2007 levels.

DAP closing inventories rose 22% from June to reach 733,000 short tons, and were up 30% on July 2007. MAP closing inventories were up 18% on June to reach 378,000 short tons, down 3% on July 2007. DAP producer disappearance reached 670,000 short tons in July, down 17% on June and 9% on July 2007. MAP producer disappearance was 374,000 short tons, up 18% on June but down 16% on July 2007.

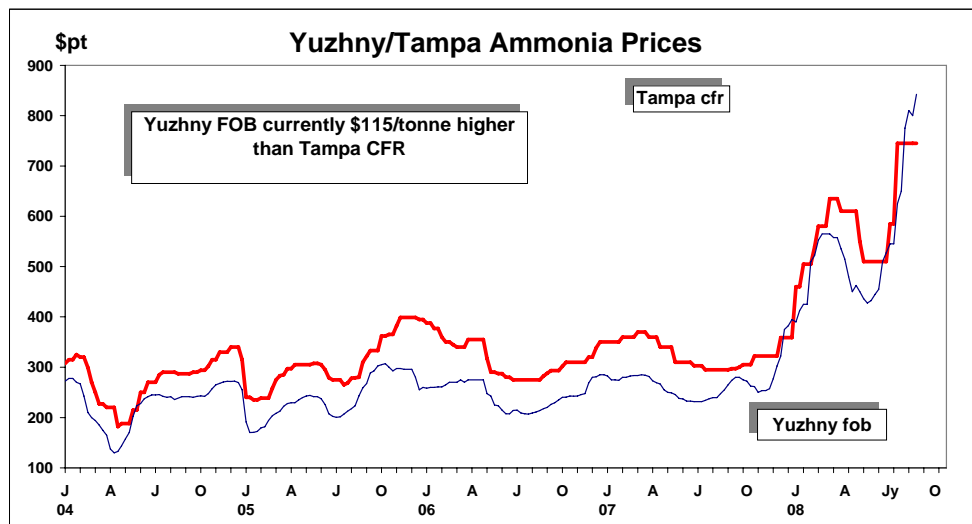
US DAP exports reached 486,282 short tons in July, up 27% on July 2007. The majority of tonnages were shipped to India (384,419 tonnes or 79% of the total).

Ammonia

After a couple of weeks of flatness, ammonia prices are rising again as supply is tight and buyers are scrambling for tonnage, in particular to cover Asian commitments. New turnarounds have been announced in the FSU, which will tighten September availability, and traders are reported to have moved to secure tonnage at \$860/tonne FOB this week, \$40/tonne higher than the last reported business.

The new high in Yuzhny makes the sale at \$925/tonne CFR concluded in the US Gulf at the end of last week already look conservative. Although this would already demand a \$175/tonne increase in the Tampa price for September, it is likely that suppliers will now look at prices above \$940/tonne CFR.

As expected, new spot business out of the Middle East attracted higher prices, with sales concluded at around \$840/tonne FOB Iran and \$890-900/tonne CFR Korea/China.



North America

In the **US Gulf**, Terra bought a 10,000 tonne cargo from PCS at \$925/tonne CFR for second week September delivery to Donaldsonville. Given the small amount purchased, it may have to reach into the spot market again soon if the restart of its ammonia plant in Donaldsonville, Louisiana, is delayed further. Yara has confirmed it will not make any deliveries to Terra in August.

The price is \$100/tonne higher than a sale concluded earlier by Trammo to Koch at \$825/tonne CFR US Gulf, which was only recently disclosed. The cargo loaded in Trinidad on 11 August.

The Terra purchase for the US Gulf is likely to set a new benchmark for the September price in Tampa, which would have to rise by \$175/tonne to match the new level in the Gulf. However, given the further rise in Yuzhny prices, suppliers are likely to be asking higher than the \$920/tonne CFR equivalent, while buyers will probably press for lower prices, at least for the first half of September.

In the **Midwest**, business is slow and prices are put at \$950-1,050/s ton ex-terminal. These prices have hardly moved over the past couple of months, while international prices were rising steeply. Based on current gas levels around \$8/mmBtu, the production cost of US ammonia is estimated at \$320-325/tonne