THE MARKET

FERTILIZER NEWS AND ANALYSIS

11 September 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	**11 September**	**4 September**	**Tendency**
Prilled Urea Yuzhny	760-780	795-810	Weaker
Granular Urea Mid East	770-820	770-860	Weaker
Granular Urea USG s.ton	730-750	751-756	Softer
DAP Tampa	1150-1160	1150-1160	Steady
Ammonia fob Yuzhny	860-900	860-900	Stable
Ammonia cfr Tampa	931	931	Holding
Sulphur fob Vancouver	550-600	650-700	Weaker

Latest International Business					
Product	**Origin**	**Destination**	**'000t**	**$pt**	**Ship**
Urea	Various	India	180	825 CFR	S
	Various	India	95	825 CFR	S
	Various	India	200	825 CFR	S
	Baltic		12	685 FOB	S
Granular	Egypt		10	810 FOB	S
	Bangladesh	India	25	825 CFR	S
AN	FSU	Argentina	20	440 FOB	
AS	Black Sea	Turkey	6	360 CFR 180d	S
DAP	Tbc	India	25-30	1095 CFR	S-O
	Jordan	India	30	1090 CFR	S-O
	Mexico	India	25-30	1072 CFR	S-O
Ammonia	Iran	India	15	824.25 CFR 15d	S
	S Arabia	Taiwan	10	850 CFR	S
	AG	US	23	955 CFR	S
Sulphur	Kuwait		20-25	500 FOB	S
	Iran		12	550 FOB	A-S
	UAE	India	35	500 CFR	O
	Taiwan		15	450 FOB?	O

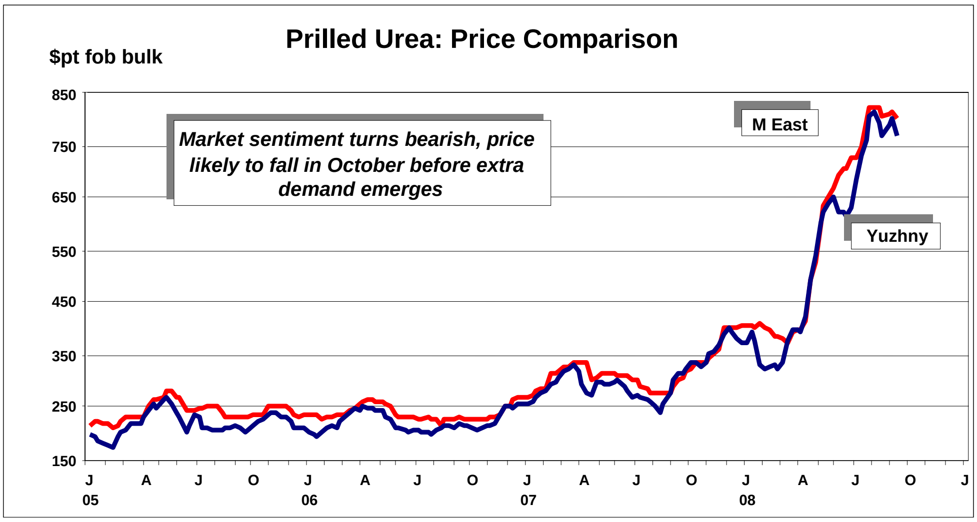
Urea

Lacking demand outside India, the urea market is heading into a weaker phase. September and October are likely to see lower prices as producers struggle to find a home for all their urea.

Urea prices have fallen over the past week following the gyrations in the MMTC tender. This was finally awarded at $825/tonne CFR, nearly $30/tonne below the lowest original offer and inflicting losses on the traders concerned. MMTC bought a total of 500,000 tonnes. The price is equivalent to $770/tonne FOB Yuzhny and buying ideas have shifted down to $740-750/tonne FOB.

However, Helm, Trammo and other traders bought most of the urea available for September shipment and have sold it either to MMTC or to Kisan for India. While there are some trader longs, Ukrainian and Russian producers are comfortable in the short term and will face pressure to cut prices only for October tonnage.

In an attempt to find a floor for the market, one trader has offered urea at $680/tonne FOB Yuzhny for October on the paper market. This is the same level achieved by Grodno Azot in its 11 September urea sales tender, marking a fall of nearly $30/tonne since its last sale.



There is a large overhang of Egyptian urea at present, with the MOPCO plant starting production, zero movement to the domestic market in August and September and low interest from European buyers. Price ideas have dropped to $770-780/tonne FOB and are likely to track any further weakness in the Yuzhny price.

Prices seem set to ease in the coming weeks, but there is a large Indian requirement still to cover and demand from other markets will emerge during Q4 for November-December shipment. A rapid fall in prices for October could also prompt buyers to come into the market sooner.

North America

In the **US,** trading has been light over the past week, with few traders needing to sell barges of granular urea. One second half September barge was sold on Wednesday at $730/short ton FOB Nola. Koch is rumoured to be the supplier. But few other trades were reported. This compares to last week's level of around $755/short ton FOB. Buyers are bidding at $725/short ton FOB Nola for Q4 granular urea on the paper market.

The consensus at the TFI meeting was that the US remains net short of urea for the coming season in the absence of Chinese supply. The fourth and first quarters are, therefore, likely to show some renewed strength in prices. In the short term, however, there is some concern that the apparent weakness in Yuzhny prices could feed through into granular prices and push down FOB Nola levels.

September arrivals include two 45,000 tonne cargoes for Yara, one showing eta Nola around 17 September and the other at the end of the month. Sabic has 60,000 tonnes scheduled to arrive around 20 September. CHS has two Kuwaiti cargoes due and Gavilon 50,000 tonnes from Egypt. Nothing is scheduled from Venezuela for the US Gulf. PCS is expected to ship two cargoes from Trinidad.

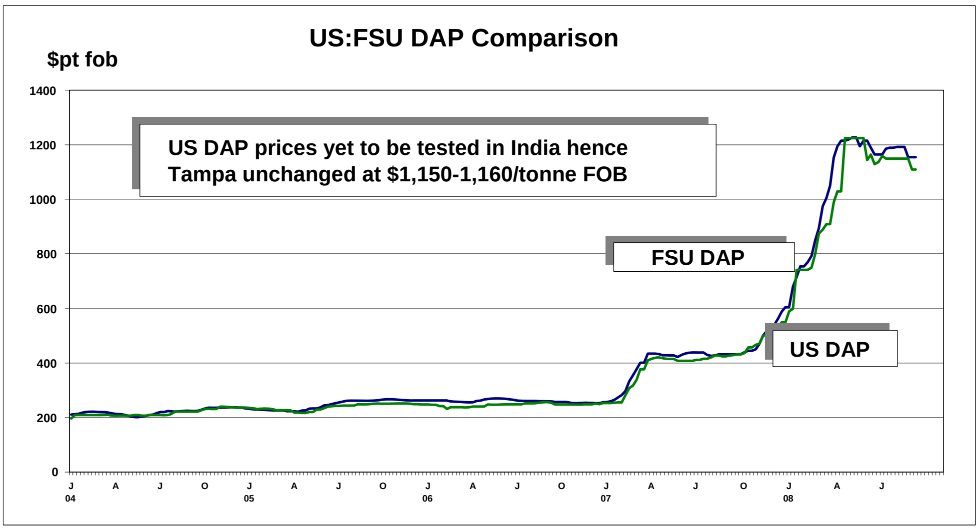
Current estimates for corn plantings in 2009 centre on 90m acres, down from the ultra-bullish 94m predicted two months ago, but about 3m acres more than this year.

CF's Donaldsonville plants remain offline following the precautionary closure on 31 August ahead of Hurricane Gustav. CF has said it expects to resume production towards the end of next week, implying a loss of 17-18 days production, equivalent to 75-80,000 short tons of lost urea output.

On the west coast, Agrium will receive a Malaysian granular urea cargo from Keytrade in September, reportedly sold at $875/tonne CFR. IRM will load a September cargo in Malaysia for Portland.

DAP

The phosphates market is becoming increasingly bearish on the back of the $200/tonne drop in Indian CFR DAP prices in the last week or so. Russian and Jordanian DAP FOB levels have fallen as a result, but FOB netbacks to the US have not so far been tested. Traders have begun to bid at $1,000/tonne FOB in various countries, so far without success.



The question now is how far prices will fall before Latin American and US demand returns in sufficient strength to halt the slide.

The fall in India will encourage importers and dealers in Latin America to draw down stocks before replenishing. The likely scenario is that importers in Latin America will watch the market fall further over the next month. The major US exporters can probably just about wait this long, with a respectable order book in India for September and into October.

Inventories in the US will build significantly this month, however. Prices will also fall further, with $800/tonne FOB from most destinations the most often cited number.

Reports from the TFI conference in Seattle that US producers are contemplating curtailing output in September to support to prices have not been confirmed. Mosaic's Faustina plant remains down after Hurricane Gustav but it says it is working to restore production as soon as possible. MissPhos's plant has been running for nearly a week.

On the demand side, India still needs around 300-400,000 tonnes after the latest round of purchasing, to take total imports to 4.5m tonnes. But despite a clarification of the subsidy regime in Pakistan and the dramatic fall in Indian CFR prices prompting some tyre kicking, rabi/wheat demand looks unlikely to stimulate the need for extra imports there.

On the bull side, Q4 Chinese DAP supply to the international market is not expected to be very significant, even though Chinese DAP has been sold into India this week. This has been prompted by a sizeable domestic inventory which the Chinese market cannot absorb. Hence producers are liquidating stocks to generate cash flow, albeit making significant losses in the process.

North America

In the **US**, the domestic market continues to slow. One trader was offering three DAP barges but generating no interest. The view at the Seattle TFI meeting is that a bid at $950/short ton would probably secure the cargoes. Some traders are liquidating barge positions with the end of the financial year approaching.

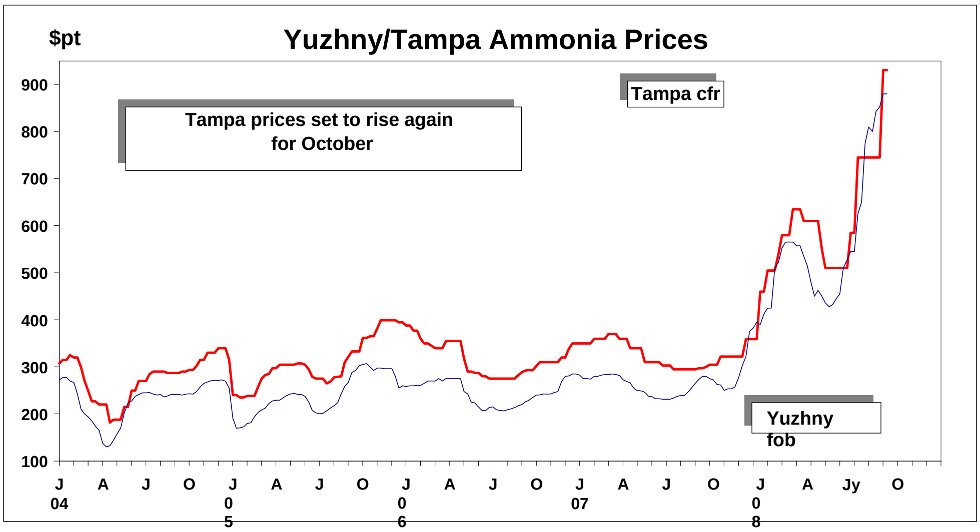
There are reports that Mosaic, PCS and CF Industries may all curtail production in September. However, while Mosaic's Faustina DAP plant is still down after Hurricane Gustav, it reports it is working to restore output as soon as possible.

MissPhos restarted full operations last week at its Pascagoula plant, which suffered an electrical interruption during Hurricane Gustav.

Rumours of a sale of US DAP to India netting back to $1,010/tonne FOB without margin have been denied by Indian buyers. While a sale today to India would net back around $1,000/tonne FOB at best (based on ocean freight at $65-70/tonne), there is no evidence that this has so far been tested. PhosChem says it is not prepared to contemplate sales at this level, and its strategy appears to be to wait until some demand returns in Latin America and the US domestic market.

Ammonia

The sentiment in the ammonia market remains strong despite the bearish tone of other fertilizer prices, particularly DAP. During the TFI conference in Seattle this week, US buyers appeared to acknowledge that prices were likely to remain firm over the coming month, as demand was still strong and exceeding supply.



While suppliers are trying to push prices close to $1,000 tonne CFR, Tampa buyers will wait as long as possible to see what FOB values traders pay for October before agreeing the price for their October CFR contract. New spot sales in the US Gulf may set the path for negotiations.

Yuzhny levels around $900/tonne FOB are record high and are unlikely to be maintained moving towards the end of the year, when Australian production will be restored and the EBIC plant starts up in Egypt. Before then, however, further price increases are likely to be posted, at least on a CFR basis, in the US and Asia, where prices are still lagging behind Yuzhny.

North America

In **Tampa,** major buyers appear to be given up hopes that prices could drop as early as in October. On the back of firm Yuzhny prices, suppliers will try to demand prices close to $1,000 tonne CFR, but buyers will probably refer to the Koch purchase in the Gulf to pin prices around $950/tonne CFR.

It has now emerged that Koch purchased a 23,000 tonne AG cargo from Mitsui at $955/tonne CFR for delivery to the **US Gulf** on the Gas Colombia. The vessel loaded in Bahrain and Qatar 8-9 September and is expected to arrive in early October. Suppliers say the purchase was concluded a couple of weeks ago and that the price is relatively low, as Mitsui did not have a home in India for the cargo. Current offers are reported at $975/tonneCFR but no new sale has yet been confirmed.

CF Industries restored electrical power and natural gas supplies to its **Donaldsonville**, Louisiana nitrogen complex in mid week and began testing circuitry and equipment in preparation for start-up. Production is likely to start by the end of the week. As Hurricane Ike closed in on the Texas coast, with expected landfall on 12 September afternoon, the Donaldsonville plants and other infrastructure in Louisiana are unlikely to be affected. Terra is also likely to be able to restart its Donaldsonville plant by the end of the week or early next week. Terra is due to receive the 10,000 tonnes bought spot from PCS at $925/tonne CFR soon and, provided the plant restarts, should not need to purchase further ammonia.

Mosaic is expected to close its Faustina ammonia plant for turnaround in October.

In the **Midwest**, ammonia keeps moving and demand is expected to remain strong going forward, as the US nitrogen market is short and ammonia remains the cheapest source of nitrogen. However, farmers are probably reluctant to pre-pay ammonia for spring now, in expectation that prices may drop from the current very high levels.