THE MARKET

FERTILIZER NEWS AND ANALYSIS

2 October 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

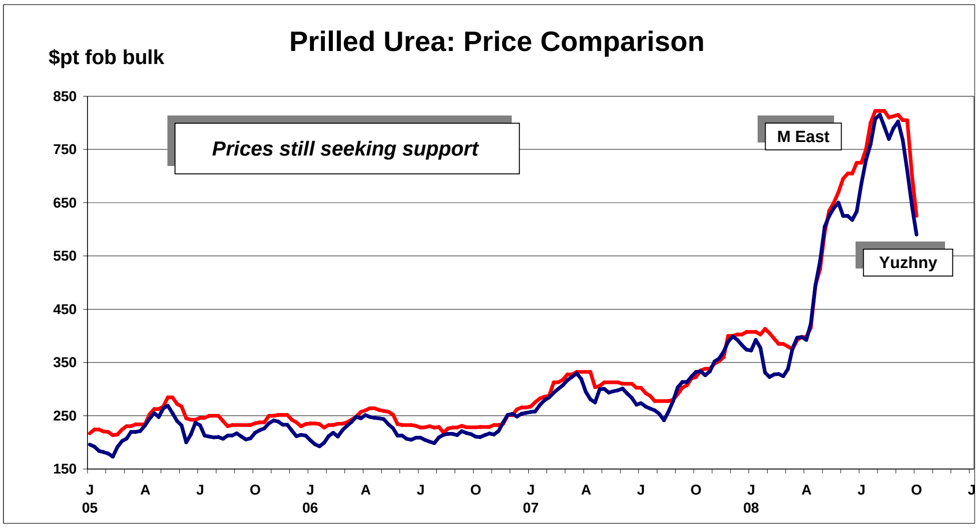
Latest Spot Market Prices $ per tonne fob			
Product	**2 October**	**25 September**	**Tendency**
Prilled Urea Yuzhny	580-600	640-650	Sliding
Granular Urea Mid East	580-650	700-710	Dropping
Granular Urea USG s.ton	505-540	575-625	Falling
DAP Tampa	940-950	1080-1090	Falling
Ammonia fob Yuzhny	830-840	850-870	Weaker
Ammonia cfr Tampa	931	931	Soft
Sulphur fob Vancouver	350-450	500-550	Weak

Latest International Business					
Product	**Origin**	**Destination**	**'000t**	**$pt**	**Ship**
Urea	Russia	France	3	580 FOB	O
Granular	Egypt	Germany	4-5	650 FOB	O
	Egypt	India	20	610 FOB	O
	Egypt	India	20	610 FOB	O
AS	Black Sea	Spain	4-5	250 FOB	O
DAP	Russia	India	75-90	$975 CFR	O-N
	Tunisia	India	30	$1072 CFR	O
	Tunisia	India	30	$1075 CFR	O
MAP	Russia	Finland/Est	2	1050 FOB	O
Ammonia	Yuzhny		2-5	800-830 FOB	O
	Yuzhny		2-4	830 FOB	S/O
	Iran	India	23.4	893.46 CFR cash	S/O
		Tampa		931 CFR	O
Sulphur	Iran		20	395 FOB	S
MOP	FSU	Indo/Malay	60	1,000 CFR	O
SOP	Germany	Italy		€780-800 CFR	O

Urea

Urea prices have suffered further heavy falls this week. Restricted availability of credit is adding to the negative sentiment in the market, notably in the US where there is a dash to reduce exposure to fertilizers and accumulate cash.

Yuzhny prices are notional this week at $580-600/tonne FOB, down from $640-650/tonne last week. Producers and buyers are avoiding conversations about prices and indications are few and far between.



Egyptian granular urea has traded at $610/tonne FOB for October shipment to India, down by about $80/tonne. In the US, granular urea prices have fallen close to $500/short ton FOB Nola from $575/short ton a week ago.

While buyers in some countries have started to discuss cargoes again, none have bought and prices remain set on a downward course. The next Indian tender is expected in mid October. Helm has some urea to buy to cover part of its 300,000 tonne sale to STC. But vessels for the majority of this tonnage have already been nominated and the amount still to buy is estimated at only 40-50,000 tonnes.

The carry over of unsold urea from September into October is very high at virtually all producers. A few production cuts have been announced, but these are insignificant given the absence of any buying. Most traders still have expensive long positions to liquidate that are also hanging over the market.

North America

In the **US,** granular urea prices have fallen further this week. Sales were reported at $540-560/short ton FOB Nola early in the week, but by presstime, sales had taken place as low as $508-510/short ton FOB Nola, equivalent to $555/tonne CFR. Koch is reported to have been an active seller this week, after being a buyer of barges last week.

Despite the fact that the last day for loading barges for the upper Mississippi River is next week, there has been no rush to buy urea barges. Buyers are facing uncertain times due to restricted credit and are being cautious about the quantities they book. Some are trying to liquidate positions and garner cash. Distributors believe that reduced availability of credit will reduce pre-pay demand in Q4.

Urea is moving from terminals in the Catoosa area for application on wheat. Ex-terminal prices are reported at $630-640/short ton FOB, reflecting well above the latest Nola prices.

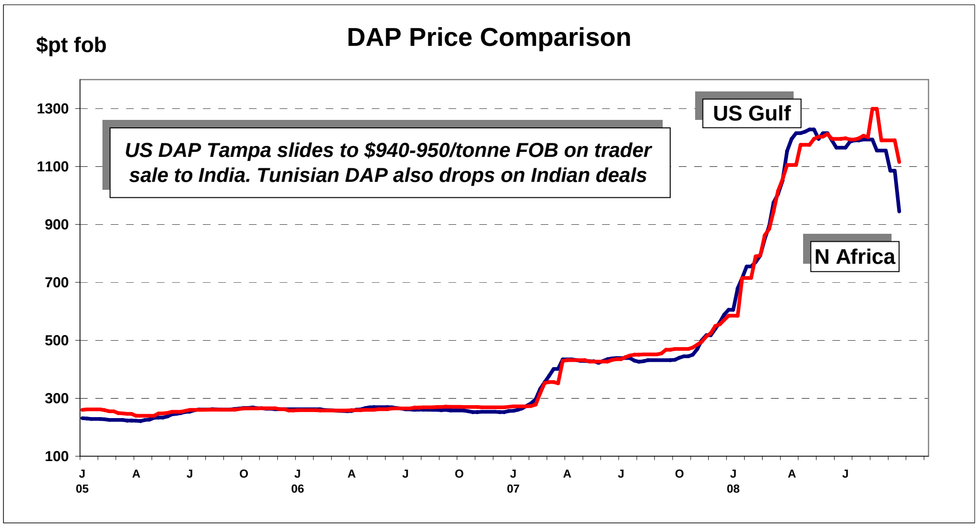
DAP

Phosphate prices have fallen well below $1,000/tonne FOB in Russia and the US, due to falling CFR values in India, full dealer pipelines and a lack of farmer demand, most notably in Latin America. The bearish tone of the market has been highlighted by Mosaic's decision to cut back production by 500,000-1m tonnes over the next few months in order to balance inventories.

Around 120,000 tonnes of Russian DAP sold to India were bought by traders at $840/tonne FOB for October/November shipment. Tunisian DAP FOB levels have also fallen on the back of trader sales to India.

It has emerged that several DAP deals were completed at the end of the recent Seattle TFI conference. These included a trader sale to India of US/Agrifos DAP at a price netting back to $940-950/tonne, representing a fall in Tampa of $130/tonne. *Force majeure* was declared on the cargo as a result of production problems at Pasadena following Ike.

PhosChem will not contemplate selling at this level at present, content with current Indian commitments, and its strategy remains one of reduced output and waiting until prices recover at home and abroad.



On the demand side, India looks likely to buy as much DAP as it can, provided it can solve the problem of falling CFR values eroding the subsidy paid to domestic producers. The FAI is urging the government to change its import parity scheme.

On a positive note, the substantial fall in sulphur costs taking place for Q4 does provide producers with some relief. Phosphoric acid prices are also sliding, with European buyers agreeing Q4 prices down around $400/tonne P2O5 on Q3. Developments on Q4 acid negotiations has been limited in India, however, with OCP agreeing $1,920/tonne P2O5 CFR only with FACT.

Looking forward, the floor to the DAP/MAP market remains some way off, as buyers sense further price falls. Latin American demand will not resurface until late October and into November. This, combined with a slow US market, will continue to push down prices.

North America

In the **US**, it has emerged that Oakley sold an Agrifos cargo to India in mid-September at a price netting back to $940-950/tonne FOB. However, *force majeure* was subsequently declared on the cargo, due to the stoppage at Pasadena and the deal has been scrapped. Agrifos's Texas facility remains down following flooding due to Hurricane Ike and looks likely to be shut for most of October.

The domestic DAP market is static, with the lack of liquidity eroding notional prices to around $900/short ton FOB Nola, although some traders say offers would have to be lower to sell a barge.

Mosaic restarted its Faustina facility last week following power outages as a result of Hurricane Gustav at the end of August and has now returned to full production.

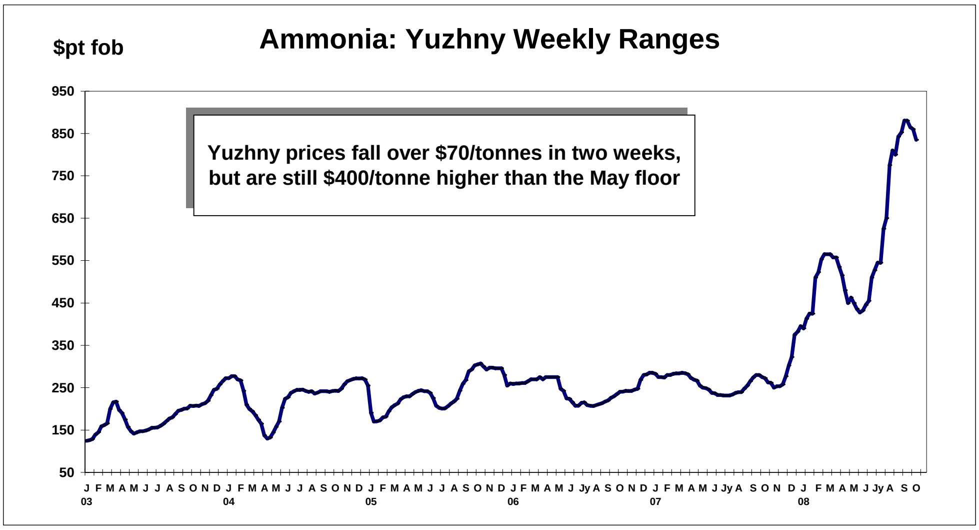
Mosaic's Q1 results included an announcement that it would curtail phosphate production by 500,000-1m tonnes in the next few months to balance inventories. Projected phosphate sales for fiscal 2009 were downgraded to 8-9m tonnes.

Mosaic is to file a $618m lawsuit against Manatee County unless commissioners reverse a 16 September vote denying permission for it to mine phosphate on a property in Duette. The figure represents the decline in value of the Altman Tract if the company is not allowed to mine it, Mosaic said. The company estimates it can extract 6.2m tonnes of phosphate from the property and had hoped to mine more than 1,500 acres on the 2,048-acre Altman property.

Ammonia

There is no shortage of ammonia in the West, as weak demand and falling prices for urea and AN are prompting FSU producers to sell more ammonia for export. At the same time, ammonia demand is slow, particularly from the US where plant and infrastructure disruptions due to the recent hurricanes have led to stocks building up at various ports.

The $931/tonne CFR Tampa settlement for October has brought the bears further out. Freight for 35,000 tonne vessels to Tampa is currently reported around $75/tonne, possibly justifying paying around $850/tonne FOB Yuzhny, but freight for mid-sized vessels is much higher. Yuzhny prices appear to have tumbled during the week, heading towards $800/tonne FOB, although major suppliers are still holding out for higher prices.



Moving forward into the last quarter of the year, the supply restrictions that have caused prices to double since early June will disappear, with FSU output back above 300,000 tonnes/month and Australian production likely to resume in December. Moreover, the new EBIC plant in Egypt is expected to be on stream soon. Prices at $800-850/tonne FOB Yuzhny still have a long way to go before they return to pre-summer levels, however.

The Middle East/Asia market is still tight and lack of spot availability from the Middle East will help maintain FOB levels firm, at least for a while. CFR prices in India and the Far East have gradually moved up over the past few weeks and FSU ammonia at $800/tonne FOB will become competitive again.

North America

In **Tampa**, the price for October contract deliveries was agreed late last week at $931/tonne CFR, a rollover from September. This was largely because of some demand destruction caused by Hurricane Ike, but also due to the downward trend in Yuzhny prices. If the storm had not damaged the region's infrastructure, leading to ammonia stocks building up, market consensus is that the October price could have moved upwards by $20-30/tonne.

Prices for November are generally expected to fall again, as import demand into Tampa may be lower as Mosaic may need less ammonia as it is planning to switch production from DAP to MAP. Domestic demand will also slow down once the fall season is over in early November and at present, nobody is no pre-paying for the spring season.

In **Donaldsonville**, Terra resumed production at its 500,000 tonne/year plant on 22 September after natural gas and electricity infrastructure in the region had been repaired. The facility had been down since December 2004, when it was mothballed due to high natural gas prices, and Terra originally planned to reopen the site as early as July before a series of maintenance and storm-related delays. The start up means Yara will no longer be supplying Terra with 30-35,000 tonnes/month, which was usually delivered from Yuzhny.