THE MARKET

FERTILIZER NEWS AND ANALYSIS

16 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

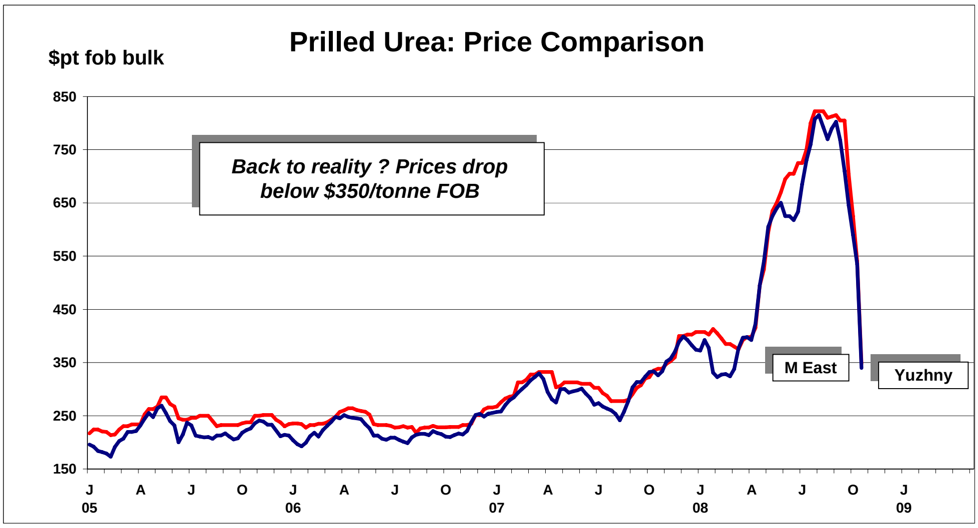
Latest Spot Market Prices $ per tonne fob			
Product	**16 October**	**9 October**	**Tendency**
Prilled Urea Yuzhny	330-350	520-550	Plummeting
Granular Urea Mid East	345-350	480-620	Plunging
Granular Urea USG s.ton	370-395	450-500	Dropping
DAP Tampa	950-1015	950-1015	Soft
Ammonia fob Yuzhny	820-840	820-840	Weak
Ammonia cfr Tampa	931	931	Soft
Sulphur fob Vancouver	180-350	180-350	Weak

Latest International Business					
Product	**Origin**	**Destination**	**'000t**	**$pt**	**Ship**
Urea	Baltic	Europe	3	390 FOB	O
	Turkey	Turkey	5	480 CFR eq	O
Granular	Malaysia	Korea	4-5	550 CFR	O
AN	Russia	Syria	30	€298.95 CFR bgd	N
Ammonia	Iran		23.5	formula	N
	S Arabia	India	23.5	903 CFR 15d	S/O
	S Arabia	India	10	922.63 CFR 60d	O
	Indonesia	Philippines	5		O
Sulphur	AG?	Philippines	15	90 CFR	N
	AG?	India	25	94 CFR	N
gMOP	Germany	Europe		€615 CIF/CFR	O/N
	Russia	Europe		€600 DAF	Q4

Urea

Urea prices are in the midst of a major readjustment following offers by Middle East producers in India at $350-352/tonne FOB. This represented a drop of $150-200/tonne, the biggest one-week fall ever, and came as a shock to producers elsewhere.

Price ideas for Black Sea urea have dropped commensurately and are around $330-340/tonne FOB at present, prompting the question whether the market is close to the floor.



The answer is probably that prices are close to the floor but have yet to reach it. The overhang of unsold urea for October is large in Russia, Ukraine, Libya and Egypt, which will keep prices under pressure for some weeks to come.

However, production costs at Ukrainian plants are estimated at $250-280/tonne, although the producers say breakeven levels are above $300/tonne FOB Yuzhny. Either way, export prices are approaching the point at which producers may have to reduce output.

Coupled with lower freight rates, the drop in FOB prices has enabled suppliers to start offering urea again at levels below $400/tonne CFR in most markets. This should prove attractive to buyers.

India is in the process of buying around 500,000 tonnes of urea for November delivery via IPL, which is likely to clean out Middle East inventories. Also, MMTC/STC are likely to tender again this month to buy more urea for November shipment, possibly for another 400-500,000 tonnes.

Activity on the paper market this week saw granular urea trade at $340/short ton FOB in the US Gulf for December-January. This suggests that some traders at least see this as the bottom of the market.

There are two caveats. Firstly, while the lower prices are welcome news generally, they pose huge problems for the many importers who are holding inventories of urea bought at $700-800/tonne CFR during Q3. Secondly, credit problems have stymied urea trade in Turkey and South Korea over the past week; other countries may feel the squeeze in the coming weeks.

North America

In the **US,** prices for granular urea have weakened further. Physical barges have traded at the equivalent of $370-380/short ton FOB Nola, but these are thought mainly to be barges in position to be used for fall application.

CF reduced its list price for November to $410/short ton FOB Donaldsonville and is quoting December at $420/short ton.

On the paper market, Koch is reported to have sold several lots at $340/short ton FOB Nola for December-January. The fact that buyers have emerged for forward months at that level has given rise to some hope that the market has reached bottom.

Urea is also now significantly cheaper than ammonia, showing a discount of more than 20 cents/lb N at present. The differential will doubtless be reduced when ammonia suppliers sell for spring delivery, but for the time being urea is good value relative to ammonia.

However, credit issues continue to cause concern going forward and the level of interest among dealers in taking urea for Q4 delivery is uncertain.

DAP

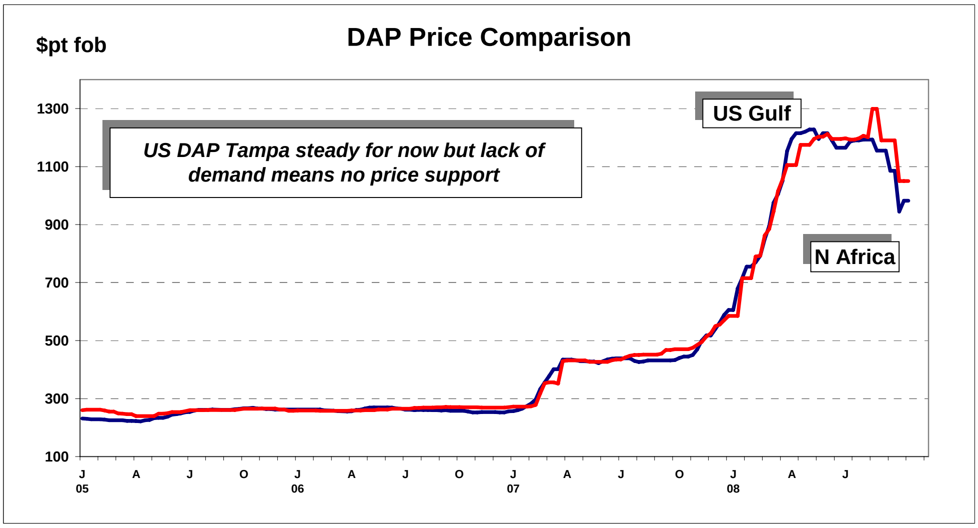
The phosphates market is lacking buyers, who are staying away as they expect prices to fall further. The only outlet at present remains India, where reports this week indicate that the market could still take a further 2m tonnes of DAP up to March 2009.

This would provide support to DAP prices in more ways than one, as Indian importers cannot buy below the current price at $1,070/tonne CFR for fear of eroding the subsidy available to domestic producers, which is based on import parity.

Had it not been for this subsidy mechanism, there is little doubt that CFR numbers would have slipped at least $100/tonne lower.

Elsewhere the demand picture is dismal. Pakistan has finally sorted out its subsidy policy but the chances of any more DAP imports are very slim. Argentina and Brazil are not contemplating any further DAP/MAP imports in 2008. Demand in Europe is minimal at a time of year when purchasing for the spring season normally starts.

Prices for DAP are weak, highlighted by falls in the US domestic market, where barge prices dropped by $50-60/short ton this week to $815-825/short ton FOB Nola. Traders now believe that prices would need to be sub-$800/short ton to generate any interest. This price is showing a large discount to Tampa export prices.



However, the potentially most bearish factor could be the resumption of Chinese exports in Q4 2008/Q1 2009. There has been no formal government announcement, but a relaxation of the export tax is likely. The additional supply could offset Mosaic's attempt to balance the market through its recently announced production cuts of 500,000-1m tonnes.

North America

In the **US**, price indications for DAP barges have fallen close to $800/short ton FOB Nola following the sale of 3-4 DAP barges late last week at $832-835/short ton FOB Nola. Traders holding barges are trying to find buyers, but meeting with minimal interest.

On export, Trammo was trying to put a vessel together last week, based on $815/short ton FOB, but the sale fell through.

Agrifos' Pasadena facility returned to partial production last weekend and has begun shipping rail cars. The plant was closed in September following flooding due to Hurricane Ike. The company anticipates that full output will be restored in the next two weeks. Total DAP/MAP losses are estimated at 75,000 tonnes (25,000 tonnes in storage plus 50,000 tonnes of lost production). Some of the lost inventories have been removed from the site, freeing up storage capacity for new production.

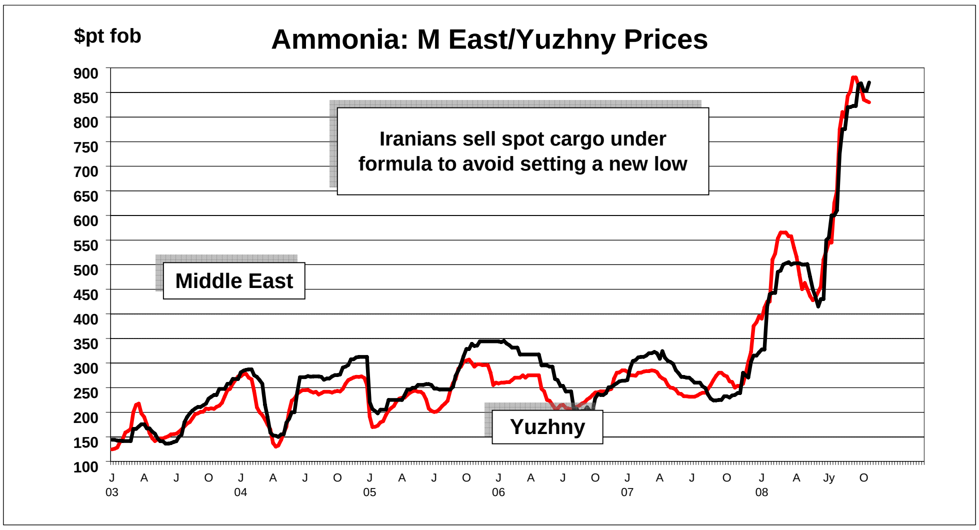
US DAP production reached 735,000 short tons in September, down 4% on August and 3% on the same month of 2008. Closing inventories reached 760,000 short tons, virtually unchanged from the previous month but up 44% on September 2008. Producer disappearance was 724,000 short tons, down 3% on August and 4% on September 2008.

September DAP exports reached 610,450 short tons, up 23% on the same month of 2007. India accounted for 84% of this total, with Japan (55,745 short tons) accounting for 9%.Exports to India were up 45% year-on-year.

Ammonia

Ammonia buying is at a standstill while both producers and buyers look at the gloomy nitrogen market, wondering what prices to agree next. Traders are said to be blaming a lack of demand and lack of finance/credit as the main reasons behind the slack business, but the sharp fall in the price of other related commodities is certainly another cause of concern.

Prices are certainly due for a major correction, but producers appear to be hanging over the cliff edge at the moment, looking down at the next ledge to cling to.



With the lack of clarity on the Yuzhny levels, it is unlikely that traders will step in and buy cargoes from the Middle East at a spot price. Indeed, both producer and trader agreed to use formula pricing for the sale of an Iranian spot cargo this week. Reduced industrial demand in the Far East, surplus availability in the AG and the restart of Australian production will probably offset any tightening resulting from the Indonesian turnarounds.

The US market is full of ammonia at present and forward demand for Tampa is lower. Buyers are probably in no rush to settle November prices before new levels are established in Yuzhny. At the same time, suppliers may want to agree a Tampa price to put a floor to the Yuzhny slide.

North America

In **Tampa**, suppliers have not yet tabled a price for November, probably waiting for future price developments in Yuzhny, and buyers will probably want to wait as long as possible before settling. The reduction in DAP production by Mosaic will be certainly the lever, but the generally depressed fertilizer market is another bearish factor. Ammonia is reported to have been bought on paper at $630/tonne, $605/tonne, $580/tonne and $570/tonne CFR for November through February.

Business remains slow in the US cornbelt, as field application has not yet begun. Since the temperature of the soil remains warmer than average and has yet to fall below 50 degrees, farmers have yet to apply ammonia to their crop. However, the process could begin as early as next week.