

THE MARKET

FERTILIZER NEWS AND ANALYSIS

11 December 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 December	4 December	Tendency
Prilled Urea Yuzhny	223-228	230-235	Pressured
Granular Urea Mid East	240-245	260-265	Weaker
Granular Urea USG s.ton	195-210	228-232	Weakening
DAP Tampa	390-430	450-500	Falling
Ammonia fob Yuzhny	n.m.	n.m.	Weak
Ammonia cfr Tampa	125	125	Weak
Sulphur fob Vancouver	45-60	45-60	Holding

Latest International Business					
Urea	Russia		25	215 FOB	J
	Ukraine	India	40	249 CFR	D
	China	India	25	249 CFR	D
	FSU	Sri Lanka	48	296.50 CFR bgd	D/J
Granular	Qatar	S Europe	15	240s FOB	D/J
	Kuwait	India	60	249 CFR	D
DAP	US	India	45	420 CFR	D
	China	India	140	395-430 CFR	D
	China	Malaysia	3	430 FOB	D
Ammonia	Egypt	Turkey	9.3	@130 FOB	D
	Qatar	Philippines	15		N/D
Sulphur	Taiwan	China	15	55 FOB	J
	AG	India	20-25	80 CFR 80d	J

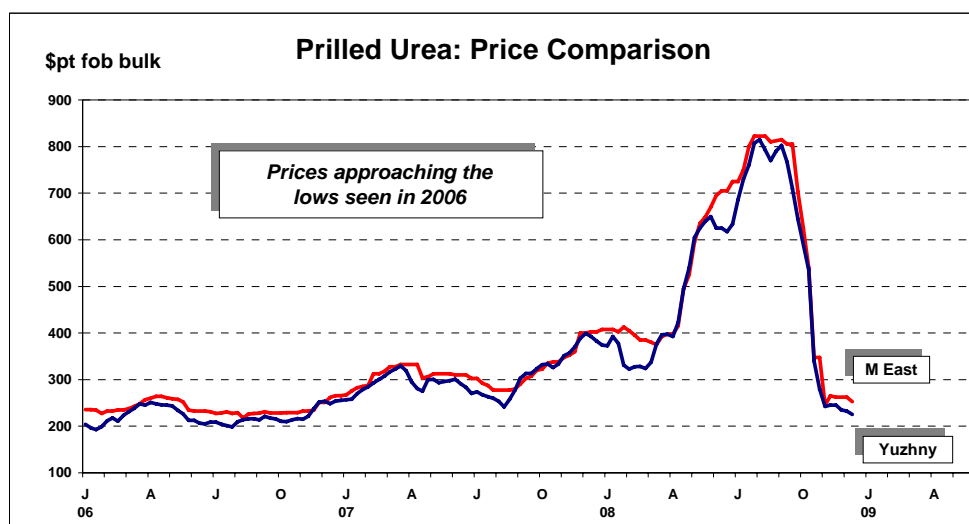
Urea

Urea prices remain under pressure worldwide despite substantial production cuts and little Chinese product moving for export. Indications for Yuzhny urea are down to \$223-228/tonne FOB for December, while sales from the Baltic and Middle East show lower levels this week and CFR prices are in retreat in most markets.

- Indian Potash Ltd has bought 125,000 tonnes of urea at \$249/tonne CFR, netting back close to \$240/tonne FOB from the Middle East
- Sales of granular urea have taken place in the US at \$195-200/short ton FOB Nola, the first time prices have fallen below \$200/short ton since late 2006
- Prices for granular urea are still moving down in Europe, with the latest sales made at €235/tonne FCA in western France.

Low demand is undermining producers' attempts to restore equilibrium to the market. Further plant closures have taken place in China and we estimate that at least 17.5-18m tonnes of urea capacity have been idled for market reasons on an annualised basis. About 10m tonnes of this is in China. Global urea capacity is just over 160m tonnes/year, so the production cuts are equivalent to around 11% of this.

Relatively low urea prices have failed to stimulate much extra urea demand so far. Problems created by credit restrictions and reduced crop prices have yet to be resolved.



North America

In the **US**, granular urea prices dropped below \$200/short ton FOB Nola late last week, with a few barges traded at \$195/short ton. Traders are offering prompt barges at \$200-210/short ton FOB, and the cheaper tonnage appears to have been sold. Producers are reported to have sold January barges at \$210/short ton FOB and have been offering at \$215/short ton further out.

December corn prices dipped briefly below \$3/bushel on CBOT on 5 December, which accounts for some of the gloom in the urea market. At presstime, corn was trading higher at around \$3.30/bushel despite a gloomy monthly report from USDA. In its December report, USDA raised its forecast of end of year stocks for US corn by 350m bushels due to lower demand for ethanol and other industrial uses.

Low gas costs have also contributed to the weaker tone to urea prices. Spot gas prices touched a 15-month low of \$5.56/mmBtu on 9 December. This would put production costs for urea by around \$160/short ton in the US Gulf.

Agrium has announced the temporary closure of its Fort Saskatchewan, Alberta, complex in **Canada**, which has 370,000 tonnes/year of urea capacity. Agrium has also curtailed production at other major nitrogen and phosphate plants in North America but did not specify which locations.

DAP

Further buying in India, mainly from Chinese sources, looks set to dominate the phosphates market going into 2009. At least 140,000 tonnes of DAP have been sold from one Chinese producer alone since the lower export tax rate took effect for December-January. There are reports that a cargo of US DAP has also been sold at a price netting back below \$400/tonne FOB Tampa.

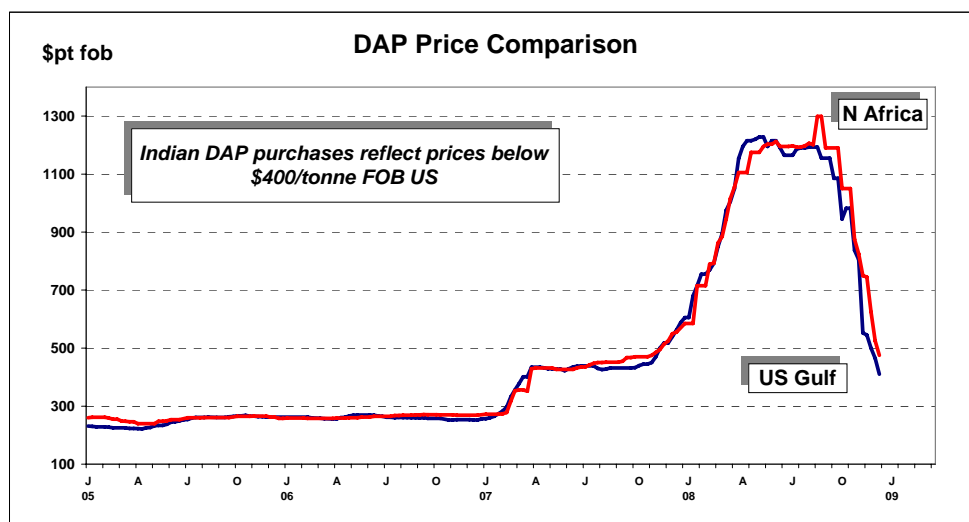
Indian buyers are likely to maximise their purchases in December and January to coincide with the low tax window in China. Apart from a couple of spot inquiries from Australia, there is no other demand.

Future FOB levels will, therefore, be largely determined by how much more Indian buyers want to drive DAP prices down. The only restraint is likely to be concerns over the impact on subsidy levels in India.

DAP stocks held by the three main Chinese exporters could total nearly 1m tonnes, more than sufficient to meet global demand through December and into January 2009.

There was little movement in the phosphoric acid negotiations at the FAI meeting in Delhi. If anything, buyers and sellers have hardened their stances – buyers being pushed by the Indian government to renegotiate contracts and sellers adopting a hard line approach.

In this climate further production cutbacks are inevitable. In Jordan, JPMC has stopped phosphoric acid and DAP production completely. Agrium has also announced it will curtail MAP production in North America to limit inventory pressures. Overall, US DAP/MAP capacity is estimated to be down by 50-60% with global production levels down by a similar amount.



North America

In the **US**, a couple of DAP barges have changed hands prices around \$385/short ton FOB Nola. Dealer inventories are large.

Keytrade is reported to have sold/be offering 45,000 tonnes of US DAP to IPL in India at \$420/tonne CFR. Freight is put at \$24/tonne, giving a netback in the \$390s/tonne FOB depending on other costs.

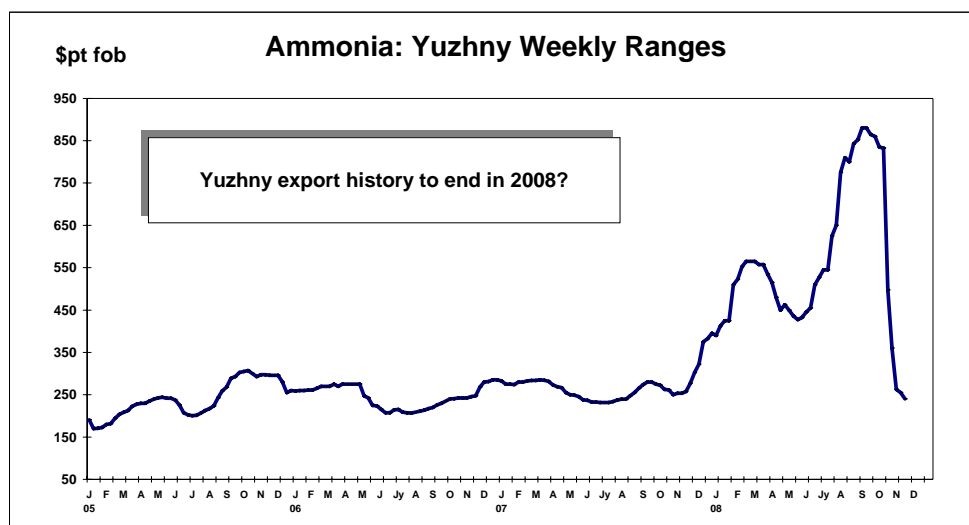
Agrium has announced that it is curtailing phosphate production at its North American facilities in order to prevent a major build up of inventory.

PhosCan has delayed investment in some elements of the Martison Phosphate Project due to the current financial climate. The project is now expected to be completed sometime in 2012. The plant will eventually produce super phosphoric acid and MAP.

Ammonia

Exports of ammonia from Yuzhny are gradually grinding to a halt, with the last two months of 2008 recording the lowest liftings in years. Even Togliatti's merchant ammonia is expected to be reduced to just 25-30,000 tonnes/month from January, once the current backlog of inventories is depleted. FSU ammonia is no longer competitive and producers have no choice but to cut back production to avoid having surplus ammonia for export, leaving market share to lower-cost producers in other regions.

Moreover, market players are no longer looking at Yuzhny as a benchmark price. Prices for North African FOB purchases and African/European CFR sales are now being negotiated and no longer set under formula pricing. This could eventually lead to more price discovery, but for the time being, it is making it much more difficult to pinpoint the exact levels of prices in various markets.



US demand is slack at present and Trinidad producers will have to find a home for their surplus ammonia. The closure of the Terra plant in Donaldsonville may help to absorb some of this, but Europe will be a likely destination, as Yara has substantially cut back its production there. However, it may take more than a month to see the first impact of this, as the European system is still full of ammonia. Another crucial factor for an eventual recovery of the market will be the level of DAP production in the US.

North America

In **Tampa**, suppliers hope that the large price conceded for December will help the market stabilize and find the bottom at \$125/tonne CFR. However, terminals are full at present and vessels have to wait to discharge ammonia in Tampa. As a result, demand is slack and the sentiment is still bearish, making buyers uncertain whether the floor has been reached. Although expectations are that the spring application season will be strong and absorb

current stocks, the crucial factor lies with phosphate production and for how long it will remain reduced.

In the wake of the drastic cut in the Tampa December price, further plant closures have been announced. In **Donaldsonville**, Terra Industries stopped production at its 500,000 short ton/year ammonia plant at Donaldsonville for repairs on 9 December. Terra said that this was an opportune time to make the repairs, since the current nitrogen market would allow the company to economically import ammonia from Trinidad to fulfil sales that would normally be met from Donaldsonville. Terra expects to resume production at the Donaldsonville plant after repairs are completed, but not earlier than January. The Donaldsonville plant is more exposed to industrial demand than some others, and the industrial segment has been evaporating in recent weeks. The decision to restart the plant will be driven by the market, rather than the repairs.

Agrium announced on 9 December that it had shut production at its Fort Saskatchewan, **Alberta**, nitrogen unit. The plant includes a 465,000 tonne/year ammonia unit and 430,000 tonne/year urea unit. This followed the closure of Agrium's 280,000 tonne/year Redwater I unit in Alberta, last month. Agrium also said it would reduce operating rates at other plants, but did not give details. It blamed the cutbacks on the late US corn harvest, the impact of tight credit conditions on international sales, and reduced fertilizer application due to uncertainty about prices for both nutrients and crops.

Looking ahead, the reduced fall application in the **Midwest** could cause tightness in the agricultural market in the northern hemisphere spring as farmers try to source extra ammonia to make up for the low application rates in the fall. Logistical problems could emerge as distribution networks are strained.

But for now, the US agricultural market has gone into hibernation. From the US Gulf to the Midwest, distribution and storage systems are backlogged and ships are still waiting in Tampa.

Latest data shows the post-harvest ammonia application in the Iowa, the largest corn-producing state, hit a 12-year low. Only 43% of the ammonia application was complete by 30 November, the lowest percentage for that time of year since 1996, according to the USDA's Iowa Field Office. A year earlier, 76% of ammonia application was complete in Iowa as compared with the long-term average of 66% at the same time of year. Iowa harvested 13.85m acres of corn in 2007 out of a national total of 86.5m acres. The next largest corn states – Illinois and Nebraska, respectively – do not keep track of ammonia application at state field offices. Nebraska's harvest was only 91% in as of 30 November, also the lowest total since 1992. Nebraska harvested 9.2m acres of corn last year, all of which was harvested by that same time. Illinois fared better than the rest of the Corn Belt, with 98% of its harvest finished by 30 November against the five-year average of 99%. The harvest was grim in North Dakota, with only 70% of corn taken off as of 30 November. The USDA's North Dakota Field Office said some farmers plan to harvest corn in the spring.