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USA

US nitrogen prices and the Global perspective

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07 August 2009		World/US Price Comparison					
Product and origin	Cargo size metric tonne	Fob \$mt	Freight \$mt	cfr Gulf \$mt	Equals \$pst fob Gulf	Current Price \$pst fob Gulf	Current US price - Import cost
Granular Urea							
Middle East	35,000	275.0	25.0	300.0	275.2	287.5	12.3
Venez/Trinidad	20-25,000	285.0	20.0	305.0	279.7		7.8
Egypt	25,000	282.0	23.0	305.0	279.7		7.8
Egypt panamax	55,000	282.0	18.0	300.0	275.2		12.3
						Average delta	10.1
Prilled Urea							
Libya	20,000	255.0	25.0	280.0	257.0	300.0	43.0
Romania	25,000	270.0	30.0	300.0	275.2		24.8
Middle East	25,000	275.0	30.0	305.0	279.7		20.3
						Average delta	29.4
UAN							
Russia	30,000	150.0	28.0	178.0	164.5	145.0	-19.5
Romania	25,000	162.0	32.0	194.0	179.0		-34.0
Egypt	30,000	160.0	30.0	190.0	175.4		-30.4
						Average delta	-27.9
Ammonia							
FSU	35,000	247.5	55.0	302.5		\$pt cfr Tampa 260.0	-42.5
Middle East	25,000	230.0	70.0	300.0			-40.0
						Average delta	-41.3

Notes: Prices quoted are spot. Freight rates are estimates.

World Market Status		
Product	Status	Remarks
Granular Urea	Firm	Overall, granular urea is firm. Producers are comfortable for August. However, traders are reluctant to book more Egyptian product over \$280pt fob at this stage as Europe is quiet and the US has failed to make further gains. A dip in fob prices is possible for September tonnage but any reduction is likely to be limited
Prilled Urea	Stable	Prilled urea is firm in the East wit Chinese product running out and offers over \$260pt fob. In the West, Brazil has paused which has undermined FSU prices to a degree. However, any price fall is likely to be a correction rather than a collapse.
UAN	Firm	UAN is tight and is expected to remain so through September. Romanian product has sold to Argentina over \$160pt fob while Egypt has also sold at \$160pt fob for France. UAN remains the cheap nitrogen option for those with a choice.
Ammonia	Firm	FSU prices have consolidated in the high \$240s pt fob Black Sea, \$265pt fob Ventpils. Interest in spot tonnage is evident from the US and levels above \$300pt cfr will have to be paid.



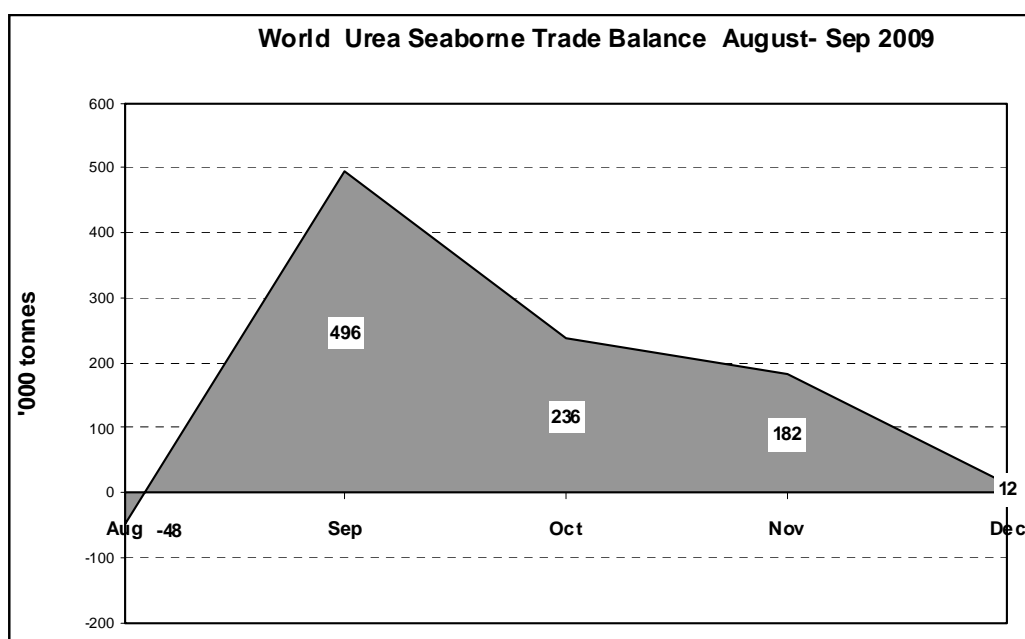
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Urea

Extracts from The Profercy Forecast 31 July 2009

Urea prices were close to \$230pt fob Yuzhnyy at the beginning of July and have since risen sharply to over \$260pt fob. As mentioned in May and June, our forecasts were based on no major cutbacks in Ukrainian production. These have occurred removing product from the market. Cherkassy, Gorlovka and Severodonetsk have all cut back which has helped to raise the bar above \$250pt fob. Egyptian granular prices have also gained reaching over \$280pt fob for August shipments. Chinese prices have moved up as the rush for 'cheap' product has accelerated against a backcloth of internal logistical problems caused by congestion at Chinese ports.

The major question facing the market now is whether the run up can be sustained? The trade balance figures outlined below suggest not, although it does appear that a return to the low prices of June/early July is not in prospect.



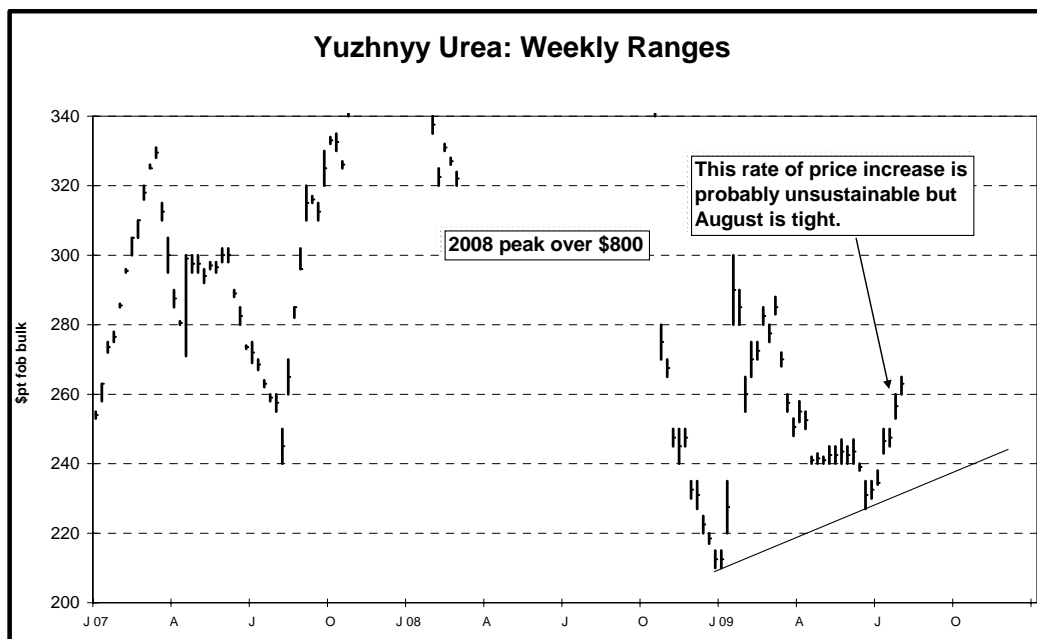
Key points are:

- The potential surpluses for September and October are relatively large. However, most producers should begin September with in a comfortable inventory position
- Prilled urea accounts for the bulk of the surplus.
- The prilled surplus is in the West.
- Granular is more evenly balanced.

The forecasts imply that the current price run up **will not last** and that a period of correction is in prospect. The surplus in the prilled sector for September/October suggests that product will need to move to Asia at some point for which competitive pricing will be necessary. Current FSU prices reflect over \$300pt cfr India, well above what has been paid in recent tenders.



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August-September

August is tight but this is probably already accounted for in prices paid and asked worldwide for residual August tonnage. September is forecast to be long which should mean that product will generally trade at a discount to the highest prices witnessed for August shipments. The possibility of lower prices in September could limit further price gains for August product with buyers who can wait potentially deferring their buying for a few weeks.

If FSU prices slip back to \$245-250pt fob this could imply the following for other export points/markets:

Price Matrix

		\$pt
	Yuzhnyy fob	245-250
<i>reflects</i>	India cfr	280-285
<i>reflects</i>	M East fob bulk both grades	265-270
<i>reflects</i>	China fob 10% tax	260-265
<i>reflects</i>	Brazil cfr	275-280
<i>reflects</i>	Brazil granular cfr	290-300
<i>reflects</i>	Egypt granular fob	260-265
<i>reflects</i>	US Gulf cfr	285-290
<i>reflects</i>	US Gulf ps ton fob	255-260

One important caveat to the 'worst-case' scenario for suppliers is that any renewed signs of price weakness could result in quick decisions to close capacity in Ukraine and other high cost areas. Ukrainian producers are barely scraping by even at \$260-265pt fob and, having fought hard to achieve these returns, will no doubt be extremely reluctant to concede another round of price reductions. Thus, the above price table and trade balance forecasts have to be seen in this context. Ukraine is a key exporter of urea in the West and plant closures there always have a swift, positive impact on prices.



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With regard to the granular urea prices outlined above, the trade balance figures for this grade alone (i.e. ignoring prills) suggest that there should not be a major problem for suppliers. However, if the surplus for prills in the West does emerge, it would no doubt result in prills taking a larger share of the urea market in India and parts of Latin America, to the detriment of granular suppliers.

A final point to note is that all the above prices are above the lows witnessed in Q2 and are in keeping with the view that a demand recovery is under way that should run into Q1 2010.

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