



PROFERCY

USA

US nitrogen prices and the Global perspective

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02 October 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	258.0	30.0	288.0	264.3	258.0	-6.3
Venez/Trinidad	20-25,000	256.0	23.0	279.0	256.1		1.9
Egypt	25,000	258.0	25.0	283.0	259.7		-1.7
China panamax	55,000	267.0	30.0	297.0	272.4		-14.4
						Average delta	-5.1
Prilled Urea							
Libya	20,000	234.0	25.0	259.0	238.0	255.0	17.0
Romania	25,000	250.0	30.0	280.0	257.0		-2.0
Middle East	25,000	258.0	30.0	288.0	264.3		-9.3
						Average delta	1.9
UAN							
Russia	30,000	137.0	28.0	165.0	152.7	125.0	-27.7
Romania	25,000	142.0	32.0	174.0	160.9		-35.9
Egypt	30,000	145.0	30.0	175.0	161.8		-36.8
						Average delta	-33.4
Ammonia							
FSU	35,000	290.0	60.0	350.0		\$pt cfr Tampa 345.0	-5.0
Middle East	25,000	300.0	80.0	380.0		Aug price	-35.0
						Average delta	-20.0

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

World Market Status		
Product	Status	Remarks
Granular Urea	Firmer	Egyptian product for October shipment has gained in price this week with traders securing product for shipment to Europe up to \$258pt fob. Middle East prices should rise with good sales possibilities in prospect in Pakistan and India over next 10 days - Pakistan is looking to buy 600,000t of urea and India at least 500,000t.
Prilled Urea	Firmer	As expected, heavy purchasing for India, 250,000t, has lifted the gloom surrounding FSU prices and these have now risen to \$235-238pt fob Black Sea. Black Sea tonnage for October is sold out just as India and Pakistan return to the market for major new volumes.
UAN	Soft	Last week's export sales from the US Gulf have not sparked a recovery in US prices and these have now slipped to the low-\$120s ps ton fob. The floor is probably close as the product is incredibly cheap vis-à-vis urea. The French market is slow with 30%N at Euros 117pt FCA Rouen.
Ammonia	Firm	Tampa buyers conceded a \$20pt increase for October deliveries which appears suitable given that FSU prices have now gained to \$290-300pt fob. FSU product is mostly sold out for October. Higher prices are expected.



The Profercy Nitrogen Forecast

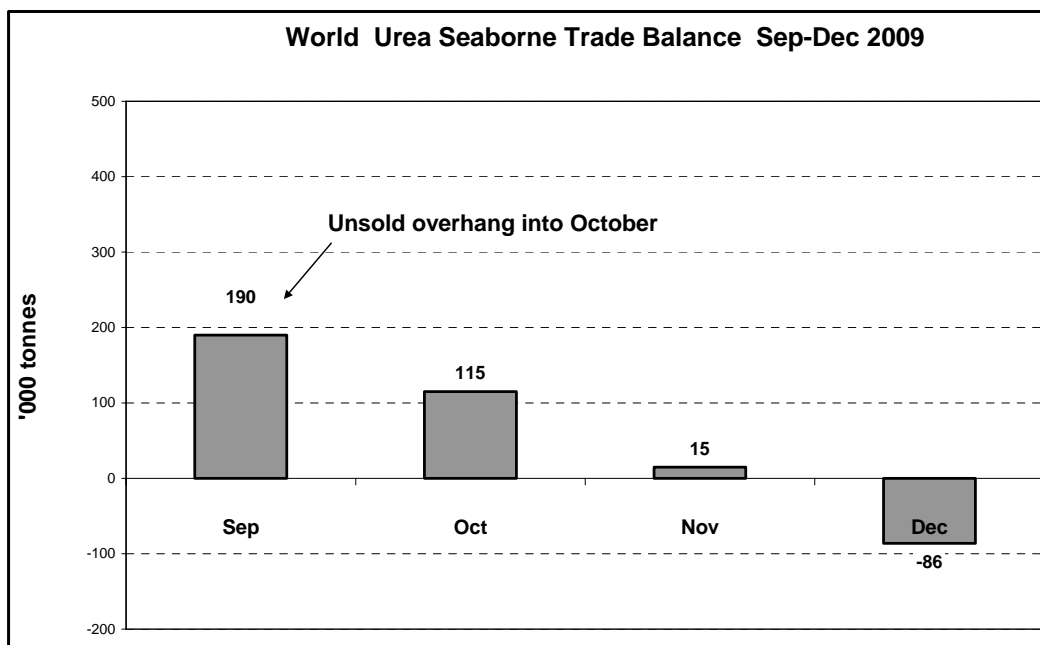
A more bullish Q4 in prospect

This report was published by Profercy on 28 September 2009.

As expected urea prices have been weak in September. A surplus was forecast earlier for this month and this resulted in FSU prilled prices falling to \$230pt fob Black Sea and granular prices in Egypt to \$255pt fob. In the USA, the lack of demand has more than outweighed the impact of the reduced inflow of product from offshore and prices have slipped to \$260-265ps ton fob.

As indicated last month, the above reductions do not represent a market collapse. They are marginal in nature and do not seem to be a precursor to significantly lower prices in Q4. Indeed, the conclusion derived from the latest trade balance forecasts is consistent with that published in the last report on 25 August, namely that Q4 will be a tighter period. Further, there is the prospect in November and December for prices to break out of the ranges evident since April – in the main \$230-250pt fob Yuzhnyy, \$250-280pt fob Egypt.

The rationale underlying this forecast lies largely with the expectation that demand in all major markets will be higher in Q4. This includes India, Pakistan, Brazil, North America and Europe (including Turkey). Stocks are not high in any of these areas and, although buyers are now prepared to run their businesses with lower than usual exposure to inventory risk, this is less of an option with the major application periods approaching. These are spring 2010 in the case of Europe and North America, through February in India and Pakistan and into Q1 2010 for Brazil.



Forecast Assumptions

Supply

China: Exports will resume in November. Significantly, large volumes have already been booked forward for Bangladesh and there are also volume deals agreed for the US Gulf/wc Americas. It is believed that 120-150,000t have already been booked for Bangladesh with further major sales likely. The US should be able to absorb 200-250,000t of mainly granular. These volumes alone will cut heavily into the 600,000t of urea predicted to be available in November/December.

Ukraine: With gas prices lower, we have assumed Ukrainian exports of around 300,000t/m through Q4. However, production would likely be cut back if prices did fall below \$230pt fob for any significant period. This is unlikely.

Libya: Both urea lines are operating. 50,000t have been committed to Ethiopia for November onwards shipment. Further shipments to the USA are expected in Q4 - three cargoes have been booked to date.

Romania: Urea production is running again with export availability around 100,000t/m, of which up to half is moving to nearby markets.

Russia: Turnarounds have been completed at most Russian factories.

Indonesia: Exports of 250-300,000t have been assumed for October-December.

Middle East: Fertil is expected to begin exporting granular in November. Start up of the revamped facility has been delayed. PCC Iran is exporting urea from Bandar Assaluyeh with 75,000t committed to India for September/October through two traders. However, there is some uncertainty over PCC's ability to continue exporting as the volumes have to match imports into north Iran. Thus, some speculate that PCC may not even have an export licence for the full quantity sold for shipment over the next 30-45 days.

Demand

India: 2.6m. tonnes of urea have been purchased to date since April 2009. Demand for a further 1.5m. tonnes is forecast for Q4 shipment. Despite the drought, Indian fertilizer use grew 6% from 1 April to 20 August. This could imply that an even greater volume of urea needs to be imported for the crucial rabi season (October-March 2010).

Pakistan: TCP has clearance to buy 600,000t of urea in a series of tenders, the first of which will close 3 October. Some of the 600,000t required may be covered direct with Sabic under the Saudi Arabian loan. Urea sales are racing ahead in Pakistan with August up 42% on 2008 at 598,000t. The year-to-date total is 16% up on 2008 at 4.2m. tonnes.

Thailand: September has been a slow month for new urea shipments. Importers are busy liquidating stocks which should be depleted in November. Interest for new contract and spot shipments is expected to surface in October. Thai imports are 26% ahead to date this year at close to 2m. tonnes. 250-300,000t are projected to be required for Q4 shipment.

USA: US granular urea imports are expected to be down over 400,000t by the end of October compared with July-October 2008. As regards Q4, we have estimated demand of close to 1.1m. tonnes for all urea for the Gulf, east and west coasts. This is below the average of the past 4 years. The reduction from last month is partly owed to lower shipments from Kuwait/Bahrain. The first shipment for CHS is not expected to arrive until December.

Latin America: Brazilian purchases are forecast at 500,000t through Q4. This may be a conservative figure. One view expressed recently is that such a total would leave a minimal end-year stock of just 200,000t, a low volume to carry into Q1 2010. With Safrina demand for urea expected to be strong in Q1 2010, it is possible that shipments in late November/December could exceed the figure forecast.

Q4 import demand: Demand levels forecast for Q4 are outlined below. Combined, a modest gain of just 3% is predicted over Q4 2008. This is 6% below the previous four year's average and may be conservative.

Major Markets Q4 Urea Imports 2005-2008 and Forecast 2009

	2005	2006	2007	2008	Average	2009 est	% of 2008	% of avg
USA (offshore)	1752	835	1350	940	1219	1050	112%	86%
Brazil	681	660	989	274	651	475	173%	73%
Mexico	212	214	395	209	258	195	93%	76%
India*	958	2003	2136	2270	1842	1645	72%	89%
Thailand	201	244	336	193	244	285	148%	117%
S Korea	72	80	177	101	108	90	89%	84%
Australia	103	75	125	71	94	115	162%	123%
Turkey	140	234	347	253	244	305	121%	125%
Total	3979	4111	5508	4058	4414	4160	103%	94%

* Includes Oman

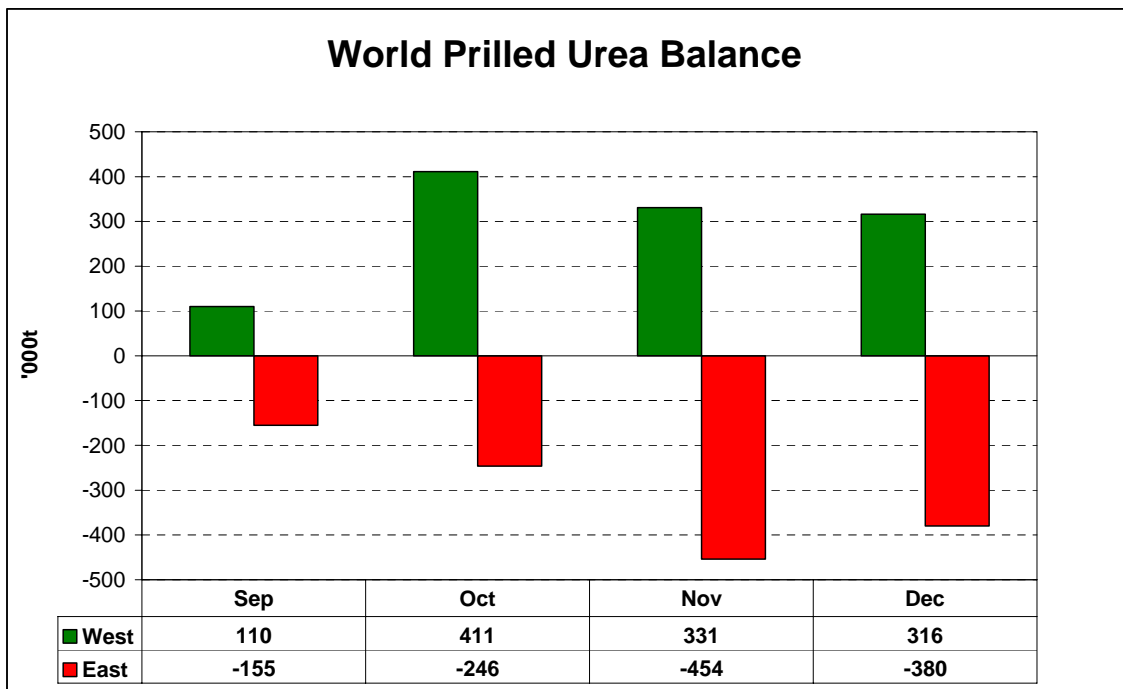
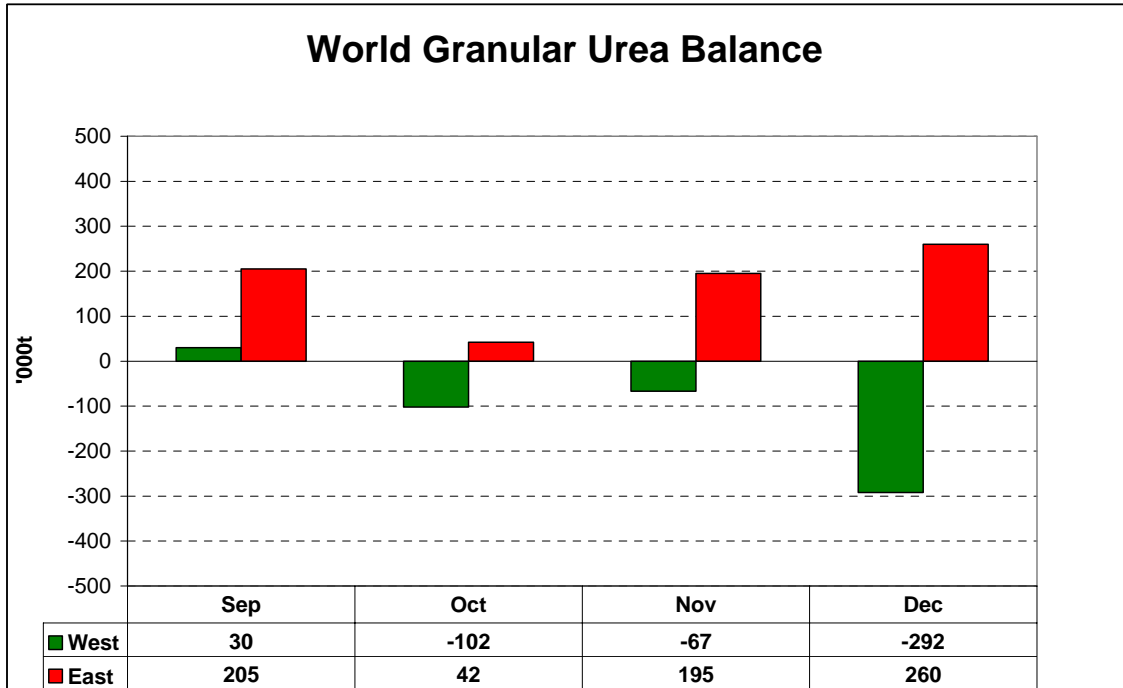
Trade Balance Forecasts

Urea Balance through December 09					
	Sep	Oct	Nov	Dec	Totals
Supply	430	2168	2726	3076	8400
Demand	240	2053	2711	3162	8166
Balance	190	115	15	-86	234
Supply/Demand %		106%	101%	97%	103%
Regional Position					
Balance East	50	-204	-259	-120	-533
Balance West	140	309	264	24	737
Product position					
Balance granular	235	-60	128	-32	271
Balance prills	-45	175	-113	-54	-37
Regional product position					
Balance granular East	205	42	195	260	702
Balance granular West	30	-102	-67	-292	-431
Balance prills East	-155	-246	-454	-380	-1235
Balance prills West	110	411	331	316	1168

Key points from the above are:

- Even including the September overhang, the surpluses are small. Further, the figures assume all output is sold. Some stock building by producers would tighten the market further.
- The deficit in the East matches the surplus in the West.
- Granular is long in the East but short in the West.
- Prills are short in the East, long in the West.

Charts



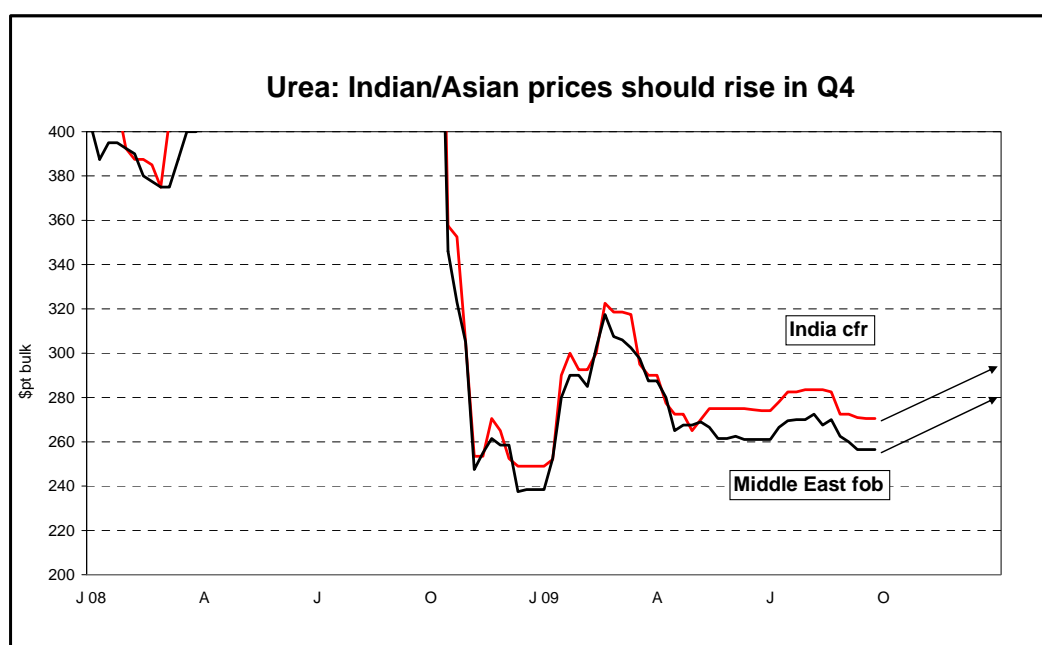
Potential Price developments

From the 25 August report: *The current downturn in urea prices in the West, which will likely be reflected in lower Middle East prices in September, does appear to be a correction rather than a crash. The surpluses in the trade balance forecasts are not consistently massive and once floor price levels are witnessed, producers with adequate storage will likely be able to support their pricing strategies by holding some inventory back from the market.*

Profercy's view of the market outlook for Q4 is not changed from that put forward in the late-August report. Positive factors for producers are:

- Stocks are not high in the major markets worldwide. The USA is a case in point where the inflow of product has been slow in Q3 and the warehouse system is relatively empty according to local sources.
- Chinese urea is not available through October. This could/should lead to more Black Sea product finding a home in Asia during this period. 250,000t have already been sold in India and further sales are expected.
- Chinese urea is already being booked forward for November/December lifting at levels reflecting well above \$268-273pt cfr India (the levels paid by IPL in September).

In late Q4 it is considered possible that levels as high as \$270pt fob FSU will be witnessed. This would reflect over \$300pt cfr Asia for FSU material and support returns of at least \$280-290pt fob Middle East for markets on the Indian subcontinent. As regards Egypt, this origin offers the best potential for attaining a return of \$300pt fob in Q4 2009 given the predicted tightness in the granular urea market in the West in December.



In turn, \$290-300pt fob Egypt would suggest \$290-300ps ton fob for granular urea in the US Gulf in late Q4/heading into Q1 2010. This is \$30-40ps ton above current values. As regards Eastern markets, \$290pt fob Egypt would equate to \$320pt cfr Thailand and \$295pt fob Middle East for large, 40-45,000t, cargoes.

Other products

The table below illustrates that, in terms of nutrient value, AN prices are more or less in line with urea. However, by the same comparison, UAN is vastly under priced, a situation that could become even more exaggerated if urea prices rally. The UAN market is currently in poor shape as due to:

- 1) The large overhang of product in the USA at the end of the last season.
- 2) Low gas prices in the US which have supported heavy export activity through Q3 - at least 200,000t have been committed to France and Argentina.
- 3) No fear of a shortage in the USA and a concomitant reluctance to fill tanks on the east coast.
- 4) A slow market in France where, despite the weak dollar, there has been no rush among buyers to lock in further product for the 2009/10 campaign.
- 5) The impending start up of the new facility in Trinidad in November which will add 100,000t per month of merchant UAN to a market that is flat at best.

Given the current pricing position between urea, UAN and ammonium sulphate, it is difficult to envisage that there is much price downside in prospect for these products, particularly if urea prices increase in Q4. Further, with regard to UAN, forward production cost levels are rising in the USA with gas now close to \$4/mmBtu, up from earlier lows below \$3/mmBtu. This has raised production costs from around \$60s ps ton to \$90ps ton ex-plant eating into margins for US producers. Indeed, for those with the choice, urea is by far the better option. The same applies in Romania, Lithuania and Poland and producers there have cut back operating rates, in some cases in favour of urea.

FSU Export Prices basis relationships above \$pt fob bulk			
Product	Price	% of N price in urea	% of N price in urea 2007 to date
AN	150	89	89
UAN	142.5	89	102
Amsul (white)	97.5	92.5	111

For ammonium sulphate, any upward move in urea prices in Asia should help to lift this market out of its depression. Prices in Indonesia/SE Asia are now sub-\$120pt cfr reflecting a cfr price for urea of below \$260pt. This is cheap when the average since 2007 (see above) would suggest amsul prices in the area should be around \$130pt cfr.

2010

With the Global credit crisis slowly easing, agricultural commodity prices at relatively healthy levels and nitrogen inventories in major markets likely to be low at the start of the year, 2010 is expected to witness a return to demand growth in the nitrogen/urea market. Further, there are few major additions to capacity planned in 2010 outside China while there is the prospect that recovering/increasing gas prices could raise the floor price level in Ukraine and other high-cost areas.

Profercy will publish its next major long-term outlook for urea onwards in November this year which will forecast supply, demand and trade through 2025. The analysis undertaken to date implies the trade balance in 2010 will be tighter than has been the case this year. Based on the assumptions outlined below, the international market for 2010 as a whole could be virtually in balance on paper and, thus, the market could be prone to sharp upward price shocks at times of

peak demand and also if product is lost due to outages or economically-forced shutdowns. Producers could also be more comfortable holding inventory back from the market, which would aid efforts to support prices at generally higher levels than has been the case this year.

2010 export/import assumptions

Exports

China - exports of 2.5m. tonnes

Iran - exports of 1.2m. tonnes. This could be too high as plant problems and even economic sanctions may have a negative impact.

Ukraine - Exports run at around 300,000t/m. This implies there are no cutbacks caused by low international prices. On this point, Ukraine's government anticipates that the cost of gas from Russia could increase by around \$60/'000 cbm in 2010 (the 20% discount from the European price ends on 31 December 2009). If passed on to nitrogen producers, this would raise the floor price for urea to over \$250pt fob.

Imports

India - 4.5m. tonnes excluding Omifco Oman (6.3m tonnes total)

USA - 4.6m. tonnes from offshore sources

Thailand - 2.1m. tonnes

Brazil - 1.9m. tonnes

Mexico - 1.4m. tonnes

Australia 1.0m. tonnes

EU - 4.4m. tonnes

Major Markets Urea Imports in million tonnes 2007-2010 (estimated)				
Country	2007	2008	2009 latest data	2010 forecast
India	6.4	6.2	2.3 (July)	6.3
USA	4.8	4.1	1.8 (July)	4.6
EU	3.7	4.5	3.1 (June)	4.4
Thailand	1.7	1.8	1.9 (August)	2.1
Brazil	2.5	2.2	0.7 (July)	1.9
Mexico	1.3	1.0	0.7 (June)	1.4
Australia	0.9	1.0	0.6 (July)	1.0

For further details of
The Profercy Report and Forecasts
 contact: fertilizers@profercy.com