



the PROFERCY

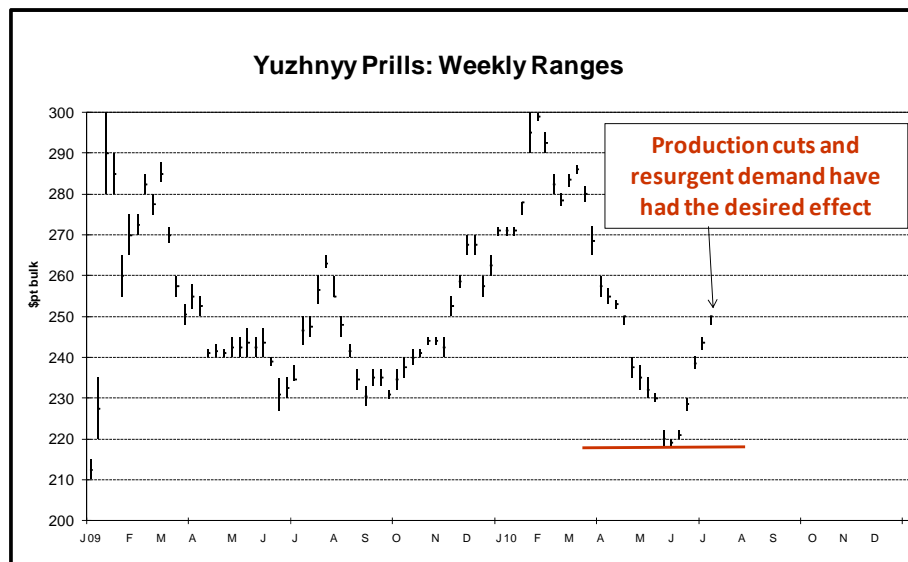
Forecast

12 July 2010

From the 13 June Forecast: The forecast balances imply that there will be little if any carryover of unsold tonnage from June into July and that product for July shipment will obtain a premium.

As expected, urea prices have recovered over the past 30 days buoyed by resurgent demand and production cutbacks for July - Ukraine, Romania. Producer stocks, which built to damaging levels in April/May, have been run down. In the FSU prices have risen to \$250pt fob Yuzhnyy; Romanian urea has sold at \$260pt fob; Egyptian granular at \$260-270pt fob; and Middle East granular as high as \$260pt fob for August. In the US Gulf, granular prices have also moved up to \$250-260ps ton fob, too low to attract fresh imports but also high enough to limit export activity - just two major export cargoes have been identified, one to Chile and one to Mexico.

In Asia, and as is usually the case, Chinese prices have moved up with the start of heavier exporting. Prills bottomed out around \$245pt fob and have since sold at \$263pt fob. Granular has been in big demand to cover old business in Bangladesh and for west coast US/Latin America with 250,000t sold and new product on offer at \$270pt fob. This is \$25pt ahead of the price obtained by CNAMPGC in June to liquidate its old product held in bonded store since January.

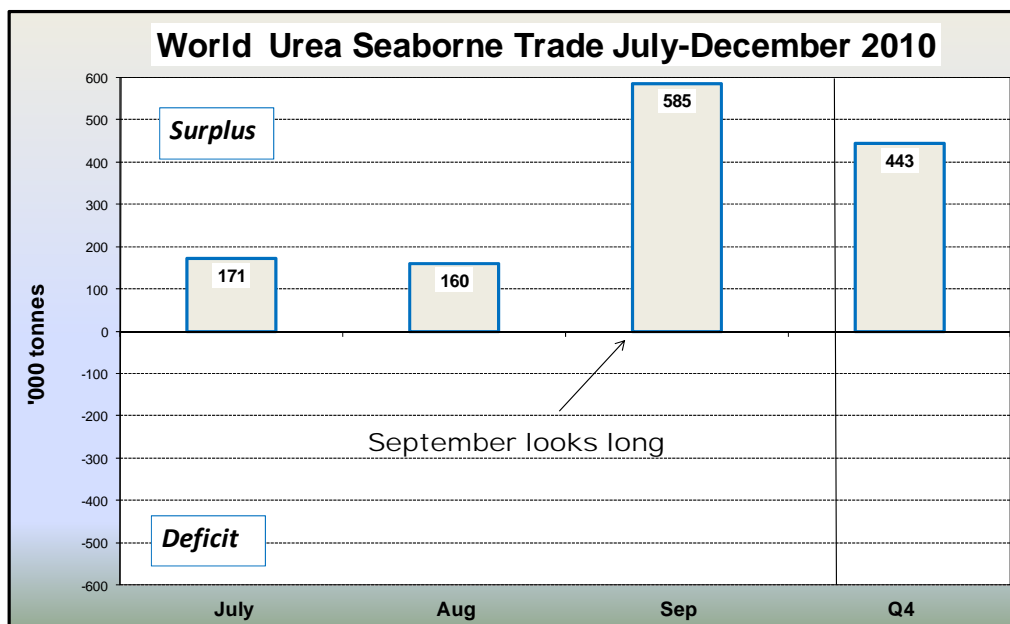


The chart above illustrates just how dramatic the price rebound has been. After falling \$80pt since January, the market has recovered by \$30pt, or almost 40% in just five weeks.

While the worst of 2010 may be over for suppliers, the major question now is whether the recovery can be sustained. In its previous reports Profercy has been sceptical that the required supply/demand conditions exist to support an uptrend through all Q3. This view has not changed for the following reasons:



- 1) FSU production is expected to rebuild in August/September
- 2) Higher prices will likely result in a number of buyers, for example in Europe, deferring their purchasing
- 3) Higher prices will bring more Chinese product into the market, particularly as domestic prices are likely to slip back in September/October
- 4) Pakistani demand is drawing to an end which will lessen buying competition in the Indian subcontinent.



Forecast Assumptions – July onwards

Supply

Ukraine: Exports of 200,000t have been forecast for August, that is assuming that OPZ, DniproAzot and, possibly, Severodonetsk operate. If Gorlovka and Cherkassy resume production, exports will be greater. For September it has been assumed that production will be up with exports forecast at 275,000t of prills. The gas price issue remains confused with some Ukrainian observers believing that a way will be found to cut the price of gas to industry despite the concerns of the IMF. A cut to \$170/'000 cbm was requested earlier and although there have since been reports the price may rise, unemployment/other concerns are important and, in the long run, we believe will likely see greater Ukrainian production of urea supported after the summer turnaround season.

Middle East: Iranian exports have been forecast at around 50,000t for August (balance left over from the Indian sales) and 150,000t for September. Q4 has also been forecast at 150,000t/m. This could be conservative if the second Pardies plant runs. There are reports that this is not possible for now as associated utilities are not complete. One further factor to consider with regard to Iran is that the increasingly tough restrictions imposed on the financial sector could limit Iran's ability to be an effective supplier. If exports fall short of the forecasts this would be bullish for the market.

PIC will begin shipments of urea to the US in August. Sabic has already begun and, irrespective of how the US market develops, these shipments should be a regular feature of trade over the next 6-9 months.



China: Exports of 1.4m. tonnes were projected in the last report for Q3 and it was stated that higher price levels in July are expected to result in increased export activity in August. Exports for July are estimated at 350,000t of mostly granular urea. 600,000t per month have been forecast for August and September.

Indonesia: Export licences for 700-800,000t of urea are expected to be issued at the end of July/early August for the balance of 2010.

Egypt: Most of the 200-250,000t of granular urea available for export in August has yet to be placed. Domestic movement should tail off in August, usually the last month of this activity.

Demand

India: STC tenders 13 July for product for arrival through end September. India has bought 1.1m. tonnes of urea since 1 April including 350,000t from Iran in the last tender at very competitive prices. Indian demand for August/September is estimated at 400,000t per month. Although Indian stocks are low, it appears that the government will maintain a low inventory policy. One other factor to consider with regard to nitrogen is that the 2m. tonnes plus increase in DAP imports this year, plus over one million tonnes of NPKs, does supply nitrogen and could conceivably offset well over 500,000t of urea demand/requirement.

Pakistan: TCP has 100,000t of urea still to purchase and will tender again on 22 July. Thereafter Pakistani demand is unlikely to feature through balance 2010.

Bangladesh: BCIC tendered in second half June for 200,000t of urea. There are reports that due to healthy stocks the tender will be scrapped. As a result the import volumes forecast for August and September have been reduced to incorporate only contract shipments from the Middle East, mainly Qatar and UAE.

Thailand: Granular urea stocks are high. Imports slowed in May to 113,000t, down from 341,000t in May 2009. Demand for new tonnage has remained subdued over the past 45 days and this is expected to continue through August/September. Thus, forecast demand for new shipments has been cut to 150,000t per month for August and September.

USA: Despite rising prices, it is still considered unlikely that the US Gulf will act as a major magnet for offshore urea during the balance of Q3. As expected, some shipments from contract suppliers are being lined up while shipments from nearby origins, Venezuela and Trinidad, should be in evidence in August/September, in part to catch the pre-river close demand. It is also possible that Gavilon, which is partly owned by OCI Egypt, could move Egyptian granular to the US under some form of consignment deal - Gavilon has been in the freight market for a COA running August-February (30,000t/m). The Gulf import demand projection for Q3 has not been changed and is kept at 400,000t from offshore for Q3 shipment. This is very low compared with 2009 when August through October arrivals were just over 750,000t.

Latin America: As expected Brazilian buying activity has been prolific over the past 4-6 weeks. Based on customs figures and sales/shipments reported for June-August arrival (600,000t) Brazilian purchases are put at 1.4-1.45m. tonnes to date this year. This is well ahead of the 900,000t imported in January-August 2009 but down from the 1.73m. tonnes imported in the first eight months of 2008. Demand for new shipments through Q3 is forecast at 400,000t.

Europe: The new-season prices for nitrates in Europe, which are well in advance of one year ago even when the weaker Euro is taken into account, have prompted an upturn in demand for granular urea. Purchasing for France and the UK has been in evidence with prices rising to \$255pt fob Egypt equivalent. Although AN prices will firm generally through the balance of the year, high granular prices and the holiday period are expected to cool demand in August for August/September cargoes. Many buyers are already anticipating a price reduction prior to Q4 when buying activity for spring 2011 should gather pace.

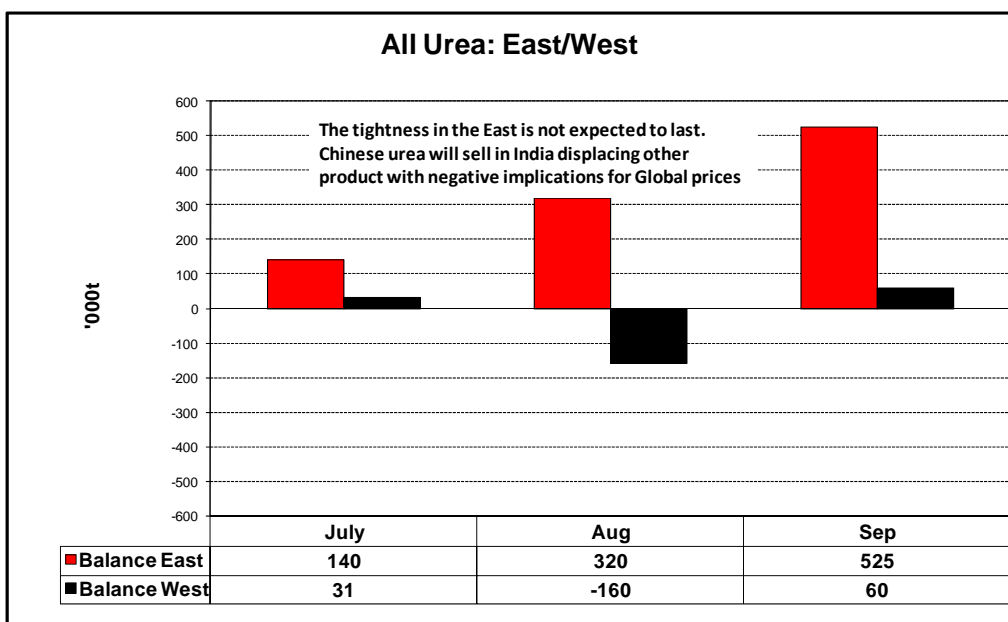


Trade Balance Forecasts

Urea Balance through Dec 2010					
	July	Aug	Sep	Q4	
Supply	725	2799	3089	9313	
Demand	554	2639	2504	8870	
Balance	171	160	585	443	
Supply/Demand %		106%	123%	105%	
Regional Position					
Balance East	140	320	525		
Balance West	31	-160	60		
Product position					
Balance granular	146	161	426		
Balance prills	25	-1	159		
Regional product position					
Balance granular East	110	275	475		
Balance granular West	36	-114	-49		
Balance prills East	30	45	50		
Balance prills West	-5	-46	109		

The figures suggest:

- The July and August surpluses are insignificant.
- Product needed for balance July/first half August shipment will be at a premium.
- September does appear long and this could/should be reflected in lower prices as August develops.





Potential Price developments

From the 13 June Report

Urea will remain a largely homogenous product through most of Q3 with granular and prilled prices virtually at par, save for the duty benefits applying to Egyptian product in Europe. (This is still the case).

Consistent with the last report and in line with the trade balance forecasts, it is believed that urea prices will be range bound in Q3. The FSU has no access to Asia even at today's values and while this lack of competition will stop Chinese prices falling through the floor, it will likely limit potential upside to \$240pt fob Yuzhnyy. This would suggest a peak for Egypt of \$255-260pt fob during July/early August.

Middle East prices have dipped sub \$230pt fob in Pakistan. The next Indian tender and the volume purchased will obviously be crucial to how Middle East prices develop in Q3. Middle East suppliers are currently being bid around \$235pt fob for spot tonnage for July. Based on this price, India may be able to achieve \$260pt cfr. (India bought at \$255pt cfr.)

As is now clear, urea prices have exceeded last month's predicted highs. Yuzhnyy has hit \$250pt fob, although this has not yet been paid by end users. Egypt has moved on to \$264pt fob with \$270pt fob rumoured. However, again these prices have not been paid by end users.

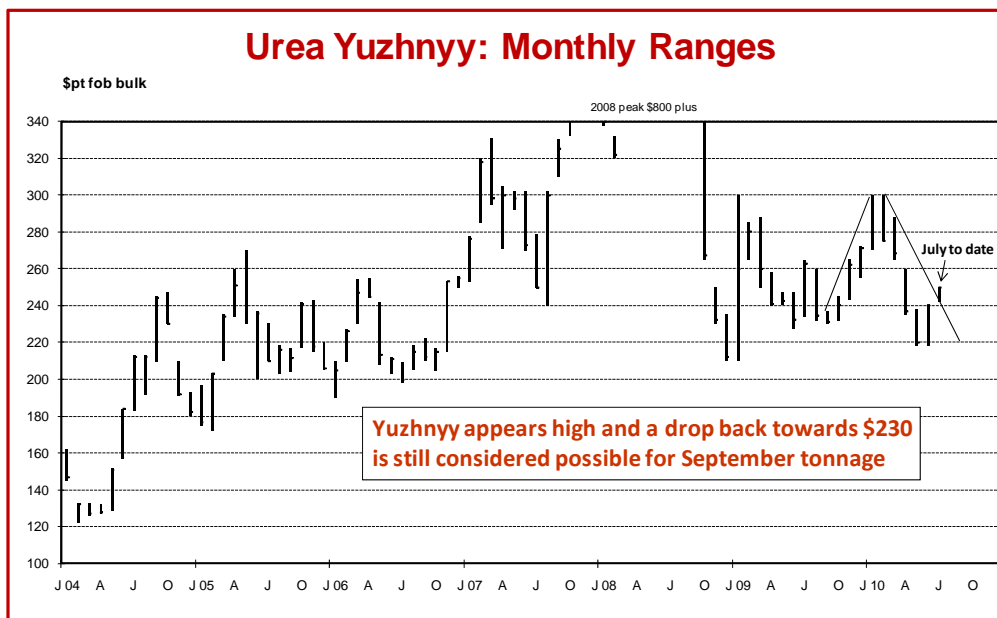
As indicated last month, it is still likely that the overall pattern of price development in Q3 could bear some similarity to Q3 2009. Major price moves during that period were as follows:

Urea price movements Q3 2009 \$pt fob

Yuzhnyy fob	230 mid June	265 end July	230 end Sep
Egypt	245 mid June	285 end July	255 early Sep
Arabian Gulf	260 mid June	275 early Aug	253 mid Sep
China prills	252 end June	265 end July	252 mid Sep
US Gulf ps ton	222 mid May	288 mid Aug	252 mid Sep
Simple Average	242	276	248
% Change		14%	-10%

Given the potential surplus for September, it is possible that the urea price in Yuzhnyy could again drop back to \$230pt fob. If this occurs it would suggest the following indicative levels for other export areas/markets:

Price Matrix - Possibilities if Yuzhnyy slips to \$230pt fob			
		Price	Remarks
Assumption	Yuzhnyy fob	\$230	Now \$250pt fob
<i>reflects</i>	Brazil cfr	\$260-265	Now \$275-280pt cfr
<i>reflects</i>	India cfr wc	\$270-280	STC will pay more in 13 July tender
<i>reflects</i>	China fob	\$245-255	Now \$260-265
<i>reflects</i>	Middle East fob	\$245-255	Now \$260-270pt fob
<i>and.....</i>			
<i>reflects</i>	Egypt fob granular	\$245-255	Now \$265-270pt fob
<i>reflects</i>	US Gulf ps ton fob	\$245-255	Now \$255-260ps ton fob
<i>reflects</i>	Caribs fob granular	\$250-260	



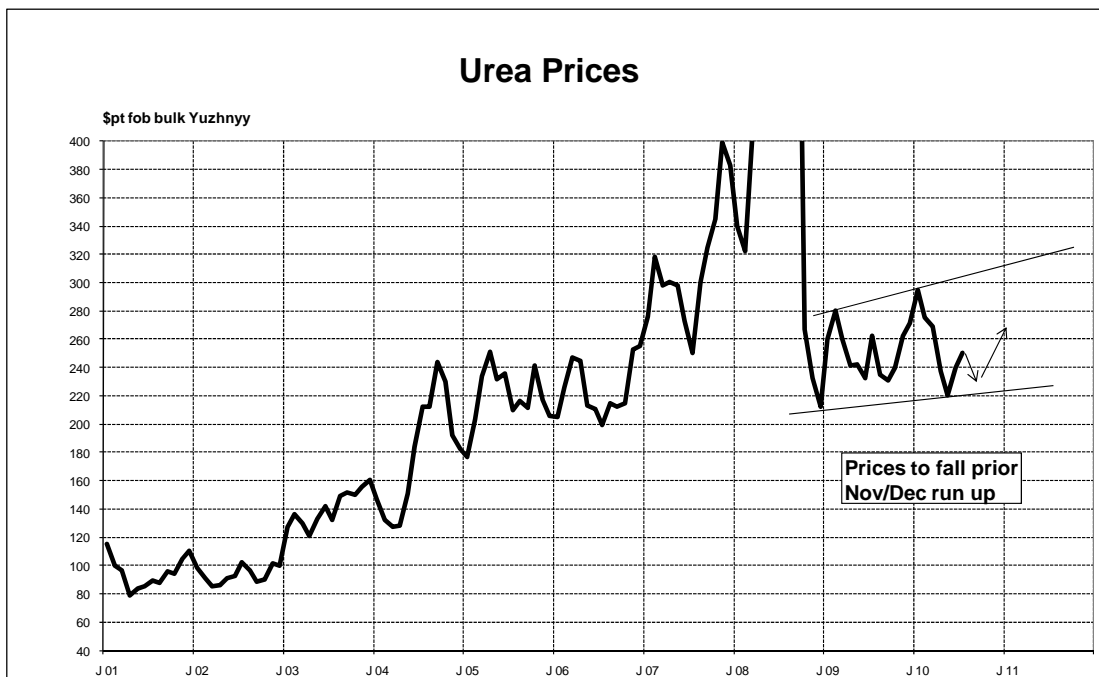
Q4

After a potential price dip for second half August/September and October shipments, urea should firm in November/December as movement to Europe and North America gathers pace. The forecast trade balance figures for Q4 indicate a modest surplus of just 443,000t (5%) overall based on the assumption that China will export a further 1.3m. tonnes in Q4. Other assumptions for Q4 are as follows:

- Iran exports 400,000t
- Ukrainian plants operate
- India imports 1.8m. tonnes excluding Omifco Oman (2m. tonnes Q4 2009 including Omifco)
- Thailand imports 400,000t, in line with 2009
- Bangladesh imports 600,000t including Middle East contract tonnage.
- Brazil imports 700,000t (800,000t in Q4 2009)
- USA imports November-January total one million tonnes, down from 1.06m. tonnes November-January 2009/2010.

Based on the above, it is forecast that FSU prices could end the year around \$260-265pt fob. This would imply an Egyptian granular price of around \$285-290pt fob and a Middle East price around \$280pt fob. As regards the USA, Egyt at \$285pt fob would reflect \$290ps ton fob Gulf.

Beyond December, the trend should remain positive into Q1 although it is again likely that Asian demand will be slow - India is certainly not a major buyer in Q1. As demand from other major markets falls away, prices will eventually peak during this period prior to entering the traditionally weaker Q2. Whether Q1 prices again test the highs of Q1 2010 is difficult to assess, but it is certainly not impossible.



PUBLISHER

Profercy Ltd.

Email: fertilizers@profercy.com

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, without the prior written permission of the Copyright owner.

© Copyright 2010 Profercy Ltd