



the PROFERCY

Forecast

1 March 2011

Extracted from the Profercy Urea Forecast 1 March 2011

February began on a bright note for suppliers with a Pakistan tender announced and hopes that Thailand would not extend price controls beyond March. In addition, the turmoil in Egypt threatened to disrupt supplies from that important source for some time while higher nitrate prices were announced in Europe.

In the 11 January and 8 February reports it was postulated that no first quarter price explosion would be witnessed in the urea market and that high prices would not extend through the whole of Q1. Developments since mid February have supported this expectation although the timing of the market's demise has been earlier than forecast and, in some respects, faster than expected. Key factors undermining prices in second half February were:

- The extension of Thai price controls through April
- The lack of business in Pakistan for FSU product
- The welcome return to normal activity in Egypt without any major disruption to February production.
- Slow Turkish demand
- The lacklustre US market where urea continues to trade at a huge discount to UAN
- The realization that Europe has covered most of its spring season requirements

The uptrend in urea prices was broken in January and the post-buying season downtrend now appears to be under way. The key question now is how far might prices fall?

Demand – Q2 versus Q1

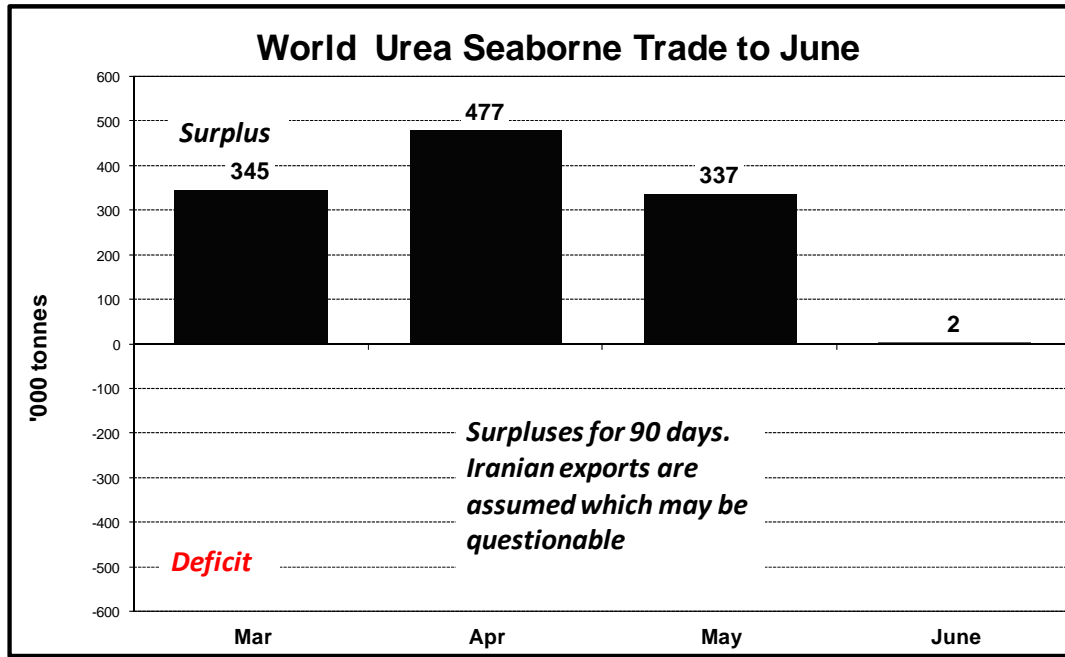
Based on the average import volumes of nine sample markets over the past five years, import demand for urea has been 16% lower in Q2 than in Q1. The USA (offshore, excluding Canada), EU, Turkey, Brazil and Mexico have averaged 4.2m. tonnes in Q1 versus 2.8m. tonnes in Q2, a reduction of 37%. Conversely, in the East imports by India, Thailand, Australia and South Korea have been on average 24% higher in Q2 than Q1 at 2.24m. tonnes, offsetting just under one third of the Q2 reduction in the West.

This overall pattern is unlikely to alter this year, namely Q2 demand will likely be lower than Q1 supporting the view that prices will trend lower in general over the period.

However, there are also positives for urea this year which should lend support to prices in Q2:

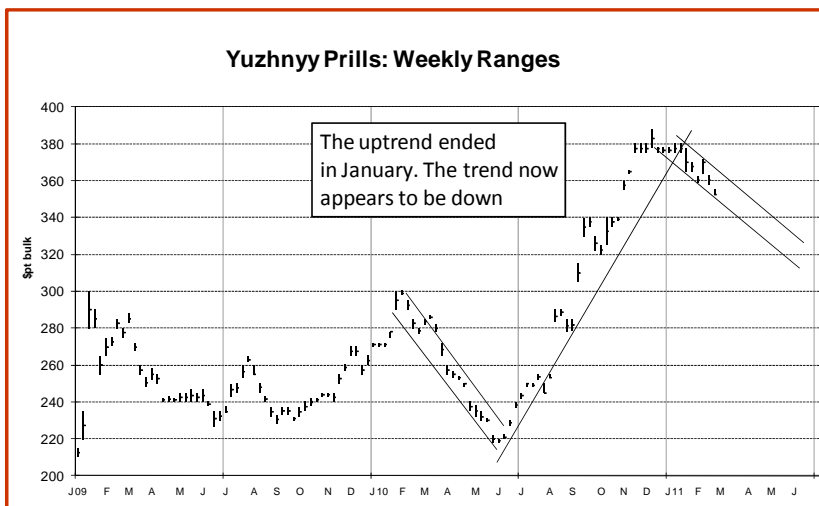
- No major volumes of Chinese urea are available – 573,000t were exported from bonded store in March-June 2010
- Libyan production could be missing for months
- Iran may not be a major export player due to financial restrictions

Nonetheless, and despite these positive factors, the market is forecast to be in surplus for the next 90 days overall.



Potential Price Developments

Barring unforeseen and major disruptions to export supply, that is greater than the loss of Libyan product, urea prices appear set to trend lower over much of the next 90 days. Of course, it is unlikely that the market will fall continuously week by week and, as is often the case, there may be short price rebounds when traders cover in short positions. The price rebound could even be exaggerated if a few buyers simultaneously move for prompt tonnage and some traders opt to book short-term long positions.



The chart to the left illustrates what may be possible. The two downtrend lines (merely added to the chart) imply that even during the anticipated fall prices could rebound at any point by \$10pt.

The downtrend lines suggest that the market could bottom out in May/June sub-\$320pt fob Yuzhny. This appears to tie in with the trade balance forecasts.

Supply disruption

Recent developments in North Africa and the Middle East have brought into sharp focus the World's dependence on oil from these areas with Brent oil over \$110/bbl since the Libyan crisis. Urea prices have not been affected greatly to date as the recent Egyptian problems were short lived and Libya is not a major player. Also, most markets in the West have covered their spring requirements. Further, it is too early for Brazil and India to accelerate their importing and for the North American/European markets to rebuild stocks for the next campaign.



Despite this, the World's reliance on Middle Eastern urea cannot be overstated. The current export capacity of the six traditional exporters (UAE, Bahrain, Kuwait, Oman, Qatar and Saudi Arabia) is around 11m. tonnes per year, i.e. over one third of World seaborne export supply. Saudi Arabia and Qatar are the largest exporters, around 3m. tonnes per year each with Oman now around 2.6m. tonnes. Iran can contribute a further one million tonnes at least (even over 2m. tonnes if the PCC and KPIC complexes can export).

Within the scope of this forecast, it is impossible to predict political developments and hence potential supply disruption. Nonetheless, if major supplies are threatened at any point, this would probably have a huge impact on urea prices with buyers rushing to cover their needs and restocking for the next North American and European seasons brought forward. Security of input supply would likely be a key strategic objective for agriculture globally given the current high levels of crop prices and World food insecurity.

Q2 2011 price floors basis no supply disruption

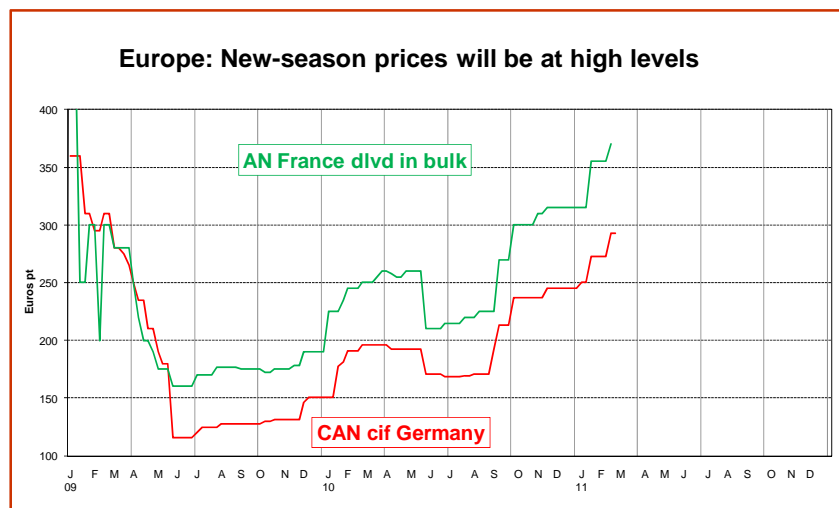
As mentioned in the last report, Q2 is normally a period of price decline with FSU levels dipping on average 22% from March through to the Q2/Q3 low in the period 2005-2010 (excluding 2008).

Based on the assumption that FSU prilled prices drop to a low of \$300-320pt fob in Q2, the position for other export areas/markets based on the price relationships evident from 2005-2010 (again ignoring 2008) is outlined below:

Q2 2011 Potential Market Lows			
	\$pt Low end	\$pt High end	2010 low
Yuzhnyy Prilled Urea	300	320	218
M East Granular	312	334	219
Egypt Granular	320	342	230
US Gulf Granular ps ton	320	342	222
CAN Germany cif inland	290	309	207
AN France delivered	361	388	231

The dollar-denominated CAN and AN price ranges above reflect Euro prices of E209-223pt Germany and E260-280pt France respectively (basis Euro = \$1.385).

The chart to the right shows the strong upward run in nitrate prices since June 2010. This year the new-season price levels will no doubt be massively above those forced on suppliers in 2010.





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