

THE MARKET

FERTILIZER NEWS AND ANALYSIS

17 July 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	17 July	10 July	Tendency
Prilled Urea Yuzhny	745-770	715-740	Strong
Granular Urea Mid East	750-810	695-795	Rising
Granular Urea USG s.ton	780-830	742-755	Stronger
DAP Tampa	1170-1202	1160-1170	Firm
Ammonia fob Yuzhny	600-650	540-550	Booming
Ammonia cfr Tampa	585	585	Firm
Sulphur fob Vancouver	800-820	780-820	Firmer

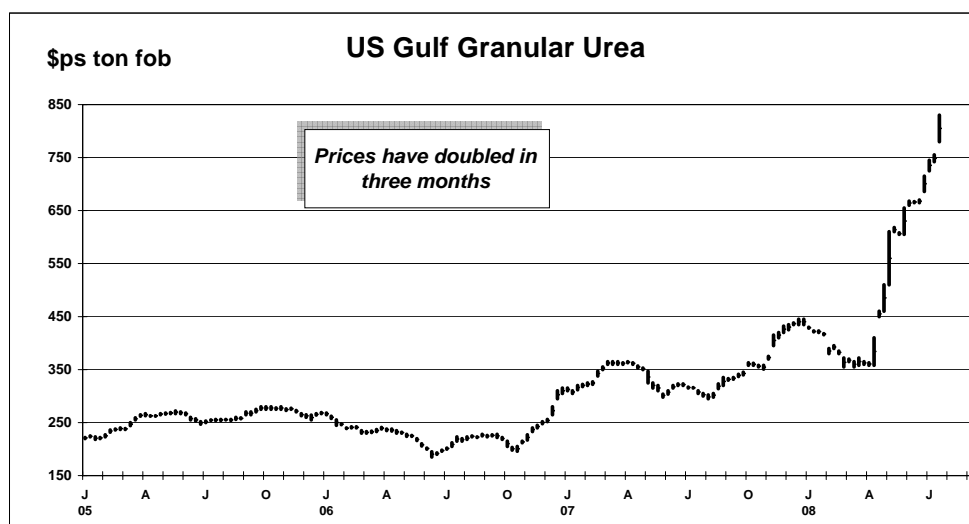
Latest International Business					
Product	Origin	Destination	'000t	\$pt	Ship
Urea	Yuzhny	India	25	797 CFR	J
	Yuzhny		10	770 FOB	A
	Baltic	US	24	745 FOB	J
	China ?	India	20	798 CFR	J
	Indonesia		40	750 FOB	A
Granular	Yuzhny	Canada	25	925 CFR	A
AN	Black Sea	Argentina		375 FOB	J/A
Amsul	Yuzhny		3 x 6	370 FOB	A
UAN 32	Egypt	France ?	25	463 FOB	A
		Argentina	25	480 CFR	J/A
		Argentina	25	480 CFR	J/A
DAP	US/Tunisia	India	60-70	1268 CFR	J
	Tunisia	India	30	1275 CFR	J
	Lithuania	Open	100	1140-1150 FOB	J-A
	Lithuania	Open	60	1140-1150 FOB	J-A
	US	Brazil	55	1202 FOB	A-S
Ammonia	Yuzhny		4	640 FOB	J
	Indonesia	China	8.5	720 CFR	A
MOP	FSU	US	30	1000 CFR	A
SOP	Germany	Europe		€730-750 CPT	J/A

Urea

The urea market is very strong worldwide and gains in price have been posted once again in all areas. The two largest urea importers – India and the US - are both active as well as buyers in other regions, giving suppliers a choice of where to sell. Producers are stretched to cover existing demand. The only possible bearish factor is the ability of traders to finance large positions at the current record high values: urea prices have doubled in the past 3-4 months.

Yuzhny urea has risen to \$770/tonne FOB this week, up from \$740/tonne last. Support for the higher prices has come from the announcement of a tender in India, at long last. IPL will receive offers on 19 July, needing to buy an estimated 600-700,000 tonnes for July-August shipment in addition to the quantities already booked. It is doubtful that offers will total so much, however, as Middle East producers already have much of their urea committed for the next 30-60 days.

The other factor driving the market higher is the strength of the US market. Prices for granular urea have increased by \$50/short ton over the past seven days. The annual gathering at the Southwest Fertilizer Conference in Texas saw the bulls out in force, concerned to cover part of their urea requirements early. Prices reached \$830/short ton FOB Nola by midweek.



The strength of urea prices has begun increasingly to influence other nitrogen fertilizers. Buyers are seeking cheaper nitrogen wherever they can find it, but are driving up prices as a result. This week: UAN solution traded above \$500/tonne FOB Black Sea for the first time ever; ammonium nitrate prices broke through the \$400/tonne FOB mark; and ammonia has been sold at \$650/tonne FOB Yuzhny.

North America

Nitrogen prices have leapt in the **US** this week, gathering pace throughout the Southwest Fertilizer Conference in San Antonio, Texas. Immediately prior to the meeting, traders sold barges of granular urea at \$780/short ton FOB Nola for prompt/August delivery. Several barges traded over the weekend at \$790/short ton FOB.

However, by the end of the meeting, prices had risen to \$830/short ton FOB for barges for the same time frame. Urea has traded on the paper market at \$860/short ton FOB for Q1 and CF is reported to have achieved its asking price of \$840/short ton FOB for Q1 2009.

Concerned about tight international supply through Q3 in the period prior to river close and uncertain about how much urea will be available from China in Q4, major buyers have decided to increase early purchases over previous years.

The only reservation suppliers have about the current run up is the ability of dealers to finance the volume of fertilizers they normally handle, given the massive increase in prices since last year. In July 2007, the price for granular urea in the US Gulf was close to \$300/short ton FOB.

The latest price is equivalent to \$905/tonne CFR, which makes the US a competitive destination for urea from all sources. Trammo has been selling urea from a planned 50,000 tonne Egyptian granular cargo for August arrival. Keytrade has sold urea from its 25,000 tonne Kuwaiti cargo, scheduled for early-August arrival. Other traders have been reselling barges bought from US production.

Supply from Canada to the northern tier of the US may be reduced in 2008-09: Agrium is reported to have decided to move more urea from its Canadian plants to supply California and the Pacific Northwest, due to the difficulty in sourcing competitively-priced imported urea. Some sources believe that as much as 500,000 short tons less urea could move from Canada into the US in 2008-09.

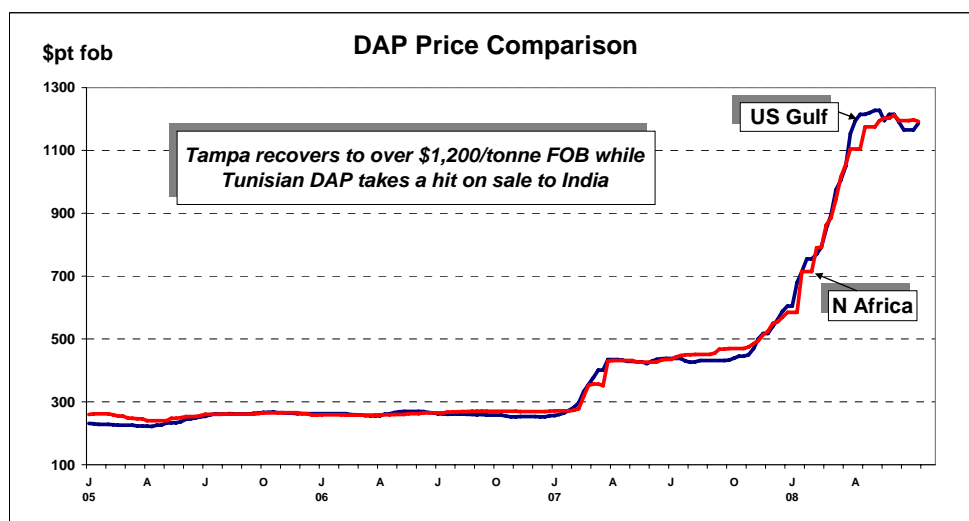
In the US, urea production totalled 199,000 short tons in June, taking total production for the 2007-08 fertilizer year to 2.69m short tons, 6% lower than the previous year, according to figures from TFI. Canadian urea production was 234,000 tonnes in June, taking full year urea output to 3.24m tonnes, 3% down on 2006-07.

Keytrade has sold prilled urea from a Libyan cargo at \$695/short ton FOB Nola.

Prices for other nitrogen fertilizer have risen, as buyers look for cheaper alternatives to urea.

DAP

There are signs that Latin American demand for DAP/MAP is slowly returning. PhosChem has sold 55,000 tonnes to Brazil this week at \$1,202/tonne FOB, its first export sale since May. However, the picture of Latin American demand going forward is still uncertain, with Russian producers having committed their July and early August tonnage in India and Pakistan at unimproved netbacks rather than attempt to sell west of Suez.



India still provides the greatest outlet for producers, as witnessed by GCT's decision to take the unusual step of selling DAP there this week. This highlights the lack of demand from more normal markets for Tunisian DAP, such as Latin America and Turkey. In total, India bought 90,000 tonnes of US and Tunisian DAP, and issued further tenders for 100,000 tonnes. With 3.5m tonnes booked, a further 400-500,000 tonnes is thought required for rabi given high demand.

Other Asian markets are inactive. Pakistan import demand has been paralyzed by uncertainty over the future magnitude of the DAP subsidy. Hopes are limited that Iran can buy phosphates under its 4 August tender due the political situation in the region.

Argentine interest remains depressed but Brazilian interest has resurfaced for August/September shipment. Overall, future market direction hinges mainly on the timing and magnitude of Latin American demand going forward. At present, it appears likely demand will be down on 2007 levels, in Argentina by 20-30%.

North America

In the **US**, PhosChem has sold 55,000 tonnes of DAP to Brazil at \$1,202/tonne FOB in two vessels are for August and September shipment. It reports additional buying interest in Brazil. This is PhosChem's first sizeable export sale for more than one month.

Domestically, Mosaic reports sales of DAP barges at \$1,080/short ton FOB Nola for prompt shipment. Traders sold several DAP barges at the Southwest Fertilizer meeting at \$1,085/short ton FOB Nola for prompt.

Mosaic sold DAP barges forward for September shipment at \$1,090/short ton FOB Nola. Trammo has sold DAP at \$1,090-1,100/short ton for September.

On MAP, Mosaic sold barges at a \$25/short ton premium over DAP for prompt shipment. There was a high level of activity for MAP at the Southwest meeting as well.

In Central Florida, Mosaic has sold rail cars of DAP at \$1,080/short ton FOB, with MAP also at a \$25/short ton premium. DAP railcars for October-December shipment are selling at \$1,105/short ton FOB with MAP again at a \$25/short ton premium. Mosaic will raise its October-November price by \$10/short ton on 18 July.

US DAP production reached 699,000 short tons in June, down 12% on May 2008 and 1% on June 2007, according to TFI data. Production was thought to be down due to a combination of sulphur shortages and planned maintenance at Agrifos's Pasadena DAP facility. MAP production reached 332,000 short tons, down 21% on May 2008 and down 7% on June 2007.

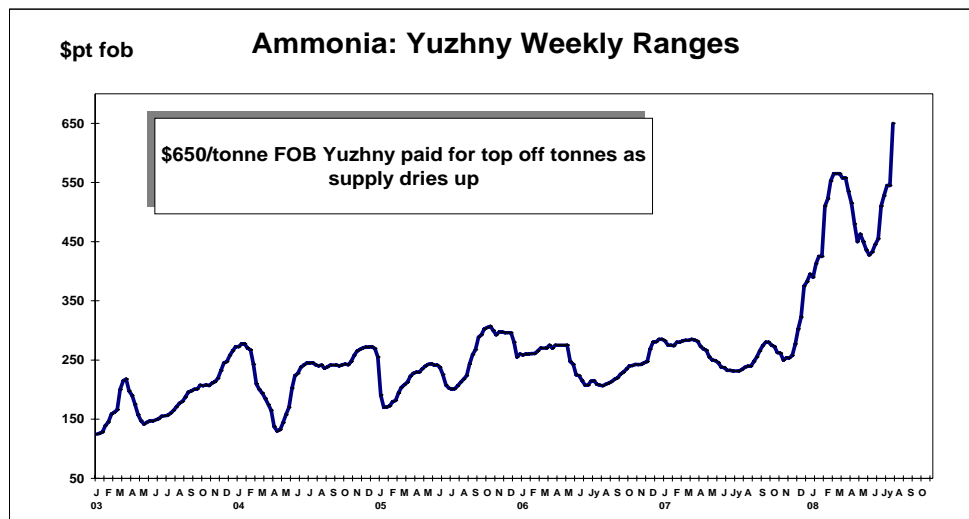
DAP inventories were 601,000 short tons, down 15% on May 2008, but up 9% on June 2007 levels. MAP inventories totalled 321,000 short tons, up 5% on May 2008 but down 7% on June 2007.

Producer disappearance for DAP reached 803,000 short tons, down 6% on May 2008 but up 8% on June 2007. Increased DAP movement to India was offset by a slower domestic market.

US DAP exports totalled 553,308 short tons in June 2008, 49% up on June 2007 according to TFI data. The vast majority - 95% - of DAP was exported to India, which took 523,507 short tons. US MAP exports reached 115,548 short tons, down 11.2% on June 2007 levels.

Ammonia

The ammonia market has continued on its bull run, with supply in Yuzhny almost dried up and top off tonnes purchased early this week at \$650/tonne FOB. Given the current tight supply situation due to plant turnarounds/closures, it is likely that much higher prices would have to be paid by any one scrambling for tonnes. While some improvement is anticipated in supply next month, with Gorlovka due back on stream at the end of July/early August, there is expected to be a back log of vessels to load which have slipped over from July.



East of Suez, the market also remains tight. Middle East suppliers report they are still receiving bids from traders in short supply and expect any new sales to be at \$700/tonne FOB. In the Far East, prices are moving up in response to higher prices in Yuzhny and the Middle East, demonstrated by Yara paying \$720/tonne CFR for an Indonesian cargo for shipment to China.

Prospective Indian demand continues to be watched. Some expect import demand to remain weak due to the high costs of phosphoric acid and rock, and especially if phos acid prices with the Moroccans cannot be agreed. However, others point to the fact subsidy levels have now been agreed in India and that demand is traditionally higher towards the end of Q3/Q4 for the rabi season.

North America

In **Tampa**, sellers are planning to start August price negotiations at over \$700/tonne CFR based on higher Yuzhny numbers. Some commented that buyers could use good supply from Trinidad next month as an argument against such a hike.

The restart of Terra's Donaldsonville ammonia plant is underway and it is hoped that full production rates will be reached by the weekend. However, the time frame could be pushed back due to the uncertainties in restarting a mothballed plant. If the unit does not operate well then Terra may be forced into the market to buy some ammonia.

One immediate downside for ammonia prices might exist in corn, according to talk at the Southwest Fertilizer conference this week. Corn has retreated from above \$7/bushel and was trading at around \$6.50/bushel on Thursday on the Chicago Board of Trade. If corn prices continue their slide into October, it would likely place downward price pressure on fertilizers.

Retailers were mixed on whether more farmers in the US cornbelt were prepaying for ammonia or waiting and hoping that prices would go down.

Spot business remained slow out of **New Orleans**, with prices hovering around \$530/short ton.

It has emerged that Yara temporarily closed a 1,000 tonne/day ammonia unit in **Trinidad** from 1-8 July. After a natural gas leak, National Gas asked ammonia producers to temporarily reduce production. Because of the plant's size, Yara decided it would be easier to take it offline rather than reduce production.