

THE MARKET

FERTILIZER NEWS AND ANALYSIS

9 October 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	9 October	2 October	Tendency
Prilled Urea Yuzhny	520-550	580-600	Sinking
Granular Urea Mid East	480-620	580-650	Dropping
Granular Urea USG s.ton	450-500	505-540	Plummeting
DAP Tampa	950-1015	940-950	Soft
Ammonia fob Yuzhny	820-840	830-840	Weaker
Ammonia cfr Tampa	931	931	Soft
Sulphur fob Vancouver	180-350	350-450	Plunging

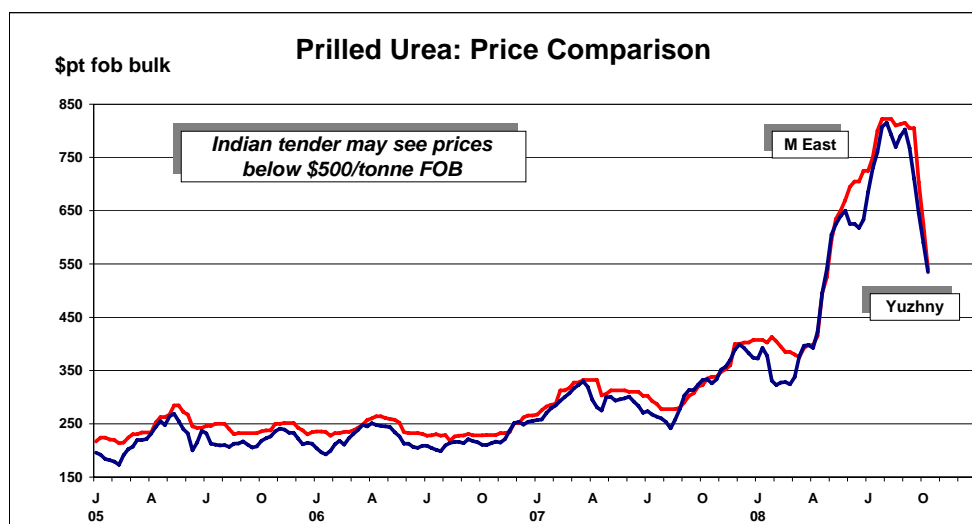
Latest International Business					
Product	Origin	Destination	'000t	\$pt	Ship
Urea	Yuzhny	India	10	520 FOB	O
	Black Sea	India	30	682 CFR	O
	Baltic?	India	30	682 CFR	O
Granular	Yuzhny	India	25	530 FOB	O
	Trinidad	Mexico	25	540 FOB	O
	Egypt?	India	30	682 CFR	O
AS	Russia		20	205-210 FOB	O
DAP	US	India	45-55	\$1070 CFR	O
	Russia	India	120-180	\$1068-1072 CFR	O-N
	Russia	TBC	25-30	\$870 FOB	O
	Turkey	TBC	11	\$890 FOB	O
Sulphur	Iran	Turkey	15	350 FOB	S
		India	40	115 CFR	D
	Japan	Philippines	10	180 CFR	N

Urea

Urea prices continue to sink, with Yuzhny urea sold at \$520/tonne FOB and US granular urea dropping to the equivalent of \$450/tonne FOB Middle East. Concerns about credit are increasing, leading to lower demand estimates in most markets in Q4.

Having re-negotiated some cargoes from earlier deals, IPL India has issued a new tender for urea for delivery by 15 November. A massive response is likely, despite the limited shipment window. Producers in the Middle East, Egypt, Malaysia and elsewhere have watched inventories build during September and are expected to seize the opportunity to sell for prompt shipment to India.

Middle East producers may try to keep prices above \$500/tonne FOB in the tender. But freight rates from Yuzhny to India have fallen to \$35-36/tonne for panamax vessels and competition from traders will be tough.



If the Indians stick to their tactic of buying only 300-400,000 tonnes through the tender and then pulling back, there will be little incentive for buyers in other countries to step in early to book urea for November-December. This tactic has been used successfully in the past two tenders to reverse and then drive prices down. It would be surprising if IPL were to change this and book a much larger tonnage.

Low demand and rising inventories have prompted some cutbacks in production, notably in Romania and Russia. More producers are likely to follow this lead. NOC Libya held an unsuccessful sales tender this week and will probably have to limit production during October.

North America

In the **US**, urea trade has been light over the past week with buyers preferring to stay out of the market, despite the imminent closure of the shipping season for the upper Mississippi. Barges have traded down through the week from \$500/short ton to \$450/short ton FOB Nola for nearby shipment and the downwards momentum in the market is set to be maintained. Granular urea has traded on the paper market at \$410/short ton FOB Nola for September.

The US is being affected by the collapse of prices in the international market. Buyers are unwilling to cover requirements against a background of rapidly declining prices. Most large importers are long on urea imported at much higher prices during September and are chasing sales. As in financial markets, there is a lack of confidence.

In terms of new cargoes, Sabc has 60,000 tonnes scheduled to arrive in Nola on 19 October on the New Herald.

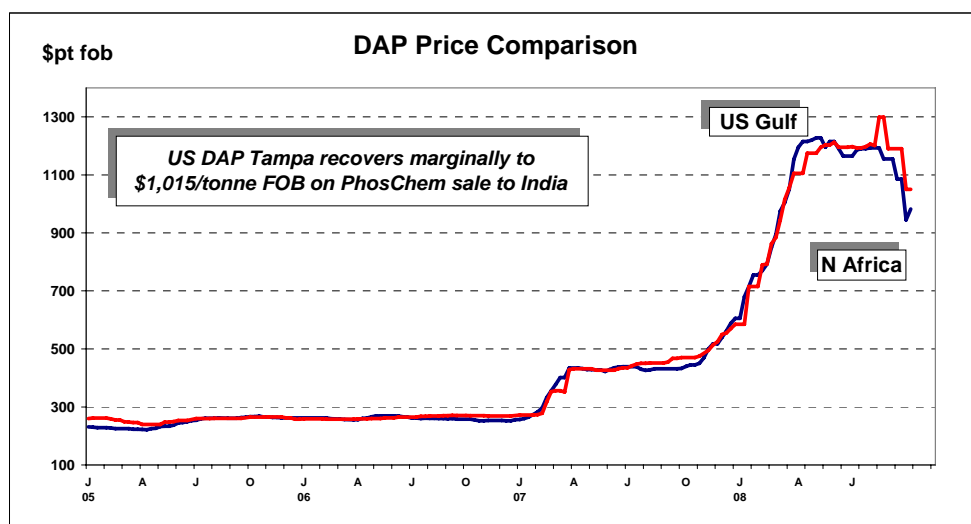
CHS began loading railcars again this week at its Galveston facility and aims to begin discharging vessels again in the coming week. The terminal has been out of action since Hurricane Ike hit the area in September.

DAP

The increased likelihood that China will resume phosphate exports, possibly during Q4 is keeping prices under pressure. The market floor remains several weeks away given the lack of demand, the global financial crisis limiting credit availability and the erosion in crop prices.

India bought over 200,000 tonnes of DAP this week at prices unchanged from 3-4 weeks ago, but this is the result of a need to maintain prices to bolster the domestic subsidy system. It does not infer any inherent stabilisation of the market.

The latest PhosChem sale to India has, at least for one week, seen some recovery in the Tampa range, with \$1,070/tonne CFR netting back to \$1,015/tonne at the top end, based on freight booked at \$55/tonne.



Outside India, market liquidity is almost non-existent and demand prospects are poor. However, India is coming to the end of its DAP buying spree and other markets are not in a position to compensate. Pakistan's failure to pay subsidies has led to producers/importers increasing domestic prices by 70%. The financial pressure on the government has seen it warn importers not to buy any more DAP, fearful that it might not be able to pay the subsidy on it.

On a bullish note, Ethiopia has entered the market with its tender for 150,000 tonnes of DAP closing at the end of this month. There has also been some uptick in US domestic demand from wheat farmers.

Producers point to the long-term supply/demand fundamentals in the grain and oilseed markets, which remain tight and will eventually see a recovery in fertilizer demand. However, prices have to fall in the meantime to stimulate buying interest.

North America

In the **US**, PhosChem has sold a cargo of DAP to India at a price netting back to \$1,015/tonne FOB Tampa.

Mosaic will not take down any one plant in its entirety as part of its strategy to cut output by 500,000-1m tonnes over the next 3-4 months. Instead, production cutbacks will be shared between the river and central Florida plants.

Agrifos's Pasadena facility remains down following flooding due to Hurricane Ike. The company has apparently intimated that it may restart at the end of this week but this appears unlikely. Inventory losses have been estimated at 17,500 tonnes of DAP and 7,500 tonnes of MAP. Even if Agrifos were to restart production, it has no free storage capacity.

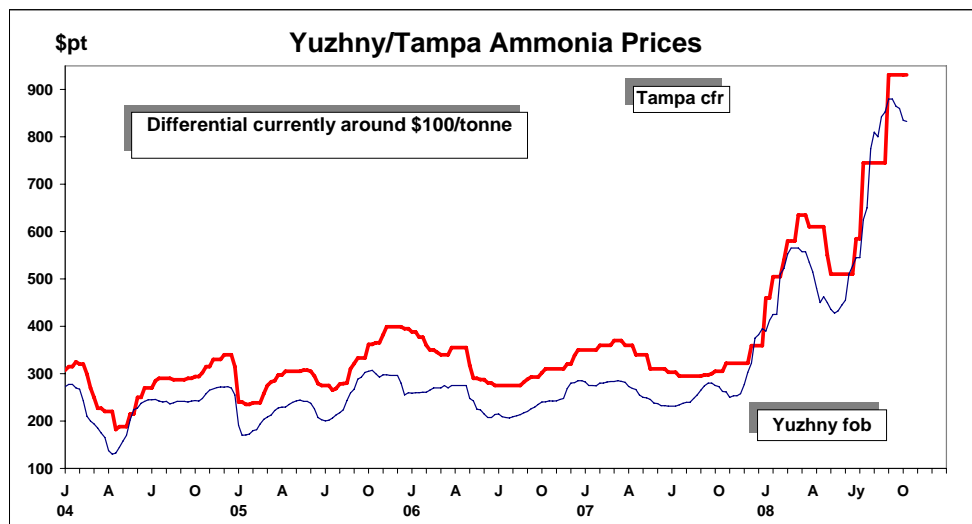
The US DAP market has become active in parts of Oklahoma and southwest Kansas, following the wheat harvest. This, combined with lower DAP prices, has led to a draw down of inventories at the dealer level.

However, with traders having liquidated most of their barge positions, the market remains highly illiquid. And while nothing is thought to have traded below \$900/short ton FOB Nola, traders believe that offers would have to be \$880-900/short ton to sell a barge. The upper Mississippi closes in mid-October, and barges heading north have already loaded.

Ammonia

The general mood of the nitrogen market is bearish, with little demand reported for ammonia, urea or ammonium nitrate. However, ammonia suppliers have good volumes on their books for October and are trying to protect their sales prices at the moment. As a result, there is no fresh tonnage being negotiated at the moment and talk that prices will drop substantially in November is only speculative for the time being. New production starting up in Egypt and possibly Nigeria soon could only re-enforce the bearish expectations.

The US market is overall the most subdued, given Mosaic's declared intention of reducing DAP production over the next few months, weaker corn prices and the credit squeeze which could negatively affect farmers' decisions for the spring application.



The Asian market is holding up better, as the expected restart of the Australian plants in December could be partially offset by turnarounds in Indonesia. However, any further downturn in FSU prices is likely to also cast a shadow on the Middle East and Asian price outlook.

North America

In **Tampa**, market participants speculated the November contract price could drop by over \$50/tonne from its current level of \$931/tonne CFR because of a combination of reduced demand, a weaker corn market and lower FOB levels in Yuzhny.

Mosaic has announced that it will reduce DAP production by 500,000 to 1m tonnes, probably over the next 3-4 months, which could mean a reduction of over 30,000 tonnes/month in ammonia requirements, depending on MAP production. There are reports that at present, Mosaic is trying to resell some of their ammonia contract cargoes.

The **US Gulf** market is very quiet and there are no new deals to pinpoint the exact level of prices, which are probably therefore set under formula.

Field application is already starting in some areas but in most parts of the cornbelt will probably commence towards the end of October. In the **Midwest**, offer prices for prepaid ammonia are currently reported at \$1,000-1,020/short ton ex-terminal, a drop from the \$1,200/short ton level reportedly offered by CF and Koch earlier this year. There is little business conducted at present, as most farmers are taking a wait-and-see approach, particularly in view of the weaker prices of corn and the possibility of switching to soya beans. The current credit crunch is only marginally likely to affect farmers who have land to offer as collateral for loans and traditionally borrow from smaller community-based banks that have not been as significantly affected by the economic crisis.