THE MARKET

FERTILIZER NEWS AND ANALYSIS

23 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 | 23 October | 16 October | Tendency |
|---|---|---|---|
| Prilled Urea Yuzhny | 280-330 | 330-350 | Sliding |
| Granular Urea Mid East | 345-350 | 345-350 | Holding |
| Granular Urea USG s.ton | 298-325 | 370-395 | Dropping |
| DAP Tampa | 950-1015 | 950-1015 | Soft |
| Ammonia fob Yuzhny | 495-500 | 820-840 | Falling |
| Ammonia cfr Tampa | 575 | 931 | Lower |
| Sulphur fob Vancouver | 60-150 | 180-350 | Weaker |

**Latest International Business**

| | | | | | |
|---|---|---|---|---|---|
| **Urea** | Ukraine | India | 40 | 345 CFR | O |
| | Black Sea | Turkey | 30-40 | 280-285 FOB | O/N |
| | Black Sea | | | 270-280 FOB | O/N |
| | Russia | UK | 15 | 280 FOB | N |
| | UAE | India | 50 | 347 FOB | O/N |
| | Russia | India | 80 | 358 CFR | O/N |
| | S Arabia | India | 75 | 346 FOB | O/N |
| | Qatar | India | 60 | 347 FOB | O/N |
| | Open | India | 40 | 358-359.5 CFR | O/N |
| | Open | India | 35 | 360 CFR | O/N |
| | Baltic? | Mexico | 25 | 390 CFR | O/N |
| **Granular** | Ukraine | | 20 | 300 FOB | N |
| | Egypt | Fr/Sp | 30-35 | 350-355 FOB | O/N |
| | Egypt | France | 30 | 330 FOB | O/N |
| | Kuwait | India | 50 | 345 FOB | O/N |
| | Malaysia | India | 25 | 358 CFR | O/N |
| **DAP** | Tunisia | India | 30 | 945-950 CFR | O |
| **Ammonia** | Oman | India | 40 | 350 CFR | N/D |
| | Iran | India | 23 | 909 CFR | O |
| | Malaysia | India | 18-20 | 900 CFR | O |
| **Sulphur** | AG | India | 20-25 | 65 CFR | O/N |

## Urea

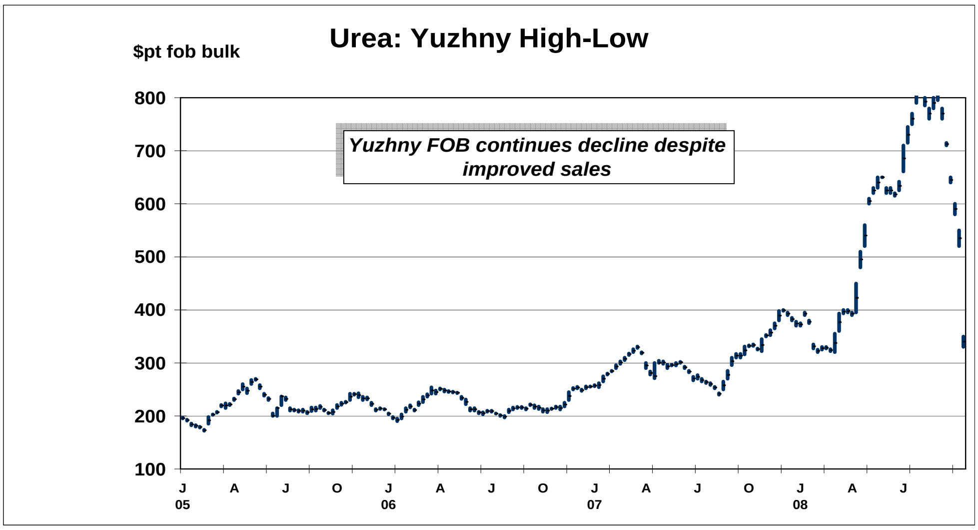
IPL issued awards totalling 455,000 tonnes of urea and also re-negotiated prices for 110,000 tonnes worth of old contracts in the past week. These purchases eased the pressure mounting on some traders and producers, while confirming the scale of the recent price slide.

The falling price of urea stimulated a revival of buying interest in some regions. Turkish buyers stepped in and bought Black Sea urea. Traders have been able to place Egyptian tonnes in France and Spain, again, freeing some warehouse space for producers.

Mexican buyers also bought this week and there are freight enquiries from both the Black Sea and the Baltic to west coast Latin America.

The lower prices will also see more tonnes going to Thailand in November from the Arabian Gulf and Malaysia as importers attempt to bring down the average cost of their stock with cheap acquisitions.

Whether this revival of buying will halt the international price slide is yet to be seen. Albeit at a slower rate, Yuzhny prices have declined steadily this week from the $330/tonne FOB netbacks seen in India, down to $280/tonne FOB and possibly below. The Ukrainian producers' breakeven point of $250-280/tonne now looms large.




After a period of inactivity, the US market has shown signs of life. Barge prices fell to just under $300/short ton FOB Nola, before recovering to around $320-325/short ton FOB Nola. Buyers stepped in having seen what appeared to be prices bottoming out.

## North America

Granular urea barge prices recovered to around 320-325/short ton FOB Nola, having traded below $300/short ton FOB Nola at the end of last week. Farmers and dealers stepped in to secure product causing prices to steadily move up over the week.

CF posted its November list price at $310/short ton FOB Nola for one day before promptly moving it up to $330/short ton FOB Nola following the recovery.

High input costs for wheat are likely to result in less wheat planted in states such as Arkansas, Missouri, Mississippi etc. This will reduce urea demand.

However, some farmers in the cornbelt are running behind on application, and could switch from ammonia to urea if more rains come, which could boost urea demand.

## DAP

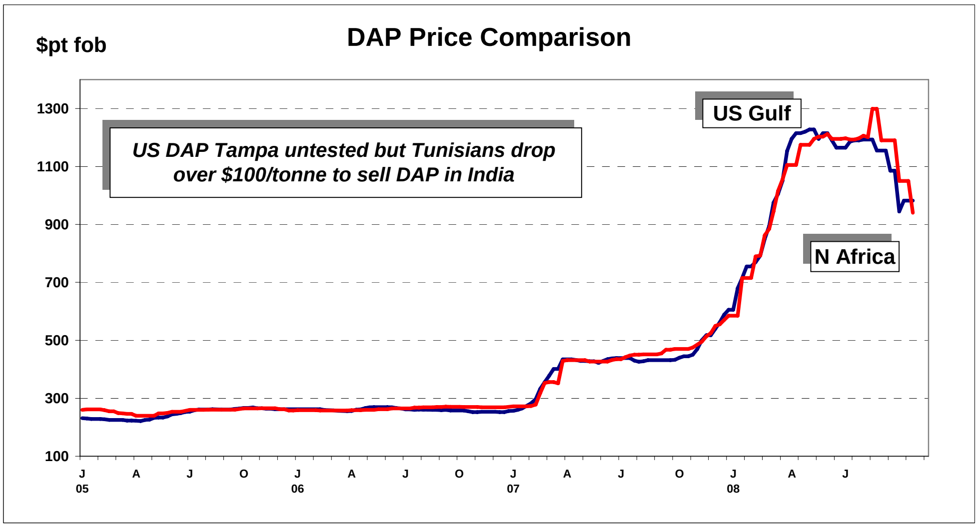
CFR numbers in India for DAP have fallen below $1,000/tonne CFR, with a sale of Tunisian product confirmed at $945-950/tonne CFR this week. This nets back to $880-900/tonne FOB – a drop of over $100/tonne on previous business.

Price ideas in India subsequently fell to $895-899/tonne CFR but RCF then scrapped its tender. Indian buyers are reluctant to see the price fall too quickly because of the negative impact on the subsidy paid to domestic DAP producers under the import parity scheme.

However, India is likely to continue buying well into Q4 and into Q1 next year, with estimates that it could buy 250-500,000 tonnes/month during this period. This is the result of strong demand, lacklustre domestic production and low stocks.

India will lend considerable support to a market badly in need of firm demand, especially with Argentina and Brazil likely to remain out of the market until year end. Much of the business is likely to be completed on a formula contract basis, however.

Further support will come from OCP's decision to cut DAP production for at least one month in November at its Jorf Lasfar facility. The impact will be minimal in volume terms as OCP was believed to be granulating very little DAP. EuroChem will also reduce DAP/MAP production by 50% in November.




These announcements do send a signal to the market that producers in the US, Russia and now North Africa are prepared to curtail output to support prices and balance the market.

The possibility exists that spot DAP/MAP prices may even temporarily spike from mid December onwards as Latin American buyers could rush to buy product once stocks are depleted. However, the unknown variable remains Chinese availability in Q1 2009. Theories abound as to whether the government will lower the export tax rate or introduce a quota system. However, some gesture to support the Chinese phosphate industry looks almost certain.

The outlook for the next month at least remains bearish overall, and prices will continue to slide until significant demand outside India emerges. However a major crash in prices now looks unlikely.

## North America

In the **US**, there are no bids for DAP barges currently. Sales that are taking place are out of the warehouse. Some traders anticipate an up tick in demand in the next couple of weeks as dealers move to cover pre-pay November-December business for January-February shipment. Overall, a good fall application season is still expected, although the season is late due to wet weather and farmers delaying purchasing in a falling market.

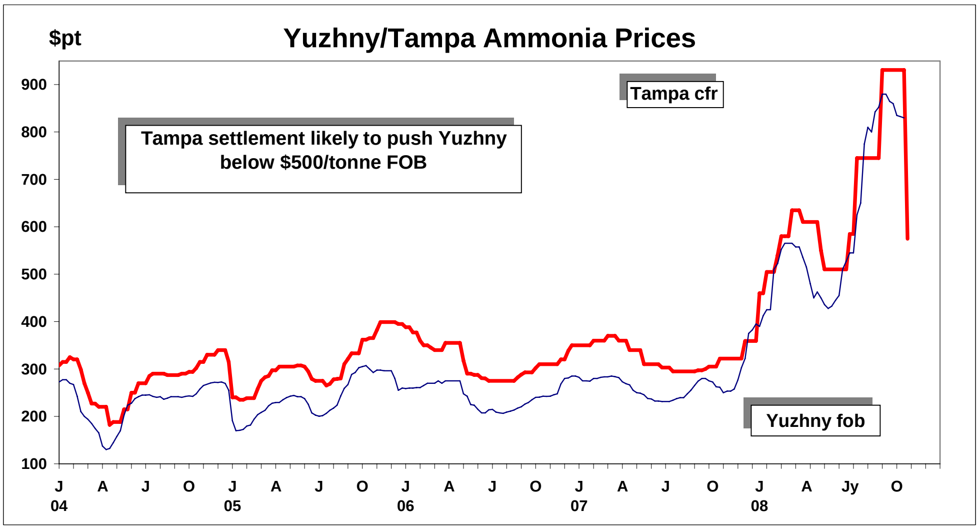
Agrifos' Pasadena facility returned to full production towards the end of last week following flooding due to Hurricane Ike in mid September. It is unclear where the producer is storing its output given that its storage facility remains badly damaged.

PhosChem has not sold any DAP/MAP for export this week as it curtails production, waiting for the global pipeline to empty and demand to return before ramping production up to full capacity.

## Ammonia

Attention of the ammonia market is mostly focussed on Tampa at present, where a price settlement for November contract deliveries is imminent. This will finally unlock some price discovery after the impasse of the last few weeks.

A sharp reduction of over $350/tonne is expected from the current level of $931/tonne CFR Tampa. As soon as an agreement is reached, traders are expected to step forward and finalise their FOB purchases from Yuzhny, as this is likely to set a new floor, at least for the next month or so.




Some sources were speculating this week that Yuzhny prices could drop below $500/tonne FOB before long. With this and the weak tone of other nitrogen products in mind, FSU producers have started to consider shutting down production to re-establish the market equilibrium and set a definite floor to prices. Yara is probably also considering the option of shutting/reducing ammonia production in Europe, but this will largely depend on the ratio between gas/production costs and import prices and may take place only later in the year or early next year.

Lack of new spot business has enabled Middle Eastern and Asian producers to carefully protect their FOB levels, while no price discovery was available from Yuzhny. But major Indian buyer IFFCO sent the market into turmoil this week, announcing it had bought Omani tonnage at $350/tonne CFR India. However, this price is generally not considered as a true reflection of the market.

### North America

In **Tampa**, a settlement of the November contract prices is imminent. While some sources earlier suggested the price will probably be around $600/tonne CFR, others pointed to a recent sale of a barge cargo by Mosaic at $615/s ton FOB Nola, as an indication that the

Tampa price should be higher. The $615/short ton FOB Nola is equivalent to a US Gulf price around $678/short tonne CFR. At presstime, there were indications that a price around $575/tonne CFR Tampa was discussed.

A number of factors are said to be behind the downward price adjustment, including cheaper corn, weaker demand from Mosaic, the Terra plant restart in Donaldsonville, and a global meltdown in financial markets.

Demand in the US cornbelt remains slow, as farmers have yet to begin the fall application process and are holding out on prepaying, taking a wait-and-see approach to rapidly falling fertilizer prices.