

THE MARKET

FERTILIZER NEWS AND ANALYSIS

20 November 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	20 November	13 November	Tendency
Prilled Urea Yuzhny	240-250	240-250	Firmer
Granular Urea Mid East	260-265	255-265	Firmer
Granular Urea USG s.ton	245-255	270-285	Weak
DAP Tampa	550-600	550-600	Weak
Ammonia fob Yuzhny	240-245	240-270	Softer
Ammonia cfr Tampa	350	350	Weak
Sulphur fob Vancouver	45-60	45-60	Holding

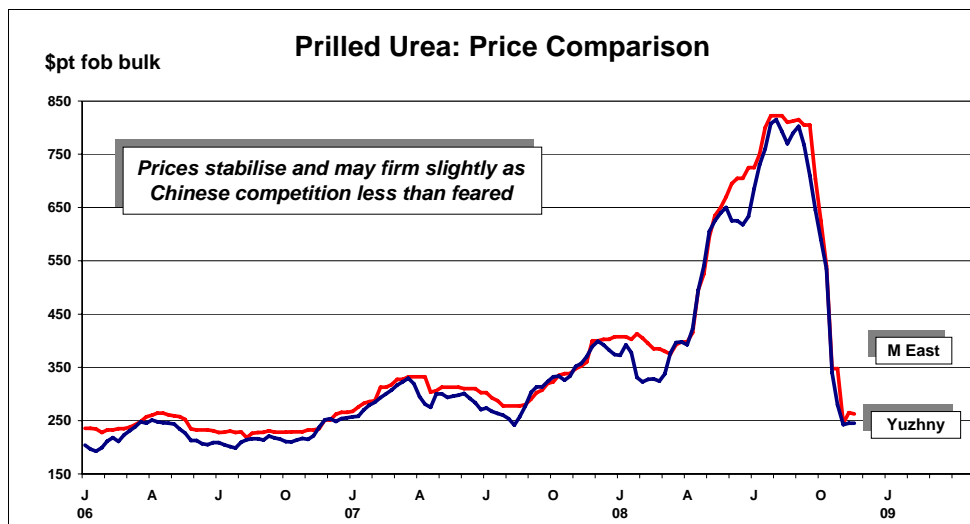
Latest International Business					
Urea	Russia	various	25	240-245 FOB	D
	Yuzhny		10	240 FOB	N
	Yuzhny		10	250 FOB	N
	Yuzhny	Turkey	10	267.50 CFR 180d	N
	Novo	Senegal	20		D
	Baltic	Senegal	12-15		D
	Riga		25	240-245 FOB	D
Granular	Klaipeda	Mexico ec	25	260s CFR	D
	Yuzhny?	Mexico ec	25	260 CFR	D
	Egypt	various	80	300 FOB	N/D
AS	Malaysia	Thailand	2 x 10		N
	Korea	Vietnam		120 CFR	N
AN	Riga	Morocco	4	163 FOB	N
Ammonia	Ventspils	Turkey	20	210-220 FOB	N
	Ventspils			180 FOB	N
	UAE/Qata	Paradeep	23.5	160 FOB	N
	UAE/Qata	Paradeep	23.5	199.50 CFR	N
	Sulphur	Iran	China	50	45-50 FOB
	Iran	China/India	30	45-50 FOB	N/D
	Kazakh	Egypt	50	28-40 CFR	N
		Egypt		35-50 CFR	N

Urea

An unforeseen rise in Chinese urea prices has improved the short-term outlook for producers. Action to halt the decline in coal feedstock prices has obliged Chinese exporters to lift quotes to \$275-280/tonne FOB from \$250/tonne last week.

This has reduced the threat of Chinese urea in Asian markets for the time being and will direct some of the upcoming business in India and Pakistan back towards Yuzhny.

Yuzhny prices remain in the range \$240-250/tonne FOB, but prices have trended up rather than down during the week. In the Middle East, the four producers are in line to sell urea in India for December shipment at netbacks close to \$260/tonne FOB and will probably offer higher prices in the TCP Pakistan tender on 22 November.



Urea prices have remained stable at \$240-250/tonne FOB Black Sea for three weeks now, giving some support to the theory that the market has bottomed out. Demand has begun to return in several areas because urea is cheap compared to other nitrogens and because buyers are more confident that there is little downside risk to prices.

Further production cuts at Yara's plants in Europe have helped to improve the prospects for import demand there. Yara has closed temporarily three plants with a combined annual capacity of 1m tonnes/year of urea.

Some markets, though, continue to see prices fall for particular reasons. US granular urea has dropped to \$245/short ton FOB Nola due to competition between domestic producers. Prices there are now \$20-40/tonne lower than the cost of new spot imports.

North America

In the **US**, granular urea prices have dropped to \$245/short ton FOB Nola this week, with Koch said to be a seller at that level. Koch has restarted production at its expanded Enid plant and is said to be producing about 1,600 short tons/day of urea. It posted a price of \$295/short ton FOB Enid on 20 November.

Demand for urea remains subdued even at \$245/short ton and there are few sales apart from the contract tonnes arriving from the Middle East and Caribbean.

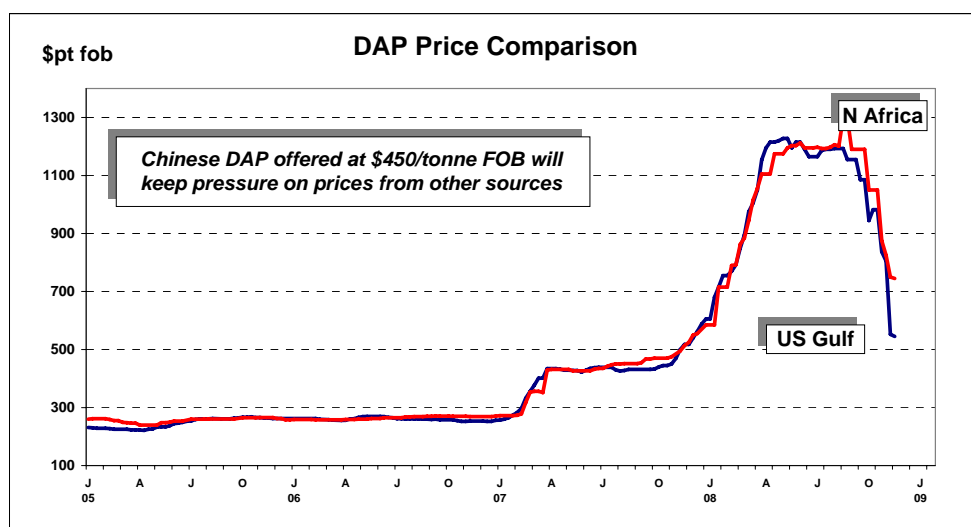
The Nola price has dropped to the equivalent of \$265/tonne CFR, making exports to the US an unattractive option. FOB prices from China are close to \$280/tonne FOB, with freight estimated at \$15-17/tonne for a panamax. Middle East producers are selling at \$260-265/tonne FOB, plus freight around \$15/tonne. Egyptian producers are netting \$300/tonne FOB on European sales.

CF lowered its November plant price down \$50/short ton to \$300/short ton FOB Donaldsonville, its November terminal price down \$43 to \$310/short ton FOB Inola and its December barge price from \$320 to \$290/short ton FOB Nola.

DAP

There is no change in the DAP market this week. Demand is almost totally lacking and will remain so for several more weeks at least. The next sizeable chunk of buying is expected to be in India during December. Low rates of DAP production in India during Q4 will lead to a shortage of material, which will have to be covered by imports.

China will be one of the most competitive sources. Price indications for Chinese DAP have fallen to around \$450/tonne FOB this week. Producers there are keen to move inventory that has built up and are seeking markets offshore. US DAP prices have been maintained at a nominal \$550/tonne FOB Tampa, but this level has not been seriously tested.



North America

A poor fall season in the Midwest has left distributors holding significant inventories of DAP in the **US**. Some are now starting to question whether farmers will apply much phosphate and potash at all this season, believing that they will concentrate on nitrogen application in spring to the exclusion of other nutrients.

Prices for DAP are moving down, but pinpointing the exact level is difficult. Estimates this week were in the range \$500-550/short ton FOB Nola for prompt barges. A near total lack of buyers is evident. Against this background, terminal operators were still quoting much higher prices in the hope of placing some higher-priced inventory.

Mosaic has begun to offer DAP for Q1 delivery to selected customers based on rail delivery from central Florida. According to buyers, it is quoting a base price of \$765/short ton FOB central Florida, with a price collar of \$300/short ton up or down. The DAP is for Q1 2009 delivery, with the price to be fixed before the end of December.

Figures from the TFI Record show a large increase in US inventories of DAP and MAP occurred during October despite a drop in production. Combined DAP/MAP inventories were up 16% on September at 1.37m short tons. This is 79% higher than at the same time last year.

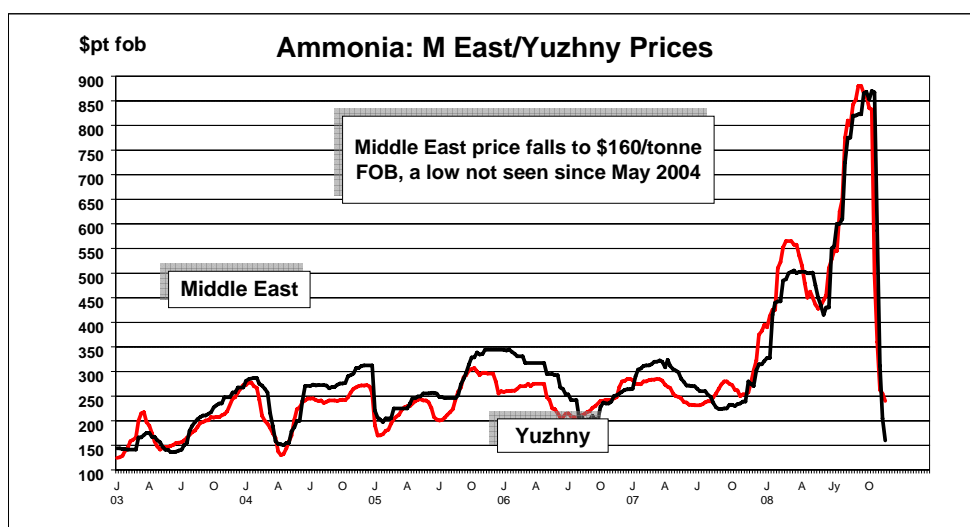
DAP/MAP production was down 8% on September at 961,000 short tons. Producer disappearance was 24% down at just 769,000 short tons. Disappearance is running 20% lower than a year ago.

Exports of DAP and MAP from the US were also down in October. DAP exports were off 4% at 404,000 short tons and MAP down 72% at 41,000 short tons. India took 343,000 short tons of DAP.

Ammonia

The system is full of ammonia everywhere and there is no light at the end of the tunnel yet. Low demand for downstream fertilizer and industrial products in Europe, US and Asia is forcing producers to idle plants, which is not helping absorb the surplus evident in the ammonia market.

Reduced ammonia production in NW Europe, Trinidad and the FSU should eventually help to rebalance the market, but it will take a while to absorb the backlog. Ukrainian producers have been holding back from closing down plants, as the relatively healthy line-up for November has led them to believe the bearish sentiment could soon be overturned. However, despite the low prices, demand may not pick up for a few months. As a result, plant closures are inevitable.



A sign of the length of the market is the drop to \$160/tonne FOB in Middle East prices, as producers there try to contain inventories. This level is \$80/tonne below current Yuzhny levels and earmarks a likely development in the ammonia market, where the Yuzhny FOB price may no longer be the benchmark in future. Higher gas prices than elsewhere in the world are forcing more FSU export ammonia to disappear and buyers, primarily Yara, will look at covering their needs from supply sources where ammonia production is less costly.

North America

In **Tampa**, ammonia prices will likely fall further in December. Drooping Yuzhny prices and the general market conditions are more than offsetting reduced production in Trinidad because of the current maintenance shutdowns. Despite the tightening of supply, no one appears to feel any pressure to buy. There are indications that cargoes arriving in December will not be able to discharge until mid January, as the tanks are full. As DAP sales are slow, Mosaic is reportedly saying that it will not need to take additional tonnage besides what is contracted until May-June. Koch has apparently also said it will not need to purchase ammonia in Q1.

Negotiations on the Tampa contract price for December has not commenced yet. With the US Thanksgiving holiday looming on 27 November, any settlement this month would likely have to occur early next week, but sources are doubtful the parties will move that fast. While a decrease is anticipated, ideas differ about how much further the price will drop. A move of at least \$50/tonne is being considered from the current level of \$350/tonne CFR.

The Tampa price has not been below \$300/tonne since September 2007. It peaked at \$931/tonne last month.

Mosaic shut its **Faustina** ammonia plant temporarily on 19 November and there are rumours that Terra will close its **Donaldsonville** plant soon to contain inventories.

Delays in the US corn harvest due to earlier wet weather are contributing to the negative sentiment, with the window of opportunity rapidly closing on the fall ammonia application as freezing weather began to set in. The rapid deterioration of the economic outlook is also a factor, as industrial demand plummeted as manufacturers wound back their output. Latest US Department of Agriculture data showed the corn harvest was only 78% done as of 16 November, well behind both the year-earlier figure of 97% and the five-year average of 94%.

Midwest conditions for the harvest and for ammonia application are inconsistent, sources said. As the week draws to a close, an Illinois ammonia distributor is expecting to ramp up its operations as farmers switch from harvest to ammonia application. The distributor expects to end the season with a drop of around 20% in the amount of ammonia going into the fields compared with 2007. In Iowa, the drop in ammonia use is more pronounced. Some areas will see as much as 50% less ammonia used in the fall application, according to another distributor. Apart from farmers being pre-occupied with getting as much of the harvest done as they can, there is also a consensus that ammonia prices will be falling further and that it will be better to wait to buy in the spring. Prices ex-terminal are currently reported at \$800-900/short ton, still too high to stimulate any additional demand, also considering inventories are full everywhere.

So while there has been a slight pick-up in the movement of pre-paid material as some harvests are completed, there is virtually no new business being done. The weak state of the corn harvest does hold some upside for ammonia demand in the longer term, however, as yields should fall short of USDA projections and tighten the corn market. This would send a stronger price signal to farmers to favour corn over soybeans, and hence support ammonia use.