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Prices stabilising but pain still exists

Global fertiliser markets have been in disarray over the last 12 months, with prices peaking at extreme levels in 2008, before collapsing in response to an unprecedented drop in demand at farm level. The halving in many instances of global agricultural commodity prices plus manufacturers and warehouseers running down high priced inventory, caused global fertiliser trade activity and sales to collapse in the first half of 2009.

While some normality is returning to the global fertiliser market, as evidenced by the stabilisation in prices for some fertiliser types, pain still exists. Examples abound of global key manufacturers running at below capacity, while farm gate prices for some fertiliser types are still elevated relative to pre-2007 levels.

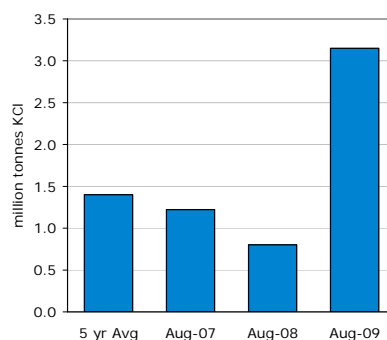
Out of the main fertiliser elements, the **potash** market is proving the best example of a market still trying to find a new equilibrium. The global benchmark for potash prices out of Canada currently sits around FOB US\$430 per tonne, 20% to 30% below levels 12 months ago. India, the only country consuming potash at near comparable levels to last year, negotiated in July a new import price of \$460 per tonne for 2009-10. This set a new benchmark for prices and was the key driver for the fall in the global potash price at this time.

The other major country which purchases potash on an annual basis and also sets the tone for the underlying spot market, China, has yet to renegotiate potash prices this year. Some analysts expect the new negotiated contract price could be as low as FOB US\$360 per tonne, a significant discount to India's contract and dramatically lower than the US\$570 per tonne China paid last year.

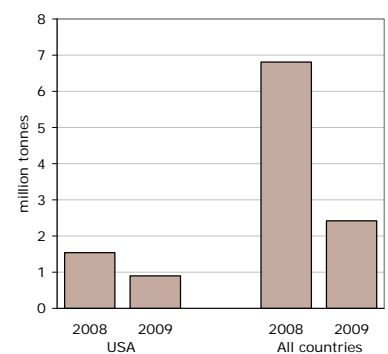
Certainly the supply fundamentals appear weighted in China's favour for negotiating lower prices, which may potentially cause another leg down in global potash prices. OAO Uralkali, one of Russia's largest potash producers is operating at only 60% capacity, while the latest report on Potash Corp. in Canada is that nearly half its mining capacity is idle this month. The low capacity utilisation rates are in response to a rapid build-up in potash stocks. North American potash stocks have risen sharply since September last year and are currently double the 5 year average for this time of the year.

The global **phosphate** market has equally seen a sharp jump in stocks and a major contraction in global trade and sales. Reflecting what has been described by one CEO of a US DAP manufacturer as "probably the largest contraction in fertiliser usage in 75 years", US rock phosphate stocks have risen well above 7 million tonne, compared with 2008 levels of just 4.5 million tonne. The rise in US rock phosphate stocks comes despite Moroccan rock phosphate exports to the US for the first half of 2009 declining by 42% year-on-year. Total Moroccan rock phosphate exports (all destinations) are 65% lower for the first half of 2009 versus January to June 2008, highlighting how weak the global environment has been for phosphate fertiliser (refer to figure 1 below).

Figure 1. North America Potash Inventories



Moroccan Rock P Exports (Jan to Jun)



Global **DAP** prices have been relatively stable since June 2009, hovering around FOB US\$300 per tonne. At these levels, the global price of DAP is back to early 2007 levels, but are still around \$50 above the average price between 2005 and 2006 (pre-commodity 'bubble').

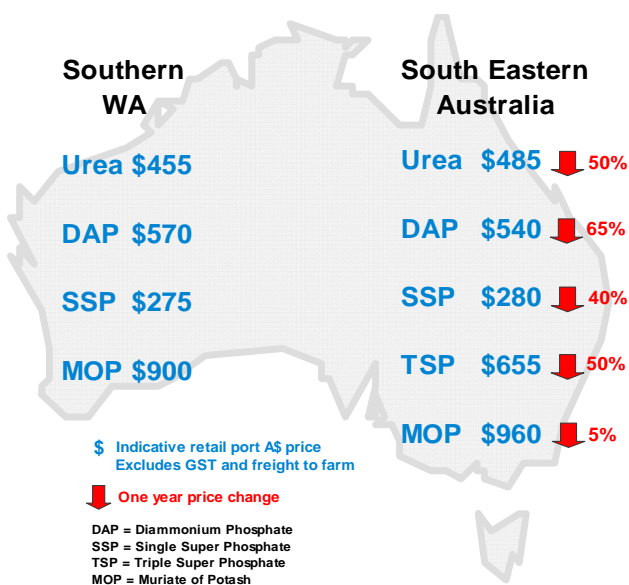
Will global DAP prices fall back to this US\$250 per tonne mark? Looking back to 2005 and 2006, the two main input costs for DAP, rock phosphate and ammonia were priced at \$US45 and \$250 per tonne respectively. Currently the global ammonia market is tight, which has helped push ammonia prices to near the \$300 mark in some regions, while Moroccan rock phosphate prices (availability of prices is lagged, but in August were quoted at \$90/tonne).

Working back from current DAP and other input prices, implied rock phosphate prices are likely to have fallen to \$US75/tonne in September/October, but will still need to fall another \$25/tonne for global DAP prices to move to FOB US\$250/tonne. While rock phosphate prices tend to be relatively 'sticky', taking some time to reflect fundamentals, a very likely outcome still remains that rock prices will fall further, putting more downward pressure on DAP/MAP prices.

Global FOB prices of **urea** are trading in the vicinity of US\$260 per tonne, some 50%-60% lower compared with 12 months ago. Ammonia, the key ingredient in the production of urea, has risen by as much as 40% over the last 3 months, but price resistance appears to be occurring from customers at these levels. Current firmness in urea prices has been helped by India and Pakistan buying significant amounts for November shipment, with the market likely to be supported through to December given predicted tightness in the urea market in North America.

Indeed for many types of fertiliser, the peak demand period is approaching. This provides a counter argument to any major weakness in global prices over the next 6 months as we enter the peak Spring application periods in North America and Europe. At the farm level in the USA for example, fertiliser application rates have been well below average for both Spring and Autumn 2009. Given considerably lower application rates are unsustainable for any significant length of time, US dealers and manufacturers are increasingly anticipating pent-up demand will feed through into sales with the upcoming corn and soybean plantings in the first half of 2010. Potentially accentuating any rebound in demand are reports that distributors in the US have run-down inventory (as has been the case in several other countries such as Brazil).

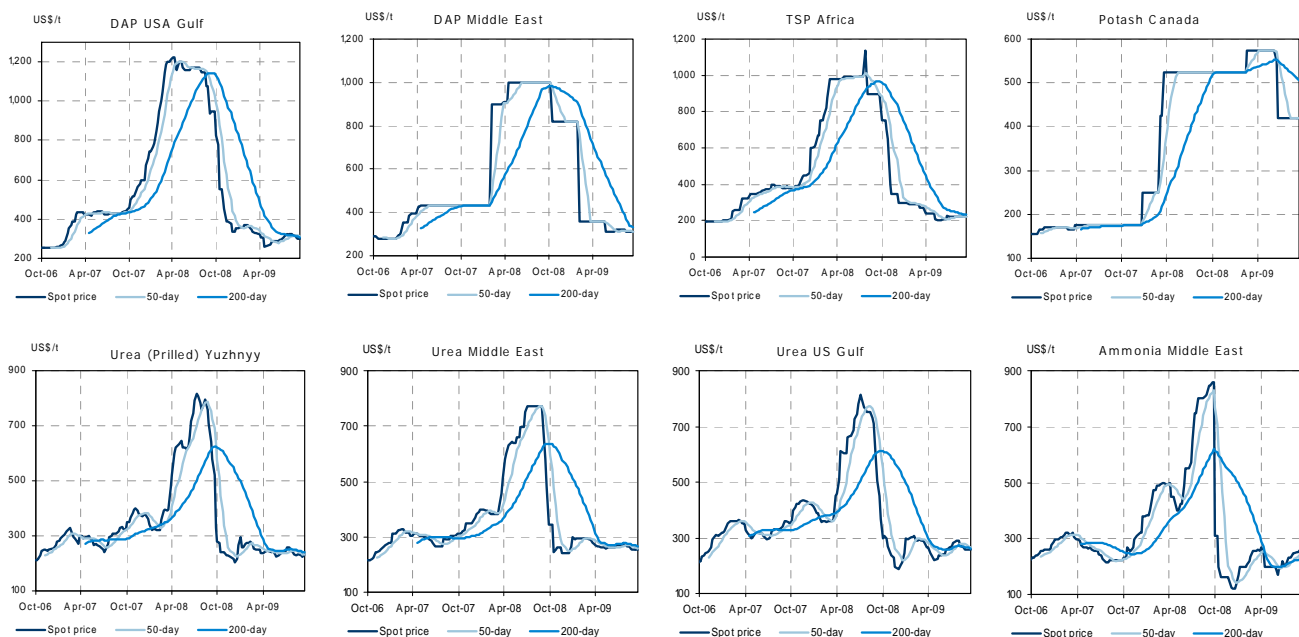
Indicative Domestic Prices (A\$)



Domestic Price Wrap

- Urea and DAP back to 2006 levels.** A stronger A\$ and the collapse in global fertiliser prices has seen a corresponding sharp decline in prices for nitrogen (urea) and phosphate based fertilisers (DAP and SSP) being paid by Australian farmers. Compared to 12 months ago, urea prices have fallen by around 50% and now sit comfortably below the \$500 per tonne mark. On the south coast, prices for DAP are around \$540 per tonne, 65% lower than in October 2008. At these levels urea and DAP are now back to levels last seen in Spring 2006.
- However potash prices remain the exception.** Indicative prices being paid by farmers for potash (MOP) range from \$900 per tonne in southern WA to \$960 in south eastern Australia, still double the price compared with Spring 2006.
- How would a weaker global phosphate market translate?** On a scenario of global FOB prices of rock phosphate and DAP at \$50 and \$250 per tonne respectively, and the A\$ at 95 US cents by early 2010, this would equate to a 20% decline in the Australian DAP import parity price from current levels.

Price Trends



	Last	1 Wk	1 Mth	3 Mth	12 Mth
	% Change				

Phosphate (fob US\$/t)

Rock Phos Africa	90	0%	0%	-7%	-79%
DAP US Gulf	300	0%	-7%	3%	-68%
DAP US 3mth Del	313	0%	0%	4%	-60%
DAP China	335	0%	7%	2%	-63%
DAP Middle East	310	0%	-3%	0%	-69%
TSP Africa	220	0%	0%	5%	-76%

	Last	1 Wk	1 Mth	3 Mth	12 Mth
	% Change				

Urea & Potash (fob US\$/t)

Urea (Prilled) Yuzhnyy	233	-1%	0%	-4%	-55%
Urea Middle East	260	2%	1%	-3%	-46%
Urea US Gulf	255	0%	-4%	-4%	-43%
Urea China	265	0%	0%	2%	-68%
Ammonia Middle East	265	0%	7%	33%	-69%
MOP Vancouver	420	0%	0%	-24%	-20%

News Reports

- Potash demand in India to weaken with the government likely to increase the price farmers pay.** Under the current arrangement the government fixes the potash price farmers pay to just 4,455 rupees or around US\$100/tonne. India imports all its potash needs, and last year when the global price reached over US\$600/tonne, India imported a record amount of potash. This dramatically increased the reimbursements made to local potash sellers/importers causing a major blow-out in the total cost of the subsidy program for the government in 2008. While no official announcement has been made yet, the government is expected to move to a fixed subsidy amount for imports of potash to replace the existing arrangements as part of the government's plan to rein in spending.

- Indonesia to export up to 500,000 tonnes of urea by December 2009.** Indonesia normally consumes between 6 and 6.5 million tonnes of urea per annum, but weak domestic demand from lower prices in palm oil and rubber, and domestic production at 7 million tonnes in 2009 has produced a surplus. The government has granted export permits after reviewing the supply/stocks situation in the country. In particular, the government was focusing on the availability of fertiliser for the upcoming rice sowing season which starts in December.

- North American potash inventories fall modestly in August.** North American producers' potash inventories fell in August compared with July, but still remain 150% above the average for the last 5 years. Potash inventories in August 2008 were less than 1 million tonne but in 12 months have risen to over 3 million tonnes.

- New Vale rock phosphate mine on track to open in second half of 2010.** Vale SA is investing nearly US\$500 million to export rock phosphate from the Bayovar phosphate deposit in Peru, one of the largest deposits in South America. When completed, the mine is expected to export around 4 million tonnes per annum. The estimated mine life is 27 years.

- Increased demand for urea from South Asia.** India has recently purchased large volumes of prilled urea from the Black Sea, with little product now available until November from the region. Pakistan has recently purchased 100,000 tonnes of urea at US\$284 per tonne including freight, based on a tender issued in late September for 150,000 tonnes.

- Australian fertiliser company teams up with South African Profert.** The number three player in the South African commodity fertiliser market, Profert has taken a 50% stake in Australian specialty fertiliser company, Advanced Nutrients. The joint venture will sell product under the 'Alfert' brand on Australia's east coast and is targeting a 12% market share.

- BPC bearish on 2010 potash sales.** Belarusian Potash Co. (BPC), which markets potash for Russian company OAO Uralkali, is predicting global potash demand will only recover to 45 million tonnes in 2010. This forecast is around 20% below the peak consumption levels of 2008 and is considerably more bearish than Potash Corp.'s recent forecast of 50 to 55 million tonnes of potash consumption in 2010. BPC is a 50:50 joint venture between Uralkali and Belaruskali, controlling as much as 30% of the global potash market.



ANZ Fertiliser Report

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