

SUMMARY – FERTILISER MARKET

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Note: Prices, commentary & estimates are based on data to 12th December 2009.

GLOBAL: N & P ON THE MARCH

- Prices for both Nitrogen (N) and Phosphate (P) fertilisers have risen strongly over the last month, driven by buying from the US.
- DAP prices reached a low of FOB US\$280 in the first half of November, but have since risen to US\$345 per tonne, a 23% or \$65 increase in 4 weeks.

GLOBAL: POTASH MARKET IN LIMBO

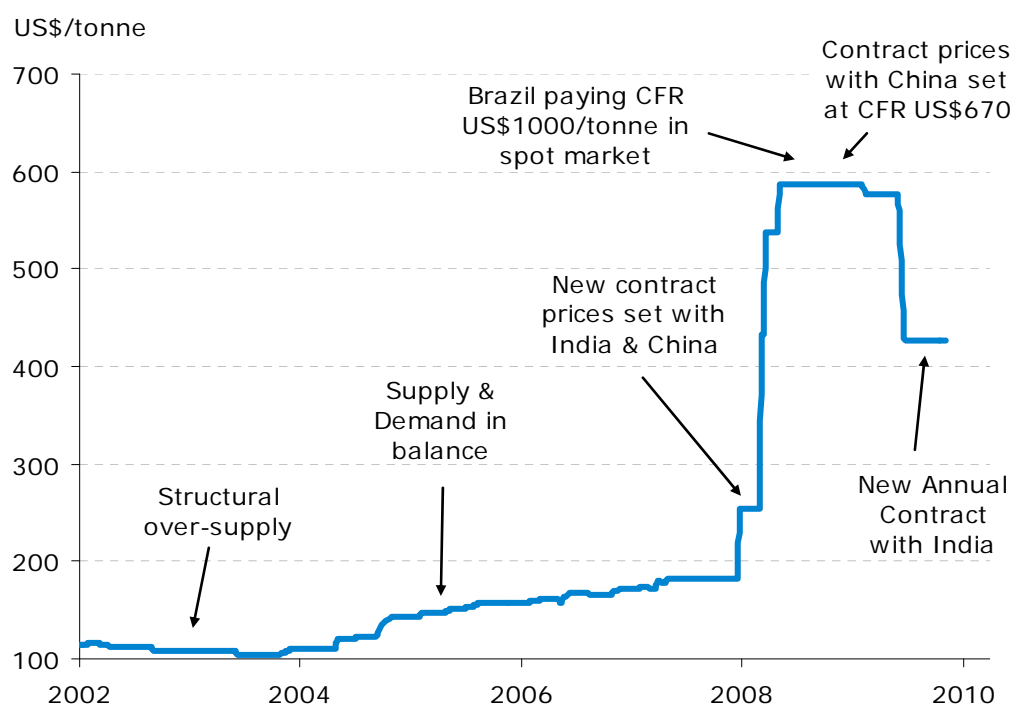
- In contrast to N and P markets, the potassium (K) fertiliser market remains in limbo, awaiting annual price negotiations between FSU producers and China.

AUSTRALIA: PRICES BOTTOMING

- Retail fertiliser prices in Australia for urea and DAP are likely to have hit a bottom – at least in the short term.
- However more downside risk in prices appears to exist for potash.

FIGURE 1. A CHRONICLE OF POTASH PRICES

Global Benchmark Potash Price: FOB Canada (US\$/tonne)



Fertiliser Market

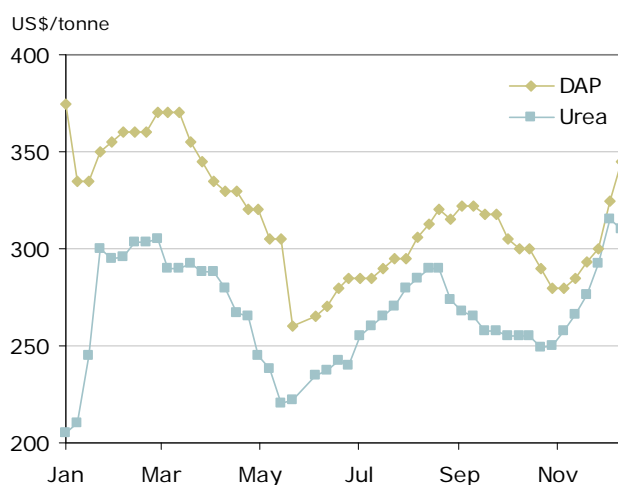
GLOBAL N & P MARKETS

Prices for both nitrogen and phosphate fertilisers have firmed over the last month, driven by buying from the US.

With importers moving to rebuilding US inventories in preparation for the peak Spring planting period, cash prices for DAP delivered US Gulf have risen sharply. DAP prices reached a low of FOB US\$280 in the first half of November, but have since risen to US\$345 per tonne, a 23% or \$65 increase in 4 weeks. In the short term prices look well supported, with DAP swap bid prices only marginally below the cash price out to March 2010.

It's a similar story for urea, with the US market caught short for product and the urgency to rebuild inventories driving prices. Granular urea cash prices in the US Gulf have jumped to US\$310-320 per tonne, after hitting a low in October of US\$260. Similar to DAP, the urea market is currently well bid to March 2010, with swap bid prices modestly below spot for the first quarter of 2010.

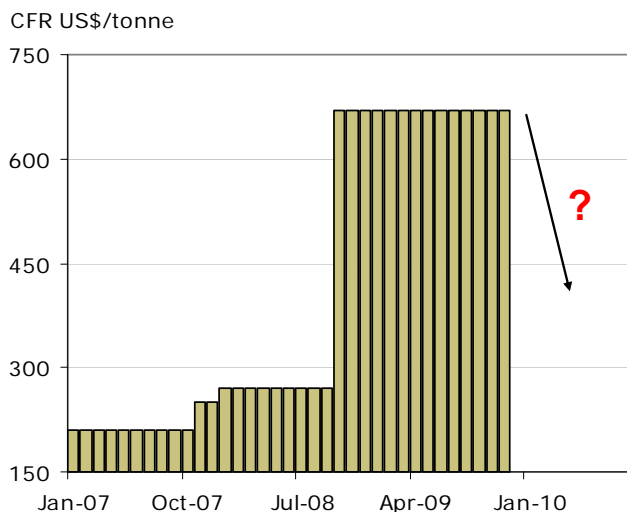
Figure 2. 2009 US Gulf prices



GLOBAL K MARKET

In contrast to N and P markets, the potash (potassium) market remains in limbo awaiting annual price negotiations between Former Soviet Union (FSU) producers and China. Some reports emerged last week that a deal would be completed before Christmas. Normally the annual contract price negotiations between the FSU producers and China are concluded over the northern hemisphere winter/spring.

Figure 3. Recent FSU/China potash contract prices



The global market is watching closely the outcome of a new contract price with China, given it will set the tone for at least the first half of 2010.

Once the new benchmark price is announced it is expected that buyers who are currently sitting on the sidelines, will step back into the market. Speculation on what the new contract price will be continues to be rife, with some expecting the price to fall as low as FOB US\$325 per tonne, a \$100 per tonne or nearly 25% decline from current global price levels.

While this potential price decline seems significant, it would still be dramatically higher than anything seen pre-2008. Quoted FOB prices from North America in 2007 were only US\$175 per tonne. Further, existing producers of potash are still extremely profitable at these levels, given that total production costs (excl. government taxes) are around US\$130 per tonne in North America, up by only \$20 per tonne compared to 2006 and 2007 levels. For the FSU, the other dominant supply region, current production costs are considerably lower at less than US\$100 per tonne.

The high level of global potash stocks suggests prices are being negotiated at the lower end of estimates, which is speculated by one analyst to be over 10 million tonnes globally. This is significant given global consumption of potash in a normal year is 45-50 million tonnes. The increase in stocks has occurred despite dramatic declines in capacity utilisation worldwide – with global production in the first half of 2009 cutback by an estimated 50% year-on-year.

Fertiliser Market

AUSTRALIAN RETAIL MARKET

This time of year is one of the slowest periods for fertiliser sales at farm gate on the east coast. However, prices increasingly become a focus for farmers as they look to ramp up purchases in the first quarter of the calendar year.

In eastern Australia, urea prices have eased by A\$15/tonne since early October, while DAP prices have fallen by A\$10/tonne. The largest falls however have occurred in potash, with prices declining 13% or A\$125/tonne in two months.

Table 1. Australian Farm Gate Prices

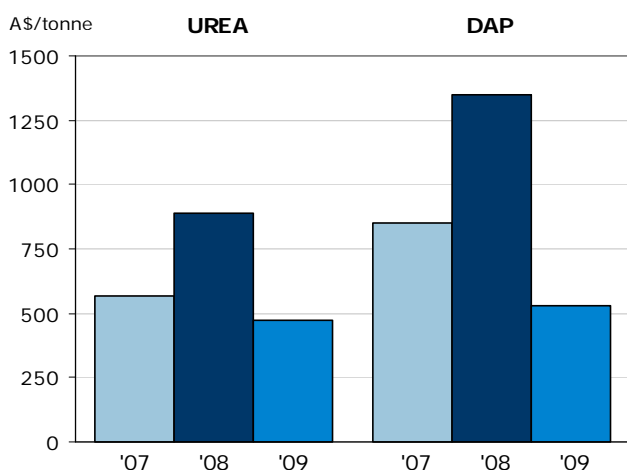
A\$/tonne	Urea	DAP	MOP
West Coast	430	530	875
East Coast	470	530	835

ANZ Estimates. Price Excl. GST.

On the west coast, both urea and DAP prices have fallen A\$30-40 per tonne since October. However, the declines in potash prices have been less, compared to the east coast.

Looking forward, global and import parity fertiliser prices are particularly critical over the next few months, given import orders and shipments start to rise sharply to meet the peak sales period. Taking into account current import parity prices in Australia and also the recent pick-up in global prices for N & P, our view is that retail fertiliser prices in Australia for urea and DAP are likely to have hit a bottom - at least in the short term. However in the case of potash prices, some downside risk is still likely to exist going forward into 2010.

Figure 4. December East Coast Farm Gate Prices



ANZ Estimates. South Eastern Australian Prices (Excl. GST).

NEWS REPORTS

Qatar Fertiliser to increase urea capacity.

Qatar Fertiliser Company has signed a construction contract to increase urea production by 2.6 million tonnes per year. Current production capacity is 3 million tonnes of urea per annum. The additional capacity will cost around US\$600 million, with production expected to start in 3Q 2012. Yara International is a 25% shareholder in Qatar Fertiliser.

Uralkali delays increase in potash capacity.

Uralkali, which has a current capacity of 5.5 million tonnes of potash production per annum, has delayed plans to debottleneck one of its existing mines by one year. The investment, which will add 1.5 million tonnes to capacity, will now not occur until 2012. Uralkali stated "Analysis of the potash market shows that, although the industry's fundamentals remain very strong, it will take some time for demand to recover to pre-crisis levels. Uralkali has therefore taken the prudent decision to reschedule the launch of new production capacity to 2012, by which time potash demand might recover to absorb the increased supply."

Potash Corp. downplays importance of China contract.

The CFO of Potash Corp., the largest global potash producer, has said China's negotiations with Belarusian Potash Company will have less impact on the global price the longer negotiations go on.

Bangladesh reduces fertiliser costs.

The Bangladesh government has cut the price of fertiliser to farmers for the second time since the December 2008 elections. Government dealers are now charging US\$360 and US\$430 per tonne for MOP and DAP respectively. It is estimated the government is subsidising imported fertiliser by nearly US\$500 million per annum.

Soros increases stake in potash production.

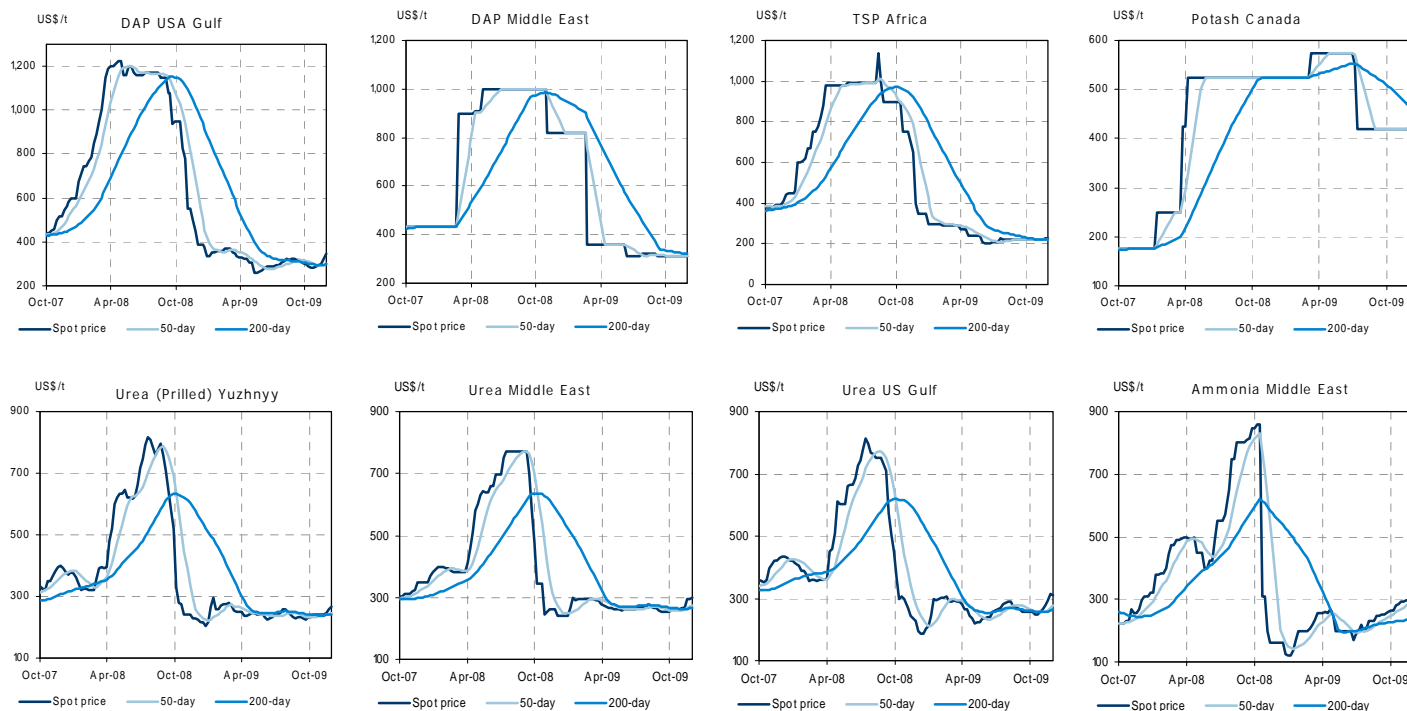
Noted investor and trader George Soros drew renewed attention to the fundamentals of the global potash market by increasing further his stake in Potash Corp in the September quarter. Shares of Potash Corp. rose more than 5% on the news.

OCP planning massive expansion.

Morocco's OCP, the world's major phosphate exporter, plans to increase phosphate exports by 24 million tonnes or nearly double current production over the next 6 years.

Fertiliser Market

PRICE TRENDS



	Last	1 Wk	1 Mth	3 Mth	12 Mth
	% Change				
Phosphate (fob US\$/t)					
Rock Phos Africa	90		0%	0%	-74%
DAP US Gulf	345	6%	23%	7%	-23%
DAP US 3mth Del	370	18%	18%	12%	-10%
DAP China	370	0%	18%	9%	-5%
DAP Middle East	310	0%	0%	-3%	-62%
TSP Africa	230	0%	5%	5%	-43%

	Last	1 Wk	1 Mth	3 Mth	12 Mth
	% Change				
Urea & Potash (fob US\$/t)					
Urea (Prilled) Yuzhnyy	267	3%	10%	15%	16%
Urea Middle East	300	2%	14%	17%	15%
Urea US Gulf	310	-2%	20%	17%	36%
Urea China	310	0%	16%	17%	15%
Ammonia Middle East	290	0%	-1%	17%	81%
MOP Vancouver	420	0%	0%	0%	-20%

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