

Fertiliser Market Update

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Showing signs of life

Global fertiliser prices appear to have bottomed in the last month, with fertiliser markets across major regions all showing signs of stabilising. This is in common with equity and commodity markets which have also found some support in recent months.

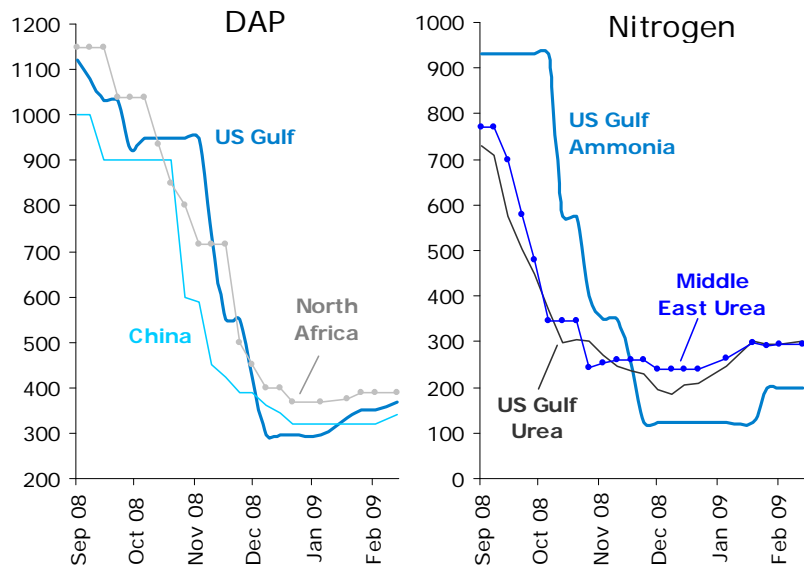
DAP export prices for fertiliser sourced from China, the US Gulf and North Africa all bottomed in January. The global DAP price has since risen by around 10% to US\$370/tonne.

As is typically the case given its greater link to energy markets, urea prices have been much more volatile than phosphate fertilisers in the last month. After seeing a dramatic slump in US ammonia prices (ammonia being a key input for nitrogen based fertiliser), prices have rebounded strongly, albeit from a low base.

Ammonia fertiliser from the US Gulf reached a low of US\$125/tonne in December 2008 (after reaching a high of over \$900/tonne in September 2008) but has since jumped back up to around \$200/tonne. Granular urea prices out of the US Gulf are currently trading at around US\$300/tonne (up from a low of \$185/tonne in December 2008).

Prices for urea fertiliser sourced from the Middle East are also at US\$300/tonne but prices did not reach the lows experienced in the US. Middle East FOB prices for granular urea traded at a low of US\$240/tonne from mid December 2008 to mid January 2009, with prices since rising by 25%.

Chart 1. Global fertiliser prices (US\$/tonne)



Source: Bloomberg

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Our assessment

Since the last *ANZ Fertiliser Market Update* in January, reports indicate that the retail price of fertiliser (DAP, MAP and Urea) have continued to fall in South Eastern Australia (chart 2).

For Australian DAP fertiliser, our import parity price (see section below) at the end of January 2009 was stable compared with the end of 2008, at approximately A\$600/tonne. This reflects both a relatively stable A\$ over the last 6 weeks (trading in a fairly tight band between 65-67 US cents for much this time) and much less volatility in global DAP prices.

In contrast, our import parity price calculation for urea continues to show significant volatility, jumping by 42% at the end of January compared with the month before. This takes the import parity price back to November 2008 levels which look more consistent with the price throughout much of 2007 (chart 3).

Looking forward, some of the short term drivers creating the recent weakness in global (and Australian) fertiliser prices appear to be subsiding. This provides support to the argument that prices may be bottoming, at least in the short term. While global demand for fertiliser was very weak in the December 2008 quarter due to credit/trade constraints, high prices and in the case of the US, a shortened window for fall applications caused by late summer crop harvests, a component was also due to farmers' postponing purchases where possible. This will mean some pent-up demand exists within the market (including Australia) for the current quarter. On the supply side, with China's low season period for fertiliser exports ending, causing a reversion to high export tariff rates, and cutbacks in production from major global fertiliser manufacturers, this should also be supportive of prices. For example, Yara, the world's largest fertiliser producer, has temporarily halted/cut production of ammonia and urea in their UK, French and Netherland plants.

ANZ Australian import parity price series

To illustrate the impact changing global fertiliser prices and currency movements have on Australian import prices, we have constructed an Australian import parity fertiliser price series for DAP and urea (table 1).

The assumption is that the Australian fertiliser market tends to be driven by import parity pricing which drives retail prices. That is, the price that fertiliser can be imported into Australia is a key determinant for Australian fertiliser prices. With around 35% and 60% of all phosphate and nitrogen fertilisers consumed in Australia imported respectively, plus some domestic production exported in off-peak periods, this assumption appears reasonably valid. The ANZ import parity prices calculated are effectively a US Gulf CIF (Cost Insurance Freight) price converted to Australian dollars and so **does not include wholesaler/retailer margins**.

Chart 2. DAP: ANZ import parity price vs SE Australia retail price

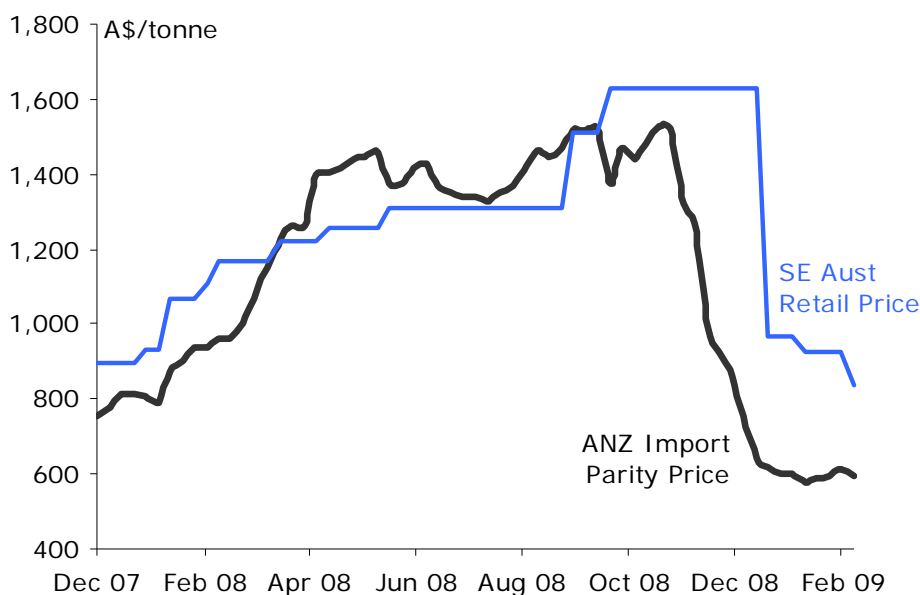


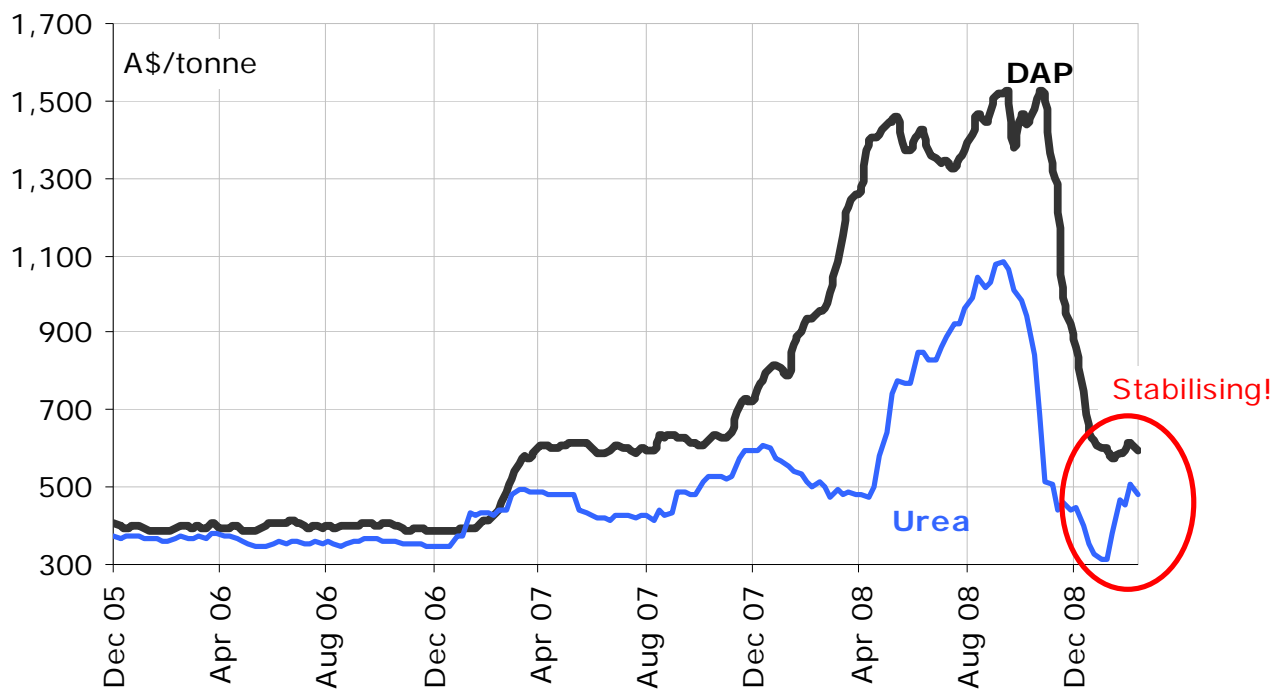
Table 1. ANZ Calculated Import Parity Prices – last 2 years

| UREA | Feb 07 | Mar 07 | Apr 07 | May 07 | Jun 07 | Jul 07 | Aug 07 | Sep 07 | Oct 07 | Nov 07 | Dec 07 | Jan 08 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Month Ending Price (\$A/t) | 479 | 485 | 479 | 430 | 428 | 425 | 434 | 484 | 520 | 593 | 573 | 514 |
| Monthly Change | 11% | 1% | -1% | -10% | 0% | -1% | 2% | 12% | 7% | 14% | -3% | -10% |

| UREA | Feb 08 | Mar 08 | Apr 08 | May 08 | Jun 08 | Jul 08 | Aug 08 | Sep 08 | Oct 08 | Nov 08 | Dec 08 | Jan 09 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|
| Month Ending Price (\$A/t) | 477 | 484 | 641 | 766 | 826 | 962 | 1032 | 986 | 514 | 439 | 318 | 452 |
| Monthly Change | -7% | 1% | 32% | 20% | 8% | 16% | 7% | -4% | -48% | -15% | -28% | +42% |

| DAP | Feb 07 | Mar 07 | Apr 07 | May 07 | Jun 07 | Jul 07 | Aug 07 | Sep 07 | Oct 07 | Nov 07 | Dec 07 | Jan 08 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Month Ending Price (\$A/t) | 524 | 602 | 611 | 602 | 605 | 593 | 632 | 612 | 628 | 719 | 813 | 936 |
| Monthly Change | 26% | 15% | 2% | -1% | 0% | -2% | 7% | -3% | 2% | 15% | 13% | 15% |

| DAP | Feb 08 | Mar 08 | Apr 08 | May 08 | Jun 08 | Jul 08 | Aug 08 | Sep 08 | Oct 08 | Nov 08 | Dec 08 | Jan 09 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|
| Month Ending Price (\$A/t) | 1005 | 1260 | 1442 | 1372 | 1352 | 1369 | 1470 | 1468 | 1521 | 925 | 603 | 597 |
| Monthly Change | 7% | 25% | 14% | -5% | -1% | 1% | 7% | 0% | 4% | -39% | -35% | -1% |

Chart 3. ANZ Calculated Import Parity Prices – last 3 years


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