

Fertilizer Markets

Overview: The markets have remained relatively quiet since the first of the year with very little activity in either the Gulf or Midwest markets. The only significant changes have been at the retail level where prices continue to play catch-up with upstream price hikes that occurred earlier in the year. With respect to the outlook, the only change was in the DAP market where we lowered our nearby forecast due in part to the lack of activity and what looks to be some buyer resistance.

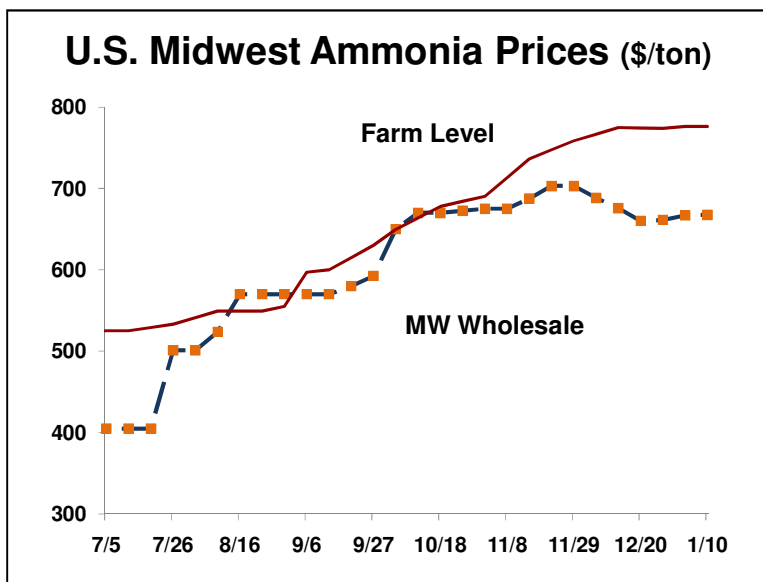
Below is a recap and outlook for the major products. At the suggestion of a reader, one change we've made in the write ups is that we added a table for each product that compares our current forecast to the previous forecast. This should help clearly identify any and all changes.

Ammonia

The MW ammonia market continued to hold steady with the average price for prompt tons being calculated at \$655 per ton. There continues to be a wide range in prices, however, with prices in the western Cornbelt being quoted in the \$630 to \$660 range and prices out of eastern terminals being quoted in the \$660 to \$680 range. Reports out of the southern Plains put the market at somewhere between \$610 and \$630 per ton. Most quotes, however, appear to be at the lower end of the range.

Although there doesn't appear to be a lot of takers right now, prepay prices are mostly being quoted in the \$650 to \$660 range in the west and \$670 to \$680 in the east.

We've upped our nearby ammonia forecast based mostly on lower than expected producer inventory at the end of November. No changes in our outlook for the spring with spot prices in March/April expected to fall into the \$650 to \$660 per ton range. While this is down from the fall peaks, it's still a rather bullish outlook compared to historic averages. At the farm level, the steady run-up in prices since the beginning of the fertilizer year appears to be coming to an end with prices from here forward expected to move mostly with the wholesale market. As pointed out in previous memos, the run-up in prices over the last few months has been due almost entirely to the market playing catch-up with wholesale price increases that occurred earlier in the year.



	Jan	Feb	Mar	Apr	May	Jun
3-Jan	665	660	655	655	645	625
10-Jan	676	665	660	655	645	625
Change	11	5	5	0	0	0

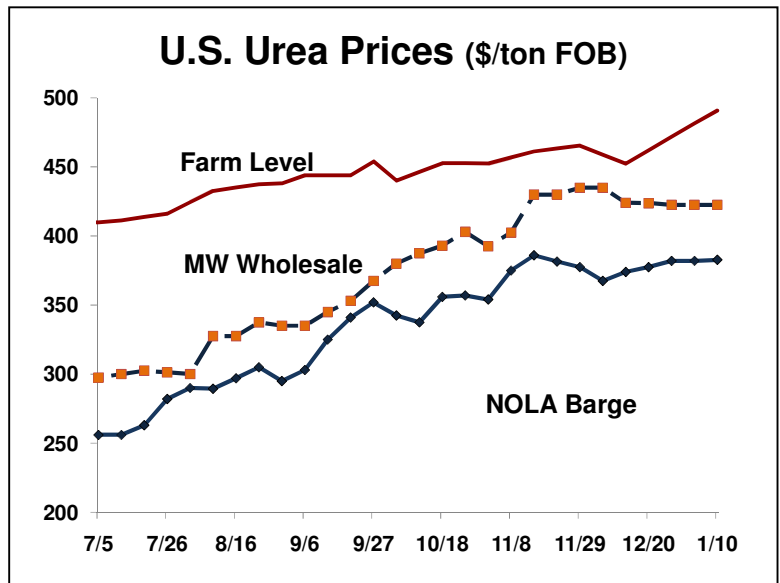
Urea

The NOLA barge market remained relatively stable last week with prompt barges continuing to be pegged in the \$380-\$385 range. While there were a couple of reports that there had been trades at the \$390 level, those reports have been pretty much discounted as rumors.

As shown in the chart to the right, both the barge and wholesale markets have been trading mostly sideways since the beginning of December. The lack of movement has been due mostly to a lack of activity. Based on a number of reports from the field, buyers in general appear to very leery about jumping into the market until they can get a better sense of where the market is headed.

The lack of activity and unwillingness of buyers to come back into the market is also being reflected in the FIS Cash Swap market. While there had been some contracts settled as high as \$393 a couple of weeks ago, bids today are averaging no higher than \$380 per ton against nearby offers of \$388.

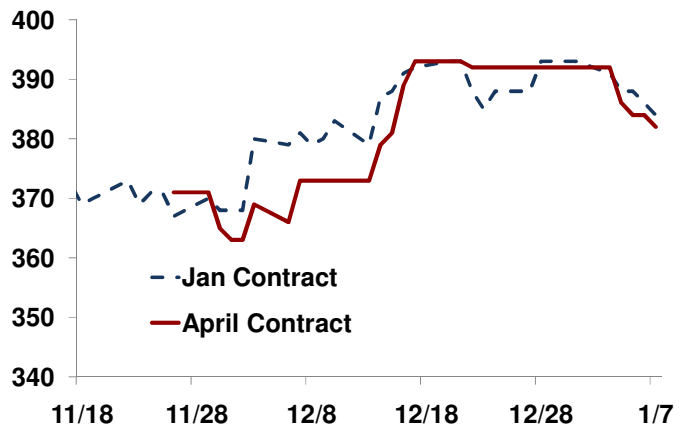
Where the market has been showing some movement is at the retail/farm level. Since mid-December, average retail prices have been moving up by roughly \$10 per week with the current



FIS Swap Market – Granular Urea FOB Barge NOLA (Jan 7th – \$/ston)

Contract	Bid	Offer	Midpoint
Jan	380	387	384
Feb	380	388	384
Mar	380	388	384
Apr	378	385	382
May	377	385	381

FIS Urea Swaps – Jan/April Contracts (\$/Ton – FOB NOLA)



	Low	High	Average	Change
10-Dec	400	520	452	
17-Dec	400	523	462	10
24-Dec	400	525	472	10
31-Dec	438	525	481	10
7-Jan	475	525	491	10

average price currently being quoted at \$491 per ton. This is up \$40 per ton since the first week of December. What's interesting is that almost all of the increase has been on the low end of the range with the high side remaining in the \$520-\$525 range. As discussed in

previous memos, the sharp run-up has been due mostly to retail prices at the low end catching up to earlier increases in the NOLA and Midwest markets.

Looking forward to the spring, no change in our forecast with prices expected to trend somewhat lower near term, ending the fertilizer year at around the \$340 mark. While the end of year price is roughly \$50 per ton below earlier highs, it's important to point out that this is still \$100 per ton higher than prices at the end of FY10.

	Jan	Feb	Mar	Apr	May	Jun
3-Jan	372	365	360	352	345	340
10-Jan	372	365	360	352	345	340
Change	0	0	0	0	0	0

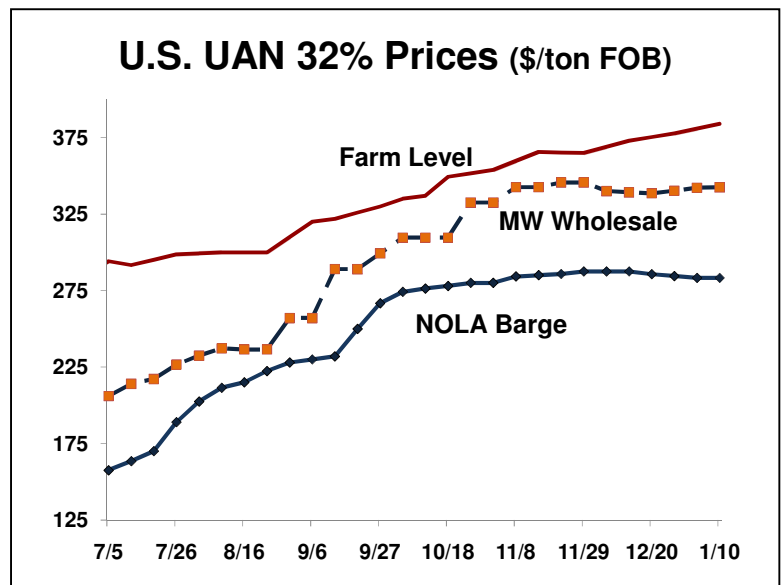
UAN

The UAN market was again relatively quiet last week with very little activity at either the NOLA barge or Midwest levels. What's somewhat surprising is the lack of activity in the prepay market. Although the outlook for spring demand looks positive, the major MW buyers appear to be taking a wait and see approach.

Similar to urea, most of the change over the last few weeks has been at the retail/farm level with average MW price currently being pegged at \$385 per ton for 32% material. That's up roughly \$20 per ton since the beginning of December.

Our outlook for the UAN market remains unchanged with prices projected to hold fairly steady near term, but beginning to trend downward as we head into the spring season. The downward trend is expected to be driven mostly by an improved supply situation. With CF's Woodward expansion up and running and the restart of the LSB plant at Pryor OK, the industry is currently running at record production levels.

Lower expected urea prices should also help put some downward pressure on the market.



Contract	Bid	Offer	Midpoint
Jan	275	283	279
Feb	268	285	277
Mar	267	287	277
April	265	284	275

	Jan	Feb	Mar	Apr	May	Jun
3-Jan	280	275	268	265	255	250
10-Jan	280	275	268	265	255	250
Change	0	0	0	0	0	0

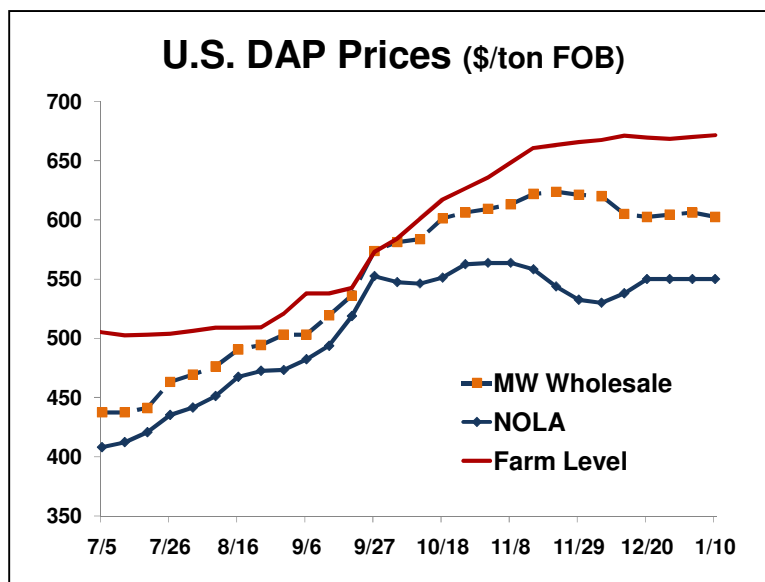
DAP/MAP

The news in the DAP market is not too dissimilar to the nitrogen markets – very little activity. While most sellers were looking for the market to pick up after the first of the year, it looks like buyers for the most part have stayed on holiday. This is not too surprising considering where DAP prices are right now and the fact that prices have been trading in roughly a \$50 range since the beginning of October.

With respect to spring prepay, again pretty much the same story. While most sellers were expecting a lot of activity prior to the end of 2010, the general consensus is that sales were far below expectations. According to a couple of the major sellers, there has been virtually no activity since the first of the year.

The lack of excitement in the DAP market is also showing up in the swaps market. As shown in the table to the right, the latest “Bids” have declined with the spread between “Bids” and “Offers” widening from \$8 in January to \$15 per ton for the April contract.

With respect to the outlook, the only changes we’re making in the forecast are in the nearby market where we’re dropping our forecast by \$10 in January and \$5 in February. This is somewhat strange considering producer inventory right now is still at record lows for this time of year. On top of that, Phoschem reportedly sold two 35-40,000 ton export vessels to Australia for January/February shipment. This, combined with contract shipments to India, will keep the export line-up fairly healthy through February and keep the overall supply/demand balance in a relatively tight position well into March. So now the question is, “why are we lowering the forecast?” The simple answer is that it looks like we just overshot the market and under-estimated the degree to which buyers would hold out of the market. From March forward, we continue to believe the market will trend lower and end the year at around the \$540 mark. Again, this looks like a significant drop in pricing. However, looking back to last June, DAP prices in the Midwest were averaging roughly \$100 per ton lower.



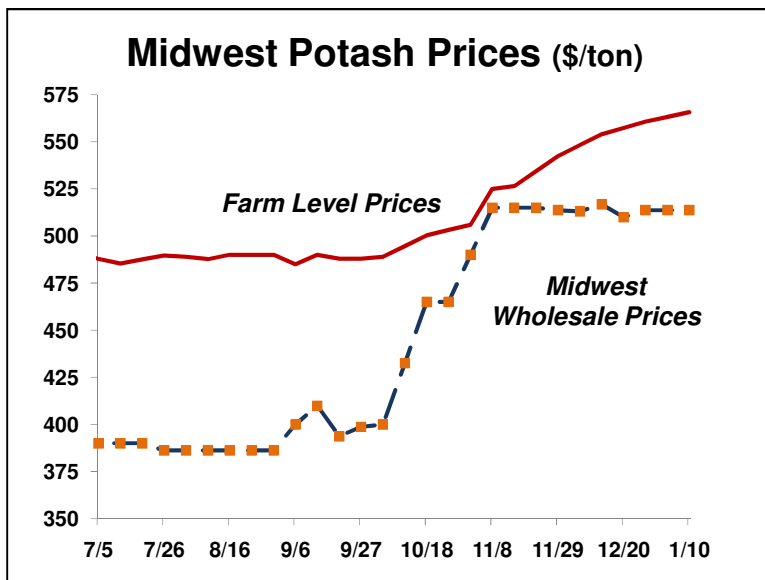
Contract	Bid	Offer	Midpoint
Jan	547	555	551
Feb	540	552	546
Mar	537	550	544
April	535	550	543

	Jan	Feb	Mar	Apr	May	Jun
3-Jan	618	608	593	582	565	540
10-Jan	608	603	593	582	565	540
Change	-10	-5	0	0	0	0

Potash

The biggest change in the potash market continues to be at the retail level with prices last week gaining another \$3 per ton. As can be seen in the price chart to the right, retail prices have been steadily climbing over the last couple of months with average spot prices up roughly \$70 per ton since the beginning of November. Similar to the phosphate market, most of the gain is being driven by the market playing catch up to price hikes at the wholesale level earlier in the year.

Our outlook for the market remains unchanged with prices expected to hold through February and, then, begin to trend downward through the end of the fertilizer year. As mentioned last week, the overall supply situation has been and is expected to continue to loosen-up due mostly to a continued rebound in Canadian production rates. Some additional low-cost deliveries from Russia are also expected to help keep a lid on the market.



	Jan	Feb	Mar	Apr	May	Jun
3-Jan	515	515	510	500	490	475
10-Jan	515	515	510	500	490	475
Change	0	0	0	0	0	0

Market Price Outlook below.

Market Price Outlook

Product	Week Beginning:					End of Month Projections					
	12/13	12/20	12/27	1/3	1/10	Jan	Feb	Mar	Apr	May	Jun
Ammonia											
Midwest Dir.	676	660	661	667	668	676	665	660	655	645	625
Midwest Farm	775	774	774	776	776	766	752	745	730	710	685
Granular Urea											
Gulf Barge	376	378	382	382	383	372	365	360	352	345	340
Midwest Dir.	424	424	423	423	423	427	414	406	395	386	377
Midwest Farm	452	462	472	481	491	491	474	461	450	436	427
UAN 32%											
Gulf Barge	288	286	285	283	283	280	275	268	265	255	250
Midwest Dir.	339	339	340	342	343	344	337	326	319	305	295
Midwest Farm	373	375	378	381	384	377	371	360	354	339	295
DAP/MAP											
Gulf Barge	538	550	550	550	550	550	538	528	515	500	480
Midwest Dir.	605	603	604	606	603	608	603	593	582	565	540
Midwest Farm	671	670	668	670	672	671	646	634	622	605	580
Potash											
Midwest Dir.	517	510	514	514	514	515	515	510	500	490	475
Midwest Farm	554	557	561	563	566	555	555	555	545	535	515

Note: Prices are based on midpoints for the particular markets and can vary widely from location to location. As a result, the quoted prices should be used either as an index and/or used in conjunction with an estimated/established basis for an individual product and location.

Agricultural Markets

Crop prices pulled back over the past week as the dollar moved about 2.5 percent higher and some damaging weather issues in Argentina seemed to be turning around. Corn prices lost 19 cents per bushel to end the week at \$5.72 basis central Illinois cash markets. Argentina has had some showers in an extremely dry corn area although nowhere enough to push crop estimates higher. It could have been enough, however, to keep the situation from deteriorating any further. But, the outlook is still dry. The high prices are beginning to slow U.S. corn exports as they only recorded about 600,000 tonnes the previous week, down from 1.14 million the week before. That was, however, a holiday week.

Soybean prices lost 13 cents per bushel to settle at \$13.29 basis central Illinois cash markets. Although down from the previous week, this is still extremely high going back for the last two years. Again, rain in Argentina and some in Brazil pushed this market down as well as concerns that China could institute some more economic controls that might include higher interest rates which could, in turn, cause consumption to slow. The dollar's strengthening also had a negative impact on prices. Soybean exports are still well ahead of last year at this time and were up from the previous week to nearly 1.0 million tonnes.

Wheat prices basis cash markets in Kansas City lost 7 cents last week to end at \$8.01 per bushel. The wheat situation in Australia seems to be getting better although it is still a bit unsettled. The rains have slowed and some even think production will end up higher but the quality is definitely going to suffer. The cold, dry weather in the U.S. Plains states is also beginning to worry the market as the U.S. is the most important supplier to the world market right now. U.S. wheat exports lost some ground in the latest report, recording only about 440,000 tonnes versus about 550,000 tonnes the week before.

The cotton market also pulled back last week, moving down about 50 points to end up at \$1.3396 per pound. That market is now about 10 cents below the peak of three weeks ago, but is still extremely high compared to history. It also seems to be having any impact on planting in Brazil and more analysts are now expecting a fairly large jump in acreage down there this year, possibly at the expense of some soybeans or corn. U.S. cotton exports moved up by about 10 percent in the last report, hitting 290,000 bales in the last week of the year. That put total cotton exports over a million bales higher than through December of 2009.

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