Thursday August 20, 2009 Fertilizer Update

Crops on track to produce record yields this fall

There were no big surprises in last week's USDA Supply & Demand report. Corn production was forecast at 12.761 billion bushels; up 5% from last year but 2% lower than 2007. Yields are expected to average 159.5 bushels per acre, up 5.6 bushels from last year. If realized, this will be the second highest yield on record, behind 2004. Production would be the second largest, behind 2007.

Soybean production is forecast at a record high 3.199 billion bushels, according to the report, up 8% from last year. Yields are expected to average 41.7 bushels per acre, up 2.1 bushels from last year and the highest forecasted August yield in history.

The big question remaining is will the growing season be long enough in the northern corn belt to provide enough time for crops to fully mature, especially since the late planting and cooler-than-normal temperatures this summer have put many fields 2-3 weeks behind in development.

Dry Nitrogen

Urea

The domestic market is stable this week. There is currently both limited supply and demand, so the market is just treading water. The Yuzhnyy market is under pressure this week, at $245/ton. The Ukrainian government may renegotiate natural gas contracts, which could bring the cost of production down from $230-$240 to as low as $210/ton. There won't be any Chinese product that can compete at that level. India continues to face weather concerns, particularly in its rice-growing areas. That could cause Indian demand to drop off and would back up tonnage in the Arab Gulf. The U.S. prices are showing an inverse with the spot higher than the deferred which will prevent spot cargoes from coming here despite spot prices at a premium to world prices. So if domestic demand for fall is anywhere near normal, supplies could be tight and prices will go up.

Ammonium Sulfate

IRM, in the Pacific Northwest, is offering a $5/ton fill discount on a limited amount of tons. Tons must be ordered by the end of this week and shipped by the end of September. There is no new pricing from Honeywell and none is expected until sometime in September.

Liquid Nitrogen

UAN

World UAN prices are at $170/mt FOB Romania and $165 in the Black Sea, which doesn't come close to working in the current U.S. market. Exports are expected to drop off shortly as Europe gets comfortable on supply.

Ammonia

There has been strong demand for ammonia in the Southern Plains states the past few weeks, but a prolonged shutdown of the Magellan pipeline has tightened supplies moving northward. The shutdown could lead to shortages along the pipeline in the weeks ahead and into the fall season. The pipeline was taken down approximately 30-45 days for maintenance, but is now slowly coming back online. This, combined with a scheduled turnaround at the facility at Dodge City in October, could also make supplies tight in the western corn belt this fall. Generally speaking, most producers are about 50% sold for fall. Ammonia still enjoys a 14-cent advantage over urea, on a per-pound-of-N basis, and a 9-cent edge over UAN. Other than that, most producer prices will likely stay at current levels and the market remain fairly quiet for the next 30 days.

Phosphates

This week Mosaic is putting pressure on the phosphate market, moving its prices up $10/ton out of Tampa. CF is expected to take their pricing up, as well, but maybe not as fast since that producer has smaller orders currently booked. Prices at the producer level are not likely to get cheaper in the coming months, although there is now some sideways movement of available tons. Due to existing limited barge capacity, consider booking any remaining fall needs now.

Potash

It appears producers are not willing to back off on pricing, at least in the short term. China is still out of the world market therefore a big question mark looms on the market. The river system has barges available and they are being offered at slightly below North American production. A lot of product has been quoted, but little sold in recent weeks. With the whole supply chain, below the potash producer, sitting on their hands, having product in place when someone needs it might become an issue when demand materializes.

Regional markets

Northeast: Even though we have seen some areas of crop damage due to heavy rain or hail, crops over all in the Northeast Region continue to look very good. The dealer market has remained very quite during this late summer period, with many more focused on taking vacation than worrying about positioning product for fall. Lower grain prices continue to keep growers on the sidelines with very little interest in buying fertilizer. Dealers have also remained very cautious in their buying, with fewer tons positioned for the coming seasons than in past years at this time. We did see some limited interest in UAN and Phosphates over the past week given some strength in both of those markets. The market will likely remain very stagnant until harvest kicks into high gear or some event brings the buyers to the market.

Midwest: It’s been a quiet week for fertilizer sales. Crops still look good in much of the region, but are two or more weeks behind in development. Some areas are still fairly dry. There has been some layering in of ammonia this past week, but general lack of interest in P & K. Growers are not buying so dealers are not buying, which is setting up potential logistics problems for fall.

South: The continued problems with the Magellan pipeline in Oklahoma and Kansas are causing some logistics problems for ammonia delivery in the southern Plains states, where demand has been fairly strong. There is some interest in UAN, but dealers, in general, are being very conservative with their fall buying.

Northwest: This past week brought rain to much of the region. Wheat harvest in eastern South Dakota has produced good yields but high moisture and low protein levels. Many growers are concerned about the lack of heat units being amassed this summer. Crops are several weeks behind in maturity. That has impacted grower interest levels in buying inputs.