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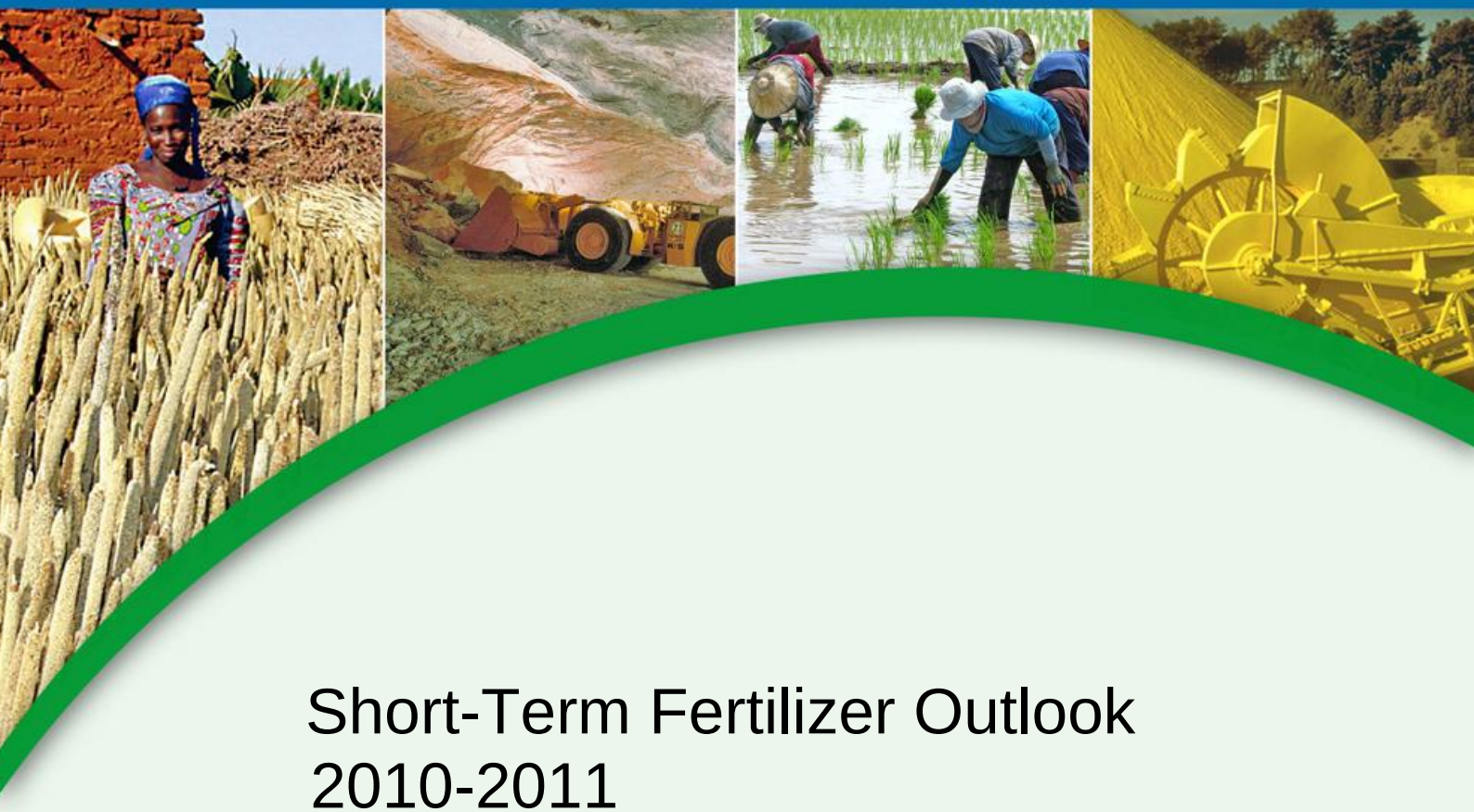

Short-Term Fertilizer Outlook 2010-2011

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This Short-Term Fertilizer Outlook was prepared by Patrick Heffer, Director of the IFA Agriculture Service, and Michel Prud'homme, Director of the IFA Production and International Trade Service. It presents an overview of short-term prospects for world agriculture and fertilizer demand, as well as the global fertilizer supply and trade situation in 2010 and 2011.

This report is available to the general public on the IFA web site, or by request to the IFA Secretariat.

The Short-Term Fertilizer Outlook draws on the final versions of two IFA reports presented at the 36th IFA Enlarged Council Meeting held in New Delhi in December 2010: *Short-Term Prospects for World Agriculture and Fertilizer Demand 2009/10-2011/12* (A/10/169) and *Global Fertilizer Supply and Trade 2010-2011* (A/10/149b). These two comprehensive reports are restricted to IFA members only.

The first part of the Short-Term Fertilizer Outlook looks at the global economic context and agricultural situation. The second part provides updated fertilizer consumption estimates for 2009/10 and demand forecasts for 2010/11 and 2011/12. The third part presents IFA's perspective on fertilizer supply and supply/demand balances for 2010 and 2011.

PART 1 – GLOBAL ECONOMIC CONTEXT AND AGRICULTURAL SITUATION

1.1. Global Context

Economic growth is back, but recovery remains fragile

After the worst recession since World War II, the global economy is recovering. According to the International Monetary Fund (IMF), world output is seen as firmly rebounding in 2010 (+4.8%), driven by robust growth in emerging and developing economies. However, the recovery remains fragile, mostly because of high unemployment, low consumer confidence, reduced household incomes, and high public debt in many of the advanced economies. As a consequence, economic growth is expected to be weaker in 2011 at +4.2%. The risks to the forecasts are mainly downside, at least until the required reforms are completed. However, IMF estimates that these risks are appreciably lower than a year ago.

With the economic recovery, prices of most commodities, including oil, minerals and agricultural commodities, have remained firm or have strengthened in 2010.

After a sharp contraction in 2009, international trade is projected to fully recover in 2010 and would further increase in 2011. The weak US dollar strongly affects the profitability of farming in countries with strong currencies. Farmers in these countries are more reluctant to invest in fertilizers.

Unfavourable weather causes short cereal harvests in the CIS and the USA

Some of the major agricultural regions have been affected by unfavourable weather in 2010. The succession of very hot and dry conditions in the Commonwealth of Independent States (CIS), particularly Russia, and of hot and wet conditions in the US Corn Belt have resulted in surging wheat and maize prices in the second half of the year. Weather conditions in the northern hemisphere during the winter cereal planting season have been relatively favourable so far in the main producing areas, with the exception of Russia and the USA. The moderate to strong La Niña conditions observed since August are expected to prevail through the first quarter of 2011.

Another food crisis could be looming

On the policy side, the current focus in developed countries is on economic recovery and financial discipline. While the Doha Round of Trade Negotiations is still ongoing, it seems to be losing momentum. Climate change negotiators met in December in Cancún, but no major breakthrough was achieved.

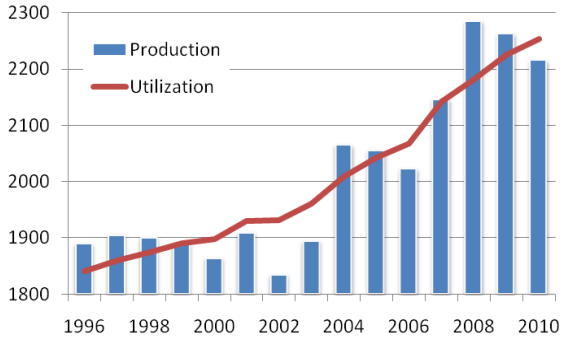
In developing countries, food security remains high on the policy agenda. The number of undernourished people in the world surged to more than one billion in 2009 due to the rapid succession of the food crisis and the economic downturn. With the economic recovery, this number is forecast to be some 925 million in 2010, according to the Food and Agriculture Organization of the United Nations (FAO). The recent increase in agricultural commodity and food prices could create obstacles in the fight to further reduce hunger, potentially leading to another food crisis.

1.2. Agricultural Situation

Low grain production in the CIS and a US maize harvest well below initial expectations are driving the short-term agricultural outlook

Aggregate global cereal and oilseed production reached a record in 2009 at 2,674 Mt, according to the United States Department of Agriculture (USDA). The 2010 output is seen as contracting by 2% to 2,621 million metric tonnes (Mt). Wheat and coarse grain crops are seen as down by 6 and 2%, respectively, while rice production is anticipated to increase by 2%. Soybean output is forecast to contract by 2%, but this drop would be entirely offset by larger harvests for the other oilseed crops. Sugar output is seen as increasing by 9%, and cotton production would strongly rebound by 14%.

World Cereal Production and Utilization (Mt)

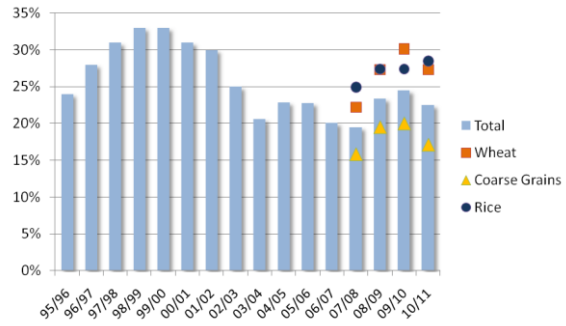


Source: FAO

To meet world food, feed and bioenergy demand, global cereal utilization is forecast to rise by some 2% in 2010/11. Because of tight market conditions, coarse grain and wheat uses are seen as increasing more moderately than rice consumption. Oilseed consumption is projected to rise firmly, by almost 5%, with, in particular, 7% growth in soybean uses.

World cereal utilization is forecast to exceed consumption in 2010/11. World cereal inventories are projected to contract by 13% at the end of the 2010/11 campaign. It is anticipated that stocks held by the major exporters will be down by as much as 41% for coarse grains and 16% for wheat. The world cereal stock-to-use ratio is seen as dropping by two percentage points to 22.5%, according to FAO, and to 19.0%, according to USDA. The projected stock-to-use ratio for rice at the end of the campaign is considered satisfactory. The one for wheat is declining but remains well above the low level registered in 2007/08, while that for coarse grains is close to its 15-year low. The world stock-to-use ratio for soybean is seen as declining by one percentage point, but would remain four percentage points above its low 2008/09 level. The ratio for sugar would slightly rebound after dropping for two consecutive years, while the ratio for cotton would remain almost stable following an 18% contraction in 2009/10.

Global Cereal Stock-to-Use Ratio

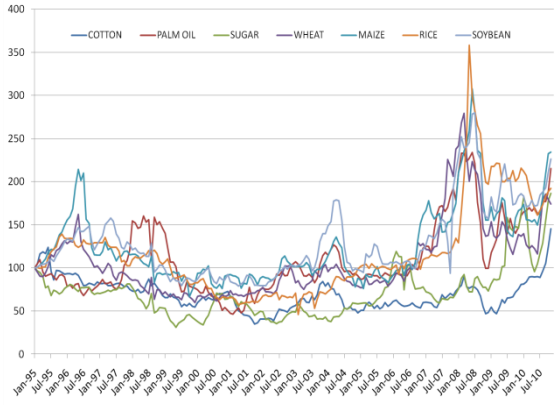


Source: FAO

In the second half of 2010, the international prices of almost all agricultural commodities have been increasing. This situation is driven by consecutive years of deficit for cotton and sugar, reduced export availabilities for wheat further to the drought in the CIS and the export restrictions established by Russia and Ukraine, and a lower than expected maize yield in the USA. Oilseed prices follow this movement, as soybean will compete with maize, wheat and cotton for land in 2011.

In addition, in the current unstable financial context, speculative funds are reinvesting in agricultural commodities. Prices are likely to remain firm but volatile until the spring season in the northern hemisphere, as harvests in the southern hemisphere are unlikely to dramatically change the outlook. In these circumstances, there are increasing concerns about another possible food crisis even if the prices of most commodities are still well below the levels reached in 2007/08. There are also fears that a new bubble and a sudden price setback could occur if speculative investments withdraw from the agricultural commodity sector.

Relative Evolution of Selected Agricultural Commodity Prices
(base 100 = January 1995)



Sources: Financial Times, IMF and MPOB

Farmers replenish their soil P and K reserves

Current agricultural commodity prices provide strong incentives for farmers in market-oriented economies to invest in fertilizers and other intensification factors.

In 2010 and probably in 2011, farmers will apply nitrogen (N) at higher rates to boost yields and will likely replenish their soil phosphorus (P) and potassium (K) reserves, which they have been mining in many parts of the world during the past two campaigns. P and K fertilizer consumption in countries with strong currencies relative to the US dollar will recover more slowly. In countries that are less or are not responsive to price signals, such as China and India, policy makers will likely encourage farmers to increase productivity in order to ensure domestic food security.

PART 2 – GLOBAL FERTILIZER DEMAND

Demand is rebounding firmly under the impulsion of Asia and the Americas

After a sharp drop in 2008/09 due to the financial and economic downturn, world fertilizer consumption started to recover in 2009/10. Aggregate consumption in 2009/10 is estimated to be up by 5.2% to 163.7 Mt nutrients. This is still 4.2 Mt below the record in 2007/08 of 167.9 Mt. N fertilizer demand is estimated to have fully recovered (+4.1%) to 102.6 Mt N, which is 2.1 Mt above the previous record. P fertilizer demand strongly rebounded (+11.5%) to 37.5 Mt P_2O_5, but remained 0.9 Mt below its record of two years earlier. K fertilizer demand remained stable and depressed at 23.5 Mt K_2O, i.e. 5.4 Mt below its previous record. Demand is estimated to have increased in all the regions but Latin America and Oceania. The largest changes in volumes occurred in North America (+2.8 Mt), South Asia (+2.5 Mt), East Asia (+1.2 Mt), and Western and Central Europe (+1.1 Mt).

Global Fertilizer Consumption (Mt nutrients)

	N	P_2O_5	K_2O	Total
07/08	100.5	38.4	28.9	167.9
08/09	98.5	33.7	23.5	155.6
09/10 (e)	102.6	37.5	23.5	163.7
Change	*+4.1%*	*+11.5%*	*+0.3%*	*+5.2%*
10/11 (f)	104.2	39.8	27.4	171.4
Change	*+1.6%*	*+6.0%*	*+16.3%*	*+4.7%*
11/12 (f)	106.9	41.7	29.4	177.9
Change	*+2.6%*	*+4.7%*	*+7.2%*	*+3.8%*

Source: IFA

(e) estimated (f) forecast

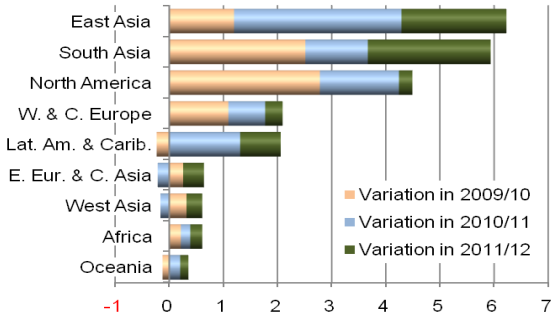
Supported by attractive agricultural commodity prices in the second half of 2010, total world fertilizer demand is forecast to rise firmly in 2010/11 by 4.7% to 171.4 Mt. N demand would increase by 1.6% and reach a new record at 104.2 Mt. P demand would fully recover (+6.0%) to a new high at 39.8 Mt. K demand would strongly rebound (+16.3%) at 27.4 Mt, but would remain 1.6 Mt below the record of three years earlier. Total fertilizer demand is forecast to rise in all the regions but Eastern Europe and Central Asia and West Asia. The largest increases in volume are seen in East Asia (+3.1 Mt), North America (+1.5 Mt), Latin America (+1.3 Mt) and South Asia (+1.2 Mt).

Forecasts to 2011/12 are still very speculative. They will be greatly influenced by the evolution of agricultural commodity prices, which are likely to be highly volatile in 2011.

Provided the agricultural market fundamentals remain positive, global fertilizer demand in 2011/12 would continue to grow at sustained rates.

Aggregate demand is forecast to be up by 3.8% to 177.9 Mt. Demand for K would complete its recovery (+7.2%), to 29.4 Mt. Growth rates are seen as more modest for N and P demand: +2.6% to 106.9 Mt for N, and +4.7% to 41.7 Mt for P. Increases are anticipated in all the regions.

Projected Evolution of Total Regional Fertilizer Demand (Mt nutrients)



Source: IFA

The baseline projections are subject to a number of uncertainties. To cope with these uncertainties, upside and downside scenarios have been developed for each nutrient. In 2010/11, upside and downside risks are seen to be of similar magnitude. In 2011/12, because a rapid setback in agricultural commodity prices is possible, the risks appear to be mostly downside. At the nutrient level, downside risks are proportionally greater for P and K than for N because farmers tend to reduce P and K applications before those of N. The level of uncertainty is also relatively higher for K, as the pace of recovery of K demand in China is difficult to predict.

PART 3 – GLOBAL FERTILIZER SUPPLY

Global fertilizer demand in 2010 has been robust and widespread, driven by a strong rebound in traditional markets where nutrient application was depressed in 2009 (Latin America, North America, Oceania and West Europe) and a sustained level of consumption in emerging markets.

The recovery in demand has been stronger than anticipated and has provided support for an increase in domestic sales and global trade.

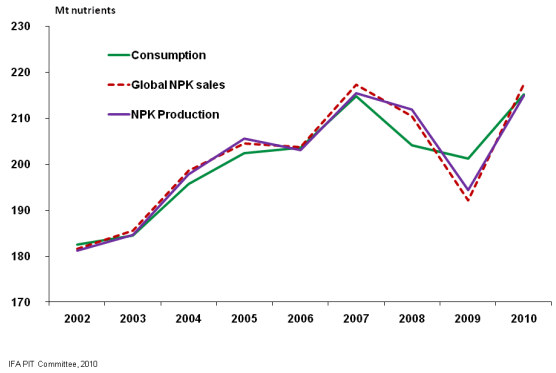
The depletion of most consumers' stocks and the near-empty distribution pipeline have led to strong imports in large-consuming countries. At the supplier end, most producers have taken the opportunity to reduce their own inventories.

In a full reversal of last year's drop in global sales and production, 2010 has seen record levels of production and sales in a sharp V-shaped recovery.

Global total nutrient production in 2010 has converged with world consumption, marking a significant 11% rebound over 2009. Production has increased in all nutrient segments, but potash has registered the largest gain. Ammonia production has increased by 4%, while urea output has expanded marginally. Phosphate rock production and that of phosphoric acid have grown in parallel, at the same rate of 10% over 2009. Potash production has increased by 57% over 2009, fully recovering from the depressed conditions existing since mid-2008.

Globally, the fertilizer industry has operated at 82% of installed capacity, compared with 74% in 2009. While this indicates a rebound, it does not yet signal the emergence of a potential shortfall in supply compared with 2007.

World Nutrient Supply Trends: 2002-2010



Global sales have increased by 13% over 2009 due to robust recovery in potash deliveries. However, high global sales in late 2010 could translate into a build-up of inventories in the distribution pipeline by the end of the year. Total use of nutrients rose by 7% over 2009, reaching a record level of 215 Mt *nutrients*. Two-thirds of the year-on-year increase has come from the fertilizer sector.

The main developments in international trade have included robust recovery in imports of all nutrients in Brazil, South-east Asia, India, the United States and West Europe and sustained import demand in Bangladesh and India. Exports of phosphoric acid and sulphur have been stagnant.

China's export tariffs have been influential in the global trade of urea and DAP. Extension of the export tax scheme in 2010 created some windows of opportunity for Chinese exporters during the few months when tariffs were lower. Chinese exports of DAP and urea are expected to reach near record levels in 2010. The current tax scheme is expected to be renewed, with an extended high-tariff period.

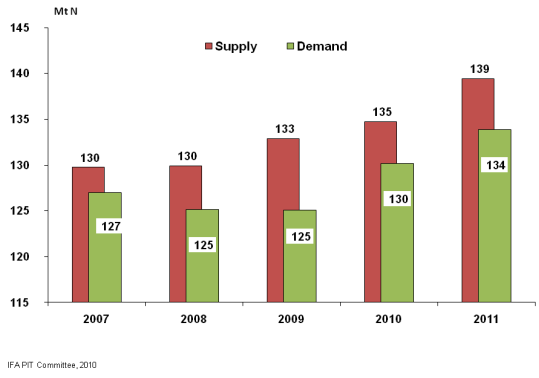
Nitrogen Outlook

The global nitrogen market has strongly recovered from its dull performance in 2009, mainly on the back of firm domestic demand and sustained exports throughout 2010. Growth in nitrogen production and trade has been supported by firm demand for urea and nitrates and, more importantly, stronger than expected recovery in the production and use of ammonium phosphate fertilizers.

According to IFA estimates, world ammonia production in 2010 would show an important 4% increase over 2009 to 158.8 Mt. Global ammonia trade in 2010 has rebounded from last year's 7% drop and has grown by 12% to 19.6 Mt NH_3. Seaborne trade is estimated at 16.8 Mt. Global seaborne merchant ammonia capacity has shown a marginal net addition in 2010. It is projected to expand moderately in 2011 to 18.4 Mt.

World ammonia capacity is projected to grow by 3% in 2011 to 200 Mt NH_3. The supply and demand balances for nitrogen show a decreasing potential surplus, from 7.7 Mt *N* in 2009 to 5.1 Mt *N* in 2011.

Global Supply/Demand Balance: Nitrogen 2007-2011

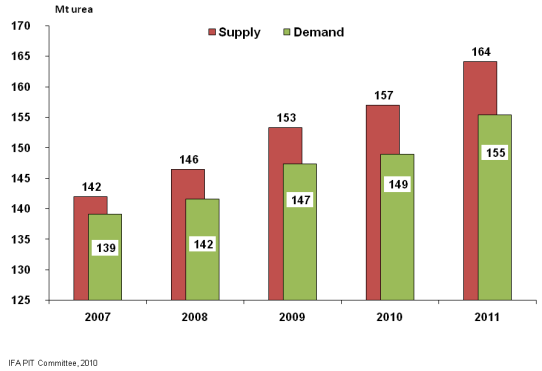


Global urea production in 2010 is estimated at 149 Mt product, representing a marginal 1% increase over 2009. The international urea trade is estimated at 38.5 Mt, a 6% increase over 2009. Imports have increased in most regions, notably Latin America, North America and Oceania.

Worldwide, close to 25 urea projects will provide new capacity in 2010 and 2011. IFA estimates that global urea capacity will be close to 181 Mt in 2010 and 190 Mt in 2011. China alone would contribute 46% of the annual capacity increases.

Taking into account a maximum operating rate of 87% of installed nameplate capacity, it is estimated that world urea supply will increase from 157 Mt in 2010 to 164.2 Mt in 2011. The global urea supply/demand balance shows an increase in the potential surplus by the second half of 2011, reaching 8.8 Mt product by the end of the year. Overall, the potential surplus would represent less than 5% of supply when idled plants are taken into account. Additional capacity in 2011 would add substantial tonnage of exports, with at least 3 Mt of urea by the end of 2011, equating to 9% of current global trade.

Global Supply/Demand Balance: Urea 2007-2011

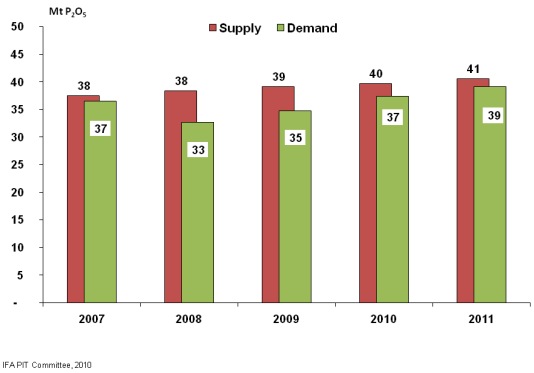


Phosphate Outlook

The world phosphate market has fully recovered from the low level of demand in 2008. Consumption of phosphate products and raw materials has pushed production to near record levels. IFA's preliminary estimate of phosphate rock production shows significant recovery in output, growing by 9.6% over 2009 to 177.8 Mt. Export volumes doubled during 2009 to reach almost 30 Mt. Global production of phosphoric acid in 2010 was estimated at close to 37 Mt P_2O_5, an increase of 3.4 Mt over 2009. Global phosphoric acid trade was firm in 2010, increasing by 9% to 4.8 Mt P_2O_5. The bulk of this volume went to India, which accounted for half of global trade in merchant grade acid. No merchant acid capacity has come on stream in 2010. Global phosphoric acid capacity is projected to expand by 3.3 Mt to 51 Mt P_2O_5 in 2011 due to new projects in Brazil, China, Saudi Arabia and Tunisia.

Global phosphoric acid supply/demand points to an emerging tightness in 2011, as the potential surplus would decline to less than 1.7 Mt P_2O_5.

Global Supply/Demand Balance: Phosphoric Acid 2007-2011



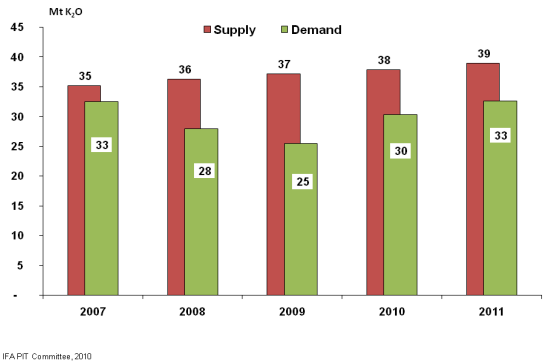
As regards MAP, DAP and TSP, global processed phosphates capacity would be close to 35.7 Mt P_2O_5 in 2010 and 38.8 Mt in 2011. The main additions to capacity will occur in Brazil, China, Morocco and Saudi Arabia.

Potash Outlook

Global potash production in 2010 is estimated at 50.2 Mt MOP (equating to 31.1 Mt K_2O), which represents a massive 58% increase over the depressed level of 2009. The potash industry has operated at 73% of its nameplate capacity, compared with 48% in 2009. Global potash sales have grown by 80% over 2009, reaching 52 Mt MOP, due to strong imports in Brazil, China, India, West Europe, South-east Asia and the United States

Global potash capacity is projected to grow marginally, reaching 72.5 Mt product in 2010 and 74 Mt in 2011. Capacity would increase in Canada, Chile, Israel, Jordan and Russia. Global effective capacity is forecast to be 39 Mt K_2O by the end of 2011. The derived potash supply/demand balances show a gradual decline in the potential surpluses from 11.7 Mt K_2O in 2009 to 6.4 Mt K_2O in 2011. The modest increase in supply would be totally absorbed by new incremental demand.

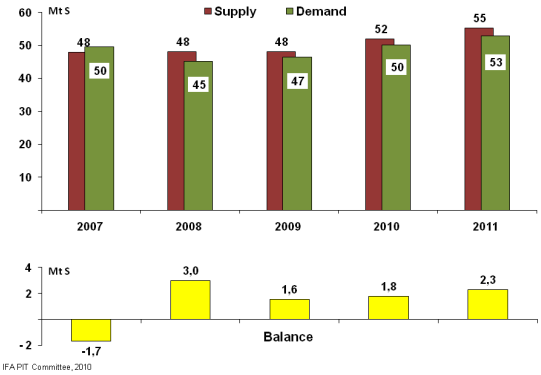
Global Supply/Demand Balance: Potash 2007-2011



Sulphur Outlook

World sulphur market conditions have improved in 2010. Global output of elemental sulphur rose by 7% to 51.9 Mt *S*. Demand would have shown similar growth, with a 7% increase to 50.1 Mt. However, sulphur trade has been relatively static. Firmness of demand, combined with lower than projected supply, has resulted in a static balance. Global consumption of elemental sulphur is projected to show robust growth in 2011, on the back of strong demand in industrial sectors and firm fertilizer consumption. The global supply/demand balance in 2011 shows a potential small surplus, ranging between 2 and 3 Mt *S* and equating to 3% of total supply of elemental sulphur.

World Supply/Demand Balances: Sulphur 2007-2011



Trade and Sales Prospects in 2011

Trade prospects for merchant ammonia, processed phosphates, potash and sulphur in 2011 are positive, with volumes growing by 4-8% over 2010. New urea capacity would lead to reduced import demand in a few key consuming countries, while large-export oriented facilities will add new exportable tonnage by mid-2011. New phosphate rock supply, especially for export, will come on stream in 2011.

Global *nutrient* sales for all uses is projected to grow by 2-3% in 2011, reaching 220-222 Mt *nutrients*, with increases of about 3% for nitrogen and phosphate products and up to 5% for potash.

WORLD SUPPLY/DEMAND BALANCES: 2009 – 2010 – 2011

Products		2009	2010	2011
Nitrogen	Supply	132.8	134.7	139.4
Mt N	Demand	125.1	130.1	133.8
	Potential balance	*+7.7*	*+4.5*	*+5.5*
Urea	Supply	153.2	157.0	164.1
Mt urea	Demand	147.3	148.9	155.3
	Potential balance	*+5.9*	*+8.0*	*+8.7*
Phosphoric acid	Supply	39.1	39.7	40.6
Mt P_2O_5	Demand	34.8	37.4	39.1
	Potential balance	*+4.2*	*+2.2*	*+1.5*
Potash	Supply	37.1	37.8	38.6
Mt K_2O	Demand	25.4	30.2	32.6
	Potential balance	*+11.6*	*+7.5*	*+6.3*

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