



TERRA INDUSTRIES INC.

Between the Rows

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Spring Season to Exhibit Firm Demand and Balanced Supply

This spring, we are anticipating a nitrogen season characterized by balance and moderation. The events and market forces which shaped these characteristics began many months earlier, emerging from the wild ride which was the 2007/2008 season. To understand Terra's spring outlook for 2009, let's begin by briefly revisiting the second half of 2008.

Nitrogen Demand

In June 2008, global demand for fertilizer reached unprecedented levels. A combination of strong corn acreage, rising industrial demand, and a lack of immediate new nitrogen supply drove prices sky high and created the fear of potential shortage in the market. Many companies logically responded by going long and purchasing enough nitrogen to meet fall fill needs in the end of the second quarter. Then in the final days of August, the tables turned and a recession emerged. This caused global demand to shrink rapidly and commodity pricing to spiral downwards, ultimately reaching levels below production costs. Throughout the fall months, purchasing simply came to a halt.

Many customers had already purchased their fall fill needs back in the second quarter and had no need for additional ammonia. This phenomenon was not limited to the U.S., as global

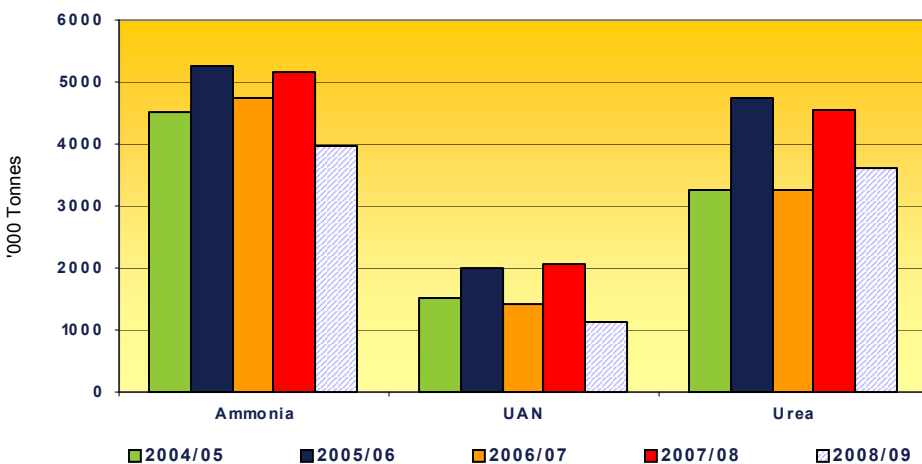
purchasing of nitrogen also came to a virtual standstill for several months. Domestically, poor fall weather prevented much of the previously purchased ammonia from being applied, and storage facilities in the field remained at capacity well into winter.

Nitrogen Supply

Producers responded to this situation in the only way possible - cutting back production to offset the negative economics and potential build up of supply. Estimates for December 2008 and January 2009 indicated a global loss of approximately 1.8 million tons of nitrogen production going into the 2009 spring season. These events hold a particular significance for U.S. nitrogen supply because they had the combined effect of drastically reducing both U.S. domestic production and needed imports of nitrogen.

As we have noted previously, the U.S. relies on imports for over 50% of our nitrogen supply. The chart below compares U.S. imports of nitrogen from July 2008–February 2009 to the same span of time in previous nitrogen seasons. It is obvious that imports are far below levels seen in 2007/2008. Ammonia imports are 1.2 million tons lower than in 2008. Urea volumes are down by 939,000 tons and UAN is considerably lower than last year, with 936,000 fewer tons imported.

Fertilizer Year-to-Date Import Volumes



In previous years, a reduction of imports by these amounts would raise serious concerns of a supply shortage. However, due to a substantial reduction in industrial nitrogen use, stemming from the recessionary environment, this is presently not a threat. Terra estimates that curtailment of nitrogen use from the industrial market will result in a demand reduction of almost 2 million tons. The majority of this loss will be seen

in reduced demand for ammonia and lower production volumes for DAP/MAP.

It becomes apparent that the U.S. nitrogen market will maintain a careful balance between supply and demand for the spring 2009 season, when you overlay the anticipated reduction in demand with the global reduction in production and import availability. Strong planting intentions—which indicate 85 million

acres of corn and 58.6 million acres of wheat—will support strong nitrogen demand in the fertilizer sector. The chart below shows the detailed build up of supply and demand for fertilizer specific nitrogen use.

Terra anticipates a period of increased ammonia application in early spring, as consumers play a bit of “catch-up” from last fall, when conditions prevented normal levels of ammonia application in many regions. Nitrogen purchased in the second quarter of 2008, and carried into this season, is reflected in a beginning inventory of 1 million nutrient tons. It is important to note that the final carry-out number is estimated to be approximately 400,000 nutrient tons. While this is not the lowest we’ve seen in recent years, it is not excessive. The carry-out number indicates a fine balance between supply and demand that could be altered if the actual planted acreage of corn exceeds current estimates.

As we mentioned in the last issue of *Between the Rows*, consumers have been slow to purchase product this year. It is important that those who are choosing to delay purchasing for this spring season are not doing so with the impression that the nitrogen market is in an oversupply situation. After examining the supply reduction information and anticipated demand, it should be apparent that nitrogen markets will exhibit a delicate balance in spring 2009, with UAN and Urea showing very low carry-out volumes.

U.S. Nitrogen Fertilizer Demand/Supply Summary

MM Tons	2008-2009				2008/2009
	NH3	Urea	UAN	AN	N
Beg Inv (7/1)		1.0	1.5	0.2	1.0
- Production	3.4	2.5*	8.8	1.0*	7.1
- Imports		5.8	2.0	0.7	3.5
- Exports		0.3	0.0	0.2	(0.2)
- N in					
Dap/Map					0.9
Net Available		9.0	12.3	1.7	12.3
Disappearance	3.4	8.4	12.0	1.6	11.9
Carry-Out		0.6	0.3	0.1	0.4
* Production net of industrial demand					

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PARTING THOUGHTS...

Terra continues to actively seek ways to provide cost-effective nitrogen supplies to U.S. markets through both domestic and international production. We anticipate the upcoming nitrogen season will be characterized by balance and moderation, based on supply reduction information and anticipated demand. As spring gets underway, we encourage you to keep in close contact with your Terra salesperson to coordinate your spring nitrogen deliveries and ensure the availability of your desired product mix.



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Focused on Fundamentals