TERRA INDUSTRIES INC.

Between the Rows

Volume 4, Issue 1
January 2010

A Return to Demand Growth in 2010

The 2009/2010 fertilizer season began with a rocky start. Just as customers and companies were recovering from the previous year's turmoil, Mother Nature decided an early frost was in order. This change in climate slowed the harvest of corn and other crops significantly, which in turn, slowed the application of fall nitrogen into the fields. A temporary softening of demand resulted and was matched by a softening in prices, consequently leading to the lowest import levels seen in the past five years.

Yet, the outlook for 2010 is far from grim. Supply and demand indicators both appear favorable as we look ahead into the second half of the fertilizer year. In fact, it is our belief the upcoming spring nitrogen season will bring a return to demand growth.

Nitrogen Demand

The United States Department of Agriculture (USDA) predicted the U.S. produced 13.2 billion bushels of corn in 2009, despite challenging crop conditions in the second half of the year. Recovery in the ethanol and export markets drove total corn demand to 13 billion bushels, leaving estimated ending stocks-to-use ratio at 13% for 2009. The USDA estimates 2010 will bring planted corn acreage of 89 million acres, while some consulting firms place that number even higher, above 90 million acres. Both estimates show an increase in corn acreages above 2009 plantings, and indicate a growing demand for nitrogen products this spring.

Global wheat stocks have rebounded over the past two years and, due to high ending stocks, the USDA predicts U.S. winter wheat acreage will be down 6 million acres compared to last year. While the acreage is reduced, we anticipate the remaining acres will require more nitrogen. This is due to growing conditions and lost wheat acres, which will move into other crops, such as corn.

It is apparent when analyzing nitrogen demand driven by industrial markets, that 2010 will bring a return to growth for industrial customers. We estimate U.S. industrial nitrogen demand will grow by approximately 10% in 2010, appearing from several sources.

The Energy Information Administration (EIA) estimates that the coal industry will experience a 4% growth in 2010. They also predict a 1.9% rise in U.S. electricity consumption, much of which will come from coal-fired generation. Recovery in the automotive, housing, and ethanol markets will also help increase the industrial demand for nitrogen. Finally, steady growth in the NOx scrubbing and diesel exhaust fluid markets will provide new sources of

U.S. Nitrogen Fertilizer Demand/Supply Summary

	2009-2010				2009/2010	2008/2009
MM Tons	**Ammonia**	**Urea**	**UAN**	**AN**	**N**	**N**
Beg Inv (7/1)		0.7	1.2	0.2	0.8	1.0
- Production	3.6`	2.0*	9.1	1.0*	7.1	7.1
- Imports		5.6	1.5	0.6	3.3	3.5
- Exports		0.3	0.2	0.2	(0.3)	(0.2)
Dap/Map					1.0	0.5
Net Available		8.0	11.6	1.6	11.9	11.9
Disappearance	3.6`	7.5	11.3	1.6	11.6^	11.1^
Carry-Out		0.5	0.3	0.0	0.3	0.8

` DA Ammonia Forecast ** Production net of industrial demand* *^Includes N from Dap/Map*

demand for urea and ammonia products.

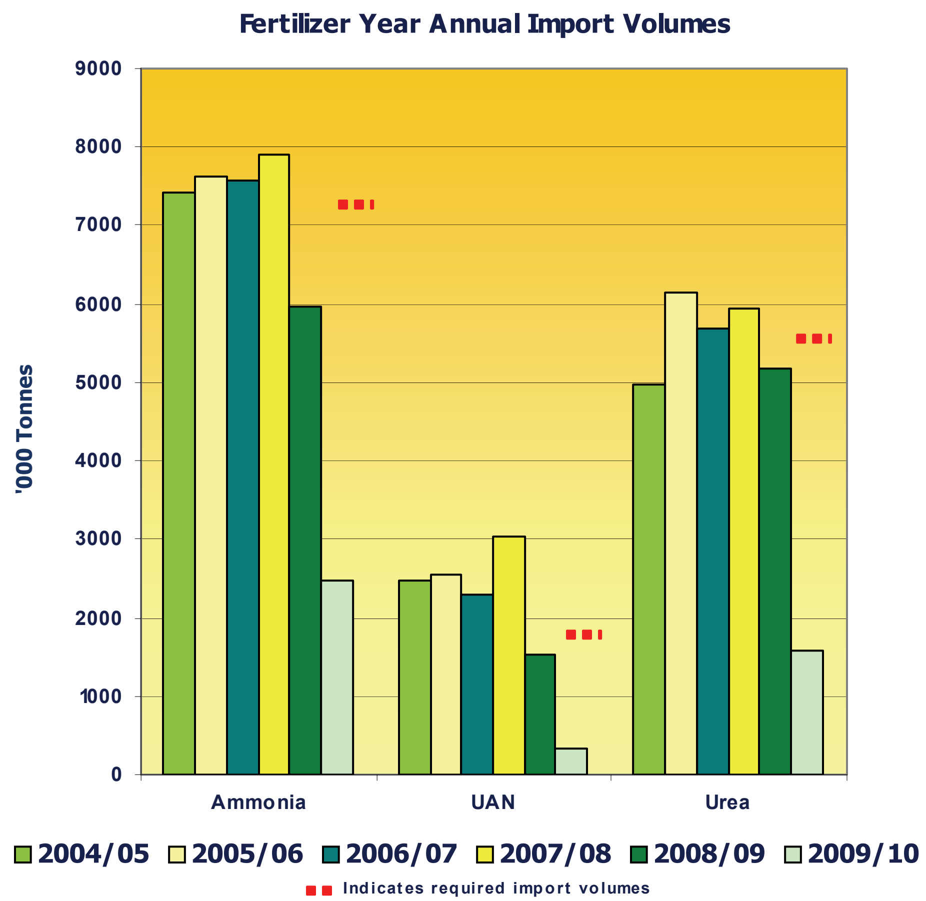
Nitrogen Supply

We started the 2009/2010 fertilizer year by noting the return to normal beginning inventory levels. Consumers worked through the excess inventory of 2008 and the domestic nitrogen market returned to a normal carryover level. Producers routinely manufactured product from July through December as market prices stabilized and demand prospects remained favorable. Yet, beginning inventories and producer volumes are only half of the U.S. nitrogen supply picture—the other important half being imported product. U.S. nitrogen prices were too low to attract import volumes during the fall and winter months of 2009. With global producers in the Ukraine, China, and other locations facing higher operating costs, it was simply uneconomical to ship large volumes of nitrogen into the U.S. market. This resulted in the lowest import volumes for ammonia, urea, and UAN of the past five years.

To place it in perspective: During the July–November time frame, ammonia imports were 400,000 metric tons behind 2008, urea imports were 568,000 metric tons behind, and UAN imports were 530,000 metric tons behind. The lack of UAN imports is equivalent to shutting down a typical U.S. UAN plant for nine months. The chart to the left shows the current imported volumes for 2009/2010 compared to total fertilizer year volumes for the past five years.

Clearly, significant quantities of imports need to arrive in the next three months to ensure adequate supply for spring agricultural demand. We believe the U.S. import system has the capacity to move the needed volumes. However, for this to happen, market prices must move to levels that will attract ample international supply.

Therefore, as we look into the second half of the 2009/2010 fertilizer year, the view is optimistic. Producers are operating at full capacity to ensure adequate domestic supply, and the market will need to move quickly to guarantee that large volumes of imports are positioned to meet the growing demand for nitrogen.



PARTING THOUGHTS...

We anticipate a return to demand growth in 2010, driven by strong corn acreage estimates, recovering markets, and increased energy consumption. Producers are operating at full capacity to ensure adequate domestic supply, but we expect that once the market moves in spring 2010, it will move quickly. Please keep in close contact with your Terra sales representative to plan for your supply needs, ensure the availability of your desired product mix, and coordinate your nitrogen deliveries.

Terra

TERRA INDUSTRIES INC.

600 Fourth Street
Sioux City, IA 51101

Phone: 712/277-1340
Website: www.terraindustries.com
Email: webmanager@terraindustries.com

Focused on Fundamentals