



Between the Rows

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Welcome to the inaugural edition of Terra's **Between the Rows**. We hope you find this information interesting, and more importantly, useful.

Experts forecast strong spring nitrogen demand

As we look ahead to the upcoming spring season, one thing is certain, demand for nitrogen products is going to be strong. The challenge is determining exactly *how* strong. A number of questions arise from this quest: Will there be enough supply? How high can prices go? What can I do to help manage this situation?

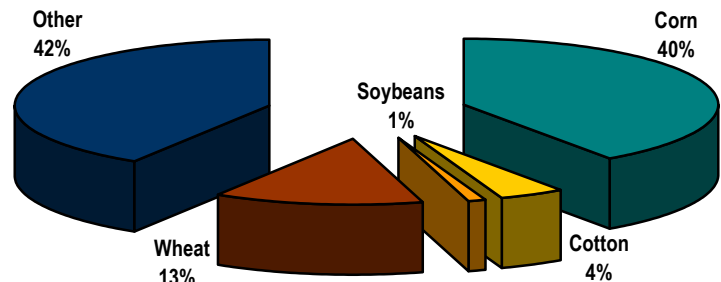
The primary consumer of nitrogen (and thus a significant demand driver) is corn. Corn accounts for 40% of all nitrogen fertilizer demand in the U.S. (see chart below). And in case you've been searching for the meaning of life in Tibet the past few months, the outlook for corn acreage this spring is tremendous. Estimates range from 84 million acres up to 87 million acres. Chris Hurt, a Purdue University Agricultural Economist recently stated, "In terms of acreage, I've been suggesting that we may have to push acreage up to 88 million to 89 million acres of corn. That would be a 10 million acre increase from 2006 and would put us at the highest acreage planted to corn in the United States since 1946. We'd be looking at a 60-year phenomenon."

One of the

main drivers behind this corn acreage growth is the strength of corn prices compared to soybean prices. The near-market bean-to-corn ratio is around 1.84x and the Sept. '07 market is showing a 1.94x ratio (see "At a Glance"). Generally a ratio under 2.5x would favor corn over beans. Demand for corn is coming from a variety of sectors, but the key drivers are demand from the livestock sector (increased inventories of both cattle and hogs), demand for ethanol production, and strong demand for exports.

We're not sure we'll see 89 million acres of corn, but believe it's safe to say that nitrogen demand is going to be firm. Our estimate for nitrogen fertilizer demand this upcoming planting season is 20.4 million tons of nitrogen (see chart on reverse). This represents a 15% increase over '05/'06 and would exceed the '04/'05 demand by 3%. Since 2004, we have seen nearly 1 million tons of North American nitrogen

U.S. Nitrogen Use by Crop—2005



Source: USDA

AT A GLANCE

	Commodity Selling Prices (\$/bu)			Corn/Bean Ratio	
	Dec. 2005	Dec. 2006	Change	Dec. 2007 Corn:	\$3.59
Corn	\$1.92	\$3.64	+90%	Dec. 2007 Beans:	\$6.95
Beans	\$5.78	\$6.68	+16%	Bean-to-Corn Ratio:	1.94x

Source: USDA

Strong spring nitrogen demand (continued)

capacity shut down and replaced with imports. These imports have steadily increased over the past few years and today provide 45% of all nitrogen supply in the U.S. Global competition for these imported tons has also increased, as has the cost of producing these imports and the cost to ship them to this country.

We at Terra believe there should be enough supply from a combination of domestic production and imports to meet this estimated demand. If we assume operating rates of existing U.S. nitrogen plants near

95% and imports between July '06 and June '07 totaling 11.5 million tons of N, we will have 20.2 million tons available. This is a tall order for these two sources, and if production and/or imports don't materialize, supply will be tightened further. By the way, July through November 2006 nitrogen imports into the U.S. are trailing last year by nearly 1 million tons.

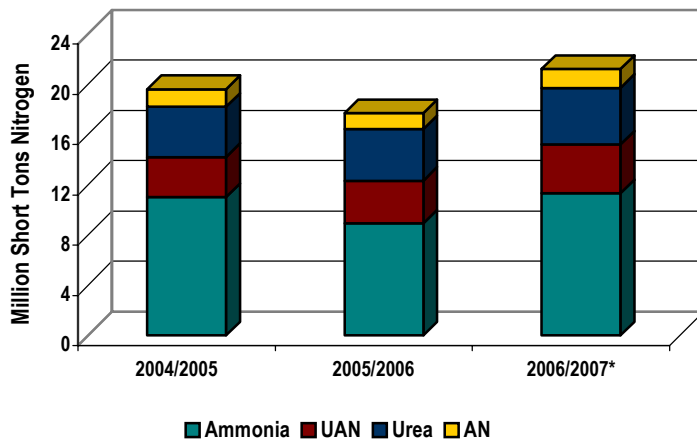
So, if nitrogen demand is going to be strong and supply is going to be adequate (albeit snug)...where are nitrogen prices likely to go?

ducers would sell at something just above their cost of production. But in today's environment, that has changed and the focus is now on supply/demand fundamentals and more specifically regional supply/demand balances.

A better indicator of nitrogen pricing in today's market will be the import market and applicable distribution costs. Since imports are the majority source required to meet forecasted demand, it seems likely that inland market prices will reach values higher than those we've seen in the past six months.

At Terra, we are positioned to sell and supply you product to meet your nitrogen demands this spring. Our new Donaldsonville UAN storage facility is completed, operational and capable of supplying your locations served by the Union Pacific railroad and the local truck market. The strong applications of N-P-Ks this fall reflect higher corn and wheat prices, increased demand by ethanol production, and the grower's enthusiasm for a profitable 2007.

U.S. Nitrogen Demand by Product



* Terra estimate

Source: USDA

Given the assumptions above, all we can say with any certainty is that pricing will move up. For the past few years, natural gas has provided some indication of nitrogen pricing; we'd all assume pro-

PARTING THOUGHTS...

Terra recently announced a new pricing tool that can help you manage your forward risk of nitrogen markets; Terra's Advance Pricing System (TAPS). With TAPS you can purchase a variety of nitrogen products on a forward basis and remove some potential volatility in

this upcoming spring's nitrogen prices. This combined with Terra's planned prepay programs for 2007 should allow you to position your nitrogen needs for your grower.

Please contact your Terra Sales Representative for more information.



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