



TERRA INDUSTRIES INC.

Between the Rows

Volume 1, Issue 2
Jan/Feb 2007

Tight Nitrogen Supply a Possibility for Spring

As the calendar turns to a new year, we turn our focus to the upcoming spring planting season, and what it may mean for fertilizer demand. In the last edition of *Between the Rows* we discussed the possibility of a pricing environment driven by a very bullish corn market, and an associated strong nitrogen demand. Since then, the corn market has continued to trend higher and all indications point toward a record-breaking year in terms of acreage planted.

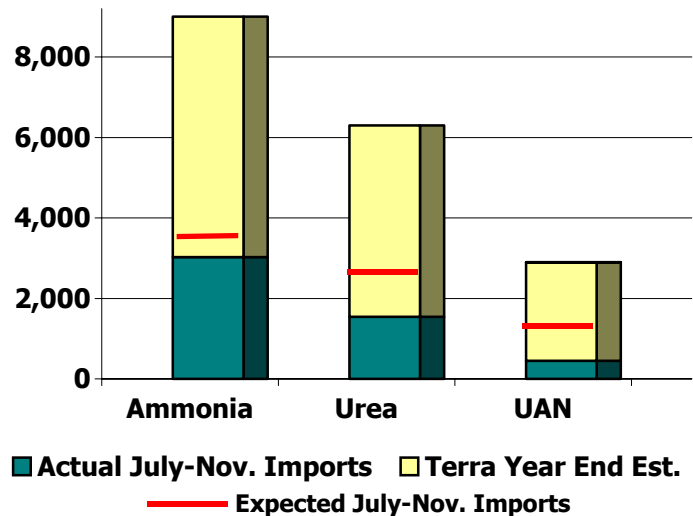
While nitrogen demand is also expected to be strong this spring, supply is shaping up to be on the tight side. We have been tracking fertilizer supply via domestic production and import levels. Production is running at close to maximum capacity, with most plants producing all they can in anticipation of the spring season. Imports, however, are still below where they should be to bridge the gap between expected demand and domestic production.

Based on information gathered from the US International Trade Commission, and on Terra's estimates of nitrogen demand for spring 2007, import levels of urea, UAN

and ammonia through November are all below the volumes we had expected to see at this point in the year. The graph below illustrates import levels through November and Terra's total projections for the 2006/2007 fertilizer year. The red line indicates expected import levels at November end based on historical averages. Ammonia imports have been about where we expected them, but urea and UAN import volumes are trailing last year's total import levels by 483,000 tons and 336,000 tons respectively.

The gap between predicted and actual volumes of urea and UAN imports represents 9% of this year's expected nitrogen demand. Given our expected nitrogen demand increase of 15% this year over last year, import volumes are

US Nitrogen Imports
(000 Tonnes)



Source: USITC

AT A GLANCE

	Commodity Selling Prices (\$/bu)			Corn/Bean Ratio	
	Jan. 2006	Jan. 2007	Change	Dec. 2007 Corn:	\$3.97
Corn	\$1.96	\$4.00	+104%	Dec. 2007 Beans:	\$7.66
Beans	\$5.51	\$7.15	+30%	Bean-to-Corn Ratio:	1.93x

Source: USDA and CBOT

Tight nitrogen supply...(continued)

moving in the wrong direction.

This situation is not unique to the US. Global nitrogen markets are reacting to strong global grain prices and the emergence of a tight supply scenario for the rest of 2007. As a result, nitrogen prices across the globe have been steadily increasing. This continues to support our earlier hypothesis that the pricing of nitrogen for spring plantings will be closely associated with demand levels rather than with the cost of natural gas. Simply put, at 84-89 million acres of corn, the

US appetite for nitrogen may exceed availability given below average import levels thus far.

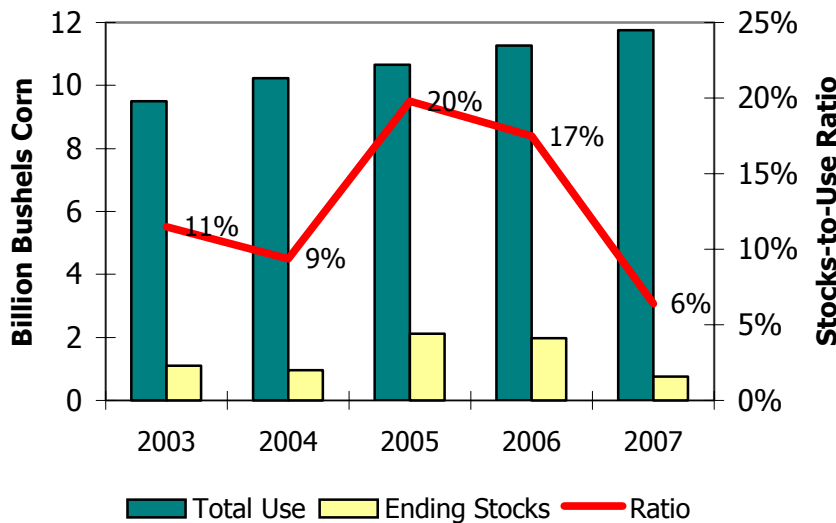
Grain farmers are well aware that Latin America has been rapidly expanding crop acreage for grains. Accompanying this expansion is an increase in demand for nitrogen products. Successful price competition from Brazil in particular has diverted cargos of urea from the gulf coast this past fall and winter. Additionally, urea imports into the US are noticeably absent from Bahrain and have yet to arrive from

Venezuela. UAN imports from Belarus, Lithuania, and the Ukraine are at less than 1% of what has been imported annually for the past four years.

As mentioned in our last newsletter, nitrogen commodity prices are not the only factor affecting the final price you pay to fill your fertilizer needs. Another increased cost factor affecting future nitrogen shipments is transportation. Diesel prices may have leveled off for the time being, but the railways have steadily been increasing the cost of transportation. Terra has been pro-active in working with the railways to secure the lowest transportation prices possible, but we do not anticipate that these costs will decline anytime soon.

In light of this supply/demand situation, Terra is encouraging customers to evaluate their spring demands and logistics to ensure timely deliveries. By incorporating pre-planning purchases into your fertilizer procurement strategy, you can lessen the volatility of an anticipated high demand/low supply scenario.

US Ending Stocks to Use Ratio



Source: USDA

PARTING THOUGHTS...

Given potential this season for very strong nitrogen demand and limited supply, product availability and supply security may become major concerns. These concerns will continue to drive price and purchase timing. As corn and fertilizer markets ramp up for what looks to be a groundbreaking year, if you want to catch the wave, the time to start paddling is now. Please contact your Terra Sales Representative about your nitrogen needs for this spring.



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

The contents of this newsletter are not intended as recommendations. The analyses and forecasts are based on available public and private data and on the best judgment of Terra Industries Inc., but cannot be guaranteed to predict future events.