



TERRA INDUSTRIES INC.

Between the Rows

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Nitrogen demand holds strong through spring

Summer is approaching, and plantings are largely in the ground for what will undoubtedly be a year for the record books. The USDA's prediction of 90.5 million corn acres planted in 2007 reflects a booming demand for corn, with high prices to match. As expected, high corn plantings have directly increased demand for production inputs, including very strong nitrogen demand growth. Projecting to the end of June, Terra believes that the 2006/2007 fertilizer year will balance out at 19.2 million short tons of nitrogen consumption, an increase of approximately 5.5% over 2005/2006. (Table 1) This reflects both agricultural and industrial demand.

ceiling for nitrogen supply in the short-term. Longer term solutions will include increased imports and production capacities to support burgeoning demand.

Examining the market outlook for 2007/2008, we find that many of the factors which created a strong corn and nitrogen demand this past season will remain in effect. Ethanol market incentives will continue through 2008, likely keeping corn prices at higher levels. In turn, the need for cheaper sources of livestock feed will positively impact the demand for wheat and distillers grains. We expect domestic ending inventories of corn and wheat going into the 2007/2008 season to be at very low levels. The USDA predicts corn ending stocks will be 947 million bushels, and wheat ending stocks will be 412 million bushels. Worldwide, corn and wheat ending stocks are following the same trend. By 2007/2008 USDA expects the global coarse grain ending stocks-to-use ratio to reach a historic low of 11.2%.

Terra anticipates that the high usage rates of coarse grains globally will continue to foster a bullish pricing environment for grains. We expect this, in turn, to drive high acreage numbers for both corn and wheat in the U.S. Later in this newsletter, you will find a sneak peek at how Terra believes this environment will affect nitrogen demand in the coming season.

Table 1—Product Consumption

(million short tons N)	2006/07	2005/06
Ammonia	10.0	9.4
UAN	3.8	3.4
Urea	4.1	4.1
AN	1.3	1.3
Total	19.2	18.2

The net result from the strong nitrogen demand is that carryover inventories into the next fertilizer year will be quite low. New nitrogen demand in 2006/2007 was partially supplied by volumes carried over from the previous season. If demand continues to grow at this year's rate, we may encounter a

AT A GLANCE

Two-Year Grain Outlook (May)

(million bushels)	Corn		Wheat	
	'06/'07	'07/'08	'06/'07	'07/'08
Beginning inventory	1,967	937	571	412
Production	10,535	12,460	1,812	2,174
Demand	11,575	12,465	2,087	2,216
Ending stocks	937	947	412	469

Source: USDA

Tight spring supply prompts full-out domestic production, higher imports

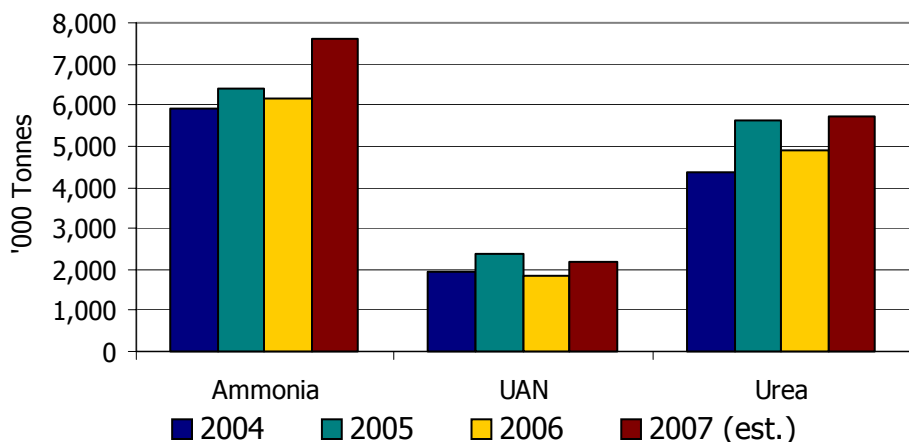
This spring, domestic nitrogen facilities have operated at full throttle, working to maximize production. Imports also strengthened during the second quarter, with March urea import volumes almost twice those of 2006. (Source: US-TIC) Going forward, any new demand growth will need to be met through an increase in import volumes. Since domestic production capacity is limited, high prices will be necessary to attract imports into domestic markets due to strong de-

mand competition globally. This strong competition can be seen in the reduced import volumes arriving during this year's strong pricing environment compared to the volumes which arrived in 2005/2006 (Table 2).

Table 2—Supply

(million short tons N)	2006/07	2005/06
Production	8.9	8.5
Exports	(0.3)	(0.8)
Imports	10.2	11.4
Total	18.8	19.1

July-April Nitrogen Imports into the U.S.



This graph shows the import volumes by product required to meet Terra's estimate of a 2% growth in nitrogen demand. Quantities of imported ammonia and urea will likely be very high, and we also expect UAN imports to increase over the past season. (Source: USITC)

PARTING THOUGHTS...

As North American nitrogen demand growth continues, Terra is actively seeking ways to provide additional cost-effective nitrogen supplies to U.S. markets through both domestic and international production. With the outlook for 2007/2008 indicating another strong year for nitrogen demand, we encourage you to maintain frequent contact with your Terra representative and start purchase planning now.

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.

Sneak Peek—2007/2008

Looking ahead to the next fertilizer season, Terra is predicting a growth in nitrogen demand of approximately 2% (Table 3.) We believe supply will be adequate with 19.1 million short tons of nitrogen. Imports make up 55% of the supply and will be the balancing factor around demand growth. We expect that nitrogen price movements will primarily be derived from the marketplace balance of supply and demand. This will closely mirror the shift in marketplace pricing dynamics of 2006/2007.

Table 3—Product Consumption and Supply 2007/2008

(million short tons N)

Consumption

Ammonia	10.3
UAN	3.7
Urea	4.2
AN	1.3
Total consumption	19.5

Supply

Production	9.0
Exports	(0.5)
Imports	10.6
Total supply	19.1



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