



TERRA INDUSTRIES INC.

Between the Rows

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2007-2008 Nitrogen Demand Estimates Uncertain

Winter is upon us, and a record-breaking harvest has passed. The USDA estimates that over 13.2 billion bushels of corn were produced. Soybean production volumes bore the brunt of the increased corn acreage with a harvest of 2.6 billion bushels, down from 3.2 billion bushels in 2006. Cotton also felt the effects of the strong corn market with a 17% reduction in harvested acreage over the previous crop year.

Nitrogen demand boomed last year, driven by higher corn and wheat plantings, and coupled with low import levels, resulted in very tight nitrogen supplies. Terra's view is that carryover inventories into this fertilizer year may be at historical lows, with possibly less than one million tons of nitrogen in storage at the end of June 2007. However, the space left by low carryover inventories is quickly being filled by a strong lineup of imports. High U.S. prices have attracted cargos away from booming Latin American markets, creating a very different start to this fertilizer year than in 2006/2007. The volumes of urea and UAN imported between July and September have exceeded the highest levels seen in the

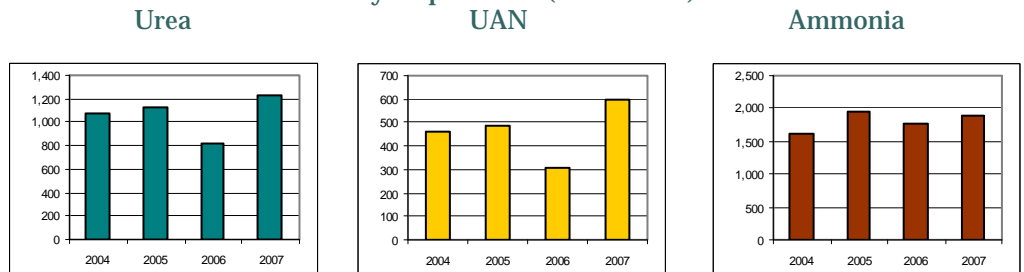
last four years. Ammonia imports are also at high levels for this time of year (See graphs below). Will nitrogen imports meet the tight supply situation of this fertilizer year? Will demand continue to grow as agricultural markets respond to the call for biofuels? This issue of *Between the Rows* will examine these questions and reveal why Terra believes that the demand pendulum could swing either way in 2007/2008.

The Case for Robust Nitrogen Demand

One of the first indicators that demand may be robust this fertilizer year is the very brisk pace of fall sales. Heavy buying and pre-sale volumes accompanied by high market prices all indicate a bullish sentiment among customers. The buying behavior is similar to that of past years when customers shared a belief that nitrogen supplies would be tight for the spring. The word in the field is that ammonia application rates are constrained because the supply system is running very low, with a current 90-100 day replacement period. While nitrogen imports have been robust since July, and

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Year-to-Date Import Volume Comparison July-September ('000 Tons)



AT A GLANCE U.S. Nitrogen Demand/Supply Summary

(million tons)	2007-2008					2006/07
	Nitrogen	Ammonia	Urea	UAN	AN	Nitrogen
Production	9.0	11.0	3.4	9.0	3.0	8.9
Net Imports	10.9	8.9	5.6	2.4	0.8	9.8
Net Available	19.9	19.9	9.0	11.4	3.8	18.7
Disappearance	19.4	19.7	8.5	11.0	3.8	19.5
2006-2007		19.4	9.1	12.1	3.8	19.5

are quickly filling up storage, they are only making up for the low carry-out inventories of last June. It will take strong prices and robust import levels sustained through the winter months to meet anticipated demand levels.

Another indication that nitrogen demand could remain strong is the forward price of corn. Corn is currently trading at \$3.71 versus \$3.57 a year ago. Ethanol production capacity continues to grow even with tight profit margins this fall. It is estimated that the U.S. will have over 12 billion gallons of annual ethanol production capacity at the end of 2009. If all of these plants become operational, they could use up almost 40% of the current U.S. corn crop (Source: Iowa State University). Many believe that a successful energy bill and rising oil prices will carry ethanol production growth well beyond 2008, albeit at a slower pace. Some estimates indicate that corn acreage could be as high as 88 million acres in 2008, supporting continued demand for nitrogen and even lower carry-out inventories if imports don't maintain their strong pace.

The Case for Flat to Weaker Nitrogen Demand

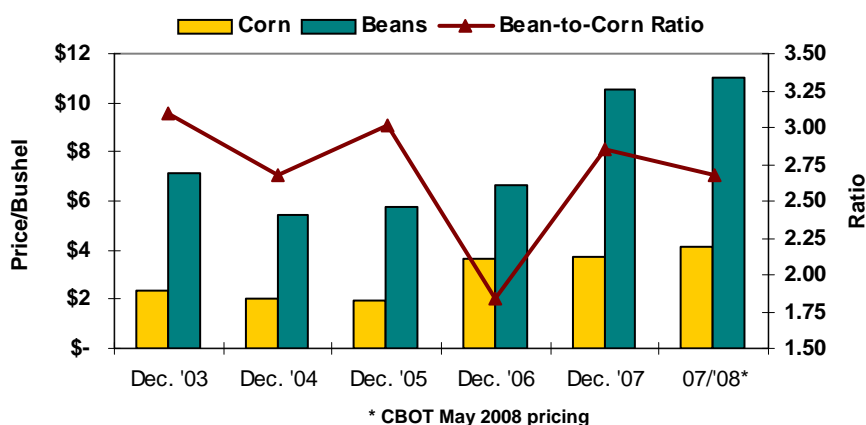
Balancing out the arguments above, other market indicators seem to support the case for a slight decline in nitrogen demand over last year. One of the key indicators is the soybean-to-corn price ratio, which traditionally indicates the likelihood

that corn will be favored over beans in planting. Based on November 30th prices of \$10.57 bushel for soybeans, the bean-to-corn price ratio stands at 2.85. This seems to indicate a strong preference for beans. However when you look at the May 2008 forward prices, the ratio declines to 2.68, still indicating a preference for beans, but moving closer to the neutral decision ratio of 2.5. (See graph below.) It could be argued that given a burgeoning global demand for soybeans, the U.S. will not be able to reduce soybean acreage two years in a row without prices responding in such a way that encourages further planting of beans. Yet at this point in the season only time can tell how the market will respond. Additionally, two factors within the corn markets indicate that next year's plantings may drop to between 86 and 88 million acres of corn. The first factor is the increased usage of DDGs as a substitution for corn in livestock feed. It is estimated that DDGs may have offset as much as one billion bushels of corn last year, effectively

reducing demand for corn. Another factor that may result in fewer corn acres planted is slower growth in corn used for ethanol production as a smaller volume of new production capacity is expected. Both of these issues hold the potential to reduce domestic nitrogen demand. If reduced domestic demand is coupled with continued strong imports then nitrogen demand may indeed turn out to be flat or weaker than last year.

In Summary

At this point in the fertilizer year many factors still hold the potential to influence nitrogen demand significantly. Logical arguments support the case for either a strengthened or a weakened U.S. nitrogen demand. The two key variables will continue to be agricultural markets and import volumes. We hope that by the next issue of *Between the Rows*, the impact of these variables will become known and Terra can tell you which way the nitrogen demand pendulum will swing.



PARTING THOUGHTS...

As we move into another fertilizer year, 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 an uncertain season for nitrogen supply availability and demand levels, we encourage you to maintain frequent contact with your Terra representative to review your nitrogen demands.



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

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