



TERRA INDUSTRIES INC.

Between the Rows

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2007-2008 Nitrogen Supply/Demand Balance Snug, but Stable

Spring is just around the corner after a long wet winter for much of the country. Sales of nitrogen are brisk as the demand for grain crops remains strong worldwide. Many people anticipated some pushback of corn acreage in response to high soybean pricing, and the USDA March Plantings report indicated a significant change. The report placed soybean plantings at 74.8 million acres, just short of the 2005 historic high acreage and an 18% increase over last year. Corn and cotton were projected to make the biggest sacrifices in acreage, with corn down 8% at 86 million acres and cotton down 13% at 9.39 million acres. How likely is it that soybeans will approach record planting levels? Over the past ten years, the USDA had a margin of error in their soybean planting predictions which

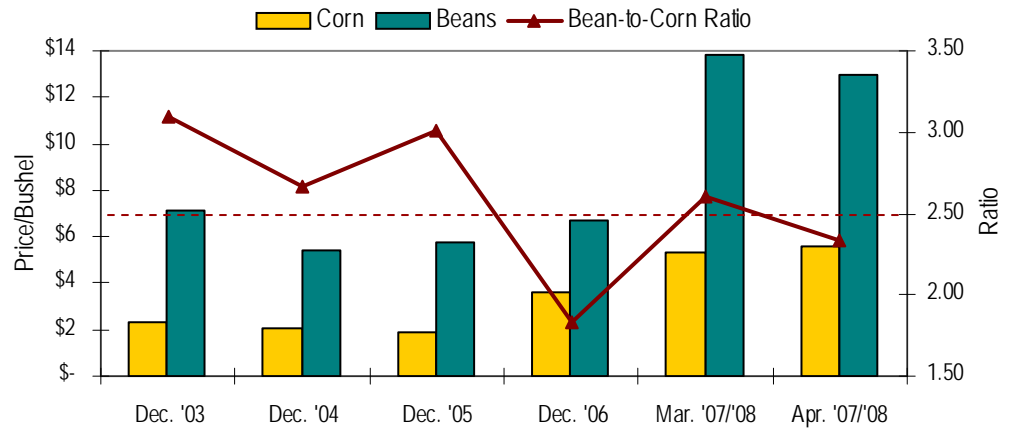
ranged between 300,000 to 1.5 million acres below the predicted acreage. The graph below indicates the impact of the March Plantings report on the soybean to corn pricing ratio.

Clearly after the plantings report was published the ratio changed to favor corn as the markets responded to the shift in acreage. Combined with the April WASDE report, which reduced corn ending stocks by 155 million bushels, we may see the actual planting numbers give back a bit of acreage to corn. However, the wet spring in the south is also a factor and could keep the amount of acreage switched back to corn at a low level.

What Does this Mean for Nitrogen Demand?

Eighty-six million acres of corn will still require a significant quantity of

Crop Planting Indicators for 2008



At a bean-to-corn price ratio below 2.5x, the rule of thumb indicates that corn production is more profitable than soybean production.

AT A GLANCE

U.S. Nitrogen Demand/Supply Summary

(million tons)	2007-2008					2006/07
	Nitrogen	Ammonia	Urea	UAN	AN	Nitrogen
Production	9.3	11.3	3.2	8.9	2.8	8.9
Net Imports	11.7	8.9	6.6	3.1	0.9	10.1
Exports	0.4	0.2	0.4	0.0	0.1	0.3
Net Available	20.6	20.0	9.4	12.0	3.6	18.7
Disappearance	19.4	19.7	8.8	11.7	3.6	19.5
2006-2007		19.4	9.1	12.1	3.8	19.5

nitrogen; however we will see a reduction in corn-driven nitrogen demand compared to last year. Demand driven by wheat plantings will actually increase, as the USDA predicts an average increase in all wheat plantings of 6% to 63.8 million acres. The growing industrial market for nitrogen is also positively impacting demand. Currently, industrial consumers make up about 25% of all U.S. nitrogen use. Growth in NOx abatement markets, polymer uses, and other industrial sectors is predicted to continue through the year, increasing the overall demand for nitrogen products. Based on the USDA plantings report, estimates of industrial demand, and the market outlook, Terra anticipates that U.S. nitrogen demand will reach approximately 19.4 million tons in the 2007/2008 fertilizer year. This is a slight reduction from the demand

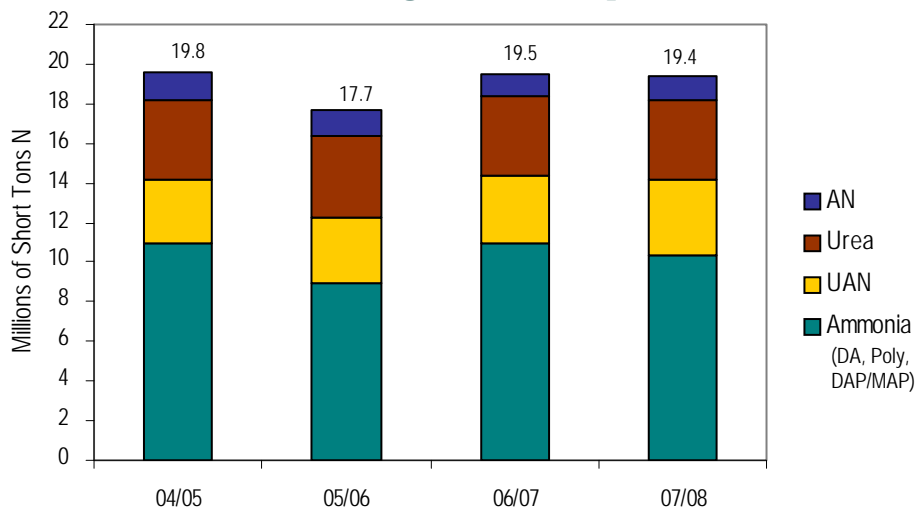
level realized last year, but still a robust quantity when compared to past years. The graph below indicates nitrogen demand levels over the past four years.

How About Supply?

Apart from an ammonia plant going offline briefly this past fall, U.S. nitrogen production has maintained steady operating rates throughout the year. Terra expects that a solid 9.3 million tons of nitrogen will be produced domestically and available to satisfy demand. Unlike last year, U.S. nitrogen prices started the season at a high enough level to attract large volumes of imports. With more than 50% of U.S. nitrogen supply coming from imported product, it was essential that U.S. prices be competitive within the global market to attract enough supply this year. So far, imported prod-

ucts have arrived at high levels across the board, and Terra estimates that approximately 11.7 million tons of nitrogen will be imported. Globally, supply is tight due to rapidly increasing demand from India and China along with other developing nations, and only moderate additions to nitrogen supply outside of China. Extra Chinese urea capacity provided about 400,000 tonnes of urea into the U.S. in January, despite a 30% tariff on exported fertilizer products. This is viewed as a unique occurrence, and is unlikely to be repeated this Spring. In early April, the Chinese government increased the export tax on fertilizer products to 100%, effectively raising the price threshold to over \$700 per metric ton for any Chinese urea exports based on current pricing. China has provided about 10% of the total U.S. urea supply for the 2007/2008 fertilizer year, through over 900,000 tons of imports. With Chinese production capacity unavailable to the global fertilizer markets, the urea supply situation is considerably tighter going into next year. Terra's U.S. Supply Demand Forecast is in the "At A Glance" section, and indicates a re-filling of inventories which were at rock bottom at the start of the year. The 1.2 million tons of nitrogen anticipated to fill inventories at the end of July will be needed to balance the system going into the 2008/2009 fertilizer year if corn use and projected plantings fulfill current forecasts.

U.S. Nitrogen Consumption



PARTING THOUGHTS...

This spring season may provide a bit of relief from the tight supply and demand situation seen last spring. However the reduction of corn acreage without an equivalent reduction in corn demand indicates that 2008/2009 will again be a huge year for corn plantings and for nitrogen demand. We are already seeing customers begin to line up their nitrogen for next fall, and encourage you to stay in contact with your Terra representative to plan your nitrogen needs going into next year.



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Focused on Fundamentals

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