Terra

TERRA INDUSTRIES INC.

Between the Rows

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Tight Times Ahead

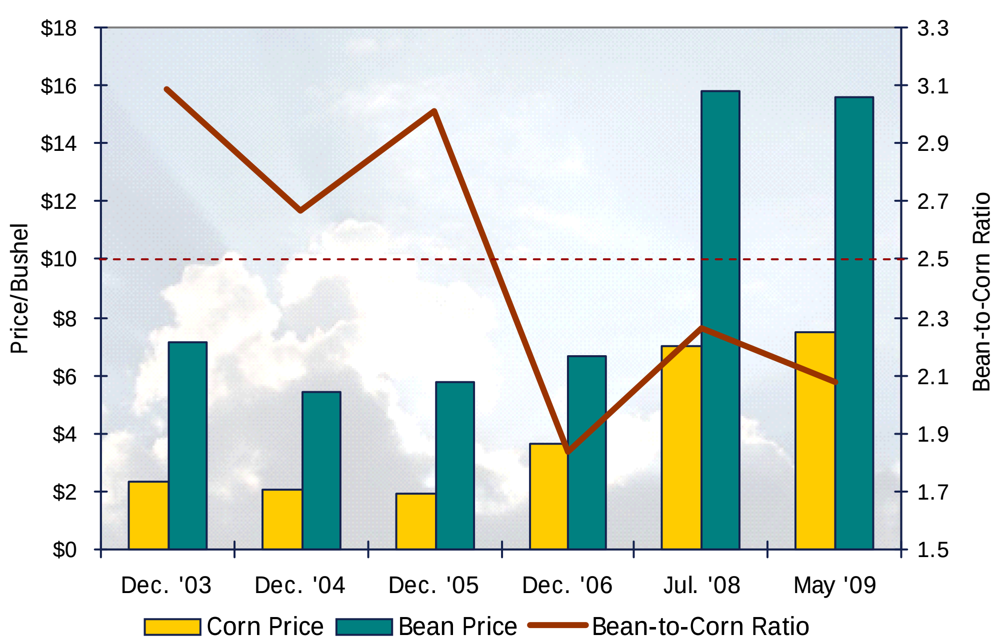
As the 2007-2008 fertilizer year comes to a close, we are left once again with the realization that market and weather conditions are often surprising and unpredictable. At the macro level, current market movements are driven by a global phenomenon of growing demand and limited supply. Whether the commodity is oil, corn, fertilizer or steel, the world wants more and producers are stretching to the limits to keep up with demand. Corn supply has been reduced and global crop markets tightened by a few factors, including a late, wet spring and flooding that Iowa Governor Chet Culver calls one of the 10 worst disasters in U.S. history[1]. Even though the current environment is volatile and unpredictable on many levels, we've done our best to break down the pieces that will impact nitrogen markets next year and share our thoughts with you.

1. *Sioux City Journal*, June 27, 2008

The Year of Corn

Clearly the 2008-2009 fertilizer year is going to be characterized as a year of corn. With ending stocks predicted to reach record low levels due to reduction in planted acres and lower yields this year, corn supply is expected to respond strongly to high market prices next year. Initial damage estimates from the midwest flooding place lost acreage between five and eight million acres, which could reduce harvested corn acreage to about 78 million acres. Terra anticipates that corn plantings in 2009 will easily surpass 90 million acres and that nitrogen demand will increase accordingly. Other initial acreage estimates project wheat plantings in the low 60-million-acre range, and soybean plantings of about 70 million acres. Many people expected at the beginning of this crop year that the strong soybean acreage planted in spring 2008 would increase stocks and reduce the bean-to-corn price ratio for the following season. However market and weather conditions continue to be surprising and there appears to be little

Growers Have An Economic Incentive to Plant Corn



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

reduction of soybean prices in 2009. This in turn requires corn prices high enough to attract acreage next year, and contributes to a bullish outlook for corn.

U.S. Nitrogen Demand/Supply Outlook			
	'06/'07	'07/'08	'08/'09
Tons	N	N	N
- Production	8.9	9.3	9.3
- Imports	10.1	11.7	11.6
- Exports	0.3	0.4	0.3
Net Available	18.7	20.6	20.6
Disappearance	19.5	19.4	21.0
Sources: Blue Johnson, Terra estimates			

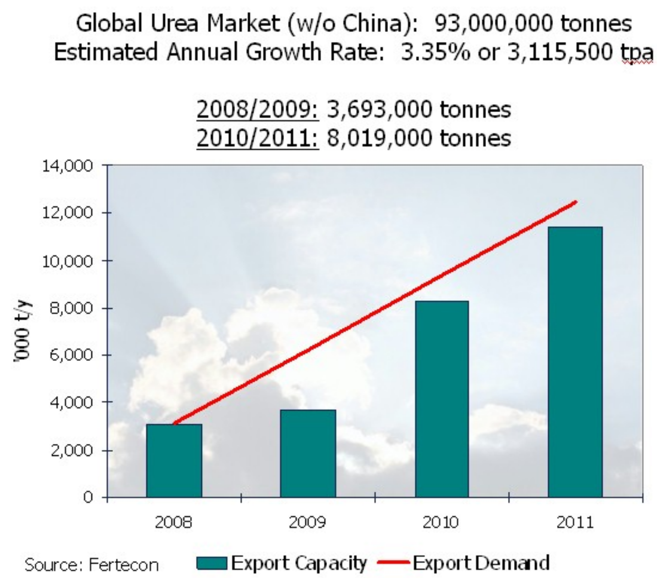
The Importance of Imports

The 2007-2008 fertilizer year was a strong season for U.S. nitrogen imports. A robust level of imports not only helped to satisfy demand for the year, but provided much needed inventory carryover for next year. Terra estimates that approximately one million nutrient tons will be carried over into the 2008-2009 fertilizer year. Our nitrogen supply and demand estimates above show that this carryover will be essential to meet demand. However, this carryover may end up being used in July and August due to delayed plantings and application, and potential reapplication of nitrogen on some acreage. In addition to the carryover inventory the U.S. will be competing for global nitrogen capacity and require a high level of imports once again in 2008-2009. If U.S. nitrogen pricing cannot compete globally and attract about 11.6 million tons of needed imports there is a risk of falling short in supply.

Are Imports Available?

In a word, global nitrogen supply next year is tight. Both India and China will continue to play a large role in consuming available new supply. Almost all new global ammonia and urea capacity in 2009 will come online in China. There is very little new capacity elsewhere in the world to meet demand growth beyond 2008 volumes. As a result, market conditions will be tight and competition for available export capacity will be fierce. As we mentioned in the last issue of *Between the Rows,* the Chinese government is effectively prohibiting the export of nitrogen products at this time through an export tariff of 135%. Many anticipate that due to a combination of factors including, the Summer Olympics, earthquakes, and coal shortages, it is possible that the Chinese export tariffs will remain in place through the end of 2008. This past fertilizer year China provided about 10% of the total U.S. urea supply with over 900,000 tons of imports. The graph below shows the projected cumulative impact of limited Urea export capacity additions outside of China and continued growth in World demand for urea. As you can see, it is very likely that global demand will try to drive market pricing to levels which would attract the Chinese supply back into the export market despite high tariffs. If the Chinese volumes were to re-enter global markets then the supply picture would greatly improve and pricing would likely relax as a result. However predicting the actions of the Chinese government is even more difficult then predicting nitrogen demand!

Urea Export Capacity Additions (w/o China)



PARTING THOUGHTS...

What we originally thought would be a relatively quiet nitrogen year has ended up characterized by global market movements and price volatility. Looking ahead to next fall, we anticipate more of the same. With strong corn plantings, reduced global export supplies, and new demand segments such as the NOx abatement markets, the 2008-2009 fertilizer year is going to require all market participants to be alert and fast-moving. We encourage you to keep in close contact with your Terra sales representatives, who can help meet your needs in a changing market by providing up-to-date information and working with you to secure supply.

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Focused on Fundamentals