



TERRA INDUSTRIES INC.

Between the Rows

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Nitrogen Application Gains Strength This Spring

With 2008 over, many in the fertilizer industry are slightly amazed at the extreme volatility, departure from fundamentals, and policy surprises that characterized the year. For every action there is an equal and opposite reaction, and this held true in nitrogen markets in 2008. Prices skyrocketed through the summer as supply appeared short relative to expected demand. Then when the economic crisis took center stage in late summer, demand dried up and prices plummeted to levels below production costs.

We now enter 2009 with many nitrogen customers reluctant to enter the market until the volatility of the past year has clearly ceased. What many may not realize, however, is that by opting not to participate until absolutely necessary, market participants are perpetuating the very volatility that they fear.

The U.S. nitrogen market is supplied through a long, complex supply chain network. This supply chain functions by continuously positioning product throughout the network in preparation for seasonal demand. If current trends continue, and the market does not begin to position product in a timely manner, then the 2009 spring season will face significant distribution challenges.

Demand Outlook

We expect spring 2009 nitrogen demand to be underpinned by about 84

million planted acres of corn and 57.5 million acres of wheat. Soybean production in the U.S. and in Latin America is expected to remain stable, and will compete with corn for acreage only as it relates to specific crop margins, rather than on a demand-driven basis. Corn use for ethanol is anticipated to remain flat or decline in 2009 as plants reduce operating rates in response to a decline in crude oil prices.

Combined with other crop needs, Terra anticipates a total U.S. nitrogen fertilizer demand of approximately 11.5 million tons in the 2008/2009 fertilizer year. This total demand reflects a reduction of about 300,000 tons of nitrogen when compared to 2007/2008; however the upcoming fertilizer year will be characterized by a very different product mix and application timing.

During the fall of 2008, a late harvest and bad weather significantly hampered nitrogen application. Terra estimates that as many as 800,000 tons of ammonia were not applied last fall that would have been if not for these two factors. To meet the nitrogen needs of predicted planted acres, this “missed” ammonia would need to be replaced with application of up to two million additional tons of UAN beyond normal volumes in the spring.

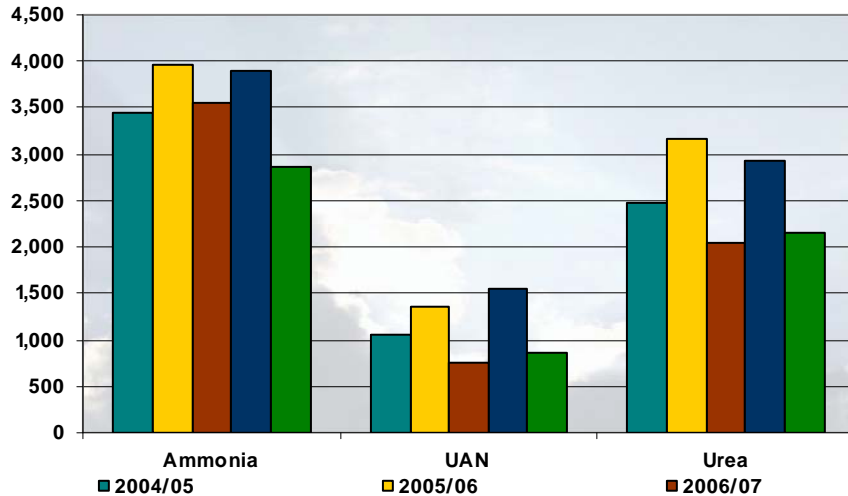
Even an increase in spring UAN demand of one million tons will place significant strain on the national nitrogen distribution system, requiring about four to six weeks for placement of the

Nitrogen Demand Outlook

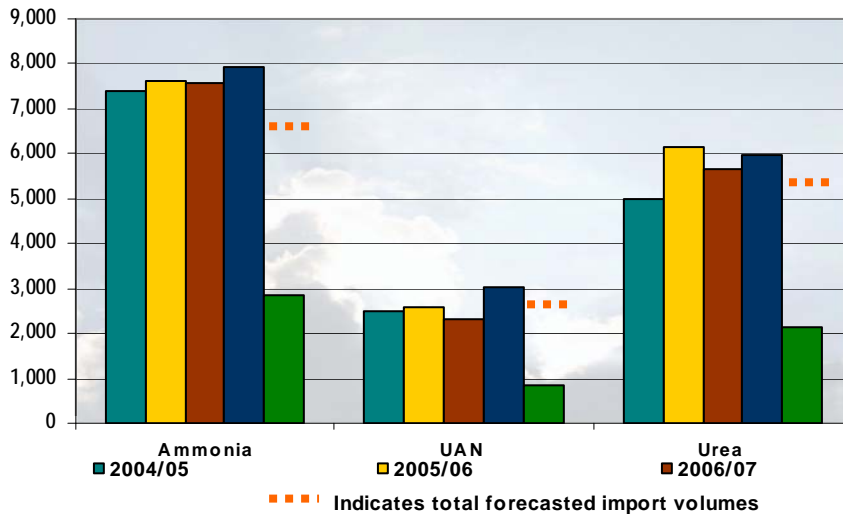
Crop	Planted Acres (millions)		% Fertilized		Application Rate (lbs. per acre)		N Consumption (million tons)	
	07/08	08/09	07/08	08/09	07/08	08/09	07/08	08/09
Corn	85.9	84.0	96	96	155	155	6.4	6.2
Wheat	63.0	57.5	86	86	90	90	2.4	2.2
Cotton	9.4	8.9	82	82	100	100	0.4	0.4
Soybeans	75.9	77.1	19	19	18	18	0.1	0.1
Hay/Pasture	61.6	60.4	N/A	N/A	N/A	N/A	1.0	1.0
All Others	26.4	27.9	N/A	N/A	N/A	N/A	1.5	1.6
Totals	322.2	320.0					11.8	11.5

Sources: Doane, British Sulphur

Fertilizer Import Volumes Through November 2008 ('000 Tonnes)



Fertilizer Year Annual Import Volumes ('000 Tonnes)



The dashed orange lines in the graph above indicate forecasted levels necessary to meet demand for each imported nitrogen product this fertilizer year. Clearly, there is still quite a ways to go before import volumes are at the needed levels. The import data for December will quite likely reveal historically low import volumes; however trade publications are indicating that the market is returning to normal in January. Terra is not anticipating a significant shortage in imported nitrogen supply for 2008/2009.

additional product. In a recent issue of *Farm Industry News*, Ron Farrell of the agribusiness consulting firm Farrell Growth Group, was quoted as saying, "We could see spot shortages of supply as a result of this increased short-term demand which could mean some farmers may not be able to obtain all of the fertilizer they would like, when they would like to have it this spring."

Supply Outlook

Experts expect that the U.S. nitrogen supply for the 2008/2009 fertilizer year will trend slightly below the previous year, with approximately 11.2 million tons of nitrogen available. Despite a reduction in domestic production volumes due to a precipitous drop in pricing and subsequent challenges in product distribution during December and January, the corresponding reduction in acreage for this fertilizer year will maintain the needed balance between supply and demand.

Current estimates place approximately nine million tons of ammonia and 15 million tons of urea offline globally (annualized). Nitrogen import markets were also significantly impacted by the price drop and lack of purchasing during the fourth quarter of 2008. The import volumes through November show a reduction in volumes compared to the same period last year. Imports of urea and UAN over the next few months will need to arrive at strong levels to meet anticipated spring requirements.

PARTING THOUGHTS...

The outlook for the 2008/2009 fertilizer year remains positive due to continued strength in fertilizer demand. A reduction in domestic production and import volumes will help keep fertilizer markets balanced in the face of reduced corn acreage and fall nitrogen application. The critical issue at this time is the need for immediate focus on product positioning to avoid any logistical challenges that may arise this spring. We strongly recommend that you work with your Terra salesperson to identify your needs and coordinate delivery of nitrogen for the upcoming spring season.

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.



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Focused on Fundamentals