

N price may start downward spiral



By JOHN VOGEL

NITROGEN price relief may be spelled r-e-c-e-s-s-i-o-n. Record high crude oil prices

primed most free world economic engines to misfire, bringing on a surge in production and exploration — just as skyrocketing fuel costs arrived to hammer consumer spending. Natural

gas prices, closely linked with oil and the precursor of nitrogen fertilizers, climbed with oil. Then, like oil, natural gas choked.

Then came Uncle Sam's bank bailout

and spreading global financial shockwaves. A worldwide economic slowdown suggests falling demand for natural gas for nonagricultural industrial uses.

From June's wellhead peak of \$10.82, natural gas prices plummeted 33% by early October, according to the U.S. Department of Energy's Energy Information Administration. That projection was made before the Dow Jones went over the cliff. And the EIA warned that a major worldwide economic downturn would significantly impact prices for gas and oil.

N prices seem to be following world oil and natural gas downward. N fertilizers are directly related to the price of natural gas (methane), explains Eddie Funderburg, ag consultant for Oklahoma-based Noble Foundation. A ton of anhydrous ammonia fertilizer requires 33,500 cubic feet of natural gas — about 85% of the cost of manufacturing it.

Impact on inputs

Using the world price of \$7 per thousand cubic feet, it takes \$234.50 worth of natural gas to make a ton of anhydrous ammonia. Even with ample transportation and marketing margins added on, that's far from the \$1,000-a-ton anhydrous prices that were commanded earlier this year.

As of Sept. 26, U.S. natural gas inventories, according to EIA, were at 50 billion cubic feet above the five-year average. Domestic production is projected to increase nearly 10% for 2008, without tapping the country's newest and largest find in the Northeast.

Global demand for ammonia also rose with oil and gas demand. And ammonia manufacturers have responded, according to an October report by Global Industry Analysts. Pulled by rising fertilizer use in Latin America, Africa and Asia, future growth in ammonia production capacity has been targeted to those regions.

Global Industry Analysts projects worldwide ammonia supplies to rise by 2010. It projects world ammonia markets to climb from 147.6 million metric tons in 2008 to 167 million metric tons by 2012. However, that prediction is predicated on strong global economic growth and rising gross domestic product. Going into November, both were shrinking on a global scale.

In the past few years, the cost of natural gas on the U.S. market has become irrelevant to N price, points out Bryce Knorr, *Farm Futures* senior editor. The U.S. relies on imported N. Where N is made, prices are much cheaper than domestic natural gas.

Plummeting open market (speculative) N trading is also dragging down N prices. By late October, adds Knorr, fertilizer morphed into a buyer's market.

Farm gate urea prices aren't down to \$650 to \$700 a ton — yet. Without competition, Knorr points out, many dealers may be unwilling to write down their prices because they locked in at much higher prices.

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