



Market Overview

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Black Sea ammonia and urea supply constrained, as legal battle and plant shutdowns continue

The Yuzhny port on the Black Sea is one of the largest nitrogen export terminals globally and it is a key supply point for ammonia and urea entering Europe. However, throughout January, a series of plant shutdowns and a legal battle has brought shipments of ammonia and urea from the Black Sea to a near standstill. As a result, European buyers were left scrambling for product in early 2017.

Ukraine's Odessa Port Plant (OPZ) has suspended production of urea and ammonia indefinitely, since December 2016, because of unfavourable markets and the high price of natural gas supplied by national gas monopoly, Nafrogaz. In any case, OPZ is unlikely to secure natural gas from Nafrogaz in 2017 until the company's outstanding debt is paid. Therefore, OPZ is exploring alternative sources of natural gas.

The second major nitrogen supply disruption in the region is related to Russian ammonia. In this case, ammonia supply has been restricted because of a legal dispute between fertilizer producer Togliattiazot and Ukrainian pipeline operator, Ukrhimtransammiak. The dispute began in late December over a surcharge on ammonia transit tariffs and escalated when the pipeline operator refused to transport any of Togliattiazot's ammonia. Both sides of the dispute have held resolution talks but as yet, to no avail. Togliatti has the capacity to pump roughly 6,000 tonnes/day of ammonia to the port but this has ceased since 22 December 2016.

One of the most affected buyers has been Switzerland-based Ameropa, which is a leading buyer of Black Sea ammonia. The company has volumes committed under contract to customers in Morocco, India, Turkey and most notably for the European market, EuroChem in Belgium. However, the supply shortage left Ameropa scrambling to find product from other sources on a spot basis, namely Algeria, in order to fulfil its contract commitments to buyers.

Suppliers of ammonia and urea in the Black Sea region have been able to secure material from elsewhere, meaning that supply at the end-user level, at least at this stage, is so far uninterrupted. The major impact has been on supporting some price increases for nitrogen for some of the key products.

Key points

- Disruptions at Ukrainian Black Sea port causes supply shortages in Europe
- Modest recovery in AN and urea pricing continues
- Downward pressure on pricing continues in phosphate sector
- Potash demand robust heading into the new year
- Chinese phosphate producers reduce production, which alleviates some supply tightness
- K+S granted permission to dispose of saline wastewater from site in Germany and potash production resumes.



Nitrogen



Demand

Global demand for nitrogen fertilisers has remained somewhat weak following the winter holiday period, but this is largely seasonal. The European spring application period is on the horizon and therefore, demand is likely to increase towards the end of February and into March.

The supply issues out of the Black Sea have caused a slight uptick in demand in other regions globally, as buyers have had to look to securing quick spot deals to secure volumes for their customers. In order to meet the needs of Belgian producer EuroChem, Swiss based Ameropa quickly secured product from Algeria and France, to fulfil their contract requirements.



Supply

Production restrictions in the Black Sea region have also contributed to a slight tightening of supply in the European nitrogen market, at least in the short term. Two major Ukrainian urea plants remained offline in January, with Dnipro the only plant still in operation, although they are said to now be sold out until the end of February.

It is unclear how long supply of ammonia may be limited from the Black Sea, as a legal dispute between fertilizer producer Togliattiazot and Ukrainian pipeline operator Ukrhimtransammiak continues into February 2017.

Annual urea export volumes from China indicate that it exported 8.8 million tonnes of urea in 2016, down 35% from the record-breaking year of 2015. Exports are not expected to increase significantly in 2017, due to the domestic market providing better netbacks than the international market for Chinese producers. This will likely mean that there will be limited Chinese product entering the European market in 2017, similar to the situation seen through 2016.



Prices

The Black Sea AN nitrogen benchmark has continued its upward trajectory in recent months, rising to £0.45/kg N in December. This price movement was echoed in Yuzhny, where the granular urea pricing benchmark increased to £0.40/kg N in December. Modest price increases have emerged, following a tight supply situation in the Black Sea region, as buyers have had to pay a premium in order to secure cargoes for their contract customers.

That said, the current situation of limited supply from the Black Sea is unlikely to impact product availability for end-users of nitrogen significantly for the time being, because suppliers have so far been able to acquire product from other regions. A key impact is likely to be in providing some upward support to prices.



Phosphates



Demand

The phosphate market has continued to see weakness globally, in the absence of demand from some of its most important import markets in India and the Americas. Many buyers in these markets have taken to the sidelines, given that stock levels remain high.

European demand has diminished in recent months, due to a particularly cold spell of weather in many countries. Farmers are under no immediate pressure to secure deliveries, as spring plantings in most of the main phosphate-consuming regions of Europe typically commence towards the end of Q1.



Supply

Several Chinese phosphates producers have cut production, following a crackdown by the government on environmental pollution. Average operating rates at Chinese plants are said to now be averaging at 50%.

The overall impact on the global market is likely to be one of modest re-balancing. DAP stocks at the main Chinese export terminals were considerably lower in January, compared with H2 2016 and this should start to alleviate much of the substantial global glut seen throughout 2016 in Europe and most other consuming regions.

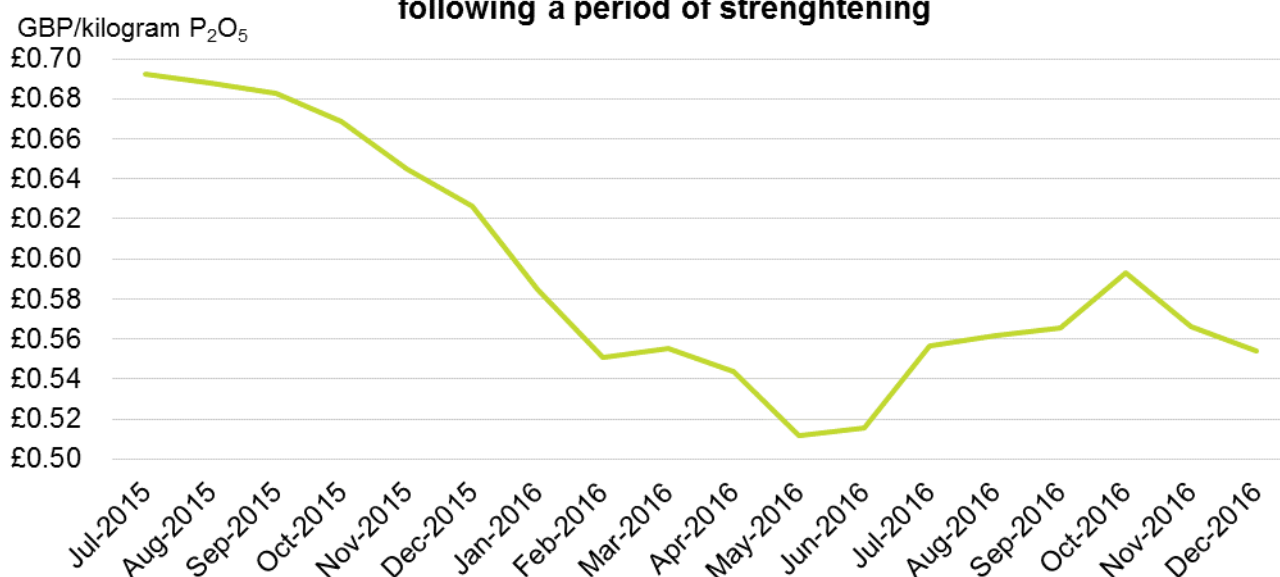


Prices

Global DAP pricing has remained fundamentally weak in recent months, with prices continuing to fall at the end of 2016. In December, the Baltic FOB price benchmark reached £0.55/kg P_2O_5 , which followed a slight uptick to £0.59/kg in October. The slight increase proved to be short-lived in October, as weak demand in the phosphate sector was unable to provide upward support to prices.

In dollar terms, the December Black Sea DAP price benchmark has stayed at its lowest levels since after the global financial crisis in 2008. Despite this, in GBP terms the price has trended slightly higher than the lows seen in the summer. This is reflective of the fall in the value of the pound following the vote to leave the European Union in June.

DAP prices decreased towards the end of 2016 to reach £0.55/kg in December following a period of strengthening



Source: ICIS Fertilizers

Note: DAP = diammonium phosphate.

Prices are FOB Baltic and displayed in GBP per kilogram and in nutrient terms, assuming 46% P_2O_5



Potash



Demand

Producer sentiment for potash demand has been steadily improving in recent months, as some of the major markets such as Brazil and China, are likely to show strong demand in the first quarter of 2017. Brazilian demand is currently supported by higher local currency prices for soybeans, corn

and sugar and this is likely to extend into 2017. China is expected to see a strong uptick in demand in 2017 compared to 2016, as Chinese buyers fill inventories, which were depleted during delayed contract settlements in 2016.



Supply

In Germany, K+S disclosed that it had a fire at its Hattorf potash site in the central region at the end of November 2016, which delayed the restart of operations at the site following a shutdown earlier in the month. The initial production curtailment was due to the company seeking permission to inject wastewater underground and for production to return to normal levels. MOP (potassium chloride) and SOP (potassium sulphate)

production is said to have been hampered during 2016.

On 23 December, K+S announced that it received permission to dispose of 1.5 million cubic metres of saline wastewater annually from its Werra site. The company said that normal production could resume in 2017, assuming a hydrologically normal year.

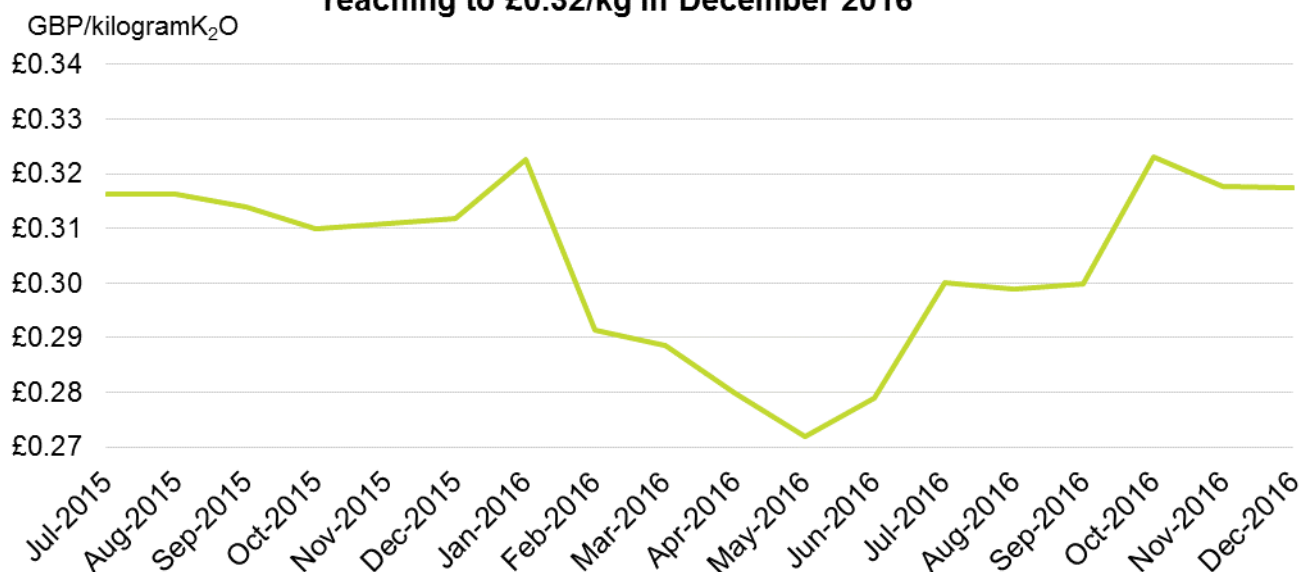


Prices

MOP pricing has increased incrementally from September through December, with the MOP Vancouver FOB granular benchmark resting at £0.32/kg K₂O, up from £0.30/kg seen from July through September. Prices remain at low levels in an historical context, but appear to have reached a floor in H2 2016.

The period of price stability and even some modest strengthening is likely to be indicative of the potash market becoming more balanced in recent months and this could pave the way for further, albeit small, price increases over the course of the coming year.

MOP Pricing has steadily increased since September 2016, reaching to £0.32/kg in December 2016



Source: ICIS Fertilizers

Note: MOP = Muriate of Potash. Prices are FOB Vancouver and displayed in GBP per kilogram and in nutrient terms, assuming 16% K₂O

Explanation of pricing

Black Sea AN, Yuzhny Urea, Vancouver MOP and Baltic DAP prices are international benchmark prices. Prices in which the prices are originally reported. The price is into the UK will vary from those shown in the report, also converted from product tonnes into nutrient kilogram depending on local market conditions and additional (kg) terms. An example of how the nutrient and kg freight and taxes. adjustment adjusts the price is shown in the table below.

Spec. of Product Product Price	AN	Urea	TSP	MOP
	33.5%	46.0%	46.0%	60.0%
	Nitrogen	Nitrogen	Phosphate	Potash
	335 kg N/t	460 kg N/t	460 kg P ₂ O ₅ /t	600 kg K ₂ O/t
GBP/t	GBP/kg N	GBP/kg N	GBP/kg P ₂ O ₅	GBP/kg K ₂ O
£400/t	£1.19/kg	£0.87/kg	£0.87/kg	£0.67/kg
£375/t	£1.12/kg	£0.82/kg	£0.82/kg	£0.63/kg
£350/t	£1.04/kg	£0.76/kg	£0.76/kg	£0.58/kg
£325/t	£0.97/kg	£0.71/kg	£0.71/kg	£0.54/kg
£300/t	£0.90/kg	£0.65/kg	£0.65/kg	£0.50/kg
£275/t	£0.82/kg	£0.60/kg	£0.60/kg	£0.46/kg
£250/t	£0.75/kg	£0.54/kg	£0.54/kg	£0.42/kg
£225/t	£0.67/kg	£0.49/kg	£0.49/kg	£0.38/kg
£200/t	£0.60/kg	£0.43/kg	£0.43/kg	£0.33/kg
£175/t	£0.52/kg	£0.38/kg	£0.38/kg	£0.29/kg
£150/t	£0.45/kg	£0.33/kg	£0.33/kg	£0.25/kg
£125/t	£0.37/kg	£0.27/kg	£0.27/kg	£0.21/kg
£100/t	£0.30/kg	£0.22/kg	£0.22/kg	£0.17/kg

Source: AHDB



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