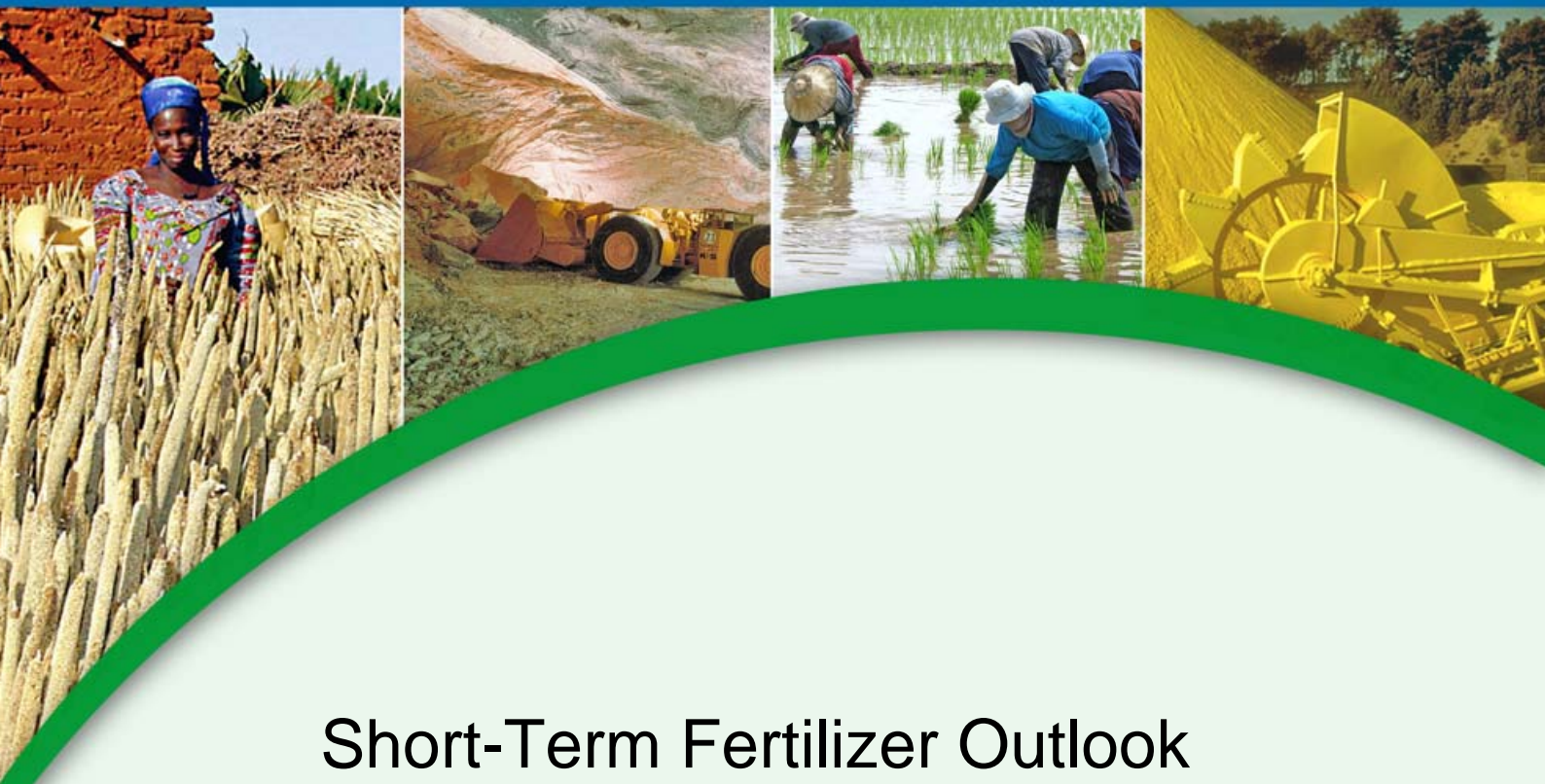




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Short-Term Fertilizer Outlook 2011 – 2012

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This Short-Term Fertilizer Outlook was prepared by Patrick Heffer, Director of the IFA Agriculture Service, and Michel Prud'homme, Director of the IFA Production and International Trade Service. It presents an overview of short-term prospects for world agriculture and fertilizer demand, as well as the global fertilizer supply and trade situation in 2011 and 2012.

This report is available to the general public on the IFA web site, or by request to the IFA Secretariat.

The Short-Term Fertilizer Outlook draws on the final versions of two IFA reports presented at the 37th IFA Enlarged Council Meeting held in Mayakoba in December 2011: *Short-Term Prospects for World Agriculture and Fertilizer Demand 2010/11-2012/13* (A/11/155) and *Global Fertilizer Supply and Trade 2011-2012* (A/11/140b). These two comprehensive reports are restricted to IFA members only.

The first part of the Short-Term Fertilizer Outlook looks at the global economic context and agricultural situation. The second part provides updated fertilizer consumption estimates for 2010/11 and demand forecasts for 2011/12 and 2012/13. The third part presents IFA's perspective on fertilizer supply and supply/demand balances for 2011 and 2012.

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PART 1 – GLOBAL ECONOMIC AND POLICY CONTEXT AND AGRICULTURAL SITUATION

1.1. Global Context

Economic recovery boosts commodity prices, but the debt crisis in the euro area and the United States heavily impacts the economic outlook

After a strong rebound of the world gross domestic product (GDP) in 2010, economic activity has weakened significantly since the second quarter of 2011. World output growth is seen as moderating considerably in 2011, driven by the sovereign debt crisis in the United States (US) and the euro zone, the impact of the earthquake and tsunami in Japan, and unrest in North Africa and the Middle East. Growth is seen as anaemic in the advanced economies, where the switch from fiscal stimulus to consolidation is dampening short-term activity and high unemployment is affecting confidence and consumption. In contrast, growth is expected to remain high in emerging Asia. In its World Economic Outlook, the International Monetary Fund (IMF) emphasizes that the risks are clearly to the downside, and that downside risks are much higher than six months ago. In its downside scenario, IMF speculates that advanced economies could fall back into recession in 2012. This hypothesis is confirmed by the Economic Outlook recently released by the Organisation for Economic Co-operation and Development (OECD), which sees the euro area entering a mild recession in the last quarter of 2011 and the first quarter of 2012.

With a strong rebound of economic activity in 2010 and the first quarter of 2011, commodity prices recovered in 2010 and continued to rise at the beginning of the year. They have remained firm since the second quarter. Food and agricultural commodity prices, influenced by energy prices, have followed a similar trend. The FAO Food Price Index peaked in February 2011 and remained very high until the end of the third quarter. IMF forecasts that food prices should decline modestly but remain firm through 2012.

Debt reduction, food security and a green economy are at the top of the international policy agenda

The current policy focus in developed countries is on debt reduction and economic recovery.

It will impact agricultural policies, as budgets for supporting agriculture may be declining. This is particularly relevant in the current context of revision of the US Farm Bill and of the European Union's (EU) Common Agricultural Policy.

In developing countries, food security remains high on the policy agenda. With increasing food prices, food import bills are surging and the number of hungry could rise again to over one billion. Countries such as China, India and Indonesia are attempting to increase food grain production by providing incentives to their farmers. Moreover, food security has been at the centre of the Group of Twenty's (G-20) agenda in 2011. The G-20 leaders have agreed to implement an action plan aimed at increasing farm production and reducing food price levels and volatility.

On the environmental side, discussions against the background of the forthcoming United Nations Conference on Sustainable Development (Rio+20) are focusing on a "green economy" in the context of sustainable development and poverty eradication.

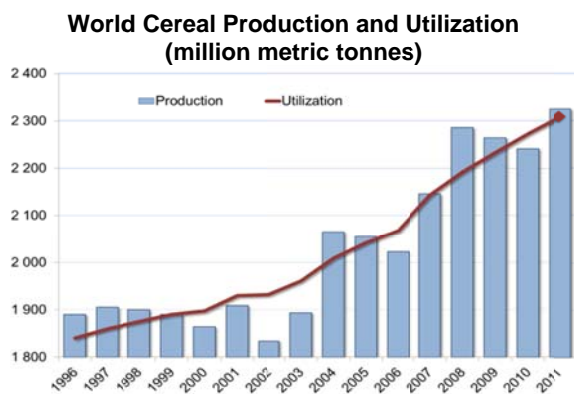
In comparison with these three leading issues, negotiations on the Doha Round and on a revised Kyoto Protocol are losing momentum.

1.2. Agricultural Situation

Agricultural market fundamentals remain strong, driven by a disappointing US harvest and robust food, feed and fuel demand

Some of the major agricultural regions have been affected by adverse weather conditions in 2011: drought in northern China during the winter; massive floods in Queensland (Australia) in January; an extended dry spell in the north-western part of the EU in the spring; very dry conditions in the US southern states and Mexico during most of the growing season; cool, wet weather in the US Corn Belt during spring crop sowing; and flooding in Thailand in October. Weather in the northern hemisphere during the winter cereal planting season has been relatively favourable in the main producing areas, even if more rain would be desirable in parts of North America and Europe. Moreover, weak La Niña conditions re-emerged in August and have slowly strengthened.

In 2011, in response to tight market conditions and attractive grain prices, farmers increased the planted area and crop productivity. Forecasts by the Food and Agriculture Organization of the United Nations (FAO), the United States Department of Agriculture (USDA) and the International Grains Council (IGC) all point to global cereal output growth of 3.5 to 3.7%, with a strong rebound for wheat and larger crops in the case of coarse grains and rice. The 2011 aggregate harvest is seen as 5% above the average of the past five years, establishing a new record projected at some 2.3 billion metric tonnes. The 2011 wheat crop would be the second largest harvest on record, marginally smaller than in 2008, while coarse grain and rice outputs are seen as reaching new highs. Soybean and rapeseed production is forecast to contract by about 2%, but this drop would be entirely offset by larger harvests of the other oil crops. Sugar and cotton outputs are seen as increasing by 4 and 8%, respectively.



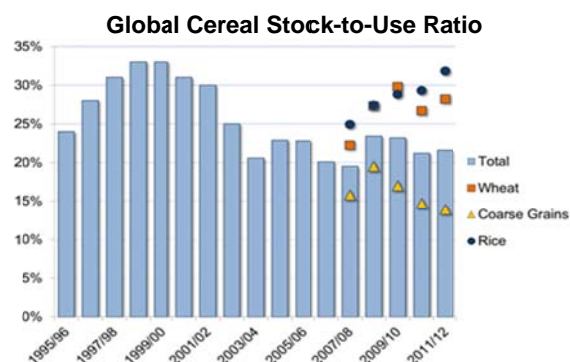
Source: FAO

With respect to regions, cereal production rebounded firmly in Europe after the drought-affected harvest in 2010 in the Commonwealth of Independent States (CIS). North American crop output is seen as down for the second consecutive year due to unfavourable weather across most of the US, which resulted in disappointing yields and unusually high land abandonment.

As regards the 2012 wheat harvest, the global wheat area is expected to increase by 1.6%. In addition, the area to be planted to maize in 2012 in the US would expand by 1.2%.

Driven by strong food, feed and biofuel demand, cereal utilization is seen as increasing by 2.5% in 2011/12. Oilseed uses are also projected to rise firmly, by almost 4%.

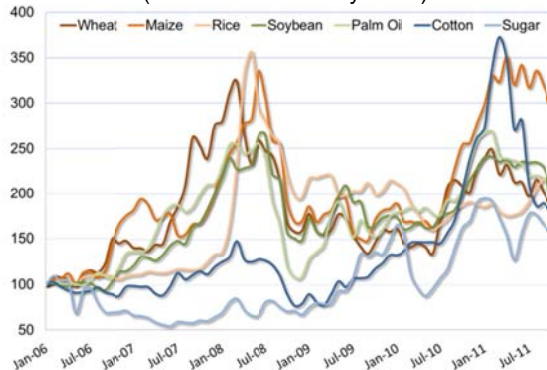
World cereal production is forecast to match utilization in 2011/12, resulting in relatively stable inventories. Stocks held by the major exporters would, however, decline by 17% for coarse grains and 4% for wheat. The world cereal stock-to-use ratio is seen as stable, at some 22% according to FAO and 20% according to USDA and IGC. The projected ratios for wheat and rice at the end of the campaign are considered to be satisfactory, while the ratio for coarse grains, which would drop for the third consecutive year, is very low. In particular, the ratio for maize in the US would fall below 7% by the end of the 2011/12 marketing year. The world stock-to-use ratio for soybean is seen as declining, while the ratios for sugar and cotton would strongly rebound.



Source: FAO

The prices of almost all agricultural commodities (with rice a notable exception) surged in the second half of 2010 and at the beginning of 2011. Prices remained high during the first half of 2011 before contracting in the second half. Current prices are, however, well above those recorded during the pre-food crisis period. Maize prices are particularly attractive compared to those of the other major agricultural commodities due to limited export availability in the US. High crop prices are driven by population growth, income growth and diet diversification, high energy prices and rising biofuel production, and declining growth in agricultural productivity. When combined with short-term shocks from weather-related production shortfalls, the trade restrictions imposed by some countries, speculation, and competition for land between crops, this results in high price volatility. Crop prices are likely to remain firm and volatile until the spring season in the northern hemisphere, as harvests in the southern hemisphere should have a limited impact on the outlook.

Relative Evolution of Selected Agricultural Commodity Prices (base 100 = January 2006)



Sources: Financial Times, IMF and MPOB

Current high agricultural commodity prices are boosting fertilizer demand in market-oriented economies as farmers try to optimize yields. If prices remain high in 2012, farmers will likely maintain high nitrogen (N) application rates, as in 2011, and will likely continue to replenish their phosphorus (P) and potassium (K) soil reserves, which they mined in 2008/09 and 2009/10. In countries less responsive to price signals, policy makers encourage farmers through subsidies or other incentives to increase productivity in order to enhance domestic food supply and ensure food security.

PART 2 – GLOBAL FERTILIZER DEMAND

World fertilizer demand grows firmly and achieves full recovery for all nutrients by 2011/12

After a strong recovery of N and P fertilizer consumption in 2009/10, global fertilizer demand is estimated to have increased by another 6.2% in 2010/11 to 173.0 million metric tonnes (Mt). This strong growth was triggered by the sharp rebound of economic activity and tight agricultural commodity markets. N fertilizer demand, which fully recovered in 2009/10 from the economic downturn, is seen as up 2.6% to 104.5 Mt. P fertilizer demand is estimated to have increased by 8.8% to 40.7 Mt, surpassing its 2007/08 record. After two consecutive depressed campaigns, K fertilizer demand strongly rebounded (+18%) to 27.8 Mt, but it would remain about 1.1 Mt below its 2007/08 high. Demand is estimated to have increased in all the regions but West Asia and Eastern Europe and Central Asia.

The largest changes in volumes occurred in East Asia (+2.8 Mt), North America (+2.2 Mt), Latin America (+1.8 Mt), South Asia (+1.7 Mt), and Western and Central Europe (+1.3 Mt).

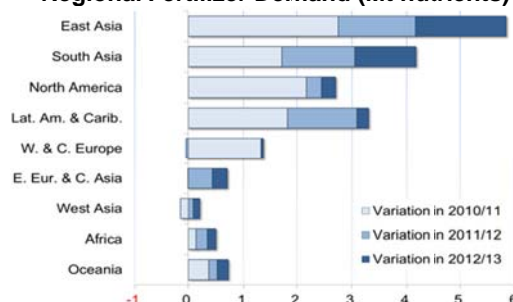
Global Fertilizer Consumption (Mt nutrients)

	N	P ₂ O ₅	K ₂ O	Total
07/08	100.5	38.4	28.9	167.9
08/09	98.2	33.6	23.4	155.2
09/10	101.9	37.4	23.6	162.9
10/11 (e)	104.5	40.7	27.8	173.0
<i>Change</i>	<i>+2.6%</i>	<i>+8.8%</i>	<i>+17.7%</i>	<i>+6.2%</i>
11/12 (f)	107.7	41.1	29.4	178.2
<i>Change</i>	<i>+3.1%</i>	<i>+1.0%</i>	<i>+5.7%</i>	<i>+3.0%</i>
12/13 (f)	109.5	42.3	30.4	182.2
<i>Change</i>	<i>+1.7%</i>	<i>+3.0%</i>	<i>+3.3%</i>	<i>+2.3%</i>

Source: IFA

In response to attractive agricultural commodity prices in 2011 and sound agricultural market fundamentals in the first half of 2012, world fertilizer demand is forecast to rise steadily in 2011/12 (+3.0%) to a record 178.2 Mt. N demand would increase firmly, by 3.1%, to 107.7 Mt as farmers optimize yields to benefit from current high crop prices. After an impressive 21% rebound between 2008/09 and 2010/11, P demand is anticipated to rise more modestly in 2011/12 (+1.0%) to 41.1 Mt. K demand would strongly rebound (+5.7%) for the second consecutive year, to a new high of 29.4 Mt. Total fertilizer demand is forecast to rise in all the regions but Western and Central Europe. The largest increases in volume are projected in East Asia (+1.4 Mt), South Asia (+1.4 Mt) and Latin America (+1.3 Mt).

Projected Evolution of Aggregate Regional Fertilizer Demand (Mt nutrients)

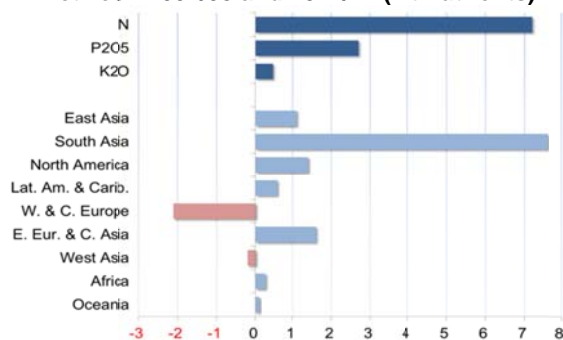


Source: IFA

When compared to the exceptional 2007/08 campaign, world fertilizer demand is anticipated to have fully recovered for the three nutrients, including K, by 2011/12. The situation is more contrasted at the regional level. Two regions, Western and Central Europe and West Asia, are still seen as using less fertilizers than in 2007/08.

Demand in Western and Central Europe is more than 2 Mt below the level of four years ago and is unlikely to fully recover in the foreseeable future. South Asia has been by far the main contributor to the expansion of world demand during these four years. This region alone accounted for three-fourths of the net increase at the global level. A sizable expansion of demand has also been recorded in Eastern Europe and Central Asia.

Anticipated Evolution of Fertilizer Demand Between 2007/08 and 2011/12 (Mt nutrients)



Source: IFA

Forecasts to 2012/13 are highly speculative due to the depressed economic context in the advanced economies, which could very well deteriorate in the last quarter of 2011 through 2012, dampening world economic activity. Agricultural commodity prices are seen as remaining attractive but highly volatile. Consequently, global fertilizer demand in 2012/13 would continue to grow, but at a more moderate rate than in 2011/12. Aggregate demand is forecast as up 2.3%, to 182.2 Mt. Demand for P and K would grow firmly: +3.0% to 42.3 Mt for P, and +3.3% to 30.4 Mt for K. A more moderate increase of 1.7% (to 109.5 Mt) is projected for N. Demand is forecast to expand for all the nutrients in all the regions. The largest increases in volume are projected in East Asia (+1.7 Mt) and South Asia (+1.1 Mt).

The forecast is subject to high economic uncertainty

The baseline forecast for 2012 and the first half of 2013 has a high level of uncertainty. The main uncertainty relates to the evolution of the debt crisis affecting the euro area and the US. In 2011/12, the downside risk is seen as slightly higher than the upside risk since the economic downturn may impact fertilizer demand in the first half of 2012. The downside risk is seen as much greater in 2012/13, in that the economic crisis may impact the whole campaign.

At the nutrient level, the downside risk is proportionally greater for P and K than for N because farmers tend to cut P and K applications before reducing N rates, as experienced in 2008/09.

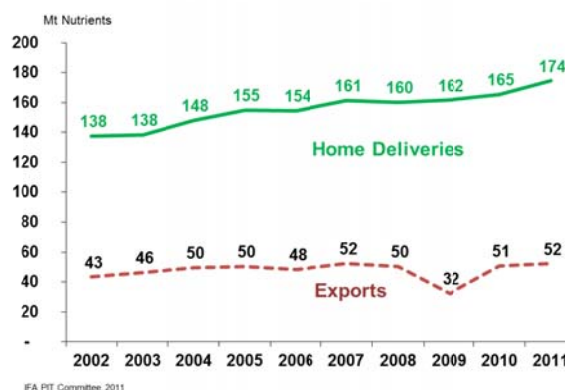
PART 3 – GLOBAL FERTILIZER SUPPLY

Global nutrient demand in 2011 continued to recover from the depressed level of 2008. Fertilizer demand was firm in North and Latin America, South Asia and Central Europe, while recovering in Eastern Europe and Central Asia. The rate of growth is seen as slowing down in East Asia, West Asia and West Europe.

Global total nutrient apparent consumption in 2011 rose by 5% compared with 2010, to reach 227 Mt *nutrients*. Close to two-thirds of the year-on-year increase has come from the fertilizer sector. Nutrient supply mainly expanded in response to strong domestic sales. Home deliveries rose by 6% to 175 Mt *nutrients*, while aggregate exports increased by less than 3% compared with 2010, to 52 Mt *nutrients*.

Global total nutrient production met, and in certain cases surpassed, total consumption. Production of ammonia, phosphate rock and potash totalled 227 Mt *nutrients*. In 2011, global nutrient capacity grew at a slower rate than that of production, adding close to 11 Mt *nutrients* and representing an aggregate increase of 4% compared with 2010. Globally, the fertilizer industry has operated at 83% of installed capacity compared with 82% in 2010.

Global Nutrients Deliveries 2002 - 2011

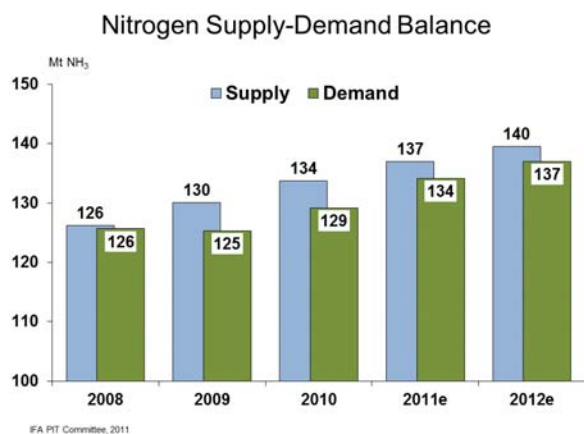


The main developments in international trade have included a rather static level of imports for nearly all products, firm import demand in South Asia and Latin America, and a recovery of fertilizer demand and imports in North America and East Asia. As in the past two years, China's export tariffs continue to impact the global trade of urea and DAP. A reduction of exports from China has created sales opportunities for other exporting countries. However, China has exported a significant tonnage of NP to India and South-East Asia.

Nitrogen Outlook

Robust demand for nitrogen products prevailed in 2011, notably in the fertilizer sector, supporting a 4% expansion in global ammonia and urea production. Global ammonia trade in 2011 grew moderately by 2% to 17.7 Mt NH₃. Seaborne trade in 2012 is projected to reach 18.5 Mt. Global seaborne merchant ammonia capacity rose by a net 0.5 Mt in 2011, reaching 19.2 Mt. A further net increase of 0.3 Mt is projected in 2012, to 19.5 Mt. Global ammonia capacity is projected to grow by 5% in 2012 to 208 Mt NH₃.

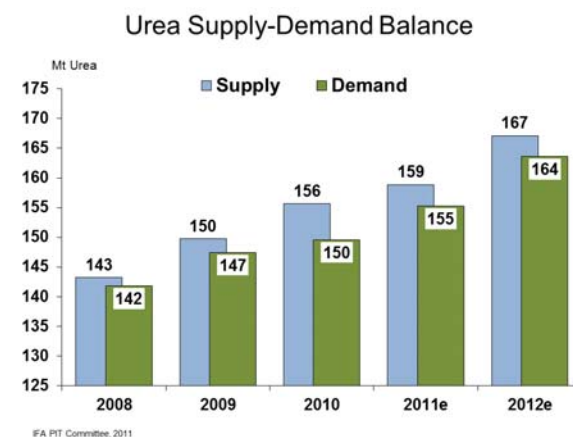
The supply and demand balances for nitrogen show a marginal potential surplus of less than 2.5 Mt N in 2012.



IFA estimates that global urea capacity would be close to 184 Mt in 2011 and 196 Mt in 2012. China will contribute a total of 7 Mt in 2011/12. However, new capacity is emerging outside China while capacity growth is slowing down in that country.

The global urea supply/demand balance shows a lower potential surplus in 2011, at 3.6 Mt. This surplus is anticipated to remain steady in 2012.

Overall, the potential surplus would represent less than 2% of available supply. The bulk of new capacity that is planned to come on stream in 2012 would emerge in the second half of the year.

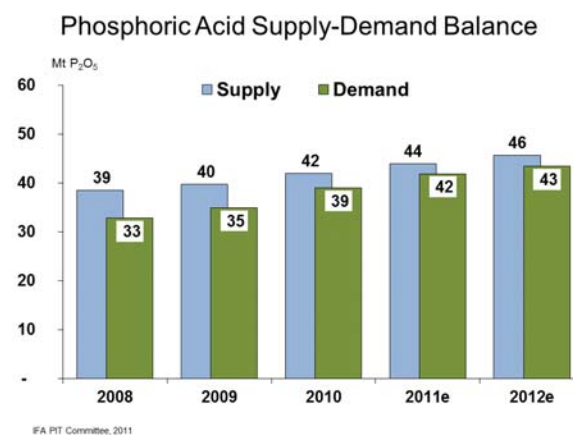


Phosphate Outlook

World phosphate demand remained firm in 2011, consolidating the recovery seen in 2010. Consumption of phosphate products rose in almost all consuming countries, thus supporting record levels of production. Global phosphate sales expanded by 6% in comparison to 2010, with all this increase resulting from higher domestic deliveries.

No merchant acid capacity came on stream in 2011. Global phosphoric acid capacity in 2012 is projected to expand by 2.1 Mt to 54.1 Mt P₂O₅. China will account for most of this increase.

The global supply/demand of phosphoric acid shows relatively tight conditions in 2011. These conditions are expected to continue into 2012, with a very marginal potential surplus of 2.3 Mt P₂O₅.



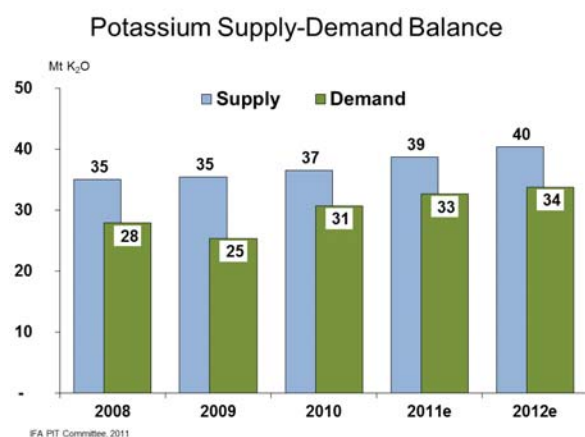
As regards MAP, DAP and TSP, global processed phosphates capacity will reach 40.5 Mt P_2O_5 in 2011 and 42 Mt in 2012.

New DAP-MAP capacity emerged in 2011 in China and Saudi Arabia. The main additions to capacity in 2012 will occur in China.

Potash Outlook

Global potash production in 2011 would have increased by 5-7% compared with 2010, on the back of resilient demand. Global MOP sales in 2011 are estimated at 55.7 Mt, compared with 55.2 Mt in 2010. Global potash capacity in 2011 would have increased by 6% to reach 44.6 Mt K_2O , and would further expand by 5% in 2012 to 46.8 Mt K_2O . In product terms, global MOP capacity would increase to 74.5 Mt in 2012. With the exception of expansions in China, all increases in capacity are in exporting countries.

The derived potash supply/demand balances show a resilient potential surplus of close to 6-6.5 Mt K_2O in 2011 and 2012. An increase in supply would likely be absorbed by new incremental demand.



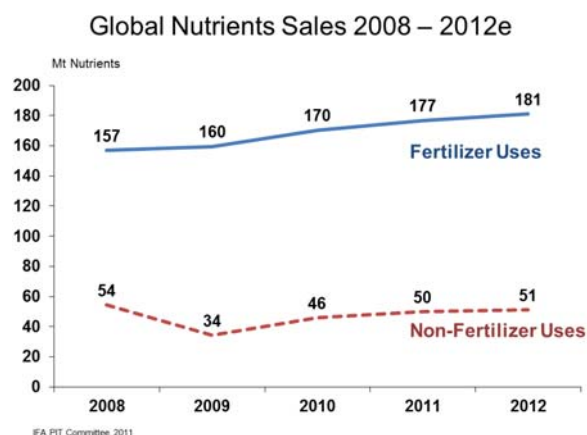
Sulphur Outlook

In 2012, world elemental sulphur production is forecast to grow by 7% compared with 2011, to 54.6 Mt S. Global consumption of elemental sulphur is projected at 58 Mt S, showing robust growth of 4.5% compared with 2011, on the back of an important increase in demand in industrial sectors and relatively firm fertilizer consumption.

The prevailing supply and demand imbalance will persist through 2012, but at a lower level due to higher production.

Sales and Trade Prospects in 2012

Global nutrient sales prospects in 2012 would signal overall growth of 2.6%, reaching a record level of 232 Mt *nutrients*, with production increases of about 2.5% for nitrogen, 3.5% for phosphate products, and up to 4% for potash.



Trade prospects for merchant ammonia, urea, processed phosphates, and potash in 2012 are positive, with volumes growing by 4-8% compared with 2011.

Relatively firm import demand is anticipated into Asia, Africa and West Asia, and to a lesser extent into Europe and Latin America. DAP imports may rebound strongly, with potential growth of 10-15% compared with 2011. Global sulphur trade in 2012 could be static, with rising import demand in North Africa, Latin America and India being offset by reduced shipments into China and the US.

GLOBAL SUPPLY/DEMAND BALANCES: 2010 – 2011 – 2012

Products			2010	2011	2012
Nitrogen <i>Mt N</i>	Supply*		133.7	137.0	139.5
	Demand**		129.2	134.2	137.0
		<i>Potential balance</i>	<i>+4.5</i>	<i>+2.8</i>	<i>+2.5</i>
Urea <i>Mt urea</i>	Supply		155.6	158.9	167.1
	Demand		149.6	155.3	163.6
		<i>Potential balance</i>	<i>+6.0</i>	<i>+3.6</i>	<i>+3.5</i>
Phosphoric acid <i>Mt P₂O₅</i>	Supply		42.0	43.9	45.7
	Demand		39.0	41.9	43.4
		<i>Potential balance</i>	<i>+3.0</i>	<i>+2.0</i>	<i>+2.3</i>
Potash <i>Mt K₂O</i>	Supply		36.6	38.5	40.3
	Demand		30.7	32.7	33.8
		<i>Potential balance</i>	<i>+5.9</i>	<i>+5.8</i>	<i>+6.5</i>

* Supply = effective capacity (capability)

** Demand = all uses: fertilizers, industrial uses, losses, unallocated tonnages.

IFA Production and International Trade Committee – December 2011