



MAGU INTERNATIONAL LTD.

Admin. Office: Eben 14, A-4202 Kirchsschlag, Eben 14, Austria
Phone: +43-660-76 81 544 ♦ Facs. : +49-721-151 225 712
Homepage: www.magu-international.com ♦ Email: office@magu-international.com

INFORMATION ABOUT PRICES IS BASED ON THE SITUATION IN OCTOBER 2006

Reality and Fantasy UREA-SUGAR-CEMENT

Each month we receive dozens of inquiries from buyers and brokers regarding Urea, Sugar and Cement.

When a target price is mentioned at all, it turns out that, in more than 90% of the cases, this price is far removed from the reality of the market.

The majority of the inquiries originate from brokers who have no connection to the product. „Product knowledge“ is passed through several brokerage layers where concern is primarily, if not exclusively, for price and targeted commission.

In this internet age, wrong information and disinformation spread quickly. The „shelf life“ of this information appears almost limitless. It is passed on from broker to broker and establishes itself eventually as fact and perceived reality in the minds of its recipients.

OFFER SOURCES

Offers to be found on the market can be divided into three groups:

1. Sham offers
2. Offers from intermediaries
3. Offers from producers

SHAM OFFERS

The majority of offers circulating on the internet are in this category. Offers are made attractive with low prices but the goal of the offerer is to gain an L/C, bank guarantee or similar document for a few weeks or months.

In standard contracts, the issuance of a bank security is initially required from the purchasing bank, followed by within, as a rule, ten banking days, the Performance Bond (PB) and Proof of Product (PoP). The PB in the amount of two percent is, for example, to activate the L/C and convert it to an operative bank instrument. The delivery period of the ordered product, according to the contract, is 30 to 45 days.

Should the delivery not be made, the L/C from the selling bank would have to be returned immediately. Anyone who has been in this situation knows what problems can arise at this point. In some circumstances, it can take months for the buyer's L/C to be returned.

Meanwhile, the L/C is used as background for financial dealings. This is the actual goal of the fraudulent dealer. By the time the buyer finally notices that no goods have been delivered, the damage is done. In most cases, the seller was previously unable or unprepared to present valid proof of his ability to deliver, much less proof whether he ever delivered the ordered goods.

A PB of two per percent can be absorbed, considering the profit realized from an operative bank instrument within a minimum of six weeks.

The scenario of these sham offers can be summarized as follows:

- A teaser with a low price, which can deviate as much as 50% from the actual market price.
- Issuance of an L/C and, following this, if at all, deposit of a two percent PB.
- The „deliverer“ , using the L/C, establishes a line of credit at his bank (sometimes an inoperative L/C is enough to accomplish this).
- The „deliverer“ does not actuate his credit line.
- The „deliverer’s“ bank refuses to return the L/C to the buying bank, regardless of the previous agreement, and attempts to involve the buyer in the incurred damages, using the „hostage“ L/C as leverage.
- The buyer receives no goods but carries all the costs. Under the most favorable conditions, the PB contributes to the reduction of damages.

(Sham) offerers appear, as a rule, to be extremely sure of themselves and evade all demands for proof of their integrity. Should one of these, however, be convinced to present a demanded bank confirmation, it might look like this:

„We confirm that Firm XYZ has recently become a client of ours and maintains an account with us. We would be glad to support this client with his or her business dealings.“

This „qualitatively valuable“ bank confirmation was adequate, according to a deliverer, to initiate a 50 million deal.

Unfortunately it is exactly these sham offerings, with their teaser prices, to which the majority of inquiries are drawn. All other offers with higher prices are classified as unacceptable, even though they might have a more substantial background.

OFFERS FROM INTERMEDIARIES

As a rule, prices in this category are higher than in the obvious sham offers. This does not mean, however, that one will not encounter a sham offer here. A close look at the payment terms and transaction procedures, as well as a timely, binding involvement of the selling bank can safeguard against damages.

Before issuance of an L/C, either a bank Proof of Product should take place or, at least, there should be a bank confirmation in which it is confirmed that the seller has an existing delivery contract with a producer or has had successful similar transactions with this producer in the past.

As soon as product demand exceeds supply or consistent good business ensues, there is increasing chance that financial firms/hedge funds, among others, are involved with the product.

These firms conclude long term agreements with the producer and assure themselves, either directly or through options, a large part of the future production. Under these conditions, it can happen that prices remain fixed over a longer time period and thereby become partially independent of future cost developments.

The increase in energy costs (a factor not to be underestimated with Urea, Cement and Sugar) is thereby not fully reflected in the prices of the intermediary. Whoever buys at old prices and resells can, as a rule, offer more favorable prices than the producers, who allow their offers to be influenced by the current cost situation.

A further, decisive factor for intermediaries is the fact that they buy goods in great quantities from the producers. Obviously, the price for 20 million MTs of cement will be different than that for 100,000 MT.

While the producer has to continuously finance his running operational costs, the good intermediary has the optimal possibility to prepare with his bank the financing and transaction of the prospective deal. Both the bank instrument made available by the buyer for a period of a minimum of 45 days until delivery date (valid usually for ongoing deliveries in this period) as well as the payment transaction with the producer work out advantageously for the intermediary.

Since the bank instrument (usually an L/C) for the bank of the deliverer must be one-time transferrable in the direction of the producer upon receipt of the goods, the intermediary has only negligible financing costs other than the costs for reserving production (option).

Thus an intermediary can, at certain times, use a great price range when making offers. The volume discount, for example, with 20 million MT as well as the frozen price and the favorable financing possibilities can have a favorable effect on the offers made to the final buyer. Ultimately, intermediaries have an interest in converting as quickly as possible the goods which they have contractually reserved with the producer.

Offer prices which are demonstrably below the production costs of the producer are a definite exception among reliable intermediaries and most likely belong in the „sham offer“ category.

Nevertheless, it is possible to obtain the goods through reliable intermediaries considerably cheaper than by direct order from the producer. Price differences up to 30% can be classified as realistic in 2006, as far as Urea and Sugar are concerned.

Reference point should always be the current market reports, called up or subscribed to on the internet, for the three named product groups

Since there are occasionally inquiries from buyers also in the role of resellers, it is to be noted at this point that an L/C is transferrable only once. A number of deals have fallen through because the reseller could not transfer to the intermediary the L/C issued by the final buyer. Many have not had the margin to have a new L/C in the direction of the intermediary issued themselves.

For such resellers, it is recommended that they conclude a normal commission agreement with the intermediary which will be secured upon presentation of the L/C by a bank-confirmed payorder. Suggestions to transact business directly with the producer rather than with the intermediary, are not only refused by almost all intermediaries, but would also mean that the reseller could not get a nibble of the intermediary's reserved share. A substantially higher purchase price would be the consequence.

OFFERS FROM PRODUCERS

Assuming that producers possess the open capacity, and are prepared to handle inquiries of 12,500 MT (minimum capacity for a shipment) or more, the price might well be higher than through a reliable intermediary for the reasons given above.

The market price for a spot delivery of Urea of 12,500 MT from the producer is approximately 200-220 USD FOB. Shipping costs add an additional average 40 USD/MT, resulting in a CIF price of up to 260 USD.

Many buyers want to or are able to issue their L/C only for 1-3 deliveries in order to exercise an option for further deliveries. This set-up, as a rule, leads to a transaction on a spot price basis. Neither the producer nor the intermediary want to reserve, without the protection of an L/C, quantities which may later not be accepted, in the meantime, however, could have been sold.

Although the buyer buys direct from the source, it may be that a „transferable“ L/C is required; this when the producer has interposed if possible his own, but independent, marketing company. This company retains its marketing commission (divisible L/C) and passes on the rest to the producer.

This set-up is the rule with deliveries from Russia and the Ukraine.

THE MARKET

Summary of recent spot sales							
Product	Origin	Seller	Buyer	Destination	'000t	\$pt	Ship
Urea	Yuzhnyy	IBE	ConAgra	Nigeria	10	220 fob	F
	Yuzhnyy	Gorlovka	Trader		6-7	217 fob	M
	Yuzhnyy	Mekatrade		Nigeria	20-25		F
	Black Sea	Trammo	Igsas	Turkey	7	Lo-230s cfr 180d	F
	Romania	Trader	Igsas	Turkey	10	243 cfr d free	F/M
	Libya	NOC	Helm	Turkey	20	215 fob	F
	Muuga	Carbochem	Trammo	Cameroon	15	220 fob	F
	Riga	Alpha M	Nitron	Peru	20	@215 fob	F
	Qatar	SK	SFC	Korea	20	259-260 cfr	M
	Qatar	Toepfer	CFC	Sri Lanka	12	267.92 cfr bagd	M
Gran	UAE	ETA	CFC	Sri Lanka	12	268.92 cfr bagd	M/A
	Venezuela	IPSL	CMF	France	20	230s fob	F
	Venezuela	IPSL	Nitron	Peru	10		M
	Egypt	Trader		Italy	5-6	\$260s cfr d free	F
UAN	Romania	Keytrade	ConAgra	US	25	193 cfr	F
Amsul	Black Sea	Kuibyshev	Helm		15	75 fob	
DAP	Russia	Witraco	Shriram	India	30	Low-280s cfr	F
	Russia	ICEC	Engro	Pakistan	30	281 cfr	M
	Russia	Witraco	Nat Bank	Ethiopia	2 x 25	288.43 cfrlo bag	M/A
	Lithuania	Lifosa	Nat Bank	Ethiopia	25	295.50 cfrlo bag	M/A
	Russia	Keytrade	Apromaco	Vietnam	12	288-289 cfr	F
	Tunisia	GCT	Various	Italy	2 x 5	265 fob	F
	Morocco	OCF	Blender	NW Europe	5-6	262 fob	F
	Korea	Namhae	Vinacam	Vietnam	5	High-290s cfr bag	F
		ConAgra	Maccio	Uruguay	5	283 cfr	F
	MAP	Morocco	OCF	Blender	NW Europe	5-6	265 fob
Ammonia	Yuzhnyy	Trammo	Namhae/Inc	Korea	35		J
	Yuzhnyy	Nitrochem	SFC	Korea	35		F
	Qatar	Sabic	GSFC	India	14	360.25 cfr 60d	F
	Iran	Trammo	IFFCO	India	19	363.50 15d	F
	Bdesh	Mitsui	CFL	India	2	363.50 cfr 15d	F
Sulphur	Qatar	ICEC	Adani	India	12-13	Low-80s cfr	F
	Iran	ETA	DMCC	India	5	Mid-80s cfr 15d	F
GMOP	Israel	ICL		Thailand	7	230 cfr	F
SOP	Germany	K+S	PFI	Greece	5-6	High-€240s cfr	F

Volkmar Lewerenz
Diplom Volkswirt

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