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Farmers Delay Fertilizer Purchases

Wait-and-See Attitude on Fertilizer Buys May Clog System in Spring

By Susanne Stahl, DTN Staff Reporter

ST. PAUL, Minn. (DTN) -- Many fertilizer dealers are in a bind. Falling crop nutrient prices along with a prolonged harvest that pushed fall applications back 50 percent to 60 percent of normal in some areas has left them stocked with higher-priced inventory that growers are reluctant to take off their hands.

Mark Palmquist, chief operating officer of agricultural business for CHS, described what happened this season as a perfect storm. "We had a situation where product was tight and demand was very strong," he said. Brazil and India were coming in and buying product and vessels were being diverted away from the U.S.

"Prices were really skyrocketing and in typical fashion in a modern manufacturing business, they responded to that great demand and great prices, and then they over-responded," Palmquist said. "And so we turned this thing on a dime and now have a very tough supply situation," aggravated by the international credit crisis and delayed harvest. "The supply chain is backed up and it's getting plugged."

That could cause trouble for growers who wait until spring to book their crop nutrient needs. "We have the potential for urea, UAN, phosphates and, to a certain degree, potash to have some supply issues this spring, depending on how long the grower waits to make a planting decision," said Tim Chrislip, director of product management and business development of crop nutrients for CHS. "As long as the grower's sitting out, the dealer's sitting out. They got hurt so badly and they saw this price crash so hard, that they're not willing to step in front of the grower and bring product in in anticipation of what the grower may need.

"So the market is at a standstill and if that continues with urea, for example, until the end of January, at that point we're getting to the place where it's too late to line up the cargos, get the vessels, get them over here, get them on barges and get them up the river and get product where you need it," he said. "It simply takes too long."

PRICE BIGGEST CONCERN

But for now, growers' biggest concern seems to be price, not product availability.

This is the first year in 10 that Ridgeville, Ind., farmer Steve Georgi hasn't purchased any fertilizer inputs for the upcoming growing season.

He applies hog manure to supply the soil's P and K needs, and in the past he has done a fall application of anhydrous with N-Serve; however, he's moved away from that practice due to problems with leaching and denitrification.

Georgi's ordered all his seed for 2009 -- he's planning to put 60 percent of his acres to soybeans with the other 40 percent going to corn -- and he's looking to contract for his fuel needs in January, but he's holding off on fertilizer indefinitely.

"I think the market can't do anything but get better; my strategy is going to be not to do anything until I have to," he said. "Cash will be king -- the more of it you have, the more bargaining power you have."

Between his own ground and the custom work he does, Georgi farms about 2,300 acres, which he says is not so many that he can't be flexible. He'll start with an application of anhydrous preplant and, if planting isn't done by the end of April, make a sidedress application later.

Getting a good price on fertilizer is going to be important this year, he said. "I wouldn't hesitate to leave my usual suppliers this year if somebody down the road is offering something cheaper; not everybody's going to help you out," and growers will have to look for their own deals.

BE CREATIVE

Les Imboden is planting 100 percent corn this year on 5,000 of the acres he farms near Circleville, Ohio, and whatever the grain or fertilizer price, he won't be cutting back on nitrogen inputs.

"I plan to apply just as much nitrogen as what we've been doing because you still have to produce the crop -- especially for corn, pull back on nitrogen and you pull back on yield," he said.

What he will be doing, however, is getting more creative. "We don't usually use urea, but this year we might," said Imboden, who's also close to pulling the trigger on some 28 percent liquid nitrogen.

Not all the fertilizer that comes up the river is prepriced, he said, and he's considering purchasing

some urea off the barge. "There's some that's there to be negotiated -- about one-third is not yet priced -- and there are bargains out there if you can find the right person to talk to."

If Imboden does buy urea at the river, he'd have to haul it about 120 miles. "You wouldn't want to drive that far for it," he said. But if you're delivering grain to the river because basis levels are a little better, it works to backhaul.

He's converted some machinery storage areas to temporary storage for about half his urea needs, and he's considering building some more. "With demand from China and Russia, a big part of the equation (for success) will be if you have the product when you need it," he said.

LOOK AT NITROGEN OPTIONS

St. James, Minn., farmer Matthew Wolle started purchasing anhydrous for the 2009 growing season in February. By July he'd acquired 80 percent of his anticipated fall needs.

"I thought it'd be prudent (to prepay) because everything said nitrogen prices are going to go higher because corn prices are going higher, so we bought in increments to spread out the risk," he said.

Wolle planned on selling grain in '09 and 2010 to offset those purchases, but "grain markets went a little crazy and I held off a little bit. I knew I needed to sell this amount to offset risk, but emotions take over -- so I did some, but not enough."

Wolle, who farms about 3,000 acres, wrapped up harvest a week before Thanksgiving, and he got about half his usual fall anhydrous applications done. "I was just in the co-op discussing the booking statement," he said, "to see if they would charge us to hold those unused nitrogen tons until spring."

Though he generally favors anhydrous because his operation is set up to use it, Wolle said he'd price UAN and urea for spring nitrogen needs as well before making a decision, likely sometime in January or February.

KEEP LINES OF COMMUNICATION OPEN

Getting our arms around real demand in the spring is something that has to happen, and that goes back to communication, Chrislip said. "Are you really going to cut back on application? If you do, is it 20 percent or 50 percent? Those kinds of conversations need to happen to assure that this pipeline continues to have enough product. And I think it would better assure the grower of a more competitive price," he said.

But this isn't the first time growers have dealt with concerns regarding product availability. "Unfortunately, we've had this concern for a number of years," said Bruce Vernon, sales and marketing manager for MKC in Moundridge, Kan. "This could be the fifth year in a row that we've cried wolf."

Each time the industry has had the capacity and Mother Nature has allowed us to make product flow -- spring rains have delayed application and allowed us to recharge inventory, he said. "But we've been dodging the bullet on supply and demand, and I think there's a possibility that, because of (downed production) through the winter months, product could get tight in some markets as we come into spring."

Growers need to talk to their dealers, said Cheryl Schmura, vice president of crop nutrients for CHS. "This high-priced inventory has created a wall," she said. But just like growers need to have an open line of communication with their bank about the issues they're facing, they need to "talk to their dealers so there's an ongoing communication so that as things change, you can stay in step."

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