Rising Price Of Anhydrous Ammonia Is Only Natural

URBANA, ILL.

As the price of natural gas goes up, the cost of producing anhydrous ammonia rises as well, according to a recent report from the University of Illinois.

"The two are related because natural gas is a major input into the production of anhydrous ammonia," said agricultural economist Gary Schnitkey. "It is the major variable cost item in the production of anhydrous ammonia."

Schnitkey's team looked back at the ratio of anhydrous ammonia divided by natural gas prices (anhydrous per ton and natural gas per 1,000 cubic feet).

From 2001 through 2006, anhydrous ammonia prices were 49 times higher than natural gas prices.

"Since that point in time, that ratio has been much more variable and in general much higher," Schnitkey said.

"In recent months, the prices have been over 100 times higher. Since 2006, we've seen commodity price increases.

As the price of corn goes up, production of corn and wheat also go up. There is more demand for nitrogen fertilizers, and fertilizer companies also have to take profits," he said.

Schnitkey said before 2006 the price of anhydrous ammonia was more cost driven, and now other factors are impacting that price.

"If you're watching the price of anhydrous and want to predict increases, look at what's happening with corn prices. Keeping a close eye on that relationship could help corn growers hedge their prices," he said. "If you look at the price of anhydrous ammonia and at corn prices, you'll see that the anhydrous price follows the corn market."

The Illinois Production Cost Report by the Agricultural Marketing Service from Oct. 13 placed the average Illinois price of anhydrous ammonia at $853 per ton, up $52 per ton from the July 7 price of $801 per ton.

"Since 2007, the ratio has been spiky," Schnitkey said. "The ratio reached a high of 123 in October 2008. This high was followed by a decline, corresponding to declines in prices of many assets as the financial crisis became evident in 2008. The ratio has been high again since late 2010 through the first half of 2011, averaging close to 130."

Both of the spikes have been associated with high corn prices.

Schnitkey said high corn prices could signal shifts in crop production that could change the demand for nitrogen fertilizers. It could also signal profit taking on the part of fertilizer manufacturers.

"In any case, ammonia-to-gas price relationships have become much more variable since 2007. This suggests that ammonia price variability is not being caused by input cost factors but is more likely due to demand factors," he said.

The full report is available online at http://www.farmdoc. illinois.edu/manage/newsletters/fefo11_18/fefo11_18.html. Δ