

India

Underweight (no change)

Chemicals - Overall

Urea shortage=+ve ammonia & ammonium nitrate

- The global urea market is facing tight supply due to factors like China's export decline, increased demand in India & Europe, and European plant shutdowns.
- Rising urea spreads in the Middle East, but limited capacity, will lead to a rise in urea prices, forcing European urea plants to restart on imported ammonia.
- The interplay between urea and ammonia will lead to higher ammonia as well as urea prices. Nitric acid and ammonium nitrate prices will also rise.

Rising urea demand & spreads over NH3 lead to higher NH3 prices

The global urea and ammonia markets are undergoing significant changes due to various geopolitical and economic factors. China has ceased urea exports, leading to tight supplies and higher prices globally. The reduction in China's exports is compounded by the rise in both Indian and European demand. Please note that Europe was a traditional importer of urea from Russia; however, due to geopolitical problems it has imposed heavy tariffs on Russian imports. High gas prices and energy costs in Europe mean that the production cost of urea (without carbon taxes) exceeds US\$525/t. As a result, demand for urea from the Middle East is rising, which has led to the FOB urea spreads over ammonia reaching a nine-year high (barring the brief, chaotic post-Covid pandemic period) at US\$220/t. This high urea spread will lead to more urea exports from the Middle East. Consequently, spot NH3 shipments are likely to decrease, forcing a rise in the prices of ammonia.

The current scenario will lead Europe to restart its urea plants

Apart from Europe, the rest of the world is operating its urea plants at around 90% of their capacity, while European capacity utilization is nearly 40%-45%. Producing ammonia and then urea is not viable for Europe as they can always import ammonia at a cheaper rate rather than producing it at a higher cost. Importing ammonia from the Middle East is more cost-effective for Europe than paying extremely high spreads on urea. Moreover, the Middle East's urea capacity may not be able to fully cater to European demand, and so Europe's imports of ammonia will increase, leading to a rise in Middle East ammonia prices.

Prices of ammonia, urea and ammonium nitrate will rise

The interplay of geopolitical tensions, energy shortage, and market shift is reshaping the fertilizer industry, potentially leading to higher input costs for industries reliant on ammonium nitrate, such as mining and construction. These price fluctuations and supply challenges are likely to persist, creating both opportunities and risks for companies in the sector. We believe ammonia, urea as well as ammonium nitrate prices will rise in the coming quarters. Please see our recently published report: ([IN: Chemicals - Overall - Urea, NH3 and NH4NO3 prices to rise](#)).

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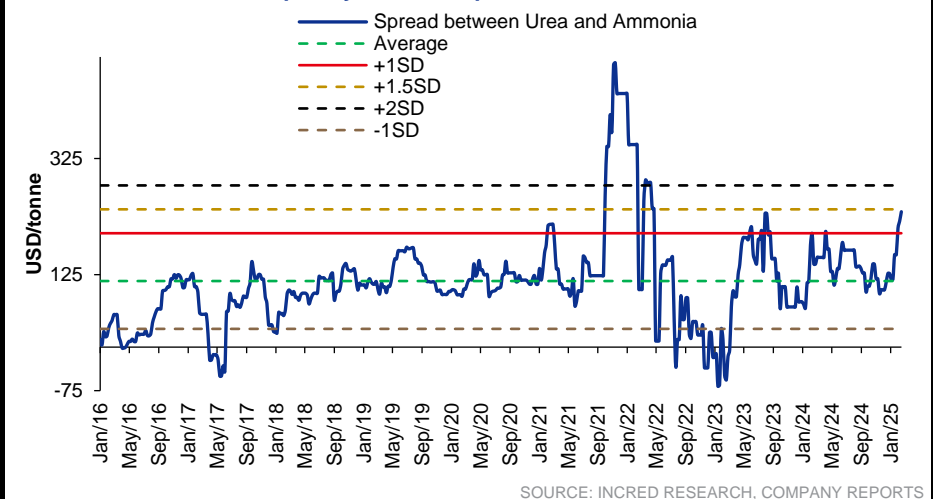
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Figure 1: The Middle East spread of urea over ammonia is at a nine-year high (barring the Covid-19 period); as of now, it doesn't make sense for Middle East companies to sell ammonia and consequently, ammonia prices will rise



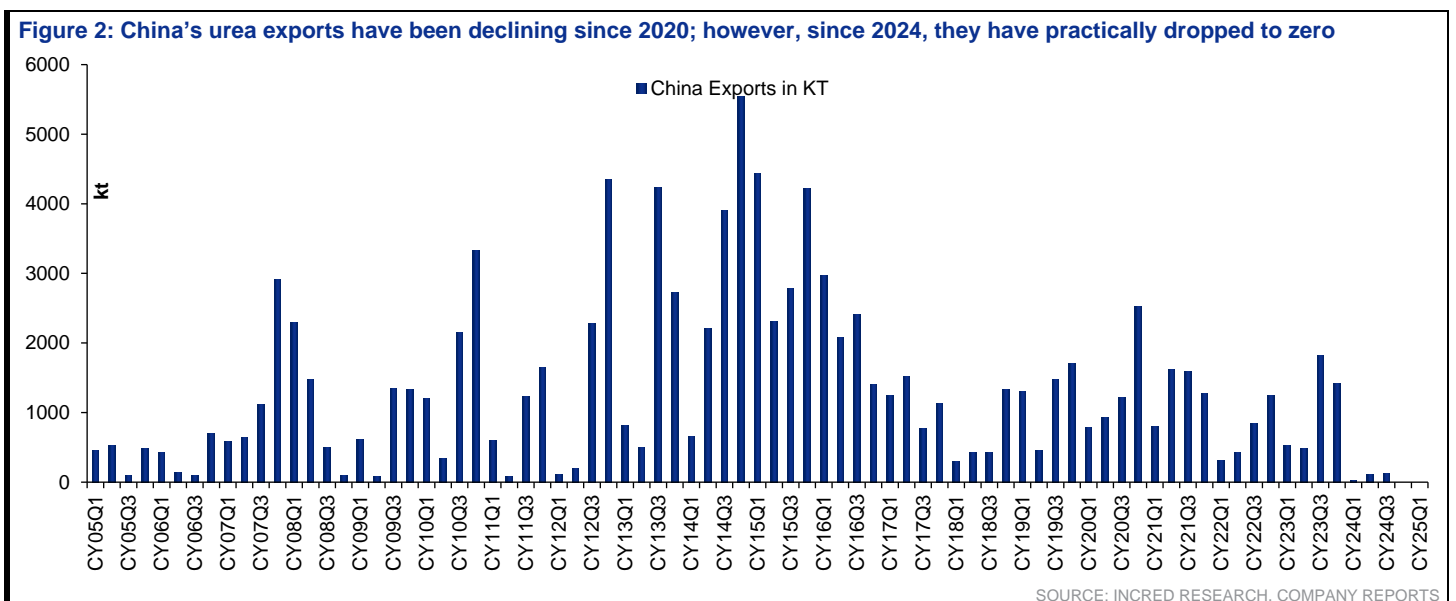
Urea shortage=+ve ammonia & ammonium nitrate

The changing dynamics, including China refraining from urea exports, Europe imposing tariff barriers on Russian imports and shutting down its ammonia/urea plants, and the destruction of much of Ukraine’s urea capacity, are reshaping the market. At the same time, both Indian and European demand is rising. These events indicate that ammonia-exporting nations will face pressure to produce urea, as urea spreads over ammonia are touching multi-year highs (excluding the Covid-era peak). As a result, many ammonia-exporting countries will shift to selling urea. Most ammonia-producing nations also have significant urea production capacity, allowing them to capitalize on the rising spreads. The coming few quarters will remain strong for both ammonia and urea. Consequently, ammonium nitrate prices will rise, and at the same time, higher ammonia prices will exert upward pressure on the cost of fertilizer and industrial explosives. This could lead to increased input costs for industries reliant on ammonium nitrate, such as mining and construction. Given the tight supply situation and strong demand, price volatility in ammonia and urea markets, in our view, is likely to persist in the coming quarters.

China has stopped exporting urea

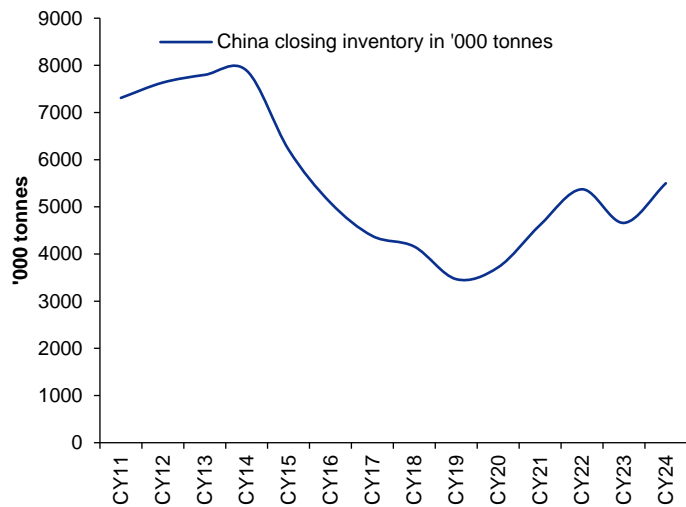
China implemented a ban on urea exports, which was expected to continue, at least until May 2024; however, China has not started exporting even after May 2024. This policy has significantly impacted the global urea market, leading to tight supplies and influencing prices. For instance, Petronas Chemicals Group Berhad reported that urea prices are anticipated to remain stable, supported by India’s planting season and China’s ongoing export ban. The reduction in China’s urea exports has also affected various industries worldwide. In 2021, South Korea experienced a shortage of diesel exhaust fluid, a product derived from urea, due to China’s export restrictions. As of Feb 2025, there have been no official announcements indicating a change in China’s urea export policy. The continuation of this ban is likely to keep influencing global urea supply and pricing dynamics.

China’s urea exports have declined to zero in the past few months ➤



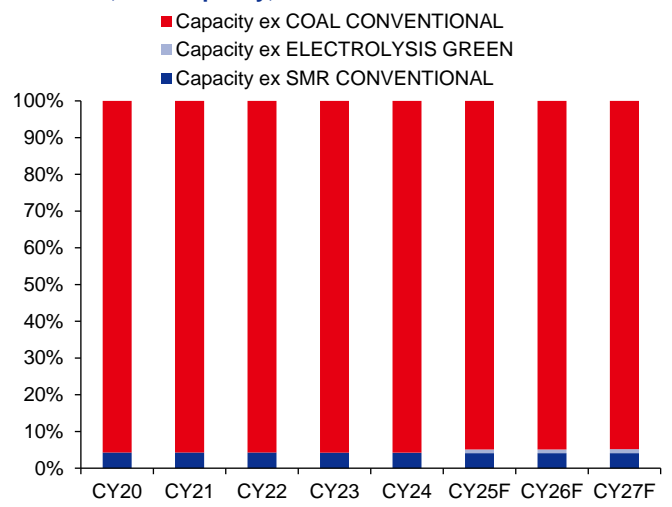
Chinese urea demand is increasing and they appear to have a new policy of maintaining a minimum inventory

Figure 3: China appears to have decided to maintain a strategic reserve of ~5mt



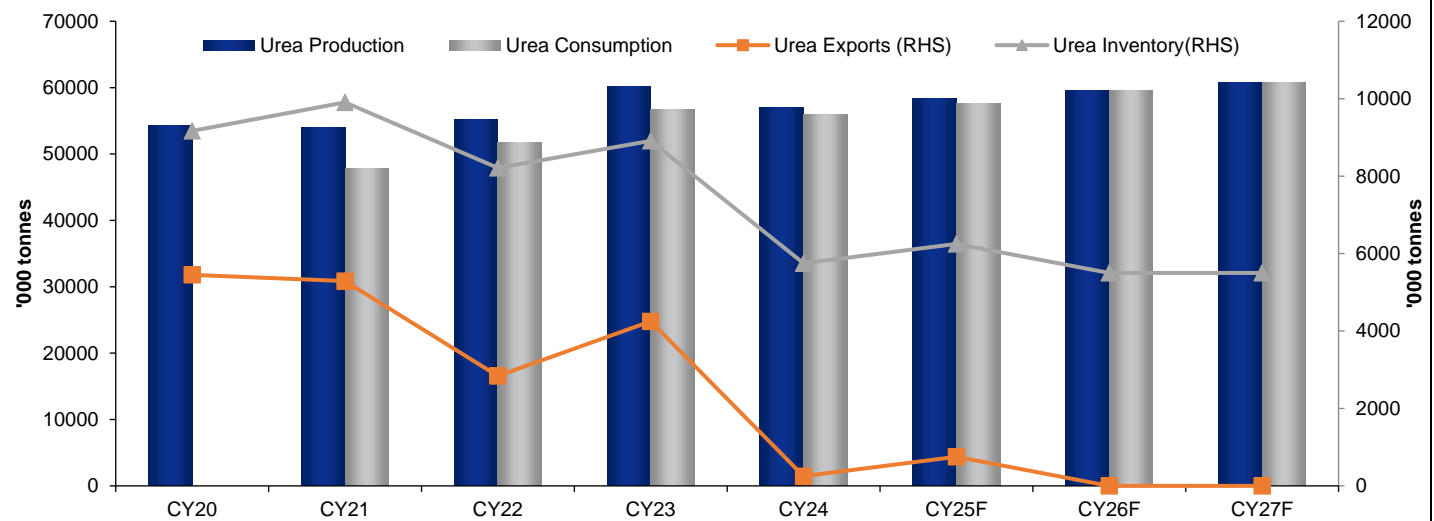
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Also, remember that most of the Chinese ammonia and hence, urea capacity, is coal-based



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Rising Chinese urea demand and the compulsion to maintain 5mt inventory (which appears to be the case) means that China's urea exports will be nearly zero



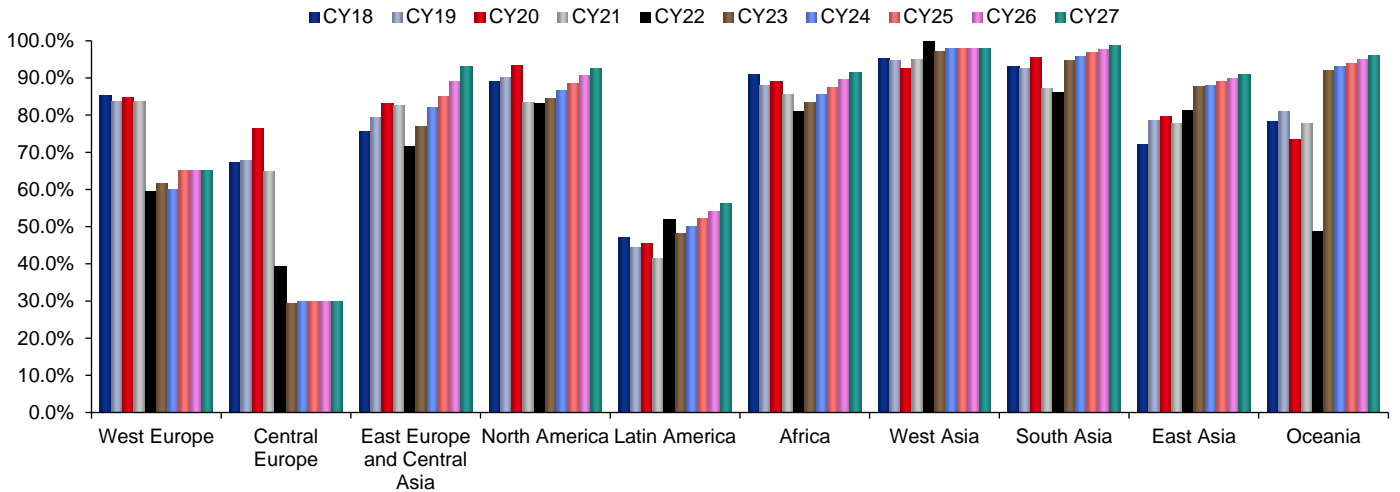
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Europe is in a precarious position and may need to operate its urea plants with imported ammonia

Europe has shut down many urea plants as operating with high-cost gas has become unviable. However, now Europe will face a unique challenge: with China exiting the export market, urea will be in short supply globally. The world will be running near full capacity in terms of urea production, leaving Europe as one of the few regions with surplus capacity.

Globally, most urea-producing regions are operating near full capacity

Figure 6: Most of the urea-producing regions are operating near full capacity



SOURCE: COMPANY REPORTS, INCRED RESEARCH

It's ironic that Europe, which needs urea the most, is imposing taxes on imports from Russia

Figure 7: Europe is imposing higher duties on Russian urea imports; ironically, this move will hurt Europe more than Russia

Time Period	Proposed Tariff €/t
From 1 Jul 2025 until 30 Jun 2026	6.5% ad valorem +40
From 1 Jul 2026 until 30 Jun 2027	6.5% ad valorem +60
From 1 Jul 2027 until 30 Jun 2028	6.5% ad valorem +80
From 1 Jul 2028	6.5% ad valorem +315

SOURCE: INCRED RESEARCH

Figure 8: Germany and Poland have the highest dependence on urea imported from Russia

Importing country	Imports 2023 (tonne)	Russian imports (%)
France	1,671,913	15
Poland	1,160,717	30
Spain	997,551	10
United Kingdom	977,229	13
Germany	921,321	37

SOURCE: INCRED RESEARCH, COMPANY REPORTS

At current gas prices, urea manufacturing in Europe is simply not viable

It needs 20mmBtu of natural gas per tonne of urea and the overhead costs can range between US\$150-200 in Europe. At current spot natural gas prices, it doesn't make sense to make urea in Europe. May be importing ammonia and converting it to urea is a much better choice for Europe.

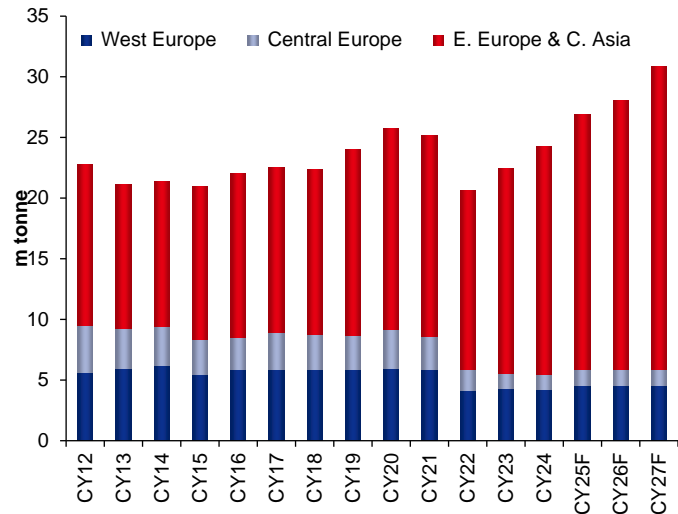
Figure 9: The minimum manufacturing cost (without carbon tax) in Europe is ~US\$515/t

	Value	Units
TTF prices	15	US\$/mmBtu
Ammonia	36	mmBtu/t
Gas costs for NH3	540	US\$/t
NH3 per tonne of urea	0.58	NH3/t
NH3 gas costs	313.2	US\$/t
Overheads	200	US\$/t
Overall cost	513.2	US\$/t

SOURCE: INCRED RESEARCH, COMPANY REPORTS

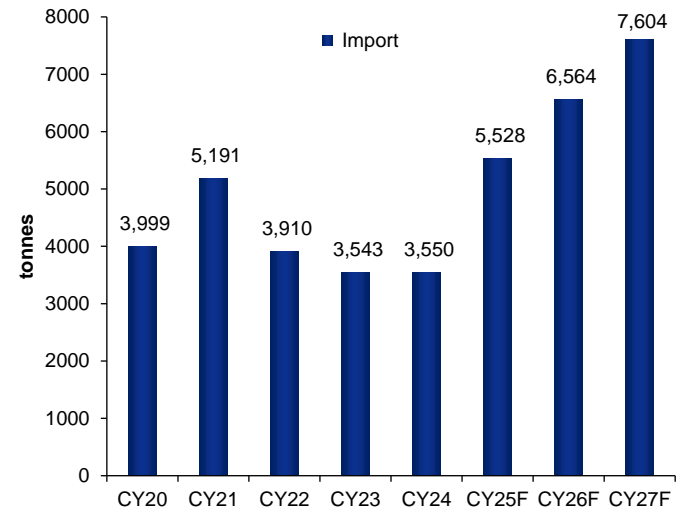
Europe has closed much of its ammonia capacity; therefore, there needs to be an increase in ammonia imports to Europe ➤

Figure 10: Urea production in Europe and Central Asia needs to be increased



SOURCE: INCRED RESEARCH, COMPANY REPORTS

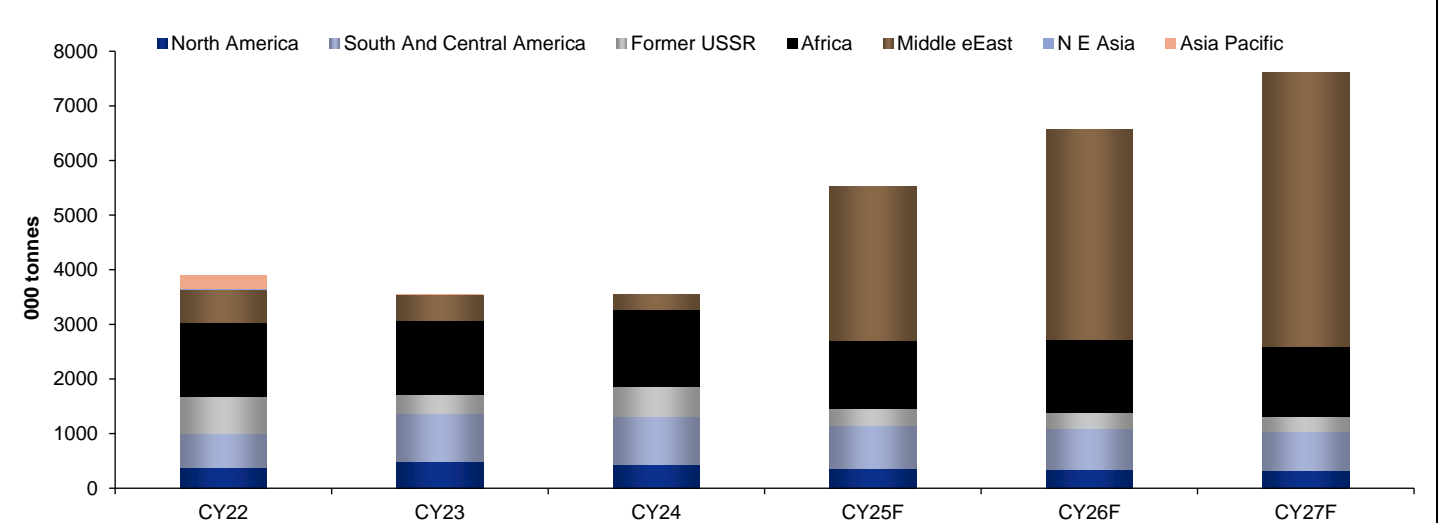
Figure 11: The import of ammonia needs to increase in Europe



SOURCE: INCRED RESEARCH, COMPANY REPORTS

The Middle East is the obvious choice for European ammonia purchases ➤

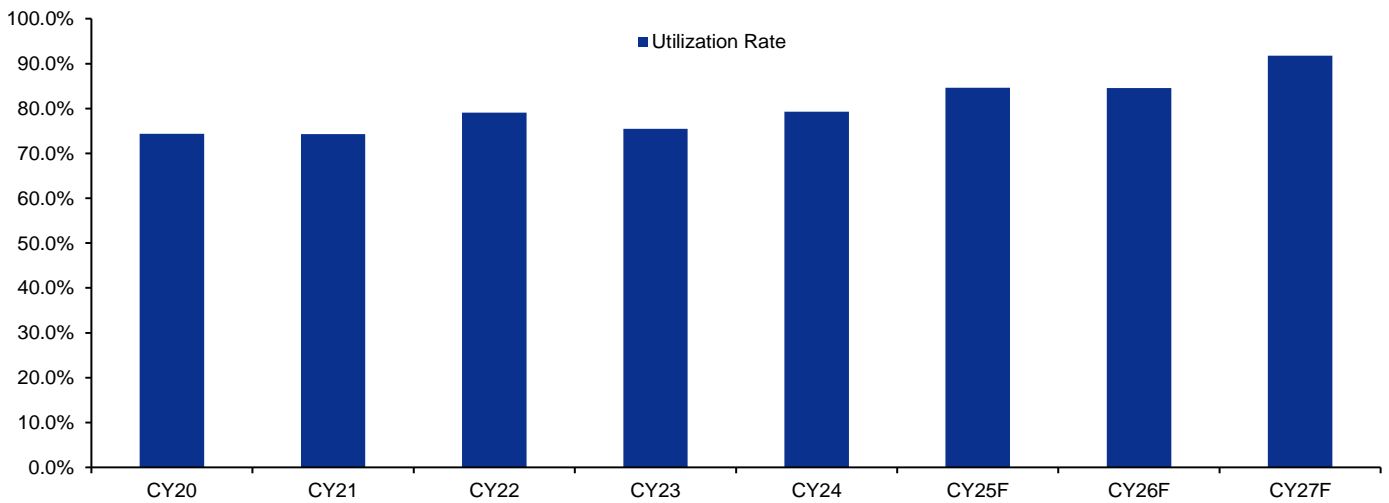
Figure 12: The Middle East is the obvious choice for European purchases of ammonia



SOURCE: INCRED RESEARCH, COMPANY REPORTS

As a result, ammonia capacity utilization in the Middle East will rise significantly ➤

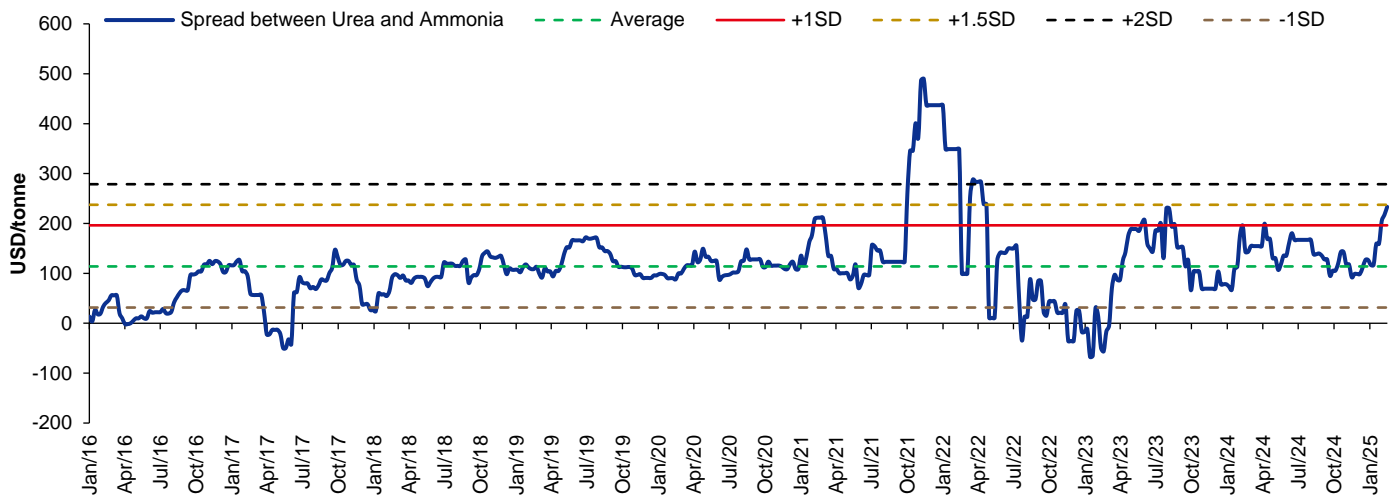
Figure 13: Ammonia capacity utilization in the Middle East will increase significantly



SOURCE: INCRED RESEARCH, COMPANY REPORTS

As of now, it makes more sense for Middle East companies to sell urea than ammonia ➤

Figure 14: The Middle East spread of urea over ammonia is at a nine-year high (barring the Covid-19 period); as of now, it doesn't make sense for Middle East companies to sell ammonia and consequently, ammonia prices will rise



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.