

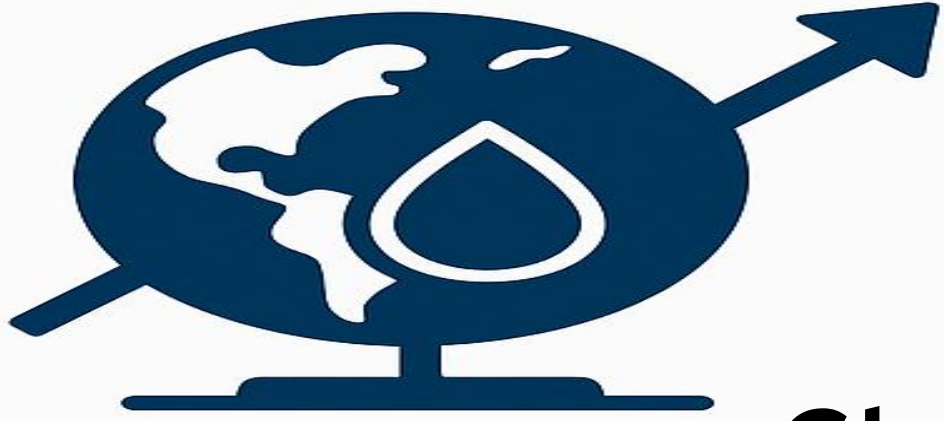


Beyond the Barrel: Global & Indian Macro at the Crossroads

Banking and Economics Research

- Israel-Iran war has led to rising worries on potential impact on global economy on escalation of conflict, as :
 - Middle East holds over 40% of reserves, and nearly 20 mbpd flows through the Strait of Hormuz
 - Supply shocks may disrupt investor sentiment, flows and amplify inflation pressures via oil price spike
 - Geopolitical risk premium of \$10/bbl. priced in currently; full scale escalation poses risk of oil prices rising to \$120/bbl. shaving off 100bps from global growth with inflation spiking to 5% .
 - In case of an oil shock, central banks globally are likely to delay or reverse planned rate cuts, while government may be forced to step up ongoing fiscal expansion

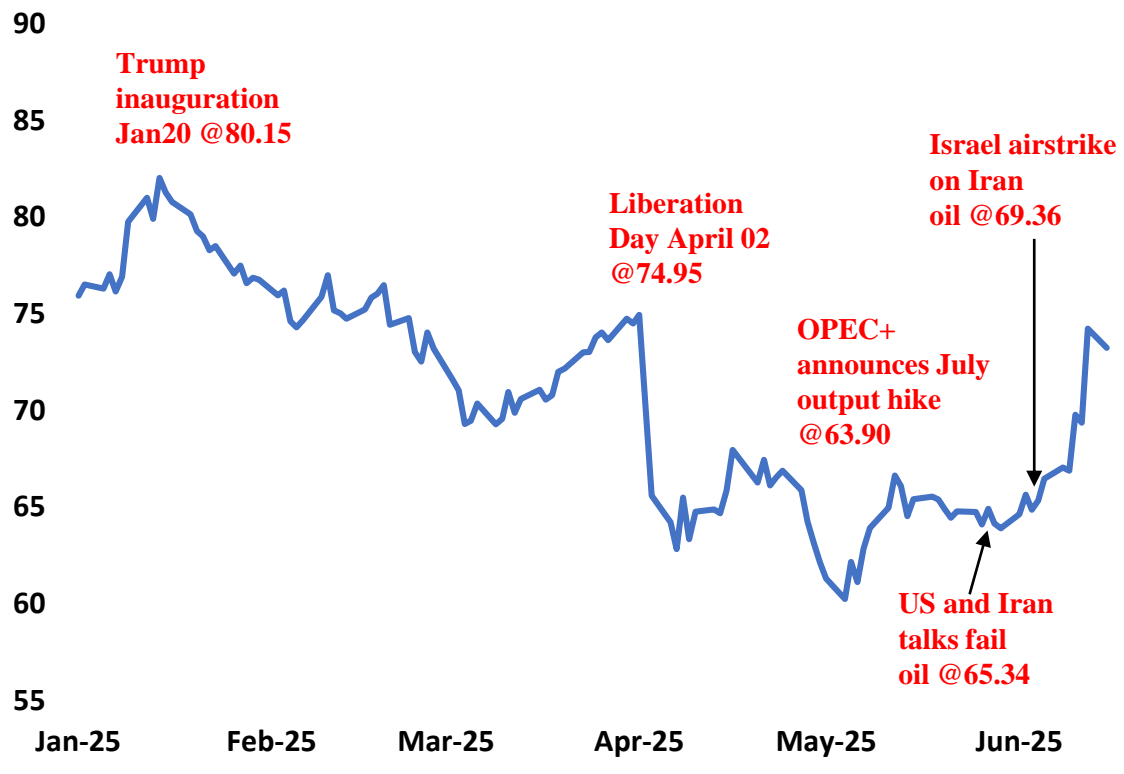
- Impact assessment of the ongoing war on the Indian economy:
 - Direct impact via Iran is capped as it's share in oil imports is down to negligible vs ~12.5% in FY17.
 - Sensitivity analysis shows \$10/bbl. rise in oil prices (vs \$70/bbl. baseline) affects C/A deficit by \$16-17bln(0.3-0.40% of GDP) while GDP & CPI are affected by (-)15bps, (+)30bps (assumes no change in excise duty).
 - If oil prices persists at \$75-\$80/bbl. level, the macro impact may be capped and mostly absorbed by oil marketing companies. However a sharp price spike may force the government and consumers to absorb some hit.
 - While rupee will be the direct channel of financial market impact, sensitivity to oil prices have reduced in recent years with cushion from spike in services export, remittances from advanced economies and adequate FX reserves.
 - With the focus on fiscal consolidation and frontloaded monetary easing, in case of an oil price spike, policy space appears to be capped. That said RBI has various other policy tools in its kitty to address the macro shocks.



Global Context

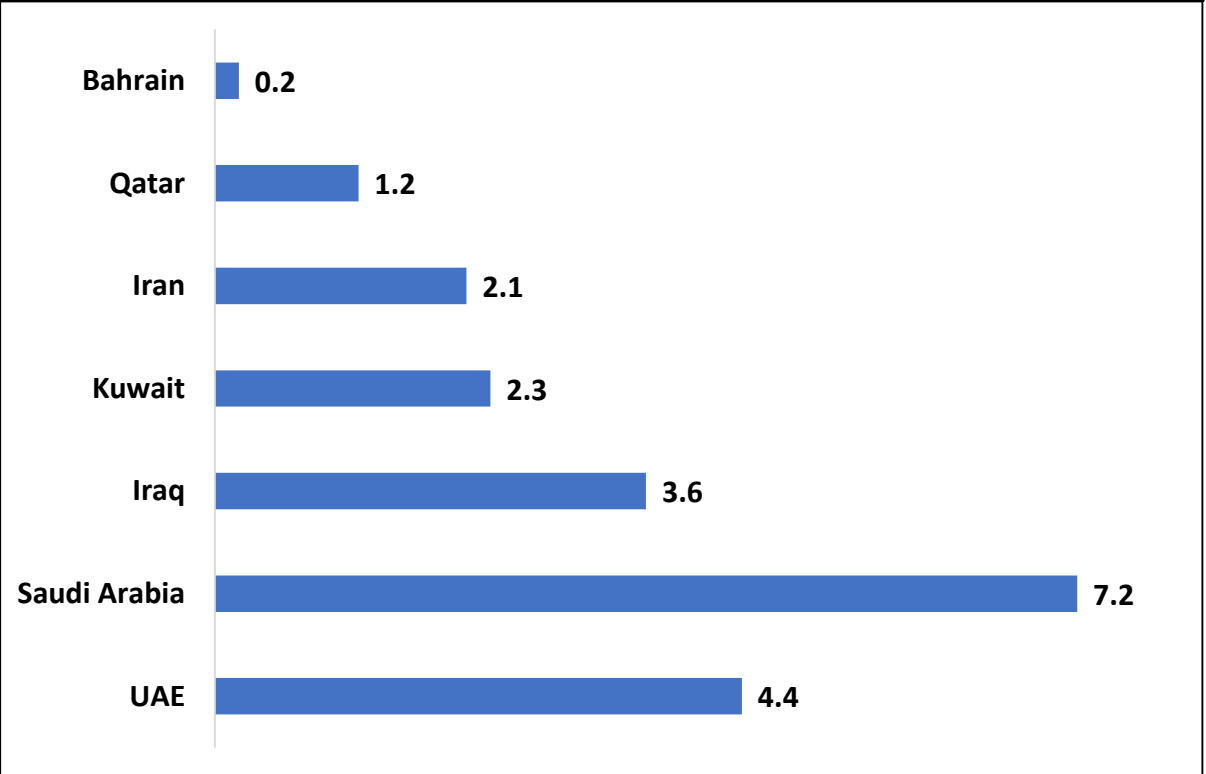


Iran is the third-largest oil producer within OPEC, the ongoing conflict could disrupt its oil exports, potentially driving prices higher



Around 21mln barrels of oil passes through Strait of Hormuz per day, any disruption could affect the flows.

All data in million barrels per day



- Escalating tensions between Iran and Israel will only have a significant impact on the Strait of Hormuz, a critical chokepoint for ~20% of daily global oil shipments, potentially causing oil prices to surge.
- Geopolitical risk premium of \$10/bbl. priced in currently; full scale escalation poses risk of oil prices rising to \$120/bbl.

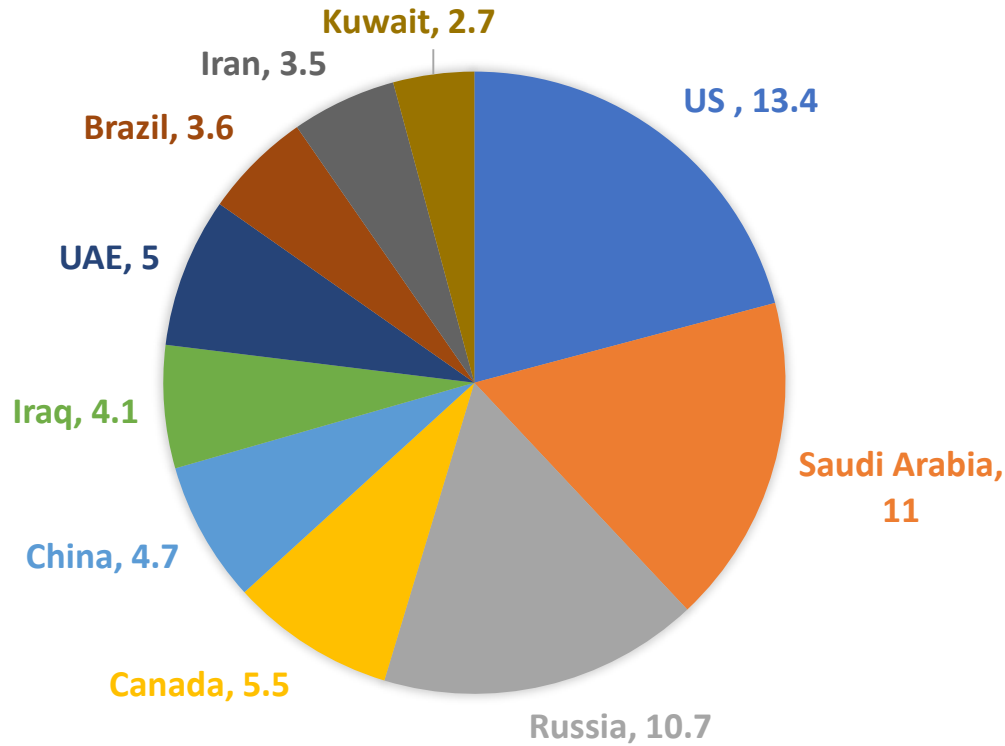
Market moves in month of June are mixed despite ~19% oil price spike

Impact by asset class				
Asset class	Level as on		Market move (% change or bps)	
	12 th June <i>(last day of US-Iran nuclear talks ahead of war)</i>	20 th June <i>(ongoing Iran-Israel war)</i>	30 th May -12 th June	13 th June- 20 th June
Equities				
Dow Jones	42968	42207	-1.65%	-1.8%
Sensex	81692	82408	0.30%	0.88%
Bonds				
US 10yr	4.36	4.37	-04	01
India 10 yr	6.28	6.31	08	03
FX				
Dollar index	97.84	98.77	-1.61%	0.95%
Yuan	7.17	7.18	0.42%	0.1%
Rupee	85.60	86.59	-0.02%	-1.16%
Commodities				
Oil	69.36	77.01	8.55%	11.03%
Gold	3386	3368	2.89%	-0.53%
Copper	4.82	4.83	2.99%	0.21%

- Oil surged over 11%, reflecting heightened geopolitical risk premiums. This sharp increase could stoke global inflationary pressures, complicating central bank rate decisions, especially for energy-importing economies like India.
- The Dollar Index rose 0.95%, and the Indian Rupee depreciated 1.16%, indicating a typical risk-off environment. Investors rotated into safer assets amid war uncertainty.

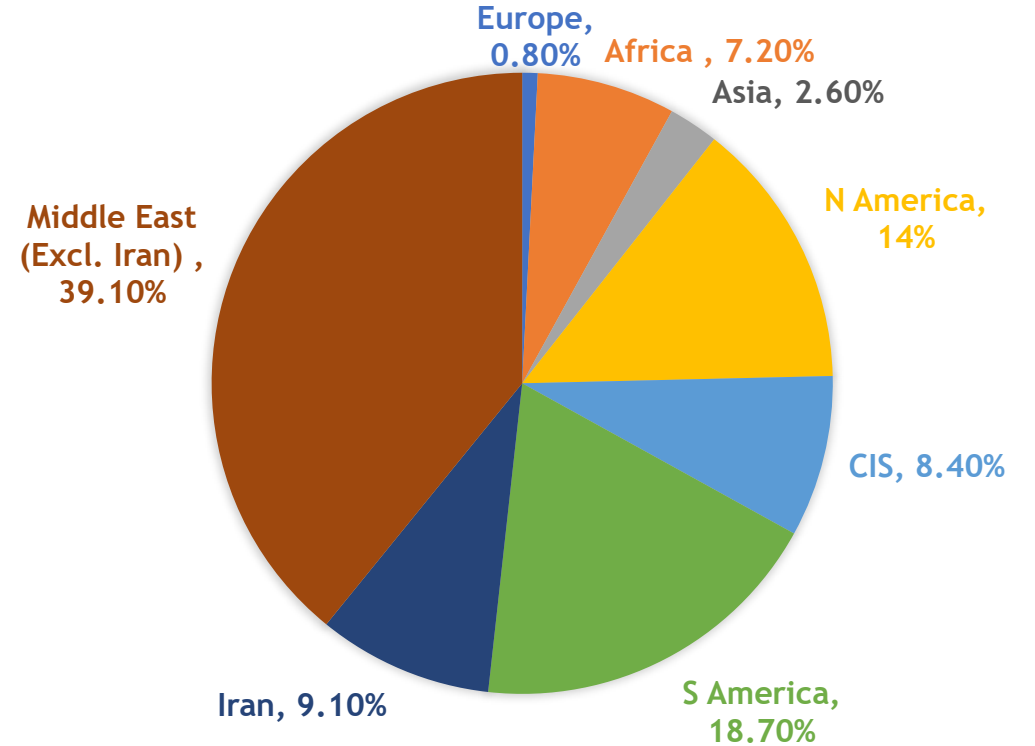
Global Oil producing countries

Oil Production (mbpd)



Global Oil reserves

Million barrels per day



- As Iran contributes to only 3.5% of global oil supply, escalation of the war to broader Middle East (~30% of oil supply & 40% of oil reserves) is key risk to watch.
- Iran alone holds more than 9% of the world's proven oil reserves, and the rest of the Middle East accounts for almost 40% meaning that nearly half of all known oil reserves are concentrated in one of the planet's most geopolitically volatile regions.

IRAN-ISRAEL WAR: TIMELINE OF EVENTS

13 Jun
2025



Israeli airstrikes on Iran
Iranian military and nuclear sites bombed

14 Jun
2025



Iran's first missile barrage
Ballistic missiles launched at Israel

17 Jun
2025



The US stands with Israel and will not tolerate threats to global oil transit through the Stait of Hormuz.
#AmericaFirst

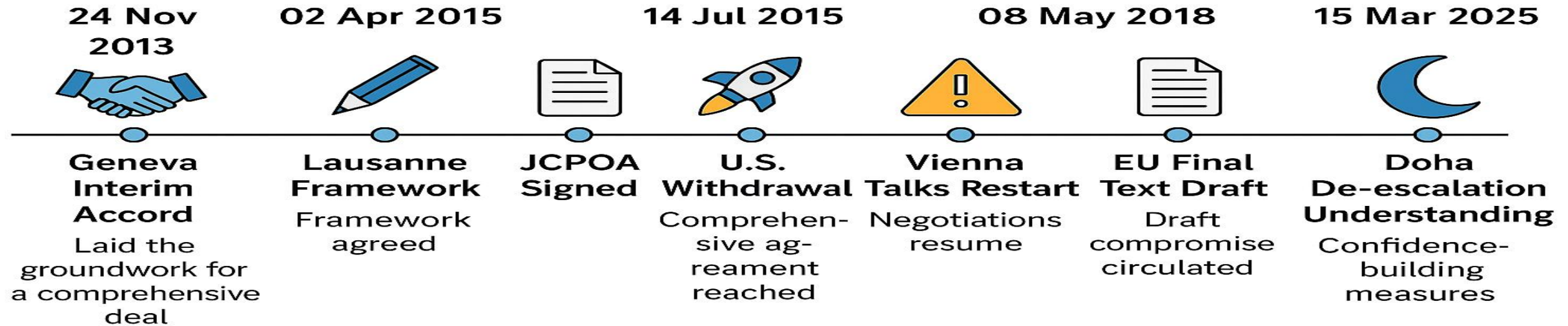
Iran threatens to close Hormuz
Oil prices rise

19 Jun
2025



Trump gives two week timeline to decide whether the US will strike Iran

Historical context : Pivotal moments in the US-Iran nuclear deal journey (JCPOA)



- *The Joint Comprehensive Plan of Action (JCPOA) is a trade-off: deep, verifiable limits on Iran’s nuclear activities in return for broad sanctions relief. Its core bargain nuclear rollback for economic normalisation remains the most detailed non-proliferation template ever negotiated with Tehran.*
- *Even after the 2018 US exit, the framework shapes today’s diplomacy: each negotiating round still revolves around the original “sanctions-for-steps” sequencing and the snap-back clause that can re-activate UN sanctions.*

Key risks of oil price spike for global and US economy

Category	Details	Sensitivity analysis
<p>Oil price move from \$65/bbl. to \$75/bbl. currently</p>	<p>Conflict triggered sharp crude price moves amid Middle East tensions</p>	<ul style="list-style-type: none"> ➤ A \$10/barrel rise in oil would add +0.5 pp to US inflation & shave off 0.1-0.2 ppt from GDP growth ➤ A 10 % increase in oil prices raises, global inflation by 0.35pp within a year, and 0.55pp within three years.
<p>Oil price spike to \$120/bbl.</p>	<p>A full-scale escalation disrupting oil flows (e.g. in Strait of Hormuz) could meaningfully hurt global activity</p>	<ul style="list-style-type: none"> ➤ Crude at \$130/barrel US inflation likely to spike to ~6% ➤ Additionally, global inflation may spike to 5% while ~1% may be shaved off from GDP growth

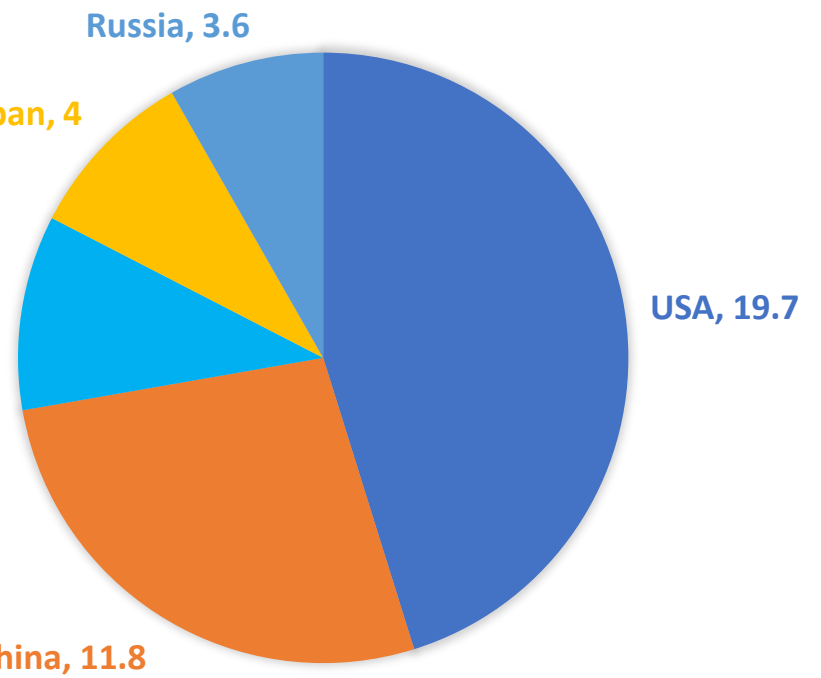
India Context



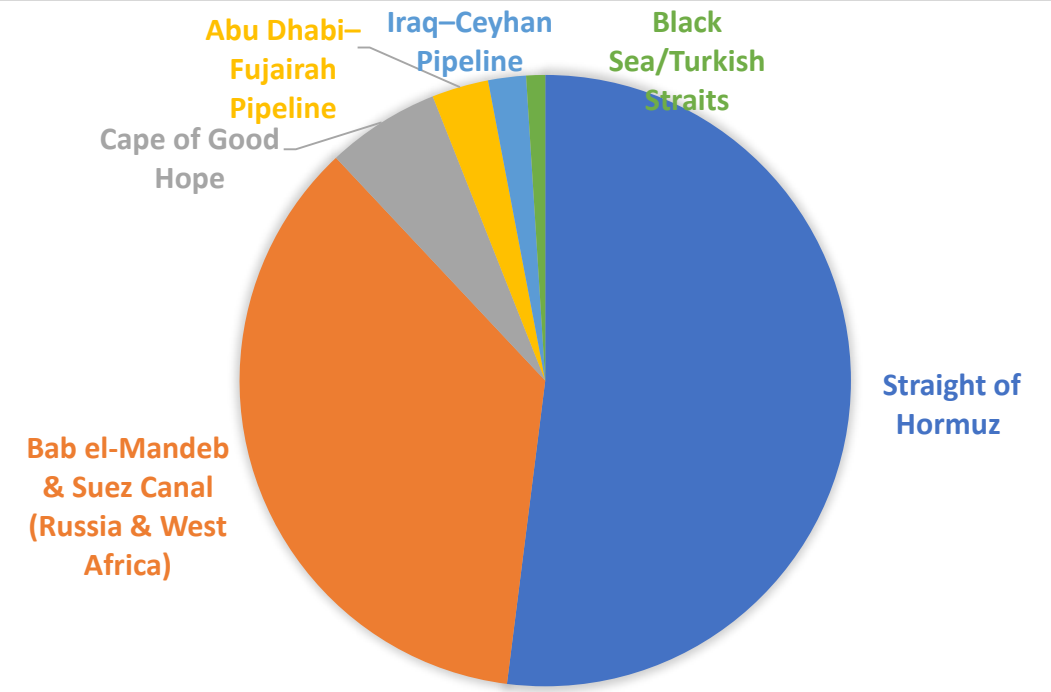
Major transit points for India's crude imports

India is third largest oil consumer of the world after US and China

Million barrels per day

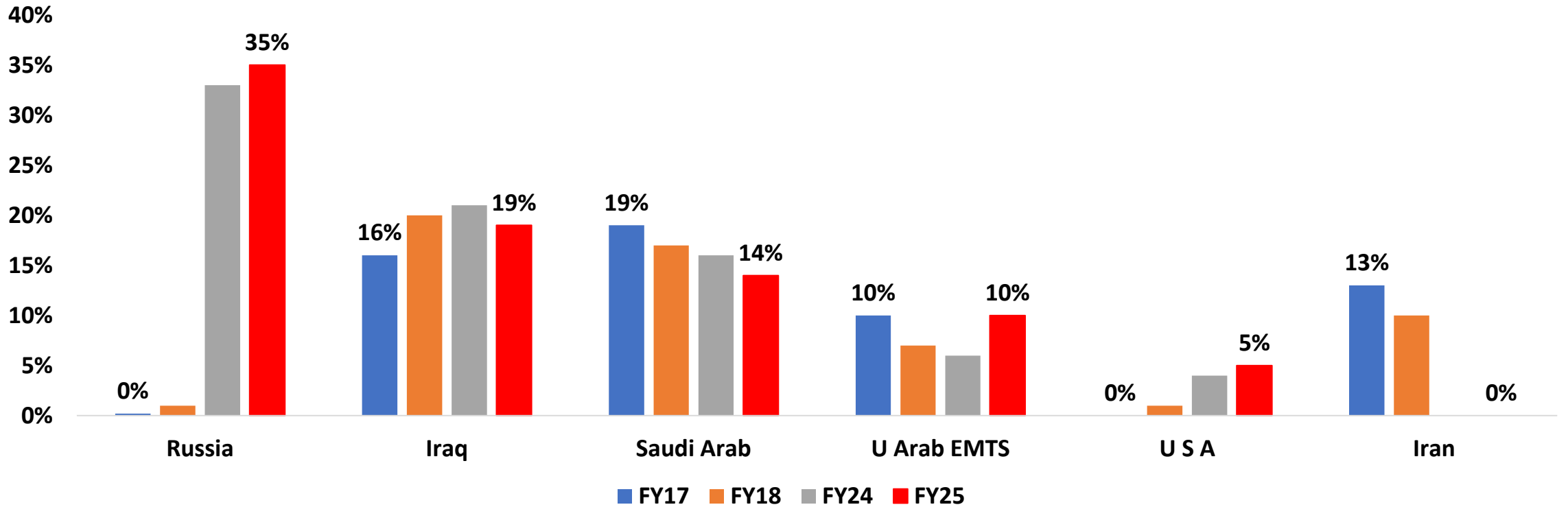


The Strait of Hormuz (~52%) relative to the alternative corridors for India

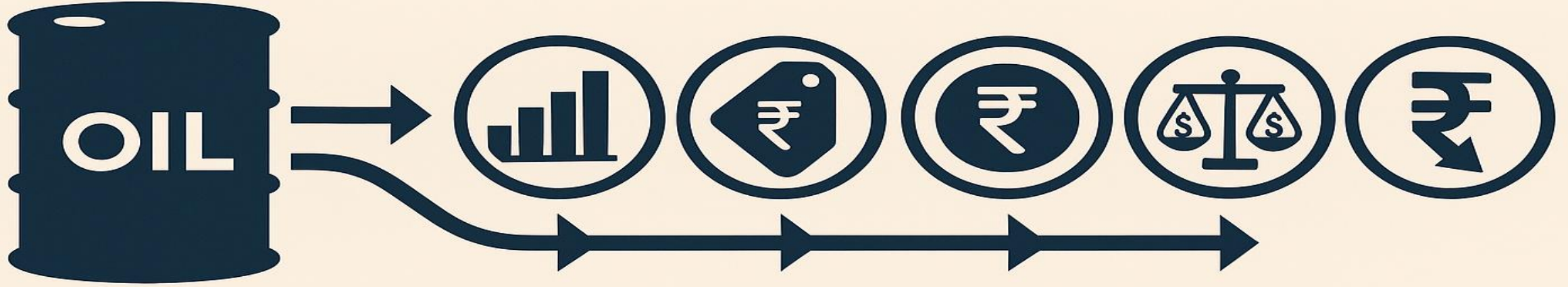


- Crude oil forms the backbone of India's energy basket, with more than 85% of its crude oil demand being met through imports
- Global oil consumption remains highly concentrated, with India's position as the third-largest consumer highlights the growing energy appetite of emerging markets. This concentration of consumption among a few major economies makes global oil markets highly sensitive to policy shifts, economic cycles, and geopolitical risks in these regions.

Share of each country in total oil import to India, expressed as a percentage



- India's oil import profile has shifted significantly over the years, with a clear pivot away from traditional suppliers like Iran. While the Middle East remains important, Russia has emerged as a dominant source, alongside increased inflows from Iraq, Saudi Arabia, the UAE, and the US notably, crude imports from Iran have dropped to zero in the past two years, reflecting sanctions pressure and New Delhi's evolving energy calculus.



CHANNELS OF IMPACT

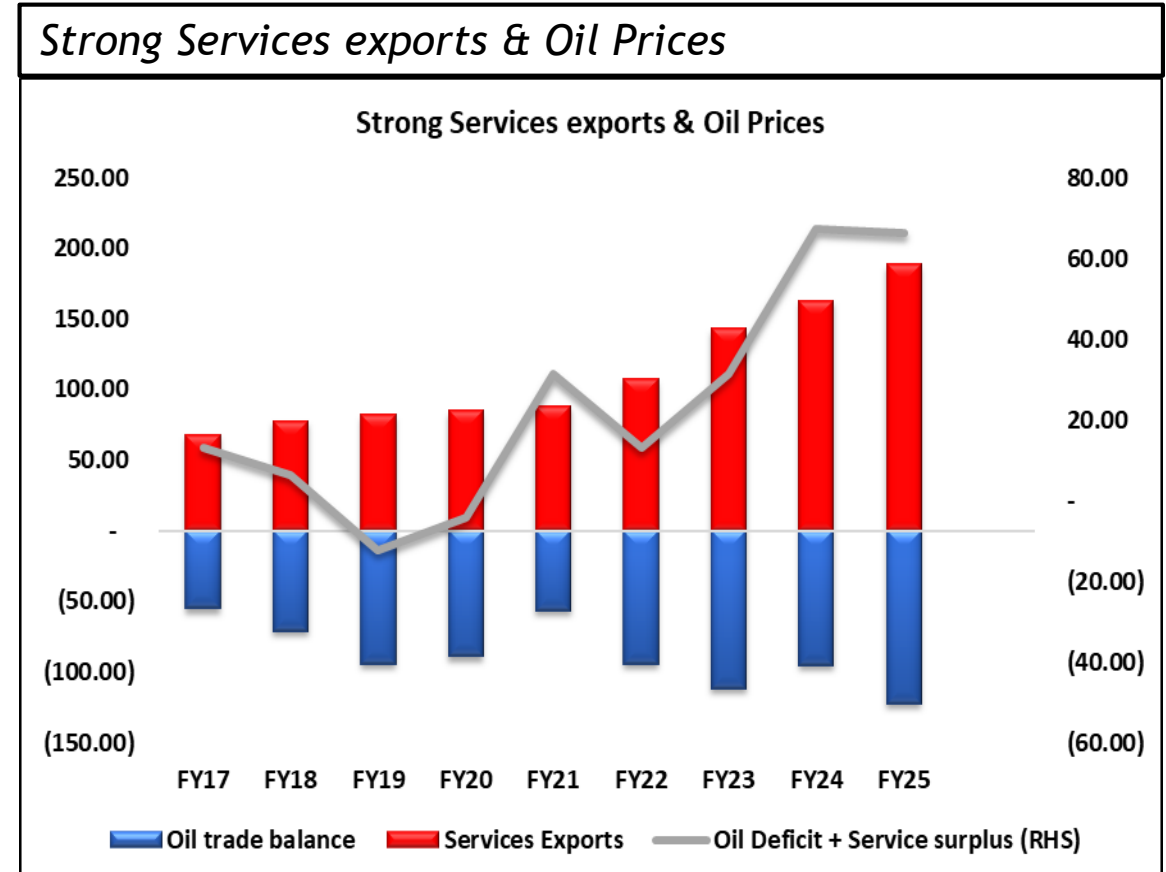
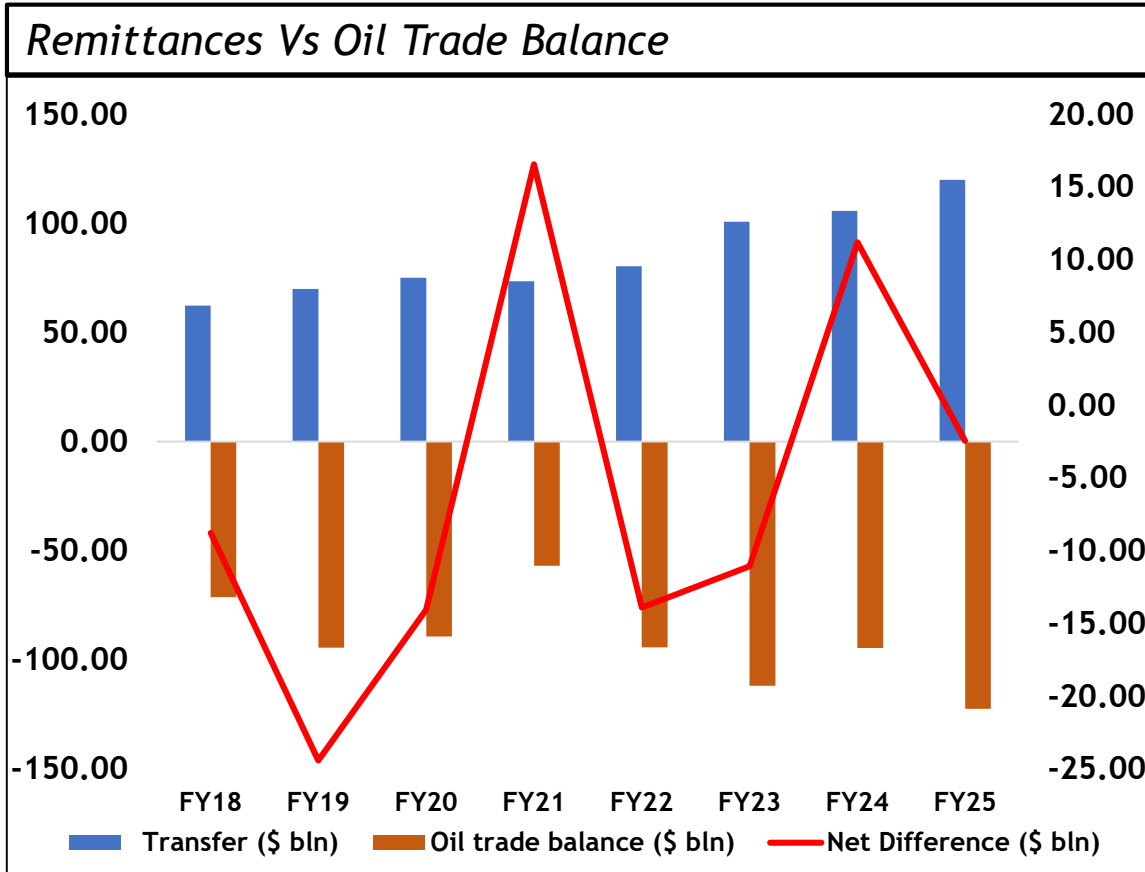
Key risks for Indian economy and its impact

Variable	Unit	Sensitivity per US \$10/bbl. rise in crude (bps, unless specified)	Scenario 1: +US \$15/bbl (short spike) Partial disruption, OPEC releases spare capacity	Scenario 2: +US \$30/bbl. (prolonged) Six-week closure, rerouting via Cape/Fujairah	Scenario 3: +US \$50/bbl. (severe) Multi-month blockage, global inventory draw-down
Oil prices	\$/bbl.	70	80	95	115
Real GDP [^]	% YoY	-15	-22.5	-45	-75
CPI inflation [^]	% YoY	+30 ^{^^}	+45	+90	+150
Current account deficit	\$ bn	(-)\$16 bn	(-)\$24 bn	(-)\$48 bn	(-)\$80 bn
Current account deficit ^{^^^}	% of GDP	-0.4	-0.6	-1.1	-1.8

- Sensitivity analysis shows 10% rise in oil prices (vs \$70/bbl. baseline) affects GDP & CPI by (-)15bps, (+)30bps (assuming no change in excise duty on petrol, diesel) while C/A deficit widen by 30-40bps each
- In an extreme scenario of oil prices at \$120/bbl., C/A deficit is likely to widen to >3% of GDP, GDP growth may weaken to ~5.5% while inflation may exceed 5% (assuming no change in excise duty on petrol, diesel)
- The macro impact via wider C/A deficit is likely to be divided between consumers, government and corporates, with the latter likely to take some hit in order to cushion inflation and fiscal impact

[^]as per the Monetary Policy Report April 2025 and based on a 10% deviation from baseline crude oil assumptions; ^{^^}assumes no cut in excise duty; ^{^^^}negative sign indicates widening deficit; Source: RBI, UBI research

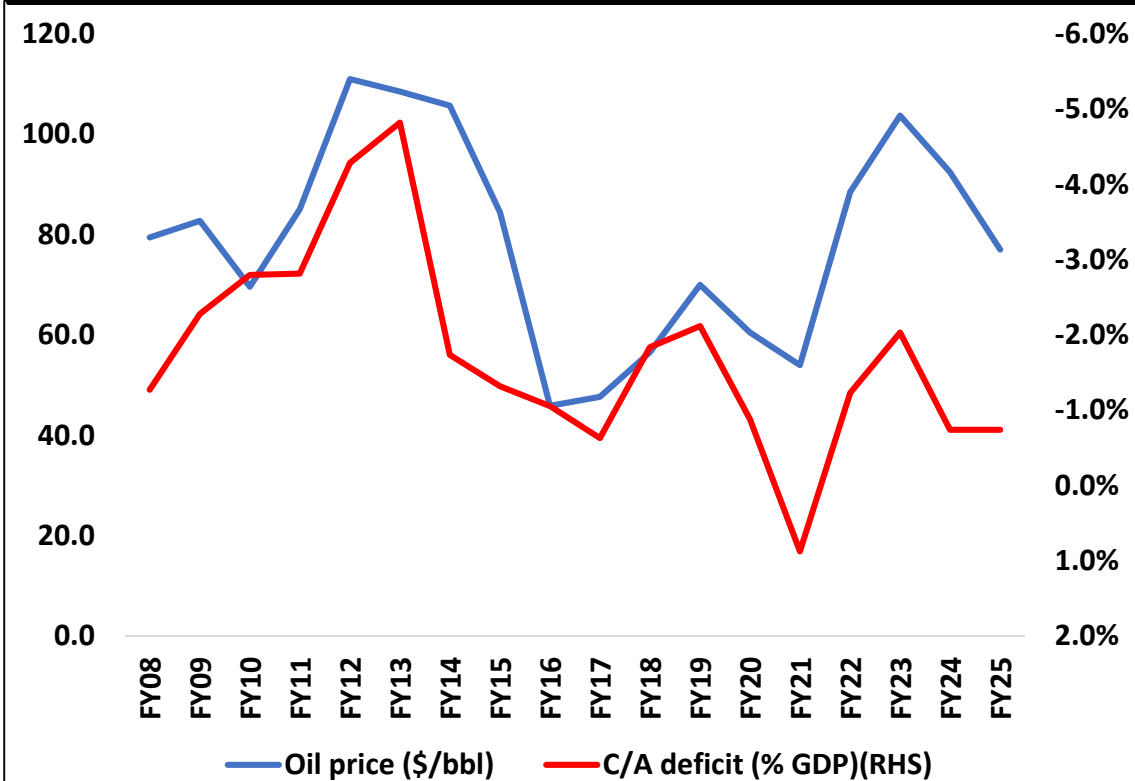
Higher services exports and remittances post covid have helped cushion impact of oil price volatility



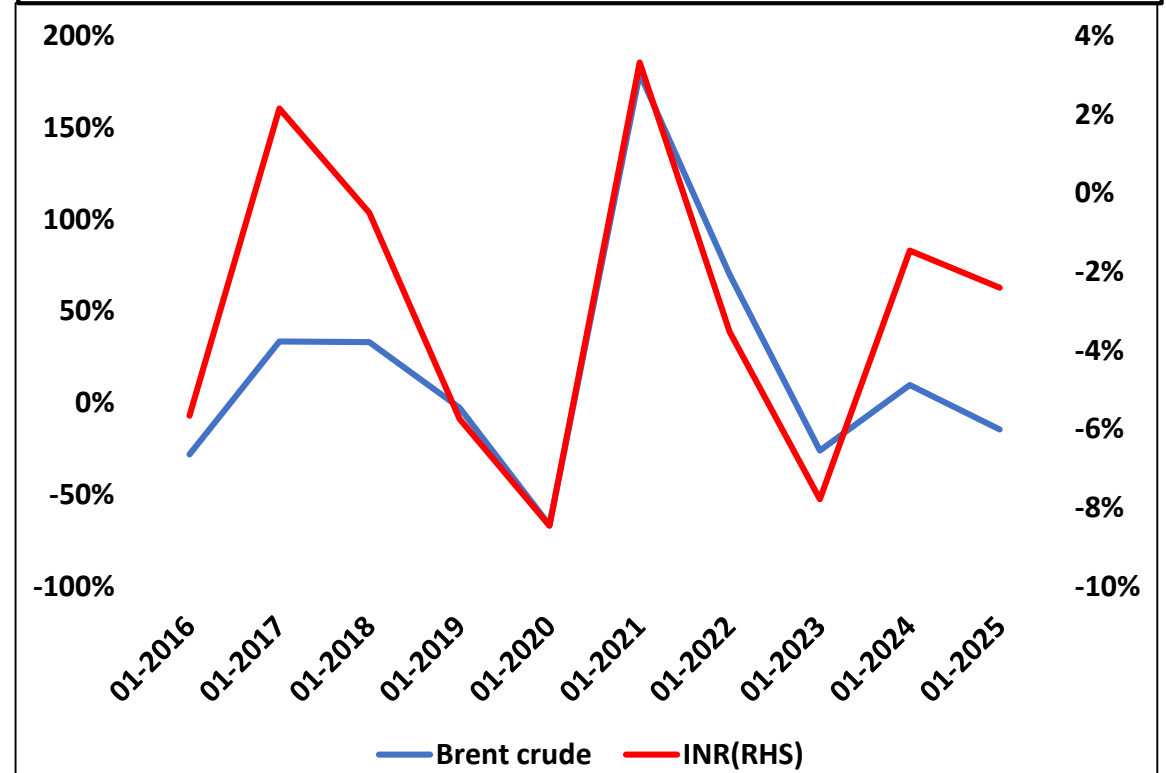
- India remittances have increased significantly and recently crossed the \$100bn mark in FY23 and growing thereafter cushioning the India's oil deficit.
- Meanwhile, invisibles surplus stayed robust driven by strong services trade surplus \$188.75bln in FY25 vis-à-vis oil deficit of \$122.45bln, which clearly shows that C/A deficit is expected to remain comfortable.
- [While oil price volatility and escalation of conflict in Middle east may adversely affect remittances, RBI research shows recent shift in trends towards advanced economies may help partially offset the impact](#)

Reduced vulnerability of C/A dynamics to oil prices in recent years likely to provide a cushion

C/A deficit show positive correlation with oil prices yet sensitivity has reduced in recent years



Rupee and oil price



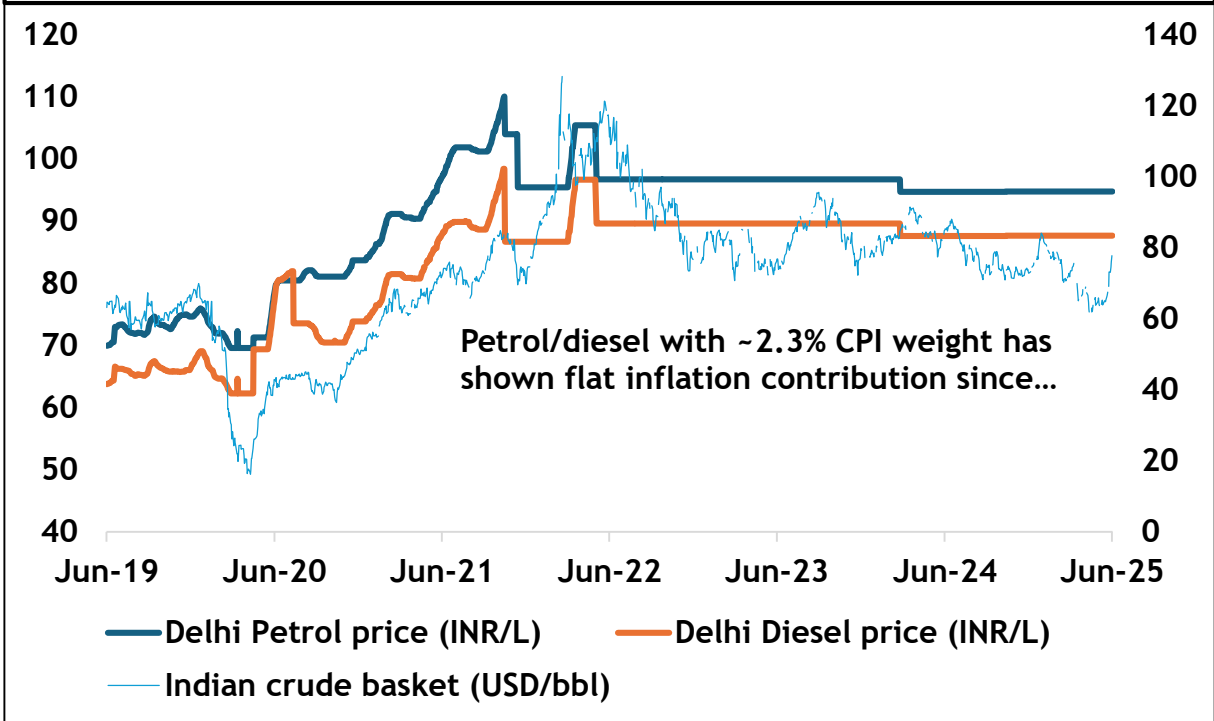
- Oil plays a major role in our trade and overall current account dynamics. Yet rising cushion from segments like services exports and remittances have somewhat reduced sensitivity of C/A deficit to oil prices in recent years.
- Consequently, Oil price sensitivity to the movement of rupee has reduced in recent years. In case of a oil price shock, ample FX reserve buffer ~11.5 months of import cover would help RBI to limit FX volatility.

Impact on macros esp. inflation likely to be absorbed by the government and OMCs

Oil & gas sector contribution to exchequer on a downtrend on duty cuts to absorb oil price volatility

Oil & Gas sector contribution to exchequer (% of GDP)					
	FY21	FY22	FY23	FY24	FY25E
Taxes & Dividends	3.4%	3.3%	2.8%	2.5%	2.3%
Subsidies	0.2%	0.2%	0.1%	0.1%	0.1%
Net contribution	3.2%	3.1%	2.6%	2.4%	2.2%

Retail fuel prices have been kept flat despite oil price volatility in recent years



- Since 2022 (Russia-Ukraine war year), limited impact of oil price volatility has been witnessed in retail fuel prices as the government absorbed most of the impact via excise duty changes and/or oil marketing companies adjusted margins
- Given the recent price spike to \$77/bbl., oil marketing companies may absorb most of the impact via a hit in their comfortable marketing margins for petrol & diesel even as persisting under-recoveries in LPG (despite ~ ₹ 50/cylinder price hike in April) may rise further
- However, in case of a sharp spike in oil prices on escalation of the conflict, the government may absorb some of the impact via excise duty/VAT cuts before passing onto consumers. We estimate that every ₹1 per-litre excise duty cut on retail petrol and diesel price has a fiscal cost of ~ ₹16,000 - 17,000 crore to the central government.

What are we watching?

Trump's position (2-week window):

- Will the US choose direct military support or remain on the side-lines? Trump's decision is critical

Iran's stance on negotiations:

- Signals on whether Iran is open to diplomacy will determine the war's next phase and market reaction

Policy Impact

- In case of an oil shock, central banks globally are likely to delay or reverse planned rate cuts, while government may be forced to step up ongoing fiscal expansion

From India's standpoint, we may have some levers on supply side yet vulnerability remains

Supply-chain & shipping costs

- India's refiners would scramble to secure replacement cargoes via the Cape of Good Hope or the Fujairah bypass, adding ~15-20 days of sailing time and higher insurance premia.

Inventory draw-down & refinery run cuts

- Strategic reserves (~10 days of demand) offer only a short buffer; prolonged closure could force refiners to lower throughputs, shaving industrial production and diesel availability.

Confidence & financial-market spill-overs will be closely tracked

- Higher oil and weaker INR would tighten domestic financial conditions (bond yields), potentially delaying the monetary-easing cycle and dampening credit growth.

Thank You !

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