

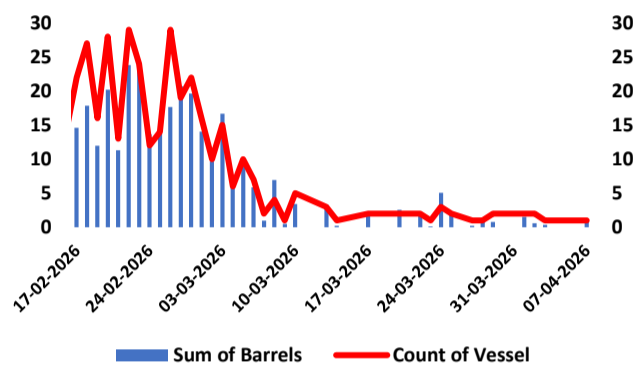
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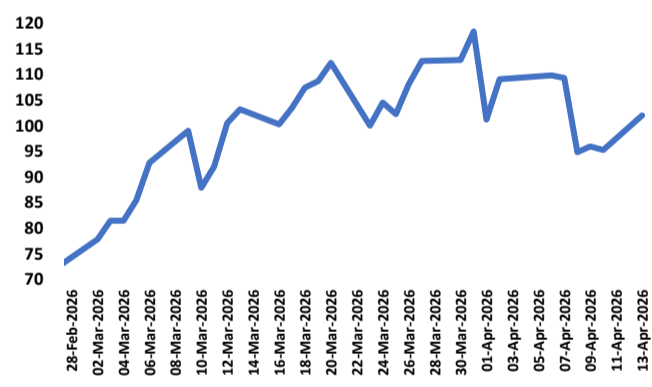
Hormuz Disruption: Near-Total Shutdown in Oil Flows (Fig 01)



Source: Refinitiv

“Crude export flows through the Strait of Hormuz have effectively collapsed, with volumes down ~99% and tanker movement falling ~93%, indicating a near-complete physical disruption.”

Oil has experienced extreme volatility (Fig 02)



Source: Refinitiv

Cross Asset Fund Flow Monitor (Table 1)

Category	4 wk avg (\$bn)	2025 avg (\$bn)
All Equities	3.8	8.1
All Bonds	0.5	11.3
US Equities	1.8	3.5
US Bonds	5.6	4.3
EM Equities	-1.5	0.9
EM Bonds	0.05	0.50
Japan Equities	2.5	-0.1
China Equities	-1.15	-0.15
Europe Equities	-1.6	0.9
Europe Bonds	-3.8	4.3

As of 01<sup>st</sup> April '26 Source: JP Morgan

The brief episode of market calm that followed the 8<sup>th</sup> April US-Iran ceasefire announcement has been fully unwound. Weekend peace talks ended without an agreement as US Vice President JD Vance led the American delegation but departed without securing Iran's commitment to forgo nuclear weapons development. Tehran's foreign ministry, while leaving room for future dialogue, characterized the impasse as a natural feature of early-stage negotiations. Markets drew a different conclusion. Within hours of the breakdown, U.S. President Trump announced that the US Navy would impose a full naval blockade on the Strait of Hormuz, effective 10 AM ET 13 April marking a decisive and potentially irreversible escalation on Day 44 of the Iran War.

The energy market response has been immediate and severe. Brent crude surged 7.3% to \$102 per barrel in Monday morning trade, re-establishing the full war premium that had briefly compressed during last week's ceasefire optimism and extending the cumulative gain from pre-war levels to over 40% since late February. The total volumes displaced from global circulation at 13-15 million barrels per day, a figure that now includes the incremental 2 million b/d added by the US blockade on top of Iran's existing closure. Crucially, Trump's order extends interdiction to any vessel in international waters that has paid a transit toll to Iran, shutting the IRGC-managed Larak corridor that had until now granted selective passage to Chinese, Russian, Indian, and Pakistani tankers. The last functioning bypass for Asian importers has been closed. Saudi Arabia's east-west pipeline, running at its full 7 million b/d capacity and bypassing Hormuz entirely, provides partial but structurally insufficient offset. Meanwhile Trump has acknowledged that elevated oil and gasoline prices may persist through November's midterm elections an unusually candid signal that the White House regards high energy prices as a manageable, if uncomfortable, political cost.

In FX the DXY rose ~0.4% as US-Iran talks failed to progress. Treasuries reversed early gains, with long-end yields up ~5 bp and the curve flattening (2s10s unchanged, 5s30s +2 bps). The 10Y yield trades near 4.33% level.

Last week's US data underscored the dilemma now confronting the Fed's. Headline CPI rose to 3.3% YoY in March, accelerating sharply from 2.4% in February on the back of energy cost pass-through, while core CPI edged to 2.6% y/y from 2.5% marginally below the 2.7% consensus but continuing its incremental drift higher. More troubling was the University of Michigan's preliminary April consumer sentiment survey, which collapsed to 47.6 from 53.3 in March, with one-year inflation expectations jumping to 4.8% from 3.8% nearly 60 basis points above what had been anticipated. Five-to-ten-year expectations held at 3.4%. Against this backdrop, real personal consumption expenditures rose just 0.1% in February after stagnating in January evidence that the consumer was already slowing before oil prices spiked.

The FOMC minutes from the 17-18 March meeting described a committee that has settled on 'nimbleness' as its operating principle a framing that, in practice, means deferring conviction to incoming data. Markets are firmly pricing a Fed pause in the near term, with the April meeting showing a 93% probability of no change, indicating that tightening is largely off the table for now. Even beyond April, the implied path suggests only very marginal rate increases (~3-4 bps) into mid-year, reflecting limited conviction around further hikes. Overall, this points to a “higher for now, but not higher for longer” narrative, where the Fed is expected to stay on hold in the near term before shifting cautiously toward an easing bias as growth and inflation dynamics soften.

Across Asia, the re-escalation lands with compounding force on economies that are structurally exposed to imported energy. India has responded as: export duties on diesel were more than doubled to Rs 55.5 per liter from Rs 21.5, to prevent domestic refinery arbitrage against elevated international margins, while aviation turbine fuel duties were raised to Rs 42 per liter. The RBI held its repo rate at 5.25% at the April MPC a unanimous decision framed around preserving flexibility even as India's 10-year sovereign yield has risen 26 basis points YTD to 7.00% and the rupee has depreciated ~4% YTD to ~93.38 against the dollar.

**Market-Implied Path (Fed-Funds Futures snapshot)**

Meeting	Implied Rate	Cumulative Change
29 Apr 2026	3.619 %	+1.83 bp
17 June 2026	3.674%	+3.68 bp
29 July 2026	3.663%	+2.51 bp
16 Sept 2026	3.63%	-0.77 bp
28 Oct 2026	3.624 %	-1.3 bp
09 Dec 2026	3.619%	-1.9 bp

Next meeting probabilities: **No change 93%, 25 bps hike 7%**

**Fig.3: Sensitivity of India's macros to Indian Crude Basket (ICB) prices**

Economic Variable	Impact of Every \$10/bbl. Increase in Crude Oil Prices
GDP Growth <sup>^</sup>	-15 bps
CPI Inflation <sup>^^</sup>	+30 bps <sup>^^</sup>
Combined Fiscal Deficit <sup>*</sup>	Worsens by ~0.3-0.4% of GDP
Current Account Deficit (C/A) <sup>*</sup>	Widens by ~0.4% of GDP
Indian Rupee (INR)	Depreciation / Weaker Bias

<sup>^</sup> as per the Monetary Policy Report April 2025 and based on a 10% deviation from baseline crude oil assumptions;

<sup>^^</sup> assumes no cut in excise duty;

<sup>\*</sup>negative sign indicates widening deficit;

Source: RBI & UBI research

**War premium in oil jolts INR: \$100+ crude fuels twin deficit risks.**

The overriding market condition is one of suspended disbelief residual hope for a diplomatic resolution coexisting with a growing structural acceptance that the Hormuz disruption will define the macroeconomic landscape well into the second half of 2026. The most optimistic credible scenario posits that Trump's blockade strategy is designed to seize control of the chokepoint before reopening it freely. The most adverse scenario, reported to be under active consideration at the White House, involves renewed direct strikes on Iranian energy infrastructure, a development that would represent a qualitative shift in the conflict's scope and duration that current energy futures curves almost certainly do not reflect. The week ahead offers several data focal points India March CPI today, and US PPI on Tuesday, and ten Fed speakers across the week but none of these releases are likely to alter the fundamental narrative. Energy availability is the dominant macro variable of 2026. Until the Strait of Hormuz reopens or credible alternative routing absorbs the displaced volumes at scale, the transmission from geopolitical risk to macroeconomic stress will remain direct, rapid, and largely beyond the reach of conventional monetary policy tools.

**₹ whipsawed by oil shock: ceasefire relief fades as US-Iran tensions reignite \$ Strength**

The Indian Rupee exhibited sharp two-way volatility over the past week after recovering from record lows of ₹95.23/\$ on 30<sup>th</sup> Mar'26, largely driven by rapidly evolving geopolitical developments surrounding the U.S.-Iran conflict, with oil prices emerging as the dominant macro driver.

Early in the week, INR appreciated toward ~92.40/\$, broadly supported by RBI regulatory measures and temporary U.S.-Iran ceasefire, which led to a ~14% correction in crude oil prices below \$100/bbl., easing inflation concerns and improving risk sentiment. However, this trend reversed sharply toward the end of the week. The collapse of US-Iran peace talks after 21 hours of negotiations and renewed escalation, including U.S. plans to block Iranian oil flows via the Strait of Hormuz, triggered a fresh oil price spike above \$100/bbl. (+7%), reigniting concerns over global supply disruptions and imported inflation. As a result, the Rupee depreciated sharply toward 93.3/\$.

From a rates perspective, U.S. 10-year yields remained elevated amid persistent inflation risks linked to the oil shock, reinforcing dollar strength, while India's 10-year G-sec yield remained volatile within ~6.85-7.00%, reflecting shifting oil dynamics.

The Dollar Index remained firm during the latter half of the week, supported by safe-haven demand and higher U.S. yields, further pressuring EM currencies. Simultaneously, FPI outflows (>\$20bln since Feb'26) and weak risk sentiment amplified downside pressure on the Rupee. Overall, the INR has reverted to tracking oil prices and capital flows, with geopolitical developments in the Middle East now acting as the primary near-term anchor. (Last Friday's close: ₹93.1000/\$) [O: ₹93.0000/\$, H: ₹93.1200/\$, L: ₹92.4025/\$ & C: ₹92.7350/\$].

**Key take-aways for India's Macros & Markets:**

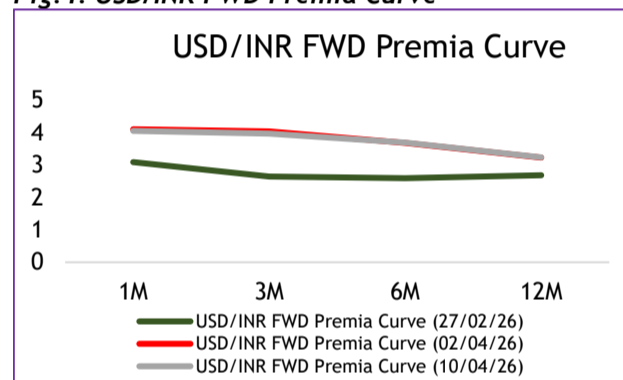
A. **High oil price sensitivity:** The global oil market entered a state of heightened alarm this week as Brent crude prices surged ~8% to a peak of \$103.49/bbl., effectively erasing the gains of a short-lived mid-week ceasefire. The primary catalyst for this spike was the breakdown of US-Iran peace talks and the subsequent announcement of a US naval blockade on Iranian ports, which has reignited fears of a catastrophic disruption in the Strait of Hormuz. This renewed "War Premium" has placed the Indian Rupee under severe duress, forcing it toward a fresh low against the USD. As India grapples with the fallout of \$100+ oil, the dual threat of a ballooning trade deficit and imported inflation is significantly weighing on market sentiment, suggesting further INR depreciation. On a **WoW basis, prices dipped by ~7%, and reflect a rise of ~57% YoY.** Sensitivity of C/A deficit to oil prices stays high with every \$10/bbl. move in oil price affecting annual C/A balance by close to \$15bln.

*Dollar rebounds on geopolitical risk and sticky inflation, adding pressure on rupee amid oil surge.*

*Persistent FPI outflows deepen rupee pressure amid rising global uncertainty and weak capital flows.*

*Robust FX reserves provide RBI with strong buffer to manage rupee volatility despite external pressures.*

**Fig.4: USD/INR FWD Premia Curve**



Source: Cogencis & UBI Research

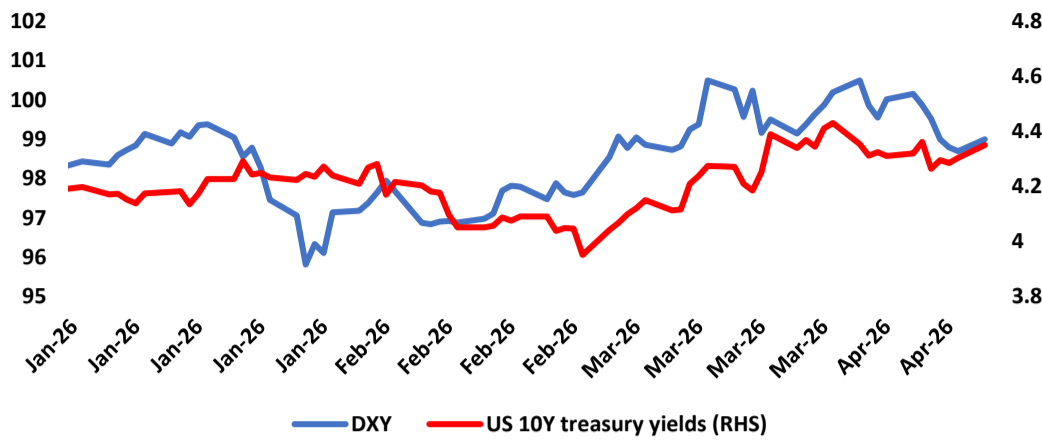
*Rupee faces triple threat of geopolitics, \$100+ oil and strong dollar, bias remains toward 93.50/\$ amid risk-off sentiment.*

- B. **Dollar strength:** The US Dollar Index staged a firm recovery to trade higher than 99 levels, rising 0.40% as safe-haven demand intensified following the collapse of US-Iran peace talks. Although the index remained just below the 100 handle, the shift in sentiment was immediate after President Trump announced a naval blockade of Iranian ports, effective 13<sup>th</sup> Apr'26. This geopolitical escalation, coupled with US Headline CPI hitting a two-year high of 3.3%, has reinforced expectations that the Federal Reserve will maintain a "higher-for-longer" stance. Consequently, the INR plummeted and weakened further, as the combination of a resurgent Dollar and \$102 Brent crude triggered a sharp sell-off in domestic equities and heightened fears of a widening trade deficit. On a **WoW basis, DXY dipped by ~1%, and reflect a fall of ~1% YoY.**
- C. **FPI exodus:** During this week, FPIs continued being net sellers, withdrawing ~\$19bln from Indian markets in this CY26, amid heightened global uncertainty. FPIs continue to be net sellers in equities to the tune of ~\$3bln vis-à-vis outflows of ~\$2.5bln on a WoW basis. Debt markets also stayed negative to the tune of ~\$1.3bln vis-a-vis ~\$127mln outflows a week ago. FAR flows, at \$0.30bln (CY26), including a ~(\$490mln) outflow so far last week.
- D. **Strong policy cushion from RBI:** On the on-going external headwinds, India's foreign exchange reserves tracked higher and inching closer to record highs of **\$728.49bln** (as of 27<sup>th</sup> Feb'26) to **\$697.12bln** (as on 03<sup>rd</sup> Apr'26) covering ~11 months of imports, driven mainly by a **\$7.22bln** surge in **Gold** and **\$1.78bln** rise in **FCA**; providing the central bank with substantial cushion to smooth volatility. As per our analysis, the FX lift in liquidity to possibly curb the FX volatility has been ~(\$1.5bln) (excluding valuation effects) in the week ended 3<sup>rd</sup> Apr'26.
- E. **The USDINR forward curve:** The INR forward curve exhibited heightened volatility and mild steepening bias over the past week, tracking sharp moves in spot INR, oil prices, and dollar strength amid escalating U.S.-Iran geopolitical tensions. In the early part of the week, forward premiums softened, reflecting INR appreciation, aided by a temporary ceasefire and easing crude prices. However, as oil rebounded above \$100/bbl. and the rupee reversed course, near-end forward premiums firmed, driven by increased hedging demand and tighter dollar liquidity conditions. The short-end of the curve remained sensitive to liquidity dynamics, with RBI's liquidity management helping contain excessive spikes, while the long-end stayed relatively anchored, reflecting stable rate differentials between India and the U.S. Elevated U.S. yields and a stronger DXY supported dollar demand in forwards, while persistent FPI outflows added pressure on the curve, particularly at the front end. Overall, the forward curve continues to mirror spot volatility and external risks, with a slight upward bias in premiums amid geopolitical uncertainty. Near-term dynamics will remain driven by oil prices, dollar strength, and RBI's liquidity/FX management, with implications of continued hedging demand and INR downside risks.

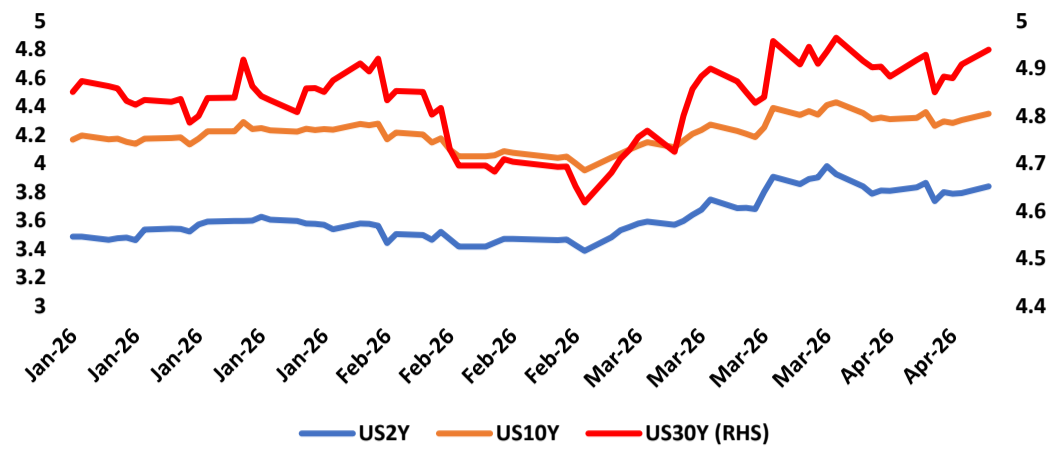
**Outlook (INR - ₹ view):**

The outlook for the Indian Rupee this week is decidedly bearish as the currency navigates a "triple threat" of geopolitical escalation, surging energy costs, and a resurgent US Dollar. Following the breakdown of US-Iran diplomatic efforts and the implementation of a naval blockade in the Persian Gulf, the Rupee is expected to face intense pressure, likely testing the ₹93.50/\$ levels. Global sentiment remains skewed toward "risk-off" assets, keeping the DXY elevated above 99 handle and US 10-year yields firm above 4.3%. All eyes this week will be on the Strait of Hormuz for any physical trade disruptions and Tuesday's US PPI data, which could further solidify the Fed's "higher-for-longer" interest rate stance. While the RBI's substantial forex reserves of \$697.1bln provide a defensive cushion, the immediate trajectory of the Rupee will be dictated by whether Brent crude stabilizes or continues its climb.

The dollar strengthened modestly, with the DXY index rising ~0.4% as US-Iran peace talks over the weekend failed to yield progress. (Fig 5)

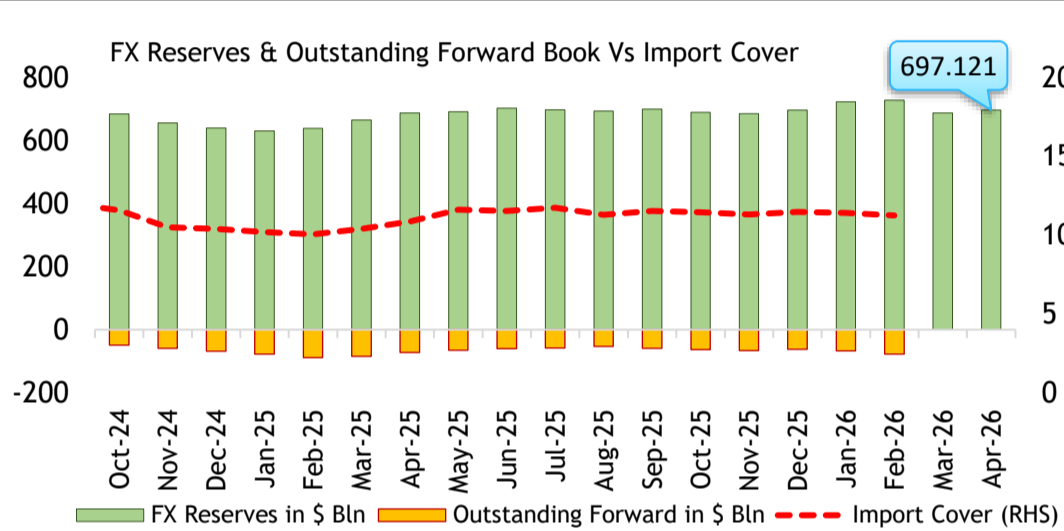


US Treasuries reversed gains, with yields drifting higher by ~5 bp across the long end (Fig 6)

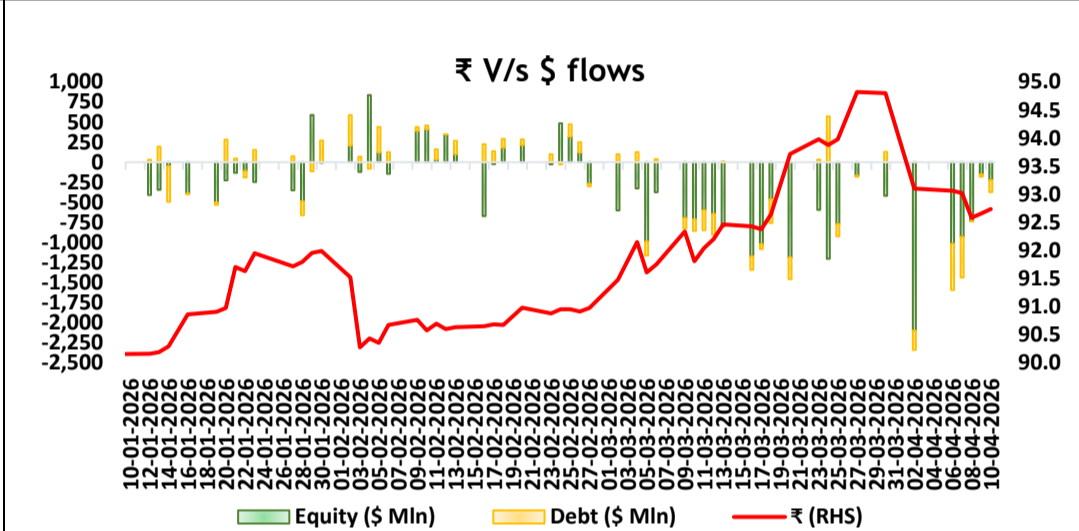


Source: LSEG, UBI research

FX reserves surge amid rise in Gold assets & FCA (Fig 7)



₹ recovers from lows supported by RBI regulatory measures (Fig 8)



Source: Bloomberg, LSEG Workspace, CEIC & UBI Research

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