

By:

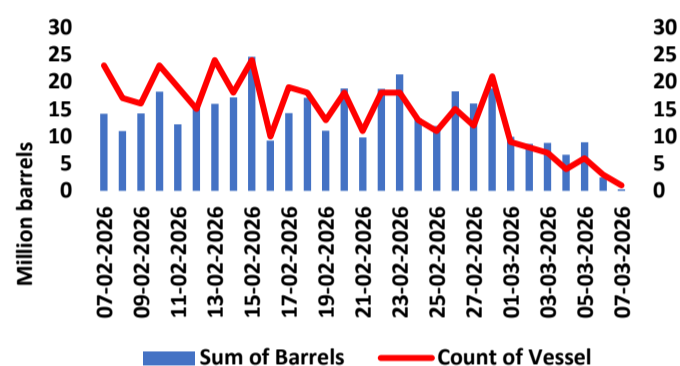
Kanika Pasricha
kanika.pasricha@unionbankofindia.bank.in

Akash Deb
akash510@unionbankofindia.bank.in

Shreyas Bidarkar
shreyas.bidarkar@unionbankofindia.bank.in

Strait of Hormuz Traffic Collapse: Tanker traffic has fallen ~95% in one-week. Crude loadings are down 99% The disruption is unprecedented in modern history.

(Fig 01)



Source: Refinitiv

Oil experienced the most extreme intraday volatility of the episode after trading above \$120/bbl mark now trades below \$92/bbl mark

(Fig 02)



Source: Refinitiv

Market-Implied Meeting	Path Implied Rate	(Fed-Funds Futures (Table 1) Cumulative Change Rate
18 Mar 2026	3.63%	-01 bp
29 Apr 2026	3.60 %	-04 bp
17 June 2026	3.53%	-11 bp
29 July 2026	3.46%	-17 bp
16 Sept 2026	3.38%	-25 bp
28 Oct 2026	3.32 %	-31 bp
09 Dec 2026	3.25%	-38 bp

Next meeting probabilities: **No change 95 % , 25 bps cut 5 %**

Risk sentiment rebounded dramatically on Monday after US President Trump suggested the war with Iran could end soon, fundamentally shifting the calculus that had gripped markets through the prior week. US stocks and Treasuries reversed early losses, oil prices pared most of an extraordinary intraday spike, and the dollar gave back a portion of its recent safe-haven gains. The binary that had dominated weekend positioning diplomatic breakthrough versus structural crude elevation toward \$120-\$130/bbl appears to have moved meaningfully toward the former, at least in market pricing, though no formal ceasefire or confirmed diplomatic channel has yet emerged. (Refer: "Strait Under Fire: Global and Indian Macros & Markets at the Crossroad" (Part II)).

Oil experienced the most extreme intraday volatility of the episode. Brent crude surged nearly 30%, briefly touching \$120/bbl its highest intraday level since mid-2022 before paring most gains to settle at \$98.96 (+6.8%) on Monday. The initial surge was driven by major Middle East producers including Saudi Arabia cutting output and a near-standstill of tanker traffic through the Strait of Hormuz. Prices reversed sharply after Trump's comments and his announcement waiving certain oil-related sanctions to ease supply pressure. The G7 held a virtual meeting to assess the conflict's energy market impact; France, indicated the bloc is "not at that point yet" on a coordinated emergency reserve release.

Compounding the geopolitical risk, Mojtaba Khamenei, widely seen as a hardliner like his father, has been appointed to succeed him as Iran's supreme leader, with the leadership of Iran's armed forces pledging allegiance and signalling consolidation of power. The decision by Iranian clerics defies US U.S. President Donald Trump, who had insisted Washington should have a say in the succession process, reinforcing expectations that hardliners remain firmly in control in Tehran and that the Strait of Hormuz disruption could persist.

Financial markets are now confronting an uncomfortable macro combination: a renewed energy-driven inflation shock alongside emerging signs of softer labor market in the U.S. Last week's defining data point was US nonfarm payrolls print: a shocking loss of 92,000 jobs in February, far below the expected gain of 55,000 and one of the worst single-month readings since the pandemic. The unemployment rate ticked up to 4.4%. Bond yields gyrated wildly, Treasury yields told a similar story of intraday reversal. Yields initially jumped on worries that surging oil prices would fuel inflation, but later reversed after Trump's Iran comments. The 10-year yield slid from an intraday high of 4.21% to close 4.3bps lower at 4.09%, ending a five-session streak of rising yields a streak that had seen 10-year yields rise 20bps over the prior week. The USD one of the main beneficiaries of the Iran war due to its safe-haven status saw profit-taking off its recent strong run, with DXY paring a 0.7% intraday gain to close at 99.18 (+0.2%) on Monday, a marked contrast to last week's 1.4% weekly surge, the best since August 2024. The dollar is likely to remain supported while the conflict persists but could resume weakening once tensions ease, with its medium-term trajectory increasingly guided by the US labour market and the Fed's policy path.

The macro backdrop entering this week is one of acute tension between two competing forces: a weakening US labour market that, under normal circumstances, would argue for Fed easing, and an energy-driven inflation impulse that argues precisely the opposite. Fed Governor Miran has called for cuts to neutral, while Hammack and Collins favour an extended hold. Markets are pricing just 38bps of Fed cuts for all of 2026 down sharply from the 61bps priced before the war began.

Three things command attention this week above all else. First, US CPI (11 March): consensus expects headline at +2.45% y/y and core at +2.44%. Second, India CPI on Thursday (12 March): consensus at +3.1% y/y, a critical read given India's acute LNG and crude import dependence. Third, while U.S. President Trump appearing to step back somewhat is positive for the global economy and reduces the left-tail risk of a global recession, it may still be premature to turn fully constructive. Geopolitical uncertainties remain elevated, and therefore a degree of caution is still warranted in the near term.

THE HORMUZ QUESTION: What Happens Next?

① THE BIG QUESTION TODAY

Will the Strait of Hormuz reopen in days or weeks? That single question is driving every other asset price on the planet. Iran achieved a near-total shipping halt using cheap drones, not a conventional naval blockade making it extraordinarily difficult for the US to neutralise without escalating further. Iraq's southern oilfield output has collapsed 70% to just 1.3 million barrels per day, storage is maxed out, and Kuwait has declared force majeure on shipments. Iran's newly appointed supreme leader, Mojtaba Khamenei, signals hardliners remain firmly in control in Tehran there is no obvious face-saving off-ramp on the table. Every hour of closure compounds structural damage that will take weeks to reverse even after hostilities end: once producers begin actually shutting in wells, restart timelines extend dramatically.

② WHERE DOES OIL GO FROM HERE?

Last week's close at WTI \$90.90 and Brent \$94.64 already represented the highest levels since October 2023. Monday erased that context entirely: Brent surged 27% to \$117.65 and WTI spiked 31.4% to an intraday high of \$119.48 the single largest one-day jump in the market's history. Iraq's storage overflow means crude has nowhere to go even if production restarts. Saudi Arabia is rerouting via Red Sea port Yanbu and has raised Asian official selling prices by the most since August 2022, but rerouting options narrow quickly as Iran continues targeting UAE's Fujairah zone and Saudi Arabia's Shaybah oilfield. A 1-2-week closure trajectory points to \$100-120/bbl; a sustained closure of one month or more risks triple digits entrenching alongside LNG at 2022 crisis highs. A credible ceasefire sees Brent snap back to \$80-85 but the well shut-in dynamic means recovery lags any peace agreement.

③ OPTIONS FOR THE UNITED STATES

Naval escorts & DFC insurance: Trump promised naval escorts and activated DFC insurance guarantees. Tanker rates surged 94% in a day. This builds confidence for neutral shippers but does not neutralise Iranian drone swarms and insurance liability limits remain a real constraint. SPR release: Trump release oil from the Strategic Petroleum Reserve. It blunts the financial price signal but does not solve the physical routing problem the Strait is closed, not undersupplied. Fuel waivers & futures intervention: The administration is evaluating fuel-blending waivers and potential direct intervention in oil futures markets unconventional tools reflecting the political urgency, with gasoline at the highest level of any Trump term. Escalate to a decisive end: Trump has publicly stated there will be 'no deal without unconditional surrender' and the operation may only end once Iran's military and rulers have been eliminated. Israel is pushing for full regime change the highest-risk path, and Iran's new leadership has removed the 'deal with the moderates' option entirely.

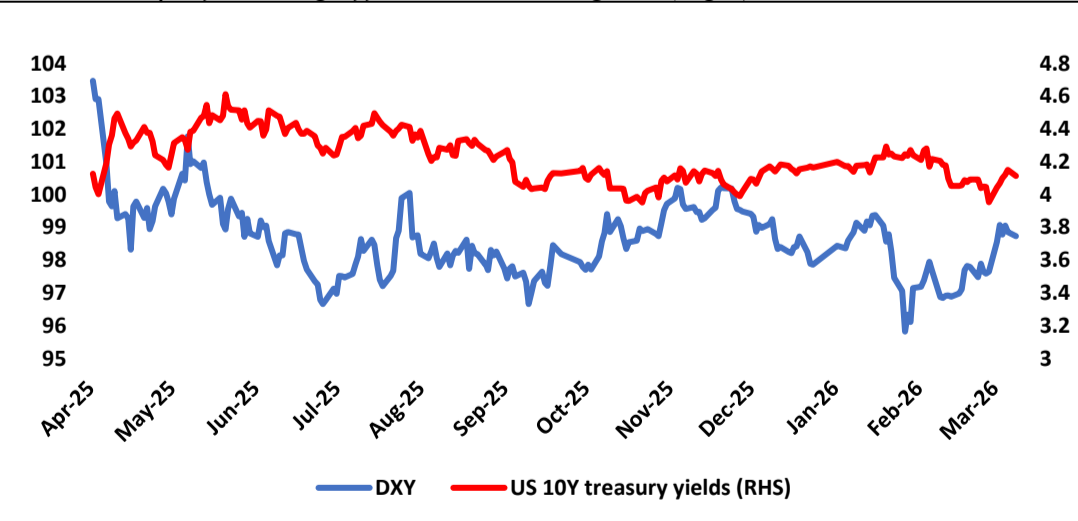
④ OPTIONS FOR IRAN

Hold the Strait, absorb the pain: Iran's immediate leverage is the Strait itself and it is working. Keeping the closure in place maximises economic pain on the West and Gulf states. Mojtaba Khamenei's appointment signals the hardline position will be maintained. Widen the theatre: Iran could escalate by targeting Saudi and UAE oil infrastructure in earnest, forcing a broader Gulf shutdown maximising pressure but risking direct Gulf military retaliation and potentially rupturing its lifeline relationship with China. Negotiate via proxies: A face-saving exit likely requires a third-party guarantor China or Oman offering Iran assurances without requiring direct capitulation. Israel's threat to kill any leadership successor makes the personal stakes of negotiation extraordinarily high for Tehran.

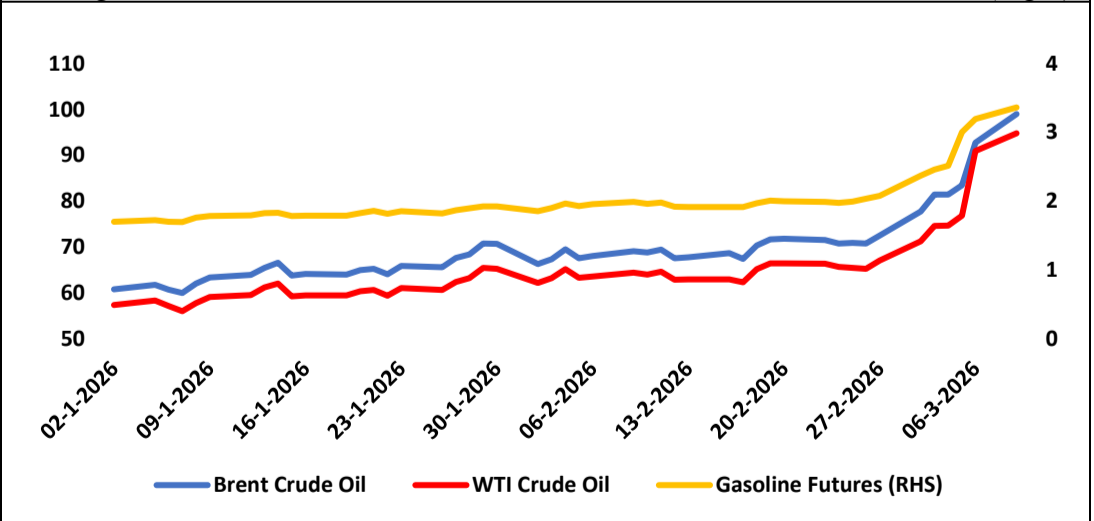
⑤ THE ROLE OF CHINA & RUSSIA

China reluctant kingmaker: Beijing is the single most important external actor. China buys the majority of Iranian oil exports at steep discounts making it Tehran's economic lifeline and its primary lever of pressure. Bessent is reportedly eyeing the Trump-Xi meeting (late March/April) to ask Beijing to cut Iranian oil purchases. China's incentives are split: it benefits from cheap crude (84% energy self-sufficient) but a prolonged Hormuz closure harms its manufacturing through LNG supply disruption. Beijing's most likely posture is quiet back-channel mediation pressure on Tehran for partial de-escalation in exchange for sanctions relief rather than public alignment with either side. Russia spoiler or broker? Moscow is structurally incentivised to let this run: every \$10 oil rise is a direct fiscal windfall partially offsetting Western sanctions. Russia retains influence with Iran through military and economic ties and could theoretically play broker, but the price easing pressure on Russian energy exports is currently politically impossible in Washington. Expect delay tactics dressed as diplomacy.

The USD one of the main beneficiaries of the Iran war due to its safe-haven status saw profit-taking off its recent strong run (Fig 3)



Oil experienced the most extreme intraday volatility of the episode after trading above \$120/bbl mark now trades below \$95/bbl mark (Fig 4)



Source: LSEG, UBI research

Fig.1: Sensitivity of India's macros to Indian Crude Basket (ICB) prices

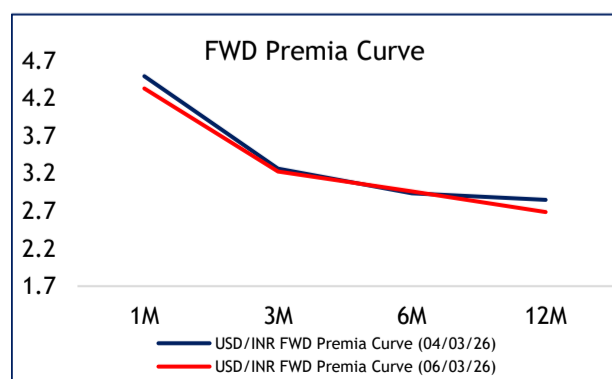
Economic Variable	Impact of Every \$10/bbl. Increase in Crude Oil Prices
GDP Growth [^]	-15 bps
CPI Inflation [^]	+30 bps ^{^^}
Combined Fiscal Deficit [*]	Worsens by ~0.3–0.4% of GDP
Current Account Deficit (C/A) [*]	Widens by ~0.4% of GDP
Indian Rupee (INR)	Depreciation / Weaker Bias

[^] 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

Oil shock risk: Brent crossed \$100/bbl. (↑~37% WoW) amid West Asia tensions, heightening pressure on India's external balance as every \$10/bbl. rise widens CAD by ~\$15bln and could push the deficit above 2% of GDP.

Rising global risk aversion lifted the DXY to ~99.5 from ~98.5, triggering ~\$2.3bln FPI equity outflows WoW, while debt flows stayed marginally positive and FY26 FAR inflows reached ~\$3.06bln.

Record RBI buffer hit \$728.49bln (~11 months import cover), giving the RBI ample firepower to manage volatility and support rupee resilience.



Source: Cogencis & UBI Research

₹ hits back-to-back record lows on Oil shock & \$ strength; RBI's record FX war chest cushions volatility

The Indian Rupee remained under significant pressure over the past week, sliding toward record lows at ₹92.3100/\$ on 4th Mar'26 and back to back fresh record low of ₹92.3700/\$ on 9th Mar'26 amid a surge in global crude oil prices above \$100/bbl. and a broad risk-off sentiment across global markets triggered demand for the US dollar. Rising geopolitical tensions and fears of supply disruptions pushed oil prices sharply higher, intensifying concerns about India's trade deficit and increasing dollar demand from oil importers. The DXY strengthened amid elevated US bond yields and safe-haven demand, exerting additional depreciation pressure on EM currencies. Persistent volatility in global equities and risk assets further dampened investor sentiment, prompting cautious positioning in currency markets.

FPI flows witnessed intermittent equity outflows reflecting global risk aversion and profit-booking in domestic markets. These outflows contributed to dollar demand in the domestic FX market, amplifying downside pressure on the rupee. FX reserves surged to a fresh all-time high of about \$728.49 bln as on 27th Feb'26 and provides the central bank with significant firepower to smooth excessive volatility. While external pressures such as elevated oil prices, a stronger dollar, and risk-off capital flows may continue to weigh on the rupee in the near term, India's robust reserve position and macro fundamentals remain key policy cushions against disorderly depreciation. (Last Friday's close: ₹90.9750/\$) [O: ₹91.2600/\$, H: ₹92.3100/\$, L: ₹91.2200/\$ & C: ₹91.75/\$]. [Refer report: ["Strait Under Fire: Global and Indian Macros & Markets at the Crossroads"\(Part II\)](#)]

Rupee at record low amid Oil shock amid West Asia crisis: Key Risks for India's Macros & Markets

- High oil price sensitivity:** Brent crude prices surged sharply over the past week, breaching the \$100/bbl. mark amid escalating geopolitical tensions in West Asia and rising fears of supply disruptions through key shipping routes such as the Strait of Hormuz, which handles nearly 20% of global oil trade. India remains highly sensitive to crude price movements as it imports nearly 85% of its crude oil requirements. On a WoW basis, prices surged by ~37%, and reflect a rise of ~54% 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. Hence given the spike in geopolitical tensions, if average oil prices settle higher at ~\$85/bbl., our estimates suggest India's Current Account Deficit (CAD) could widen beyond 2% of GDP, compared with ~0.9% currently, due to a higher import bill and increased dollar demand from oil marketing companies.
- Dollar strength and FPI flow pressures:** The DXY strengthened over the past week, rising from around 98.5 levels to 99.5, as escalating geopolitical tensions and a sharp surge in global crude oil prices triggered a broad risk-off sentiment in global markets. Safe-haven demand for the dollar remained strong amid heightened uncertainty and elevated US Treasury yields ~4.20% levels, while concerns over persistent inflation due to rising energy prices also supported the greenback. At the same time, flows into Indian equities turned volatile over the past week, reversing February's strong inflow momentum. During the past week, FPIs turned net sellers, withdrawing around ~\$2.2bln from Indian market in just four trading sessions, amid heightened global uncertainty. FPIs turn to be net sellers in equities to the tune of ~\$2.3bln vis-à-vis inflows of ~\$628mln on a WoW basis. Debt markets remained positive to the tune of ~\$89mln vis-a-vis ~\$322mln inflows a week ago. FAR flows, at \$3.06bln (FY26), including a ~\$98mln inflow so far last week.
- Strong policy cushion from RBI:** Despite external headwinds, India's foreign exchange reserves rise to a record high of about \$728.49bln (as of 27 Feb 2026) covering ~11 months of imports, driven mainly by a \$4.14bln surge in Gold and \$0.56bln rise in FCA providing the central bank with substantial cushion to smooth volatility. The large reserve buffer, along with relatively strong macro fundamentals, has helped the rupee remain among the more resilient EM currencies even during periods of global risk-off sentiment.

The USDINR forward curve: Eased slightly last week, with short-tenor premiums remain supported by importer hedging and higher oil-related dollar demand as the 1-month premium moderating to 4.33% from 4.49%, and the 1-year near ~270 paisa (~2.7% annualised), reflecting some cooling in near-term hedging demand even as elevated crude prices, importer dollar demand and global risk-off sentiment continued to support the forward curve.

Foreign Investment Inflows				
(US \$ Million)				
Item	2024-25	Apr-Feb	Mar'26	2025-26
FDI	959	-	-	3986 [^]
FPI	3564	-2990	-2268	-5258 [*]
Total flows	4523		-	-1272

[^]data till Dec'25; ^{*}data till 06th Mar'26
Source: RBI, NSDL & UBI research

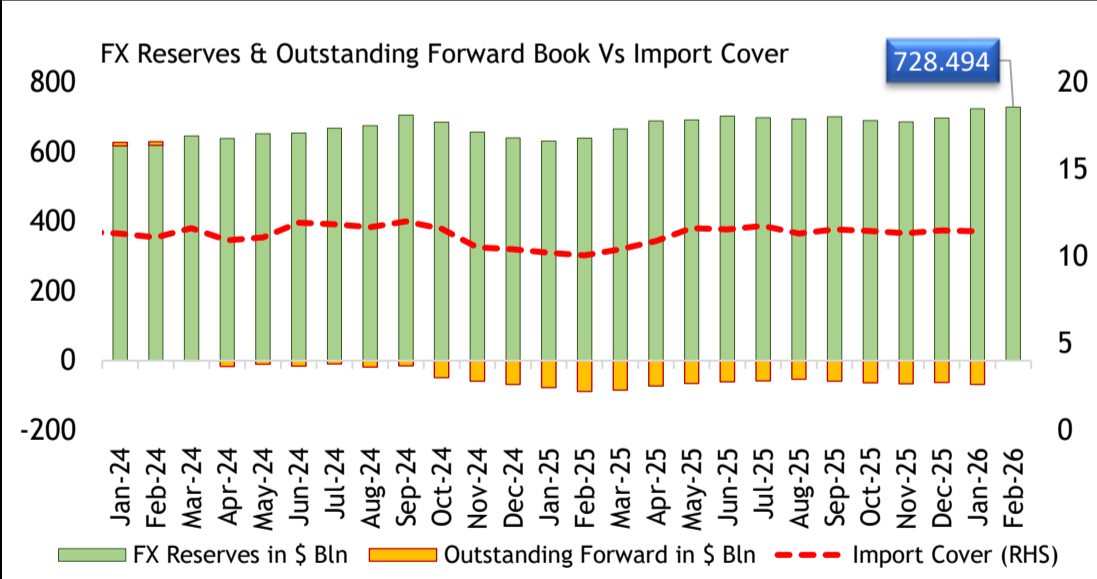
Outlook (INR - ₹ view):

The Indian rupee is expected to remain under pressure this week, as surging crude oil prices and persistent global risk-off sentiment continue to weigh on emerging market currencies. The rupee recently hit back-to-back record lows above the ₹92/\$ level, driven by the escalation of geopolitical tensions in West Asia that pushed oil prices sharply higher and triggered capital outflows from emerging markets.

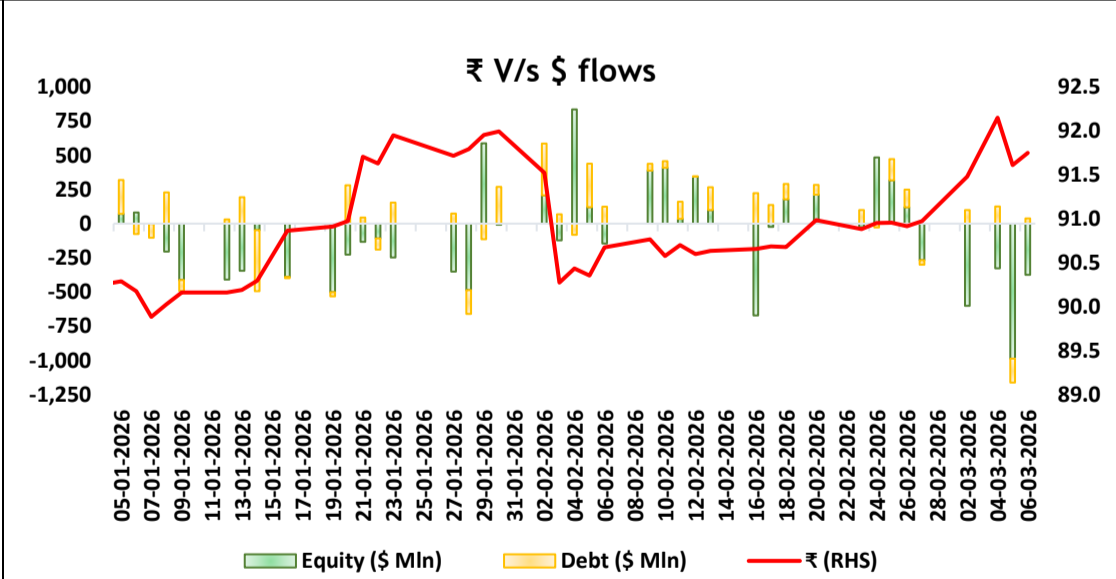
Higher oil prices remain the key risk for the currency, as India imports over 80% of its crude requirements, meaning any sustained rally in crude directly increases the import bill and widens the current account deficit. At the same time, foreign portfolio investors have turned cautious, adding pressure on domestic equities and the rupee amid rising global uncertainty and stronger demand for safe-haven assets like the US dollar. However, the downside for the rupee could be partly limited amid India's strong macroeconomic buffers, including robust growth and large forex reserves. Overall, USD/INR is expected to trade with a weakening bias and elevated volatility in the near term, with oil prices, global risk sentiment and capital flows remaining the key drivers for the currency this week.

From a technical standpoint, the rupee is expected to trade between 91.80-92.80/\$ throughout the week. Turn-around in equity inflows could strengthen the INR toward ₹91.80/\$, with ₹92.00/\$ acting as a key interim support. Likely to face strong resistance near ₹92.50/\$, a break above this zone could trigger a move toward ₹92.80/\$.

FX reserves hit records high amid surge in Gold & rise in FCA (Fig 5)



Rupee hits fresh record lows amid escalating west-asia tensions (Fig 6)



Source: Bloomberg, LSEG Workspace, CEIC & UBI Research

Banking & Economic Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank

Disclaimer:

The views expressed in this report are personal views of the author(s) and do not necessarily reflect the views of Union Bank of India. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Union Bank of India and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability regarding the same.