

IRAQ

KUWAIT

IRAN

# “Strait Under Fire: Global and Indian Macros & Markets at the Crossroads” (Part II)

SAUDI ARABIA

STRAIT OF HORMUZ

UAE

OMAN



*“We believe Trump, being a war dove, is likely to restrict the duration of the war and limit the spill-over impact of higher oil prices, given that it is an election year in the U.S.”*

*-UBI Research*

- While Trump has often projected himself as a “war dove,” the U.S. and Israel launched “Operation Fury” on 28 February, marking one of the most significant U.S. foreign-policy escalations in decades.
- The duration of the conflict will ultimately determine the oil market dynamics: As price pressures rise, economic and political costs escalate making energy markets the likely trigger for eventual de-escalation. [\(Refer: Strait Under Fire: Global and Indian Macros & Markets at the Crossroads\)](#)
- The unprecedented disruption of the Strait of Hormuz, which carries ~20% of global oil supply, represents the primary transmission channel to the global economy.
- Several experts warn that a prolonged conflict could push oil prices toward ~\$100/bbl. However, the U.S. administration appears to be trying to limit the shock through a 30-day waiver allowing India to import Russian oil via Baltic and Black Sea routes, alongside a significant OPEC+ supply increase of ~206k bpd.
- Sustained crude above ~\$90-\$100/bbl. risks reigniting global inflation and forcing central banks to delay or reverse rate-cut expectations.
- Insurance and freight costs are becoming the real bottleneck: War-risk premiums, shipping insurance and tanker freight rates have surged, effectively restricting energy flows even if the Strait remains partially open.
- Overall we will closely watch out for the extent of the direction & duration of the conflict & how Trump tries to limit the macro and market consequence in the mid term election year.

## India-West Asia strategic relationship:

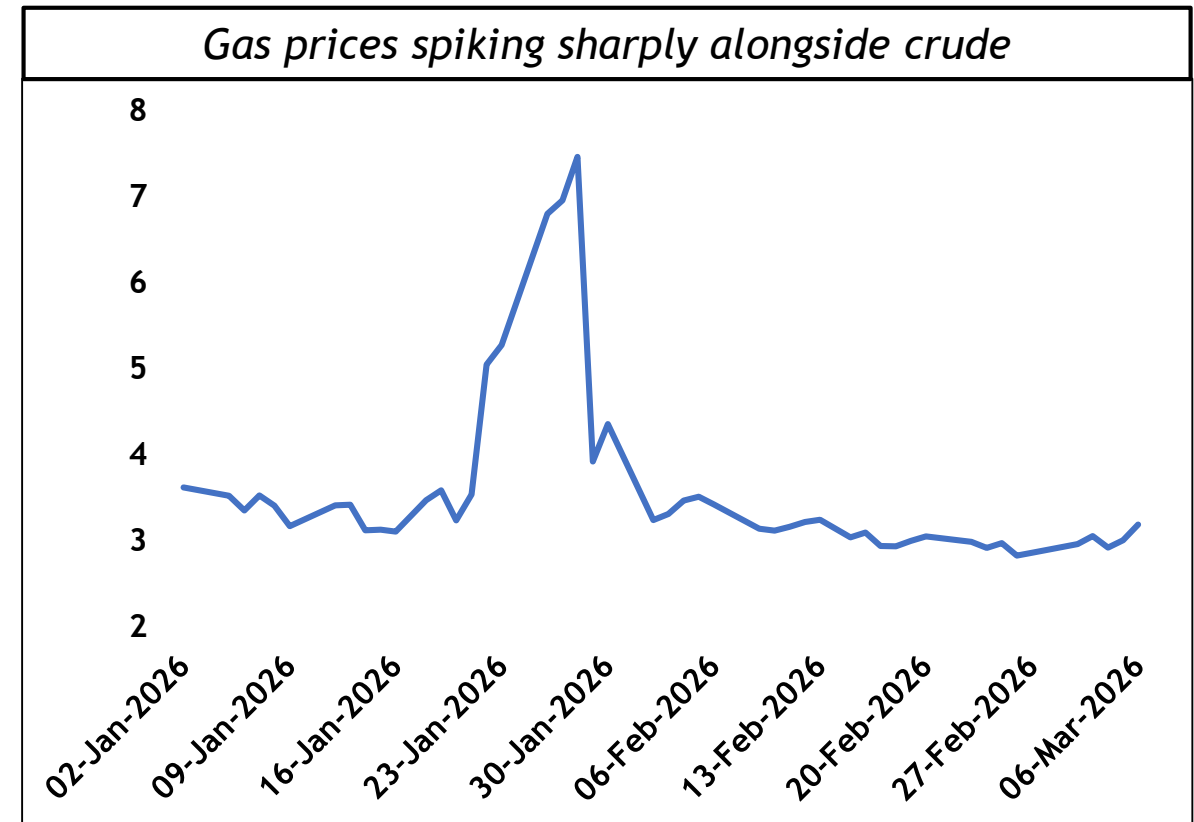
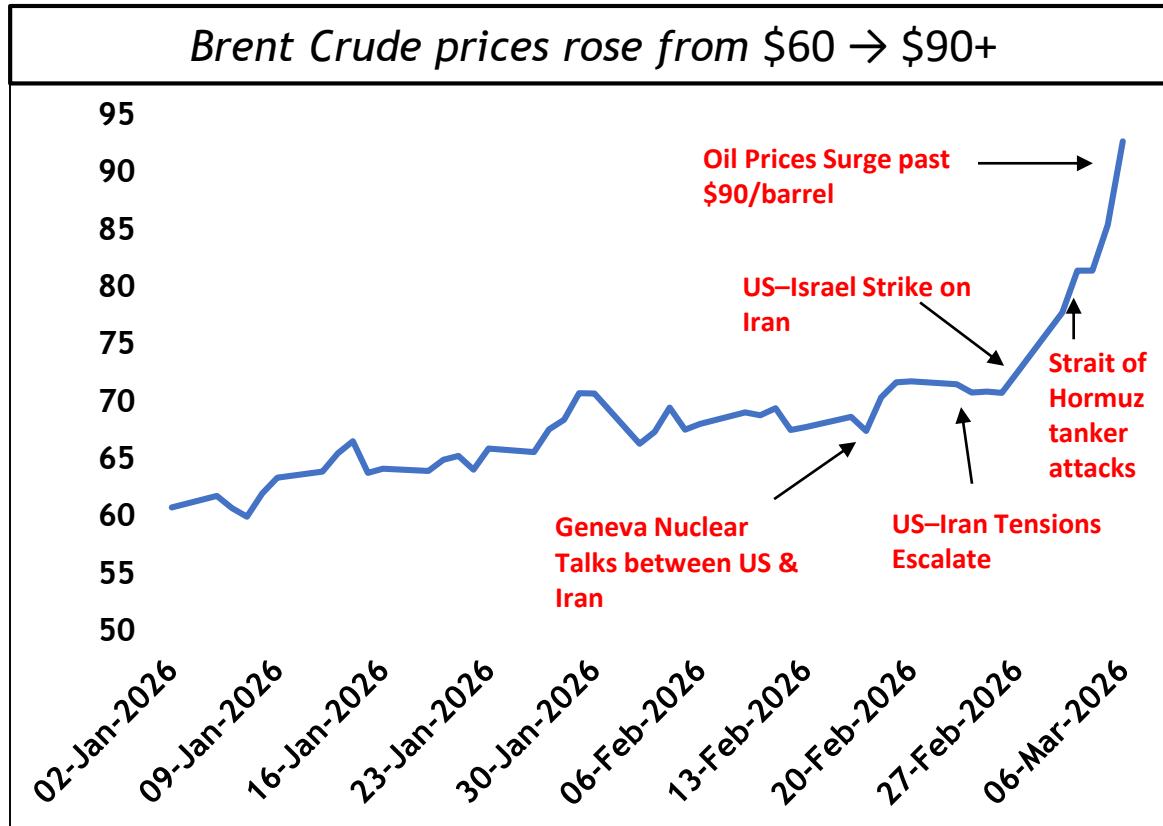
- i. West Asia has a share of ~15% in our goods exports, ~20% in goods imports, ~40% in remittances and ~10% in FDI.
- ii. Sectors reliant on key commodity imports like oil with ~45% share of West Asia may face margins pressure. Also, ~70% LNG import share has affected adversely on supply production halt in Qatar. Other sectors affected by exports channel are gems & jewellery (~45%), auto (~25%) and food & beverages (~20%).

## Channels of impact

- i. The Strait of Hormuz disruption risks blocking nearly ~50% of India's crude oil and LNG imports and potentially 100% of LPG flows, highlighting the scale of the energy security challenge
- ii. Direct impact via Iran is capped as it's share in oil imports is down to negligible vs ~12.5% in FY17. Hence the more important channel of impact is via spike in oil prices with ~85% of India's oil requirements imported, and the conflict has already pushed oil prices ~27% higher since the war began.
- iii. Every 10% rise in oil prices, if passed onto consumers fully, affects GDP growth by 15bps, inflation by 30bps, fiscal deficit by 0.15% of GDP & C/A deficit by 0.4% of GDP. The direct channel of impact is via trade channel. Hence, if oil prices sustain at 90\$/bbl. then C/A deficit for FY27 is likely to track ~2% of GDP (vs sub 1% this year).

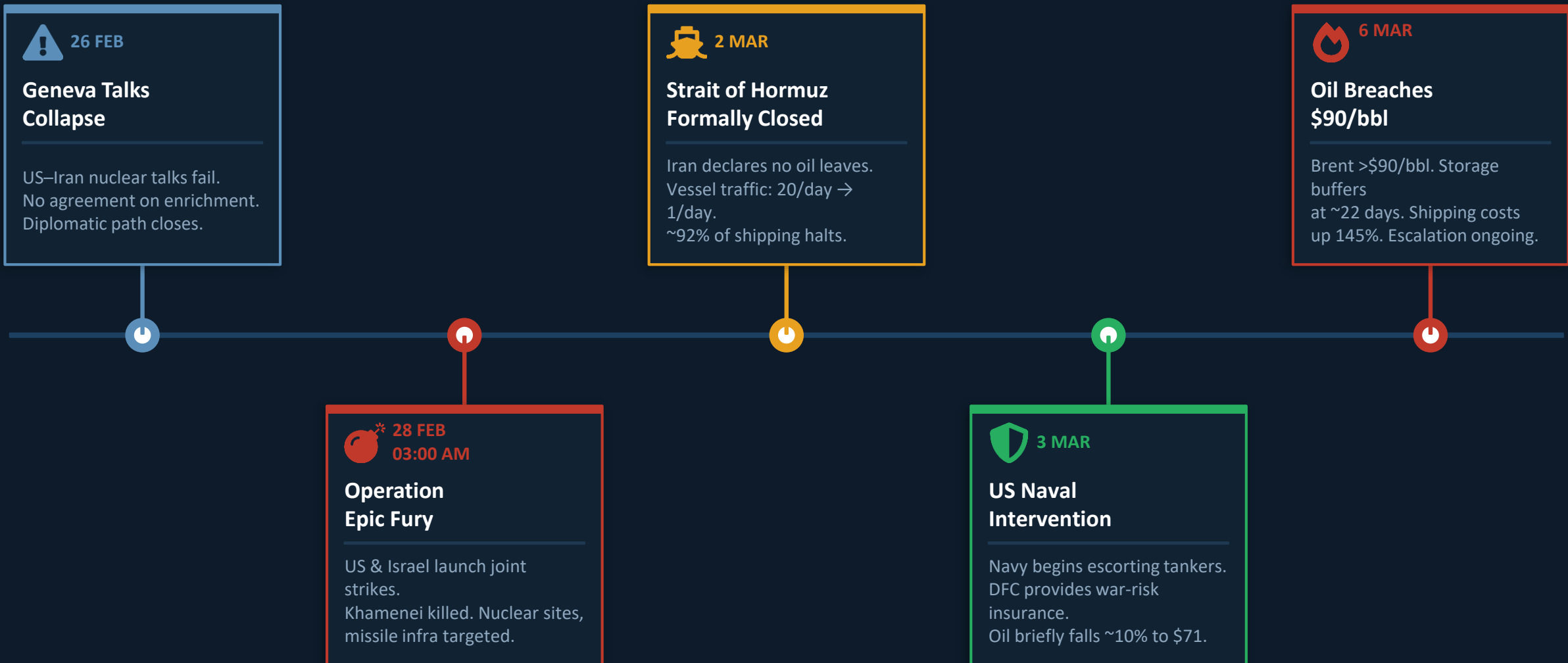
## Policy buffers to help cap short term impact:

- i. India has strategic petroleum reserves for ~50 days and OMCs have space to absorb margin pressures till oil price of ~\$85/bbl.
- ii. RBI with policy buffers (FX reserve: \$723bln, ~11 months of imports) is helping manage volatility in both Rupee (down only 0.8% this week to 91.75 & one of the best EM Fx performer) & rates (10yr yield up only 4bps to 6.70% this week).



- Brent crude surged from ~\$60 to \$90+ in a matter of days post-strike a \$30 move that took just weeks to materialise. Markets are not gradually pricing in risk; they are front-running a worst-case supply shock.
- With crude and gas prices surging, energy markets are tightening. For the Trump administration, this is the key political pressure point: every day the Strait remains disrupted pushes the \$2/gallon gasoline promise further out of reach.

# What Just Happened: Key events from the outbreak of war



**Day 8**  
of active conflict

**~92%**  
Strait vessel traffic halted

**\$90+**  
Brent crude vs \$60 at start  
Source: Media sources, UBI research

# THE STRATEGIC IMPORTANCE OF THE STRAIT OF HORMUZ

A Vital Oil Chokepoint

## KEY FACTS



20% of Global Oil Supply

17 Million Barrels  
Per Day Transit

✓ Main Route for  
LNG & Oil Exports



## EXPORT ROUTES



UAE

OMAN

ENERGY SECURITY & GLOBAL MARKETS  
DEPEND ON THIS CRUCIAL PASSAGE

IRAN

IRAN

Persian Gulf

STRAIT OF HORMUZ

OIL

## RISK OF DISRUPTION



## POTENTIAL THREATS



OIL PRICE  
SPIKES



SUPPLY CHAIN  
DISRUPTIONS



ECONOMIC INSTABILITY

# Asset class performance since the war began

## GLOBAL MARKETS

**BRENT** Brent Crude Oil

**+28.0%**

▲ +\$20.56

REF	NOW
\$72.48	\$93.04

9-month high. Strait closure shock.

**WTI** WTI Crude Oil

**+35.6%**

▲ +\$23.88

REF	NOW
\$67.02	\$90.90

Highest since July 2024. Tanker missile strike on 5 Mar drove +8.5% in one session.

**EU GAS** Natural Gas (TTF)

**+30.2%**

▲ +€12.7

REF	NOW
€42.1	€54.8

Europe energy crisis fears reignited. LNG rerouting from Asia to EU drives premium.

**XAU/USD** Gold

**+1.6%**

▲ +\$83

REF	NOW
\$5,100	\$5,183

Safe-haven bid. Pulled back mid-week on USD strength before recovering into close.

**SPX** S&P 500

**-0.7%**

▼ -48 pts

REF	NOW
6,878	6,830

Resilient. Intraday -2.5% on Day 3 fully recovered. Tech dip-buying absorbed the shock.

**DXY** US Dollar Index

**+1.5%**

▲ +1.3

REF	NOW
97.8	99.1

War safe-haven bid erased all YTD losses.

**US 10Y** US 10Y Treasury

**Yield ↑**

▼ +20 bps

REF	NOW
3.93%	4.13%

Stagflation fear: oil shock + sticky CPI priced out Fed cuts. 2Y-10Y spread narrowed.

**NKY** Nikkei 225

**-6.5%**

▼ -2,400 pts

REF	NOW
37,200	34,800

Hardest-hit developed market. Japan major LNG importer; shock amplified by Yen weakness.

## INDIA MARKETS

**SENSEX** BSE Sensex

**-2.9%**

▼ -2,368 pts

REF	NOW
81,287	78,919

6-month low. ₹8L cr wealth erased on Day 1.

**USD/INR** INR / USD

**INR -0.85%**

▼ +₹1.50

REF	NOW
₹90.9750	₹91.75

Record all-time low of ₹92.31 hit on 4 Mar..

**10Y YIELD** India 10Y G-Sec

**Yield ↑**

▼ +3 bps

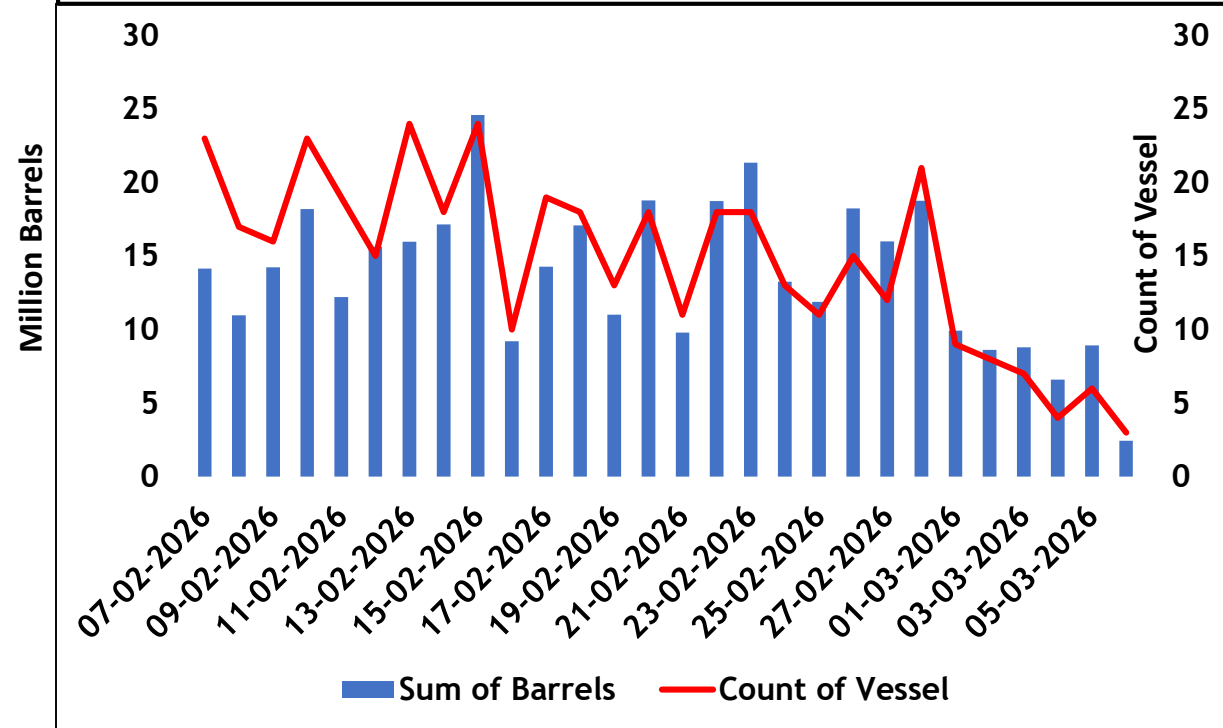
REF	NOW
6.66%	6.69%

Yields rose on inflation fears & FII outflows..

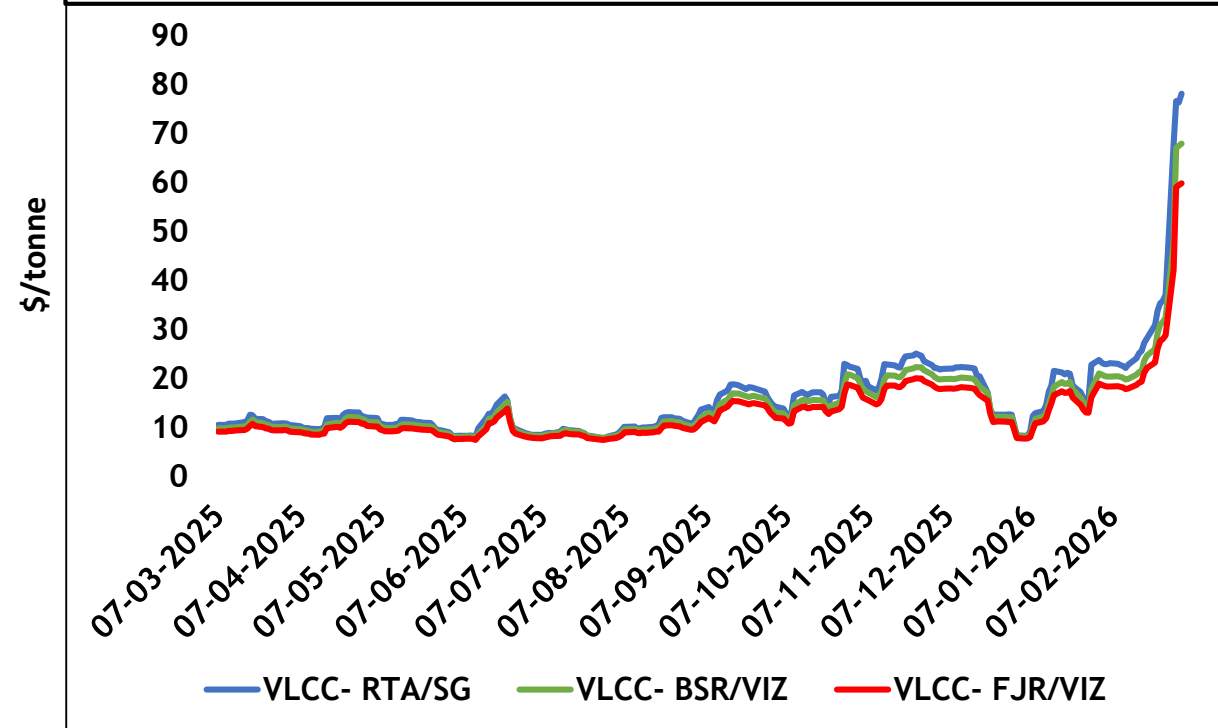
Reference: 02 March 2026 (War Day 1) → 06 March 2026 (Day 7)

# Strait of Hormuz: Is It Closed? (Not completely, oil prices front running supply shock )

### Strait of Hormuz Traffic Collapse



### VLCC (Very Large Crude Carrier) Freight Rates



- 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.
- VLCC freight rates have spiked sharply, reflecting rising geopolitical and insurance risk in Gulf crude shipping even as physical oil flows continue.

# Insurance: The Invisible Blockade

Even if the Strait reopens physically, oil flows cannot normalise while war-risk insurance remains prohibitive. Insurance is the real gatekeeper.

## VLCC FREIGHT RATES

# +145%

\$31 → \$76 per tonne  
in under 2 weeks

## WAR-RISK PREMIUMS

# +50%+

\$250k → \$1–2M+  
per voyage

## SHIPPING AS % OF OIL PRICE

# ~18%

Was 4–5% pre-war  
Record high at \$90 WTI

## SUPERTANKER HIRE

# \$29M+

US Gulf → China (2mn bbl)  
All-time record

Route	Pre-War	Now	Change
VLCC RTA/SG	~\$31/t	~\$76/t	+145% ↑
VLCC BSR/VIZ	~\$26/t	~\$67/t	+158% ↑
FJR/VIZ	~\$23/t	~\$59/t	+157% ↑
Supertanker (US Gulf→China)	~\$15M	\$29M+	+93% ↑
War-risk premium	~\$250k	\$1–2M+	+700%+ ↑
Shipping % of oil price	~4–5%	~18%	Record ↑

Source: Baltic Exchange, CME — as of 3–4 Mar 2026

## WHY THIS IS STRUCTURAL, NOT TEMPORARY



### Insurers won't return fast

Insurers need weeks of calm before re-entering. War-zone designations take time to lift.



### Ships can't be forced in

Captains & owners refuse high-risk transits regardless of escorts. Liability stays with the operator, not the Navy.



### Escorts don't scale

The Navy can escort a handful of convoys not the 20+ tankers/day needed for normal flow. Queue builds, prices stay high.

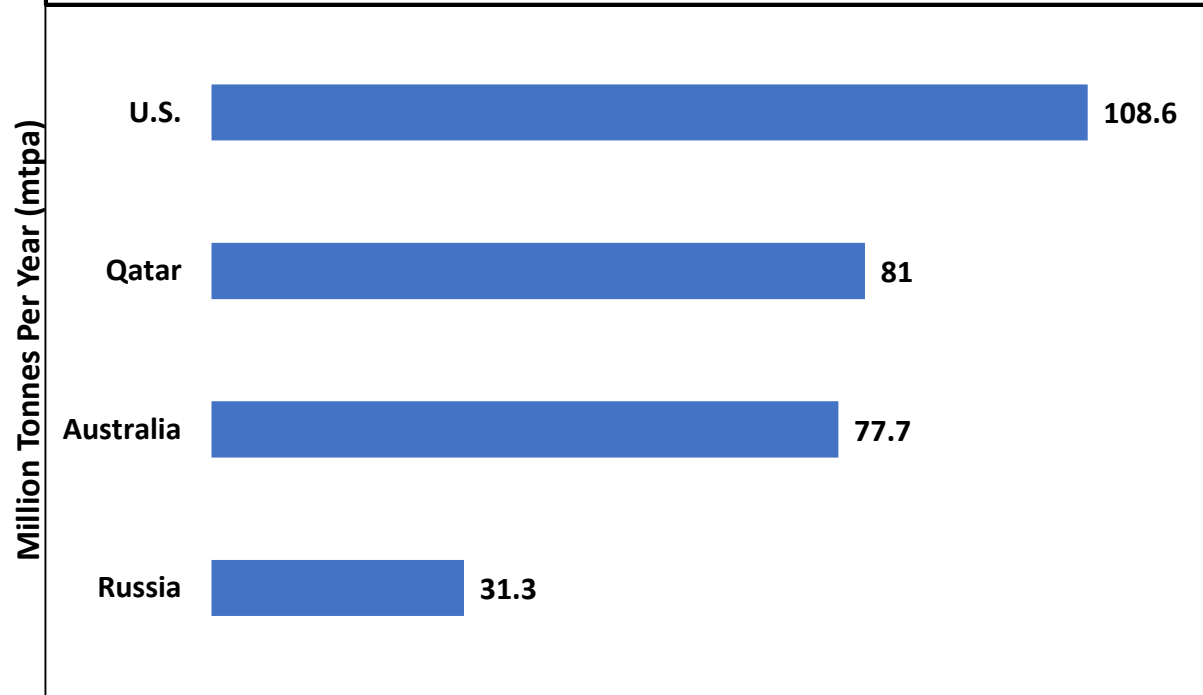
## THE IMPLICATION

**Oil flows will not normalise** the day the Strait reopens. The insurance market has **effectively closed the waterway more durably than any missile.**

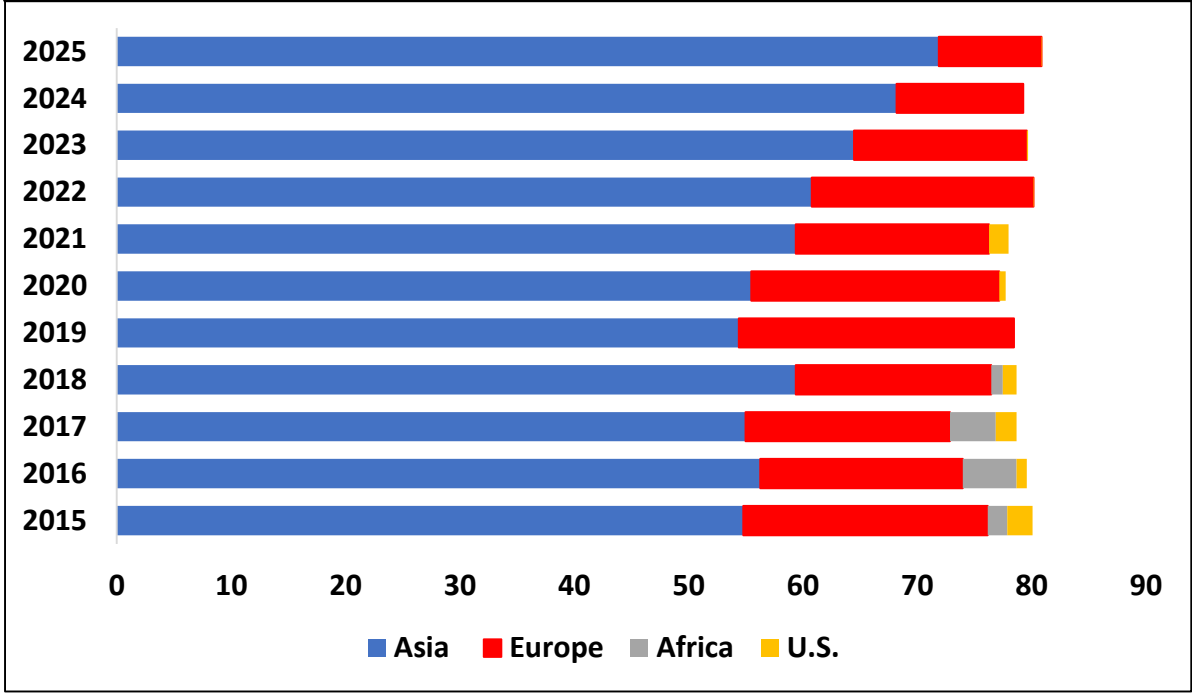
## 3 MAR US RESPONSE

- DFC ordered to cover political risk for all maritime trade in the Gulf
- US Navy began escorting tankers through the Strait
- Oil fell ~10% to \$71/bbl immediately
- **Relief lasted days. Prices rebounded above \$90**

Top LNG exporter in 2025

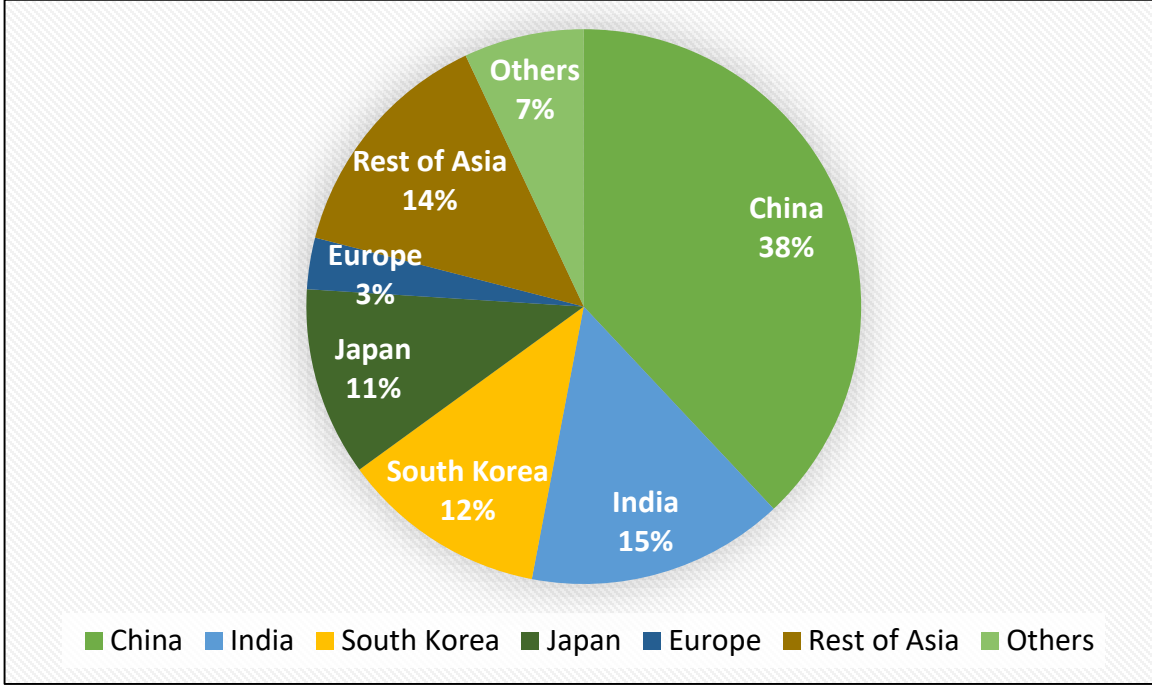


Asia's strong dependence on Middle East gas supply.

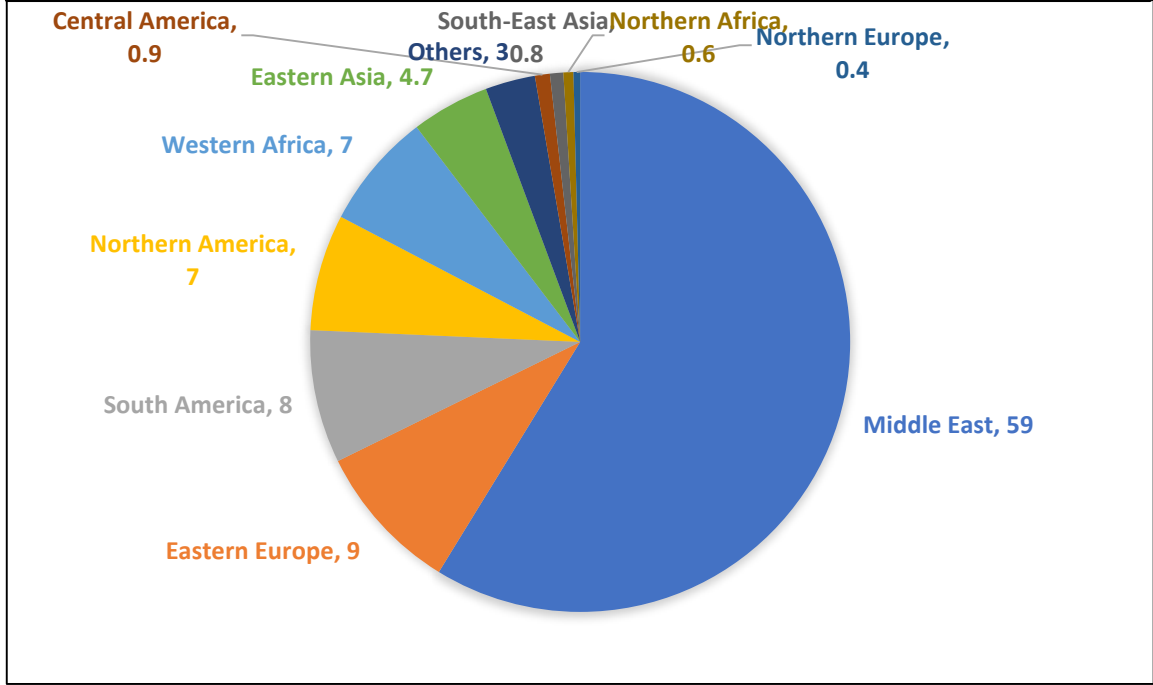


- The U.S. is now the largest LNG exporter globally, followed by Qatar and Australia.
- Qatar's LNG exports are overwhelmingly directed to Asia, with the region absorbing roughly 70-75% of total shipments.
- This concentration highlights Asia's structural dependence on Middle East LNG supply, making regional energy markets sensitive to disruptions around the Strait of Hormuz.

Countries/regions depend the most on the Strait of Hormuz for their oil imports



Middle East supplies ~60% of Asia's crude imports



- Asia led by China and India accounts for the majority of oil flows through the Strait of Hormuz, making the region most vulnerable to any disruption in this critical energy chokepoint.
- Asia imported 14.74 million barrels per day (bpd) of Middle Eastern crude in 2025, nearly 60% of the record 25 million bpd in total purchases for the region, according to data from shipping analytics firm Kpler.

# Washington's Toolkit:

## Policy Leeways to Contain Oil Prices



DEPLOYED

### US Navy Tanker Escorts

Navy escorts commercial tankers through the Strait. Announced 3 Mar oil fell ~10% to \$71 immediately. Relief was short-lived.



DEPLOYED

### War-Risk Insurance Guarantees (DFC)

Development Finance Corp ordered to cover political risk for all maritime trade in the Persian Gulf. Keeps vessels moving despite insurer exit.



DEPLOYED

### Russia Crude Waivers (India)

30-day waiver issued to Indian refiners to buy sanctioned Russian crude stranded at sea. 6–8mn barrels diverted. Limits spot price spike.



UNDER REVIEW

### Strategic Petroleum Reserve (SPR) Release

SPR tapped previously; capacity limited. A release could add 1–2mn bbl/day short-term. Firepower constrained after earlier drawdowns.



UNDER REVIEW

### Oil Futures Market Direct Intervention

Historically rare. Treasury considering direct futures market intervention to suppress prices. Risks distorting price discovery a last resort.



PRESSURE POINT

### OPEC+ Emergency Production Boost

Saudi Arabia pre-positioned supply before the war. OPEC+ (V8) agreed +206k bpd from April. Hormuz export limitation restricts actual delivery.

Deployed

Under Review

Structural Constraint

## The Political Imperative

8

months  
until  
Mid-terms

#1

### Affordability

Voter concern by a wide margin. Gas prices directly visible every day at the pump.

\$2

### Trump's gas target

Administration's stated goal was \$2/gallon gas. Now at \$3.30+ and rising.

\$90

### The line in the sand

Every \$10 in oil = ~20bps CPI. \$90–\$100/bbl breaks the economic agenda.

**BOTTOM LINE:**

Each tool buys days, not weeks. The only durable fix is ending the supply disruption meaning the war's duration is the oil price outlook.

Source: Media sources, UBI research

## Strait of Hormuz Status

Is it officially closed? Tanker traffic data shows its open. Every resumption or escalation here moves oil higher.

## Oil Volatility & Positioning

Watch Brent volatility, speculative positioning and backwardation. Sharp widening signals supply fear; flattening suggests de-escalation.

## China & India's Move

Both get ~50% of crude via Hormuz. Any SPR release, policy pivot, or diplomatic overture from Beijing is critical to watch.

## Iran Retaliation Scale

Can Tehran mount a sustained response? Khamenei dead but IRGC still operational. Watch missile activity across Gulf states.

## Fed Response / Inflation Data

Oil spike threatens to re-ignite inflation. Watch Fed speakers do they hold rates or pause cuts? Yield curve will tell you first.

## Regime Change Probability

If Iran undergoes leadership transition, markets could flip to risk-on fast. Watch IRGC chain of command news closely.

# India Context



# India-West Asia economic linkages provide a cushion

(USD Bn, figures in parentheses are % shares)

	Apr'24-Mar'25	Apr-Dec 2025
<b>Trade exposure - headline</b>		
Exports	56.9 (13.0%)	43.1 (13.1%)
Imports	121.7 (16.9%)	93.6 (16.2%)
<b>Import - commodity group wise</b>		
Petroleum crude	68.3 (47.7%)	51.1 (48.6%)
LNG	9.5 (63.7%)	6.5 (63.6%)
LPG	0.01 (93.6%)	0.02 (89.9%)
Chemicals	5.8 (11.0%)	6.9 (15.9%)
Fertilizers	3.0 (36.8%)	3.6 (29.0%)
Plastics	2.9 (13.2%)	2.2 (13.0%)
Gems & jewellery	27.8 (31.2%)	19.2 (25.6%)
Metals	4.4 (9.1%)	4.0 (10.2%)
<b>Export - commodity group wise</b>		
Gems & jewellery	8.2 (27.5%)	7.6 (35.7%)
Auto	2.9 (12.9%)	2.5 (13.0%)
Food	7.0 (14.1%)	5.6 (14.4%)
Plastics	0.9 (10.5%)	0.6 (10.9%)
Fertilizer	0.01 (8.9%)	0.01 (10.6%)
Chemicals	4.1 (10.4%)	2.8 (9.5%)
Textiles	3.0 (8.1%)	2.4 (9.1%)
Metals	4.1 (12.8%)	3.6 (13.5%)

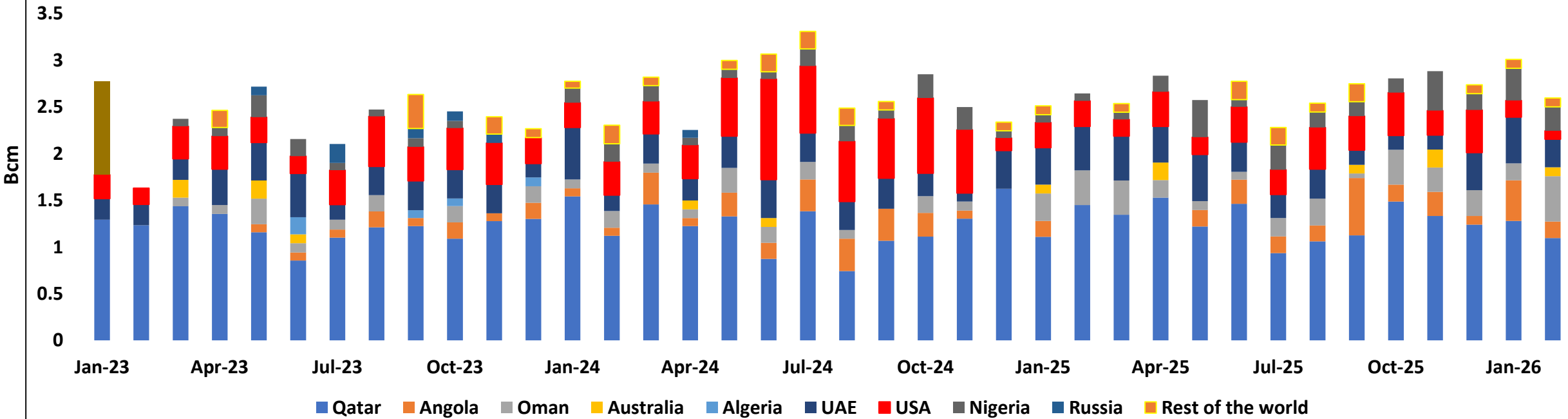
- West Asia has a share of ~15% in our goods exports, ~20% in goods imports, ~40% in remittances and ~10% in FDI.
- Sectors reliant on key commodity imports like oil (OMCs, aviation, auto, transportation etc) with ~45% share of West Asia may face margins pressure. Also, ~70% LNG import share has affected adversely on supply production halt in Qatar. Chemicals and fertilizers also facing pressure on import disruptions, which if sustained, may spill over into food inflation pressures.
- Other sectors affected by exports channel are gems & jewellery (~45%), auto (~25%) and food & beverages (~20%).
- Overall, spike in commodity prices, trade disruptions apart from Rupee depreciation.

Petroleum Crude Import by India (Values in USD Million)			
Country	Apr-Dec'24	Apr-Dec'25	% Growth
Iraq	20,883	18,862	-9.7%
Saudi Arabia	14,587	14,525	-0.4%
UAE	10,876	12,037	10.7%
Kuwait	2,631	3,259	23.9%
Qatar	677	1,131	67.1%
Oman	1,074	945	-12.1%
Turkey	744	351	-52.8%
<b>Middle East Total</b>	<b>51,472</b>	<b>51,110</b>	<b>-0.7%</b>
<b>Total Crude Imports</b>	<b>1,09,334</b>	<b>1,05,101</b>	<b>-3.9%</b>
<b>Middle East Share in Total</b>	<b>47.1%</b>	<b>48.6%</b>	

Remittances	
	Apr-Dec 2025
Migrants (number in mn)	9.05
Migrants (% share in total)	25.60%
Remittances (% share in total)	37.9% <sup>#</sup>
FDI flows	
Outstanding <sup>^</sup> (USD Bn)	48.0 (6.2%)

# Share in India's Inward Remittances (Banks) as of FY24; <sup>^</sup>as of Dec'25;

India's LNG Supply: Heavy Dependence on Qatar



- India's gas supply is highly exposed to Middle East LNG flows, especially Qatar making Strait of Hormuz disruptions a key risk. Domestic production growth is limited, forcing higher LNG imports.
- Data from Kpler show that around half of India's monthly LNG imports originate from the Middle East, amounting to close to 2mn tonnes. Total LNG imports fell by 27% M-o-M to 1.89mn tonnes in February.
- If disruptions in the Strait of Hormuz affect Qatar's LNG exports, India's gas market could face higher LNG prices, and potential pressure on gas-dependent sectors such as power generation and fertilizers.

# 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
Real GDP <sup>^</sup>	% YoY	-15	-22.5	-45
CPI inflation <sup>^</sup>	% YoY	+30 <sup>^^</sup>	+45	+90
Current account deficit	\$ bn	(-)\$16 bn	(-)\$24 bn	(-)\$48 bn
Current account deficit <sup>^^^</sup>	% of GDP	-0.4	-0.6	-1.1

- 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
- 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
- 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.

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

<sup>^^^</sup>negative sign indicates widening deficit; Source: RBI, UBI research

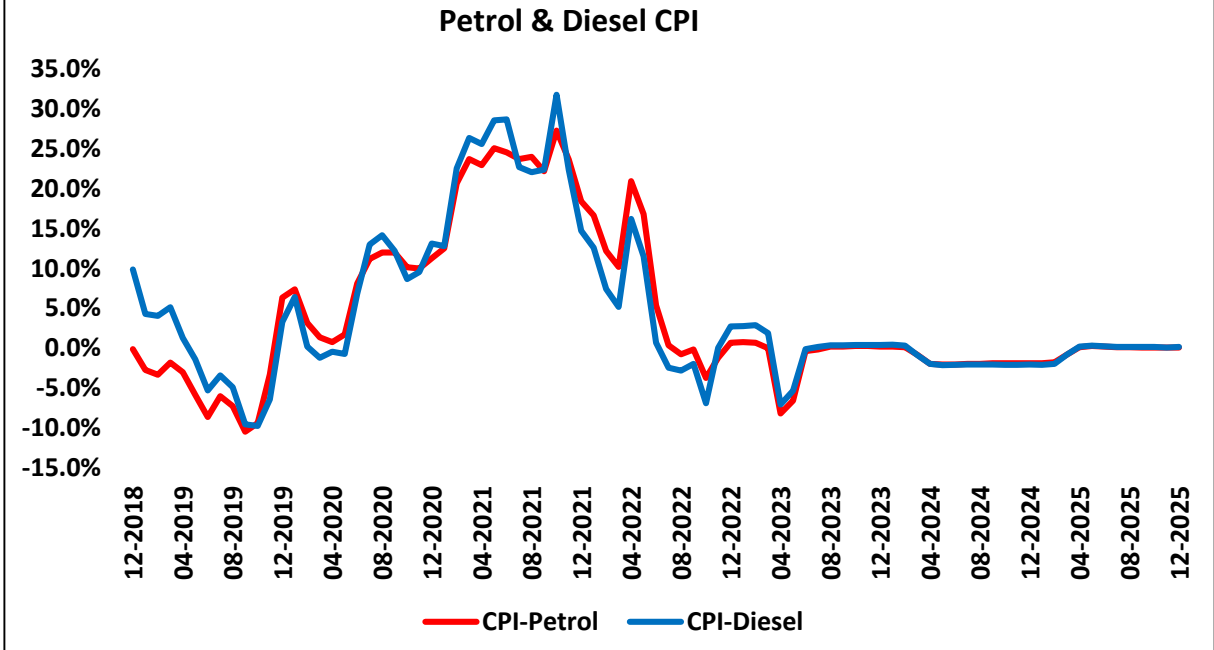
# Impact on macros esp. inflation likely to be absorbed by the government and OMCs

*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)






	FY23	FY24	FY25	H1FY26
Taxes & Dividends	2.87%	2.59%	2.33%	2.21%
Subsidies	0.12%	0.04%	0.05%	0.02%
<b>Net contribution</b>	<b>2.75%</b>	<b>2.55%</b>	<b>2.28%</b>	<b>2.19%</b>

*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 ~\$80/bbl., oil marketing companies may absorb most of the impact via a hit in their comfortable marketing margins for petrol & diesel may rise further
- However, in case of a sustained 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.

Sector		Impact	Overall Impact
	Crude & Petroleum	High	India imports 85% of crude oil and ~46% comes from Iraq, Saudi Arabia, UAE and Kuwait. Disruptions in the Red Sea/Suez, where traffic dropped ~50%, raise freight, insurance and supply risks, worsening India's import bill and current-account deficit.
	LNG	High	India moves 100% of LNG imports via the Strait of Hormuz. Conflict-linked attacks have pushed ships to reroute, increasing voyage time by 10-14 days. LNG spot prices surged 35-76% during recent escalations, increasing India's energy costs and industrial input inflation
	LPG	High	Nearly 70% of India's LPG imports transit the West Asia chokepoints. Red Sea disruptions and heightened war-risk premia (up from 0.3% to 0.7-1.0%) increase landed LPG costs, elevating subsidy burdens and household inflation.
	Fertilisers	Medium	India imports 30% DAP (Diammonium phosphate) from Saudi Arabia, 60% rock phosphate from Jordan/Egypt, and 30% phosphoric acid from Jordan. Red Sea congestion and rerouting raise shipment times and costs, risking supply shortages and higher farm-input inflation.

Sector		Impact	Overall Impact
	Diamonds & Jewellery	High	India's gems and jewellery exports to the Middle East have stalled due to flight cancellations, airspace closures, and logistics breakdowns. The region accounts for ~25% of India's US\$30-50 billion exports. Shipments to Israel (US\$548 million) and Dubai (US\$7.86 billion) are disrupted, with UAE supplying two-thirds of rough diamonds, deepening the export shock.
	Shipping, Ports & Logistics	High	Suez Canal trade dropped ~50%, forcing rerouting via the Cape of Good Hope (+10-14 days). Freight rates and insurance costs have surged; war-risk premiums jumped from 0.3% to 1%. Severe supply-chain delays and container shortages are likely.
	Metals & Electricals	Medium	India sources significant electrical equipment and metals from UAE/Saudi Arabia UAE imported \$4.05B of Indian electrical goods and \$899M of iron/steel. Disruption in regional hubs delays shipments, increases metal costs, and tightens industrial supply chains.
	Polymers / Plastics	Medium to High	India imported 3.1 MT of polyethylene in 2024, 52% from Middle East, and 1.6 MT polypropylene, 48% from Middle East. Conflict-driven delays raise feedstock prices and resin costs, impacting packaging, auto and FMCG sectors.
	Construction Minerals / Chemicals	Medium	India imported \$205M of gypsum in 2024, ~67% from Oman and Iran, all transiting Red Sea routes. With Suez traffic down ~50%, gypsum and chemical shipments face delays and cost spikes, affecting cement, plaster and construction supply chains.

## CURRENT EXPOSURE

Iraq	19%
Saudi Arabia	14%
UAE/Kuwait	7%
Russia	21% → cut
USA	5%

as of Jan'26

### Russia (Pivot Back)

Feasibility: HIGH | Time: Immediate

Ships loitering in Indian Ocean ready. US pressure via trade deal = geopolitical cost.

### USA (Gulf/WTI)

Feasibility: MEDIUM | Time: 2-3 weeks

Transit 30-45 days vs 5-7 days Gulf. Already near max LNG export capacity.

### 🌍 West Africa (Nigeria/Angola)

Feasibility: MEDIUM | Time: 3-4 weeks

Atlantic Basin adds freight. India has existing relationships. Volume limited.

### 🌍 Latin America (Brazil/Colombia)

Feasibility: LOW-MED | Time: 4-6 weeks

Longer voyages, different crude grades. Argentina newly added 2025. Capacity question.

### IN SPR (Strategic Petroleum Reserve)

#### Draw-Down

Feasibility: HIGH (short-term) | Time: Immediate

74-day strategic reserve + 10-15 day refinery stocks + 7-10 day fuel stocks. Buy time only.

### 🏗️ Saudi/UAE Bypass Pipelines

Feasibility: PARTIAL | Time: Immediate

Saudi East-West pipeline (5M bpd) + UAE Fujairah (1.8M bpd). But both countries under Iranian attack.

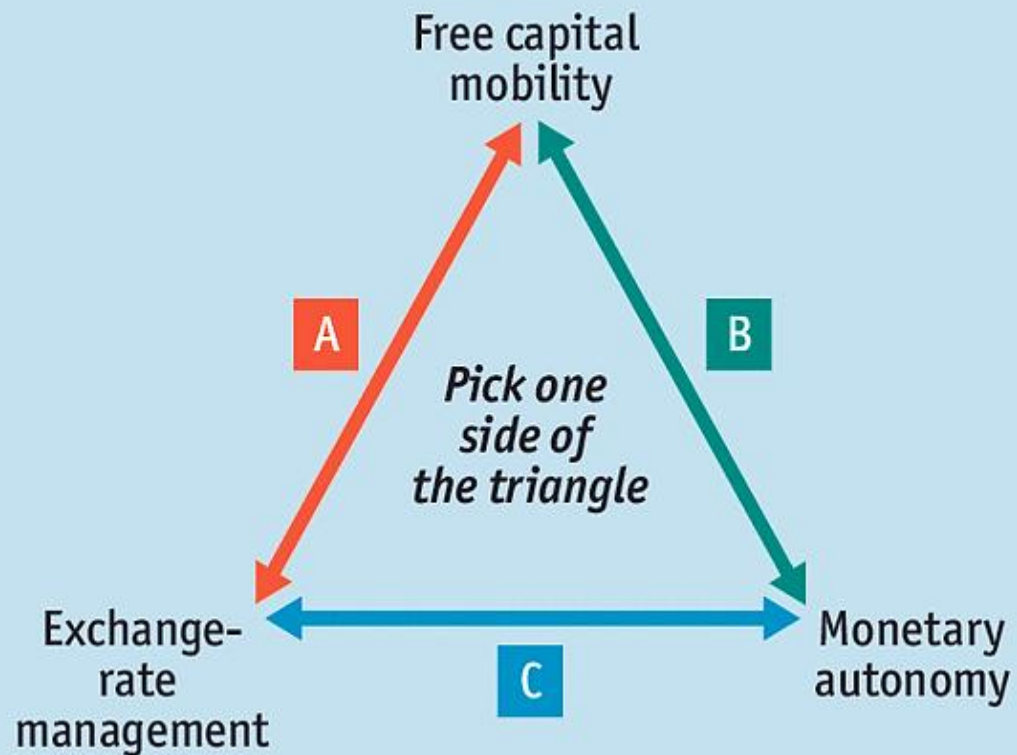
	Period	US share in oil imports (%)	Implied price of oil import from US (\$/bbl)	Russia's share in oil imports (%)	Implied price of oil import from Russia (\$/bbl)	Discount level (\$/bbl)
HS Code 2709	FY22	9.2	78.7	2.0	79.4	-0.8
HS Code 27090010	FY23	6.3	93.2	19.2	84.7	8.5
	FY24	3.6	87.8	33.4	77.7	10.1
	FY25	4.6	86.2	35.1	79.7	6.5
	Apr-Dec FY26	7.8	76.7	31.5	69.9	6.9
	Apr-25	12.9	85.1	27.9	76.7	8.4
	May-25	4.6	75.3	38.8	68.1	7.2
	Jun-25	9.5	75.9	32.3	67.6	8.3
	Jul-25	9.1	75.5	29.8	70.6	4.9
	Aug-25	2.2	71.1	36.6	72.1	-1.0
	Sep-25	6.3	76.1	31.0	70.9	5.2
	Oct-25	4.4	73.4	31.6	69.2	4.2
	Nov-25	13.2	72.6	34.0	67.0	5.6
	Dec-25	5.0	70.3	24.0	65.2	5.2

- U.S. administration has provided a 30-day waiver allowing India to import Russian oil via Baltic and Black Sea routes, supporting our national interests.

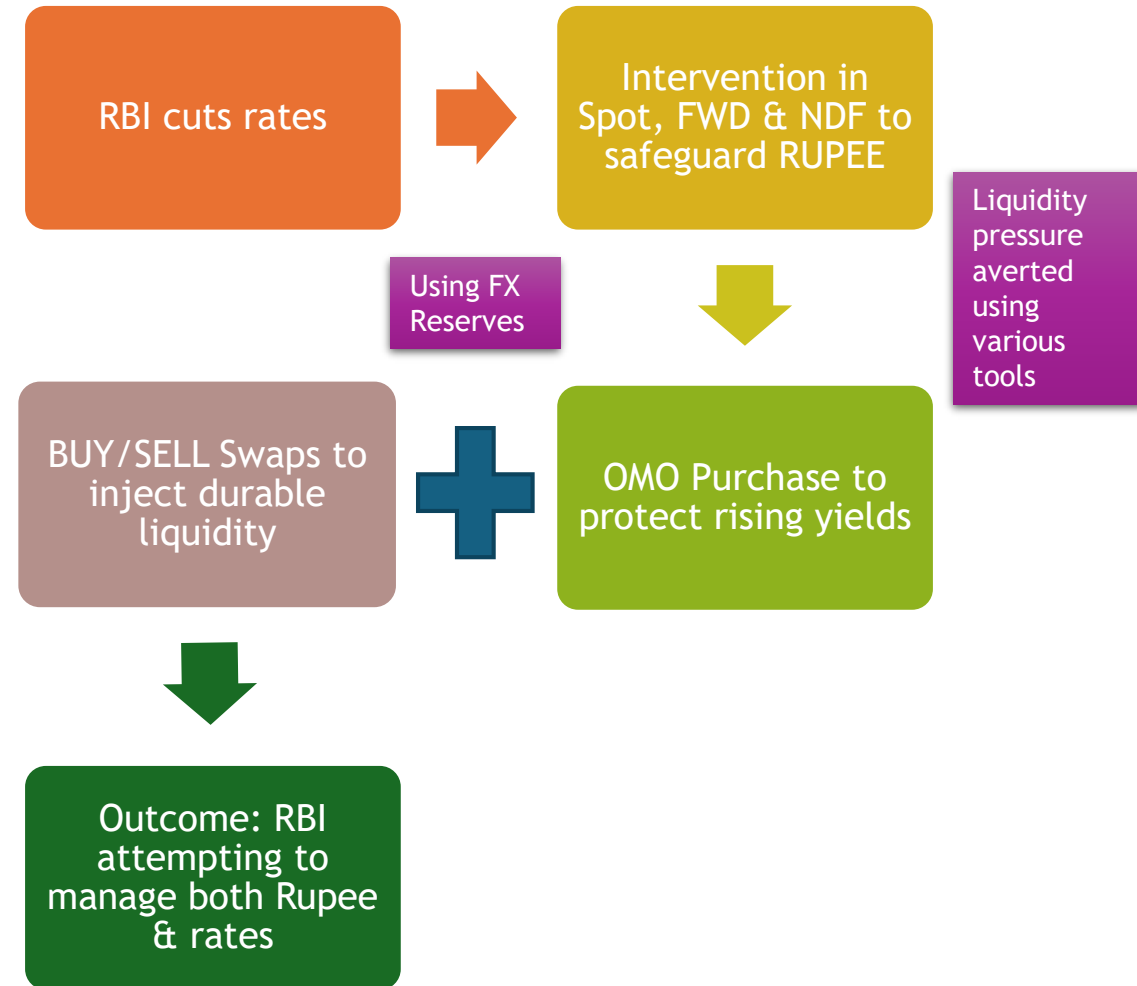
# Is RBI attempting to beat the "Impossible Trinity" managing both rupee and rates

## Navigating the open economy trilemma

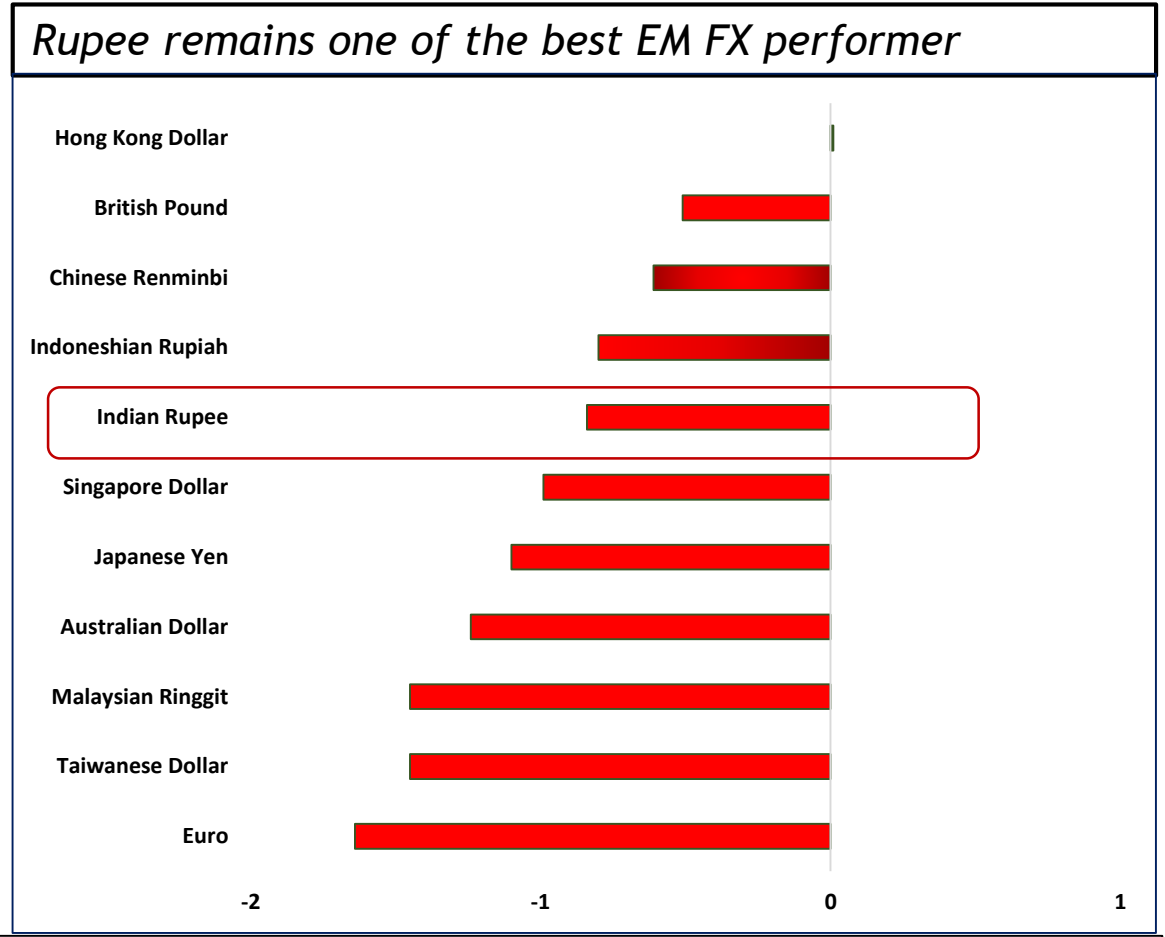
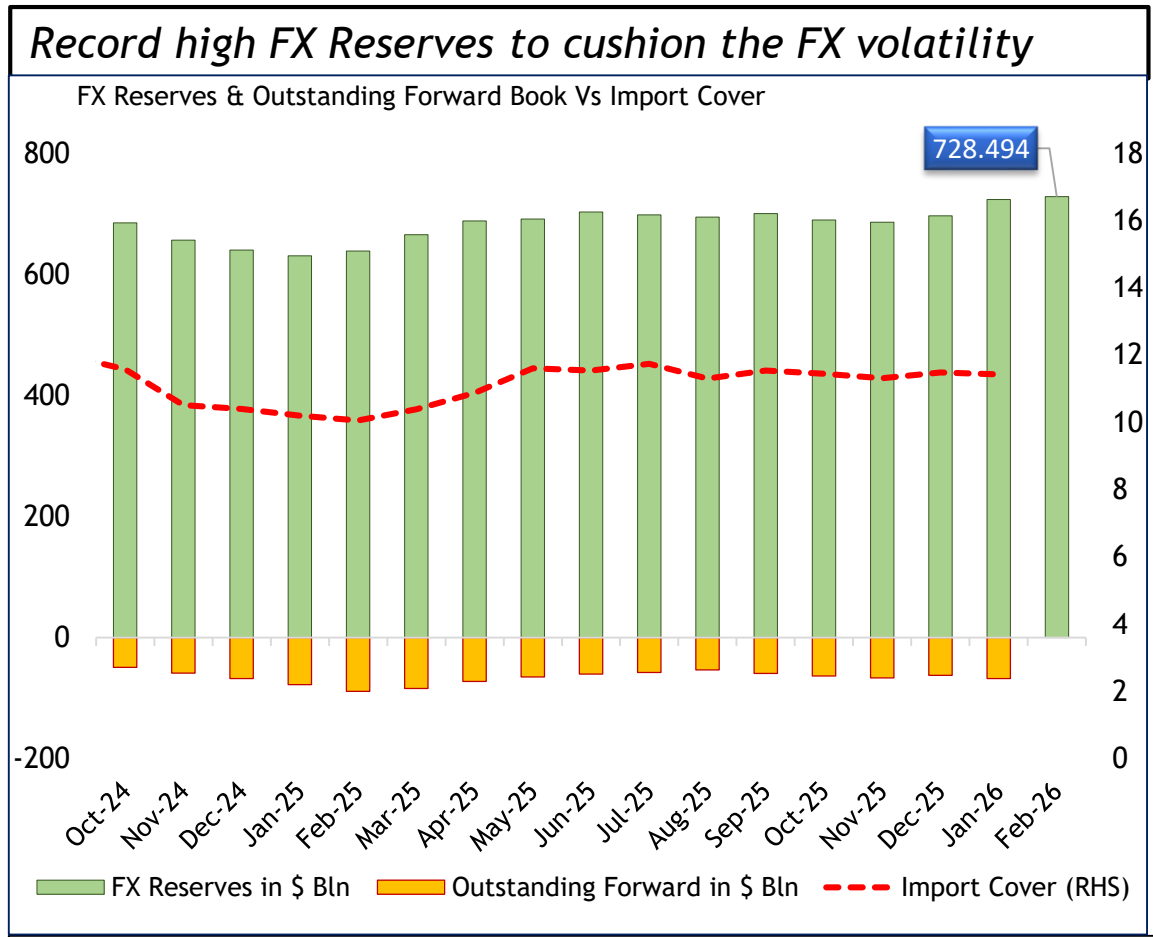
### The policy trilemma



## Balanced without major disruption from the Capital Flows



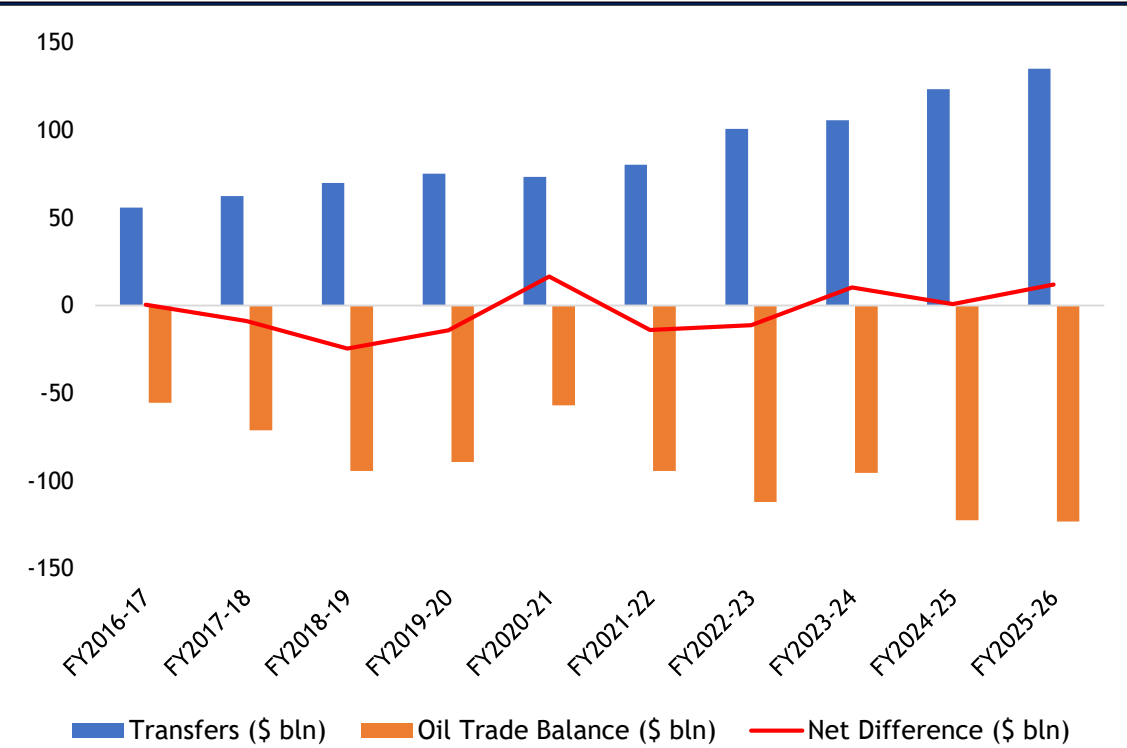
# RBI's robust reserve war chest helps the rupee remain resilient even as global pressures weigh on EM FX



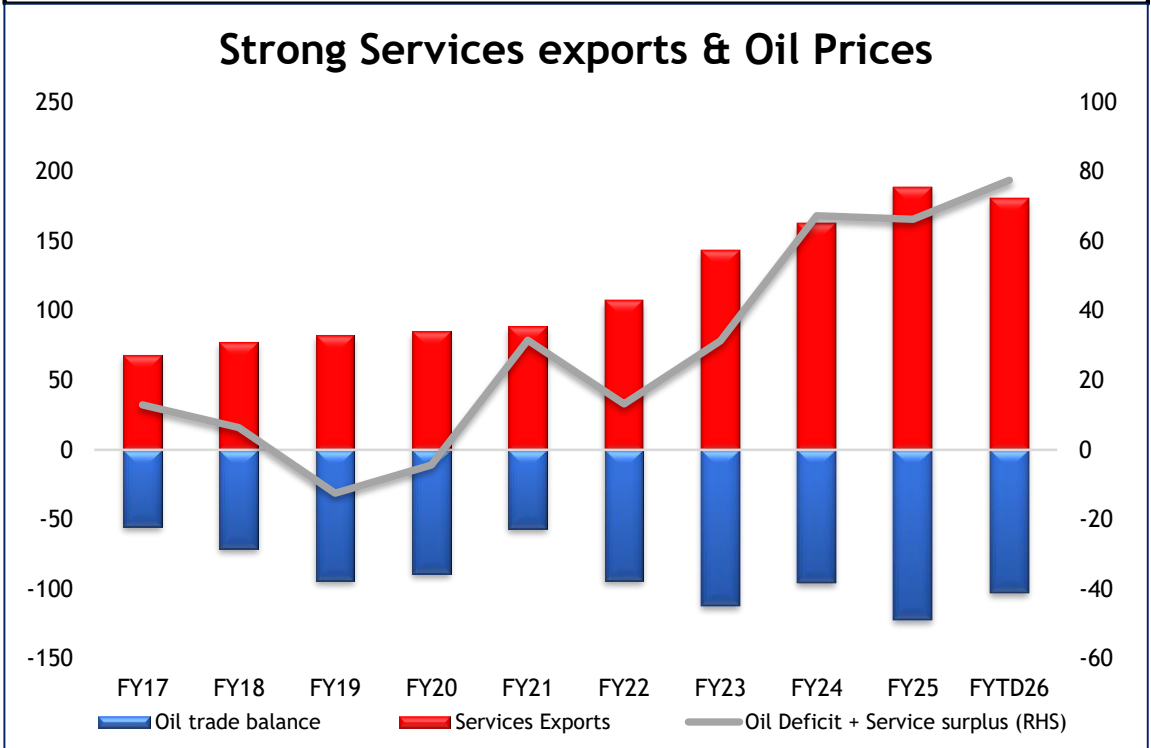
- RBI FX reserves at record highs at **\$728.494bln** (~11 months of import cover) providing cushion to limit FX volatility.
- Among all the EM currencies, INR has depreciated by 0.84% since the middle-east tensions escalated.

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

### Remittances Vs Oil Trade Balance



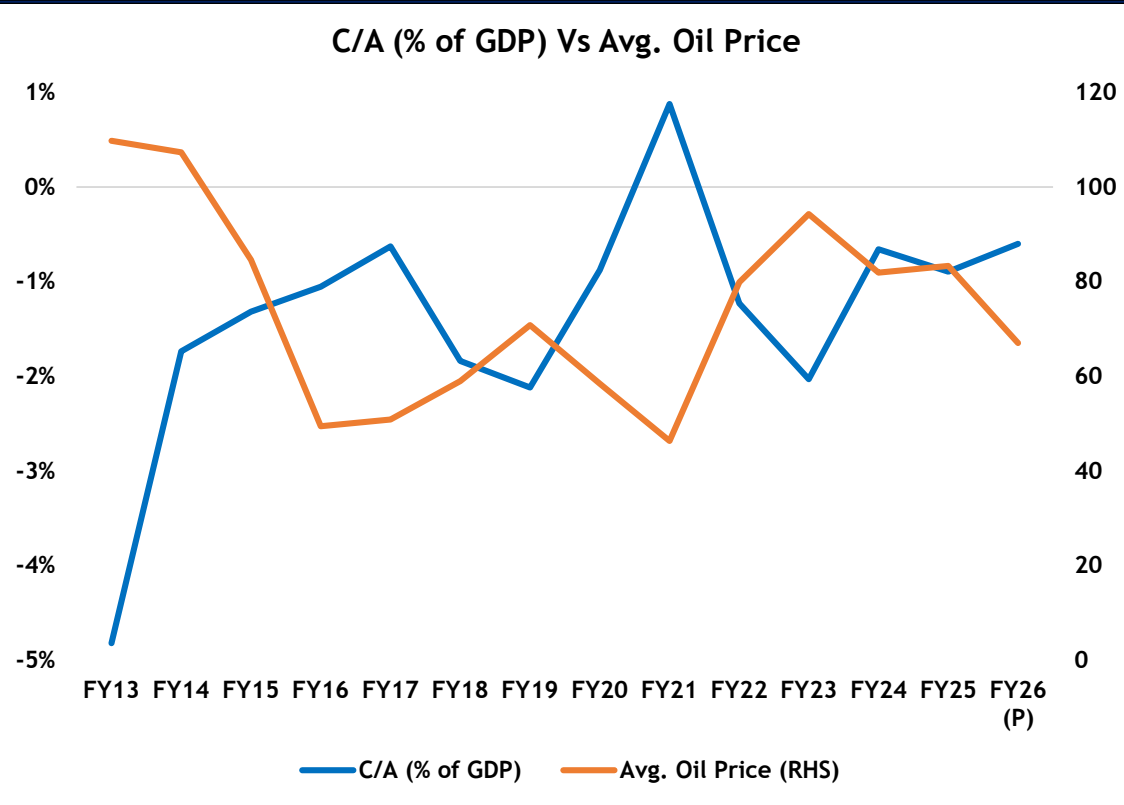
### Strong Services exports & Oil Prices



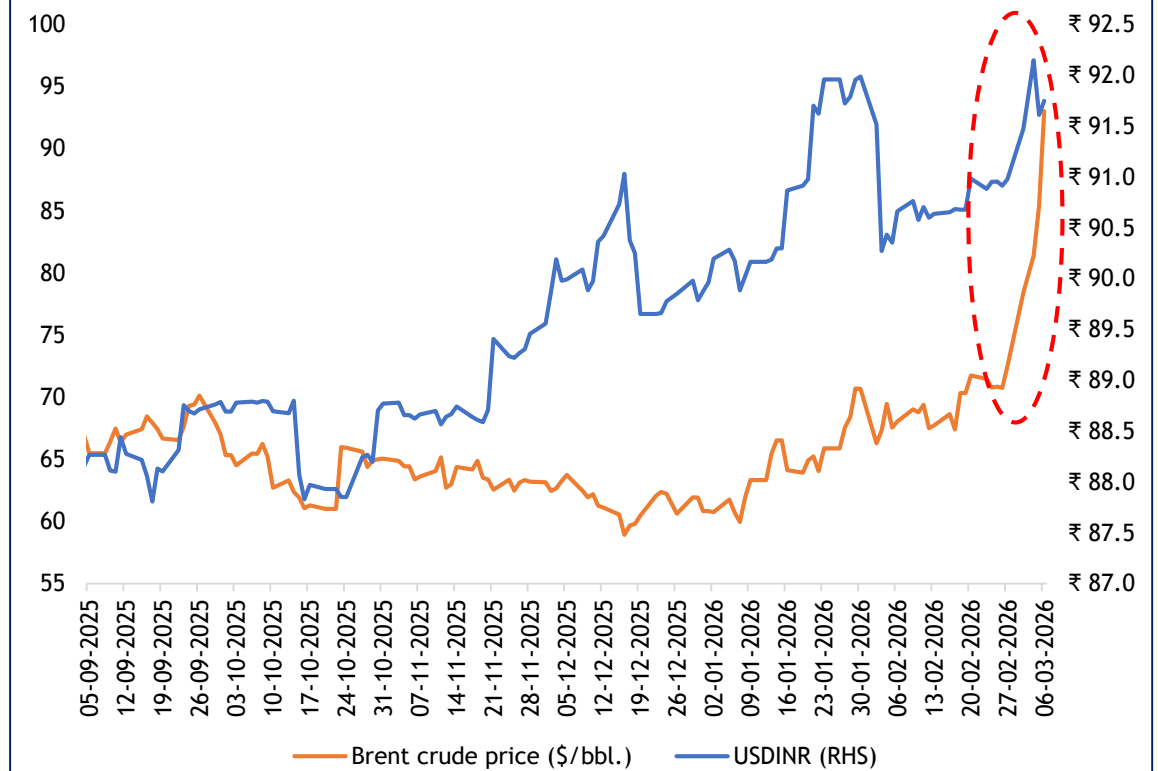
- India remittances have increased significantly and recently crossed the \$100bn mark in FY23 and growing further thereafter cushioning the India's oil deficit.
- Meanwhile, invisibles surplus stayed robust driven by strong services trade surplus ~\$180.60bln in FYTD26 vis-à-vis oil deficit of ~\$103.11bln, 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*

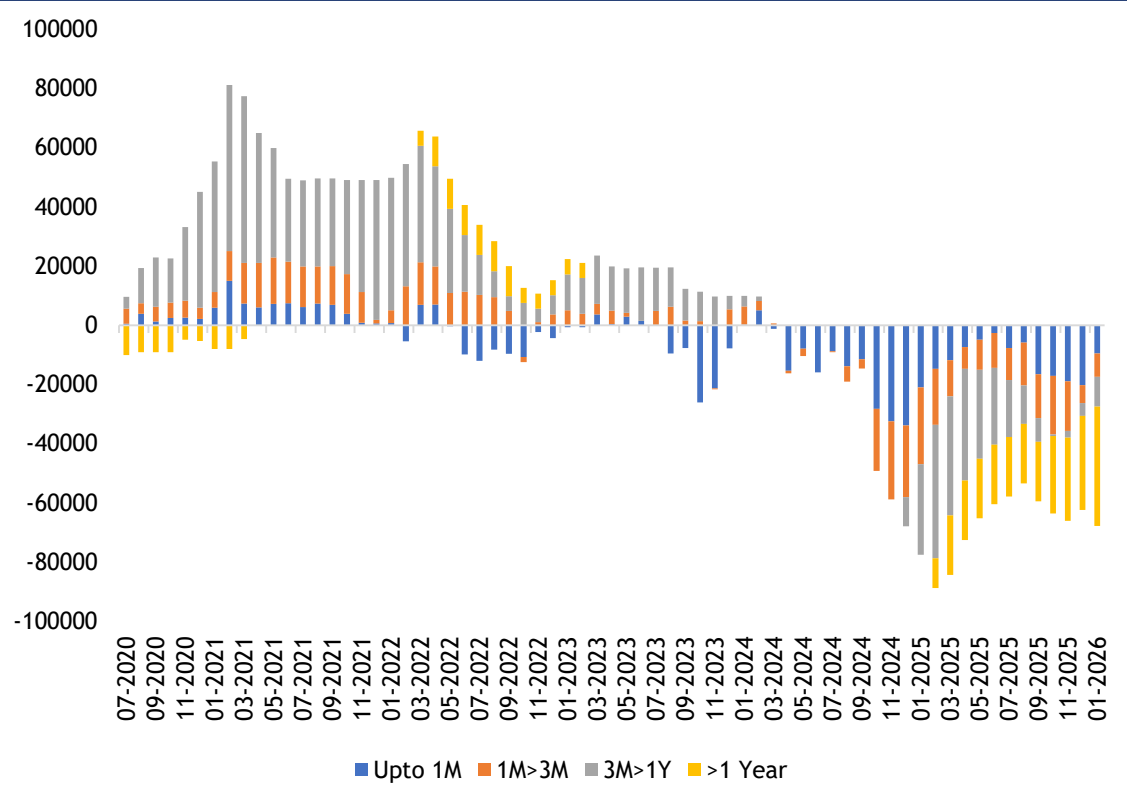


*Correlation between the Rupee and the oil price*

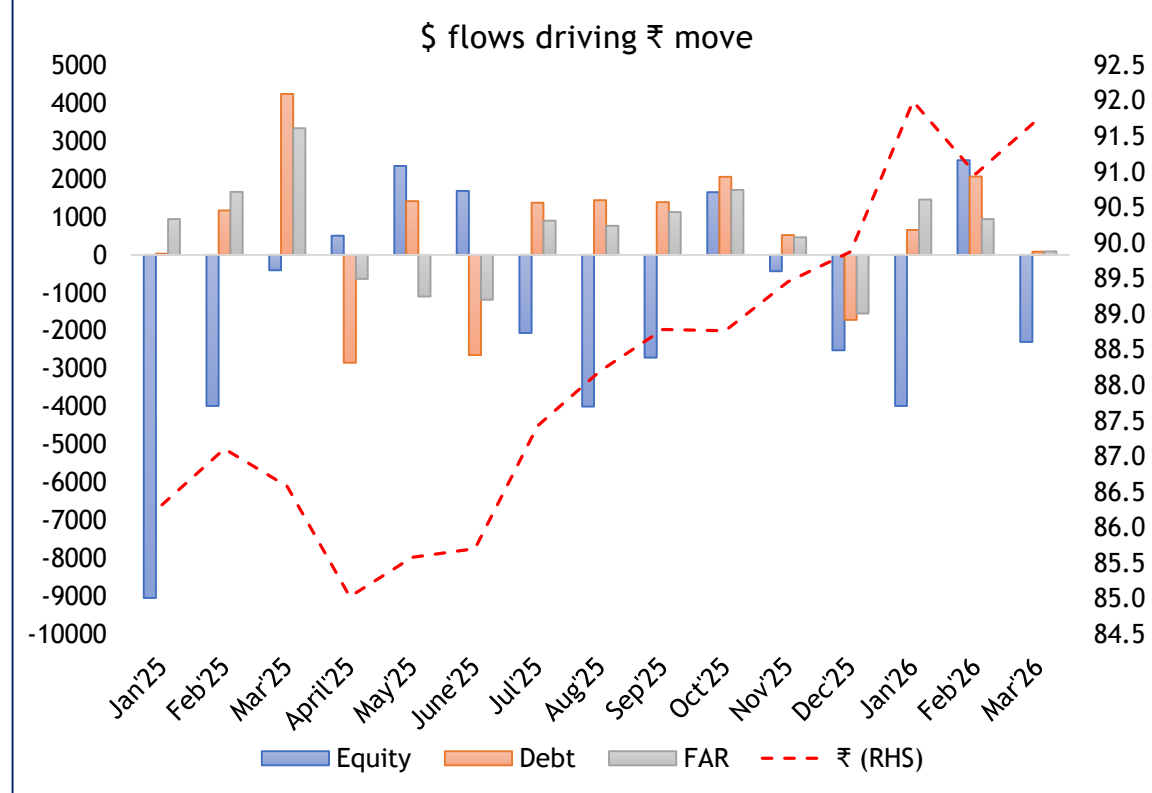


- Oil plays a major role in our trade and overall current account dynamics. Yet rising cushion from segments like services exports and remittances have somewhat reduced sensitivity of C/A deficit to oil prices in recent years.
- Consequently, Oil price sensitivity to the movement of rupee has reduced 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.

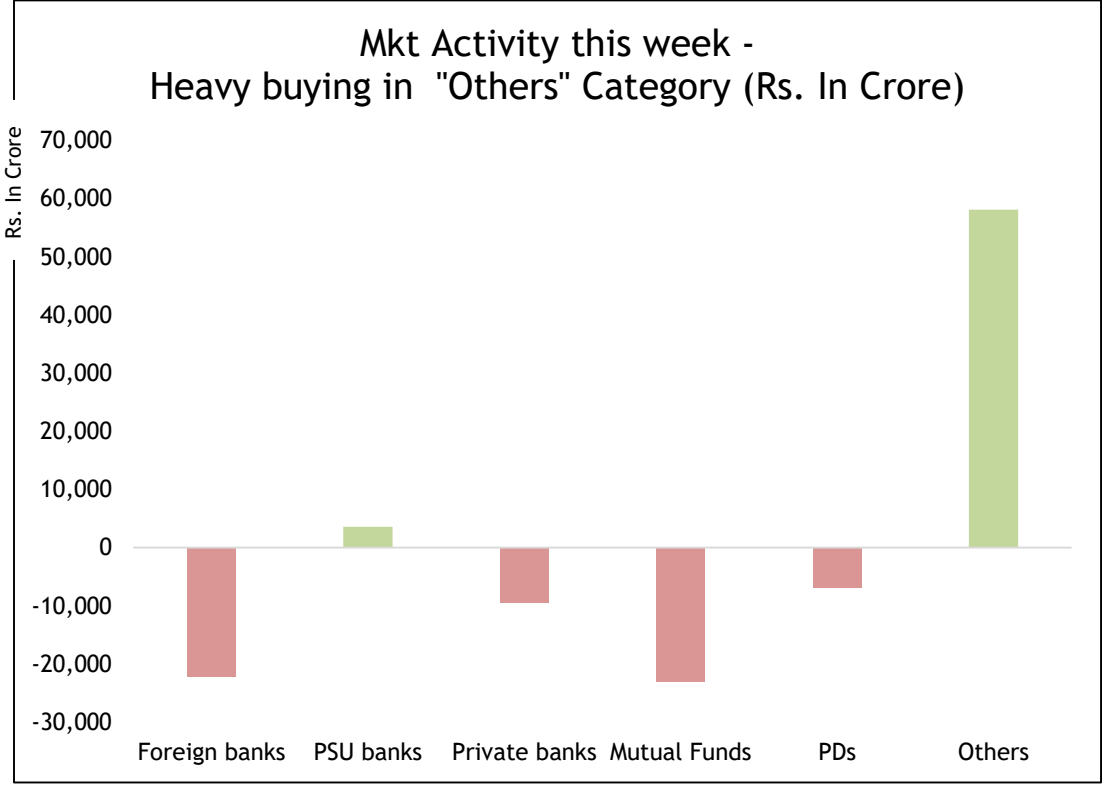
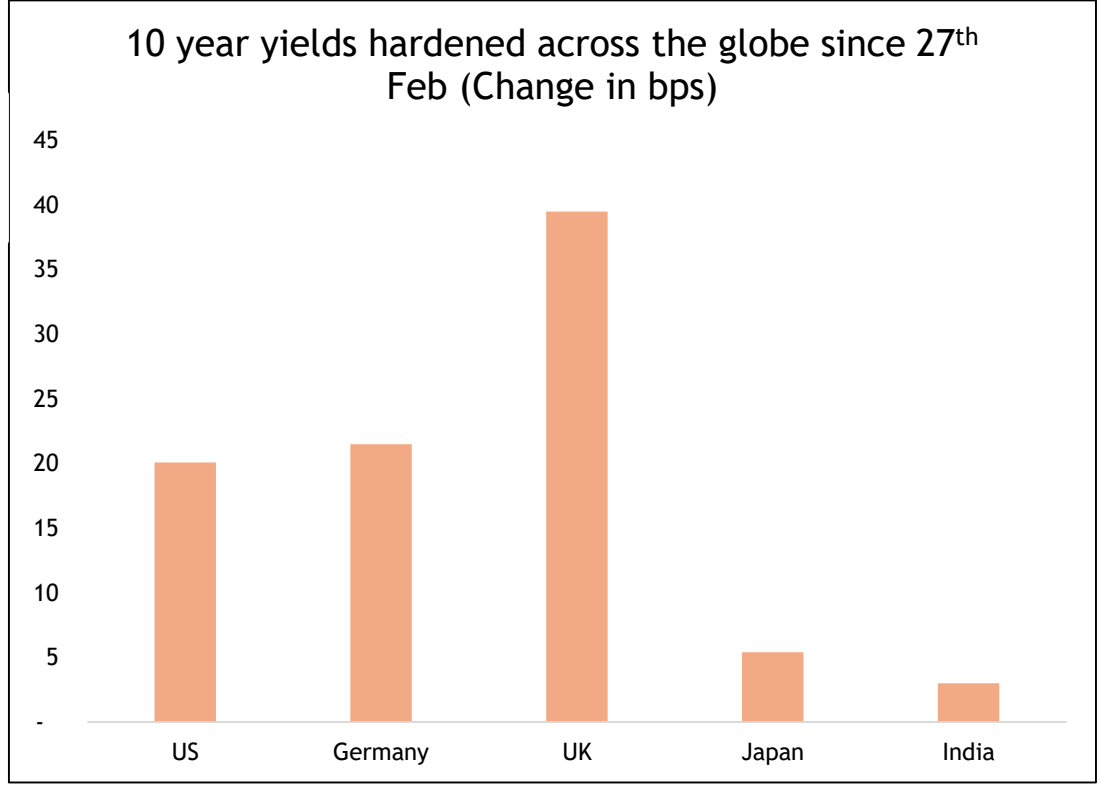
### RBI's short positions in forwards and futures



### FPI flows changing sentiments

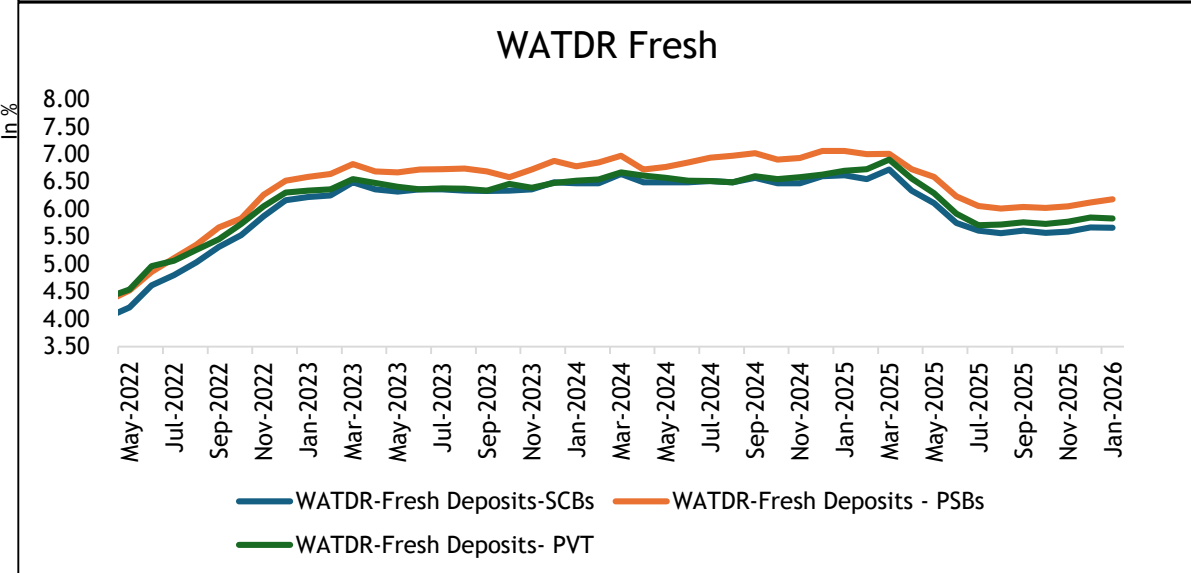
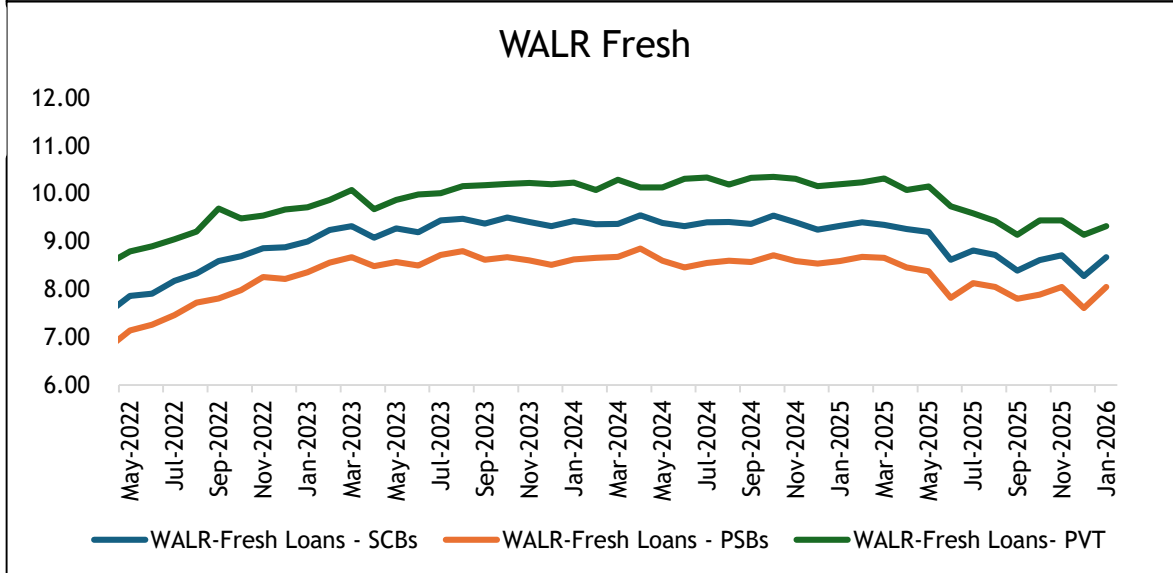
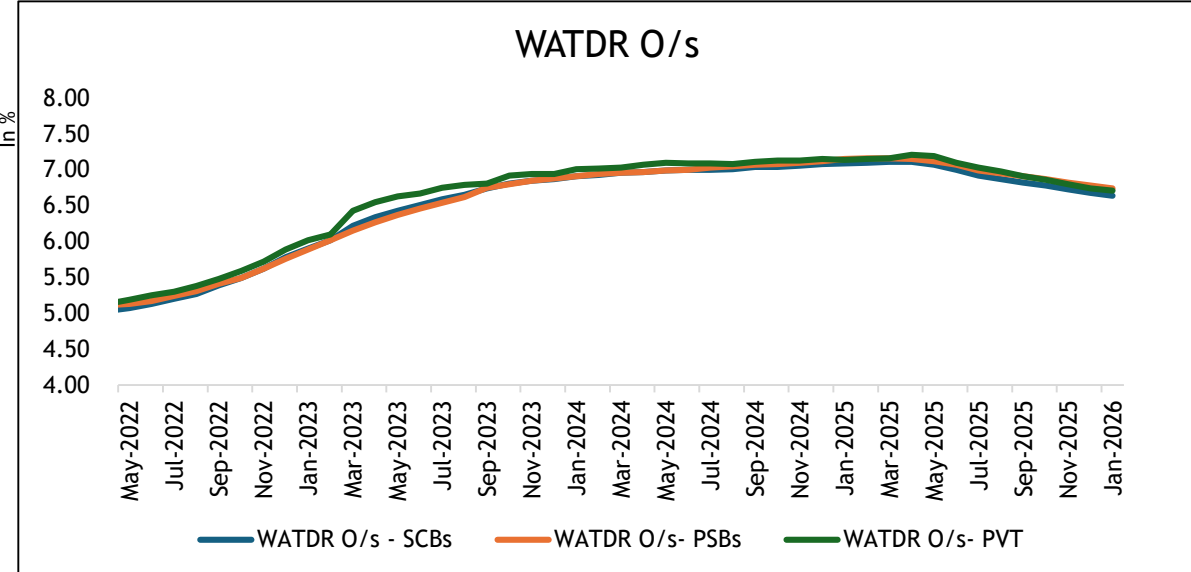
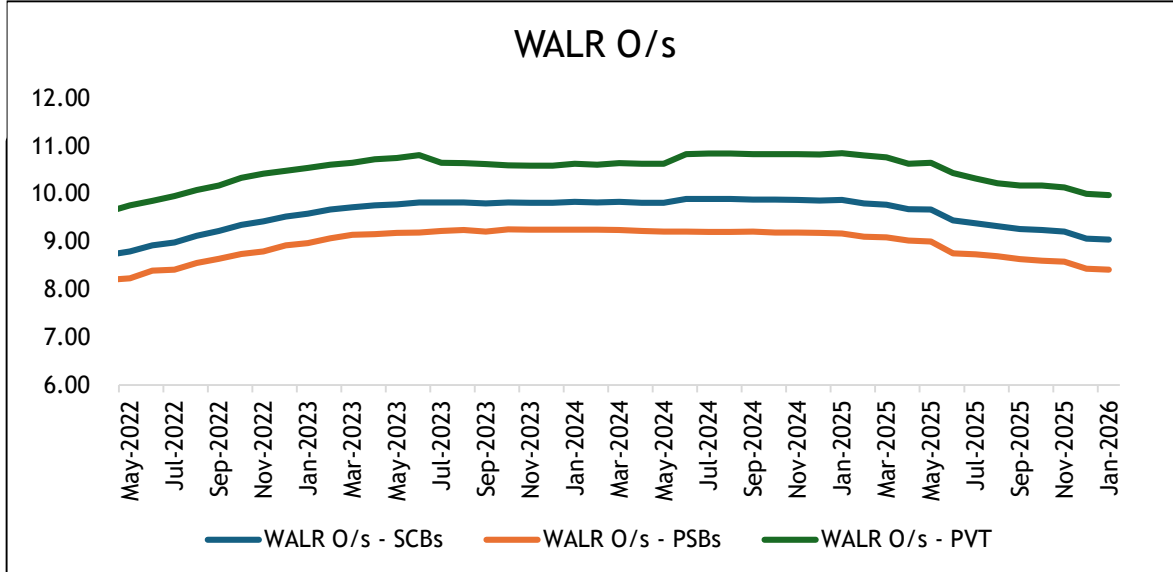


- RBI's short positions in forwards and futures of \$67.77bln, marking a \$5.42bln increase from Dec'25. By maturity, short-term exposure up-to 1 month dipped by \$10.7bln to \$9.5bln, however 1M > 3M rise by \$1.9bln to \$7.9bln & 3M > 1Y surged by \$5.7bln to \$10.1bln. Maturities > 1 year surged by \$8.6bln to \$40.3bln mainly reflecting to the swap facility positions.
- FPIs showed mixed flow trends, with strong inflows in Feb'26 followed by renewed outflows at the start of Mar'26 amid rising global risk aversion.

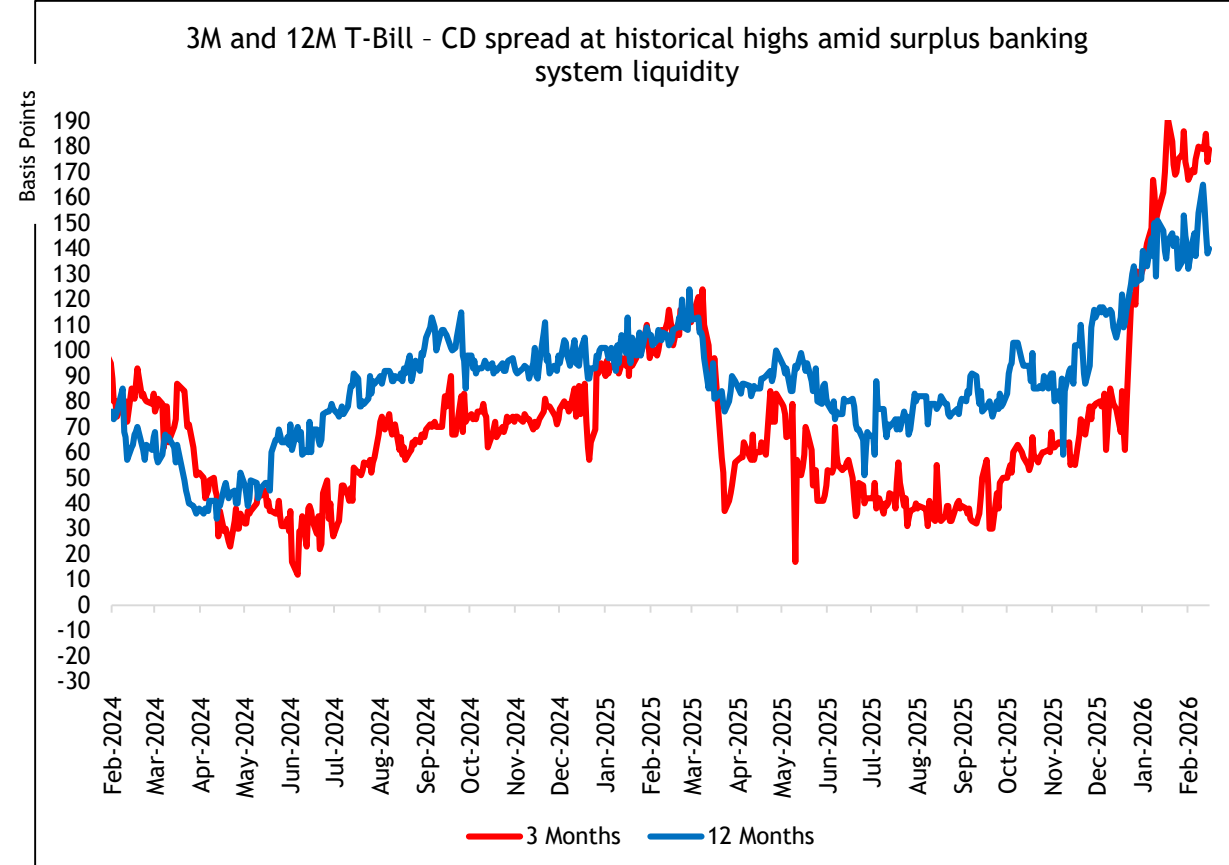
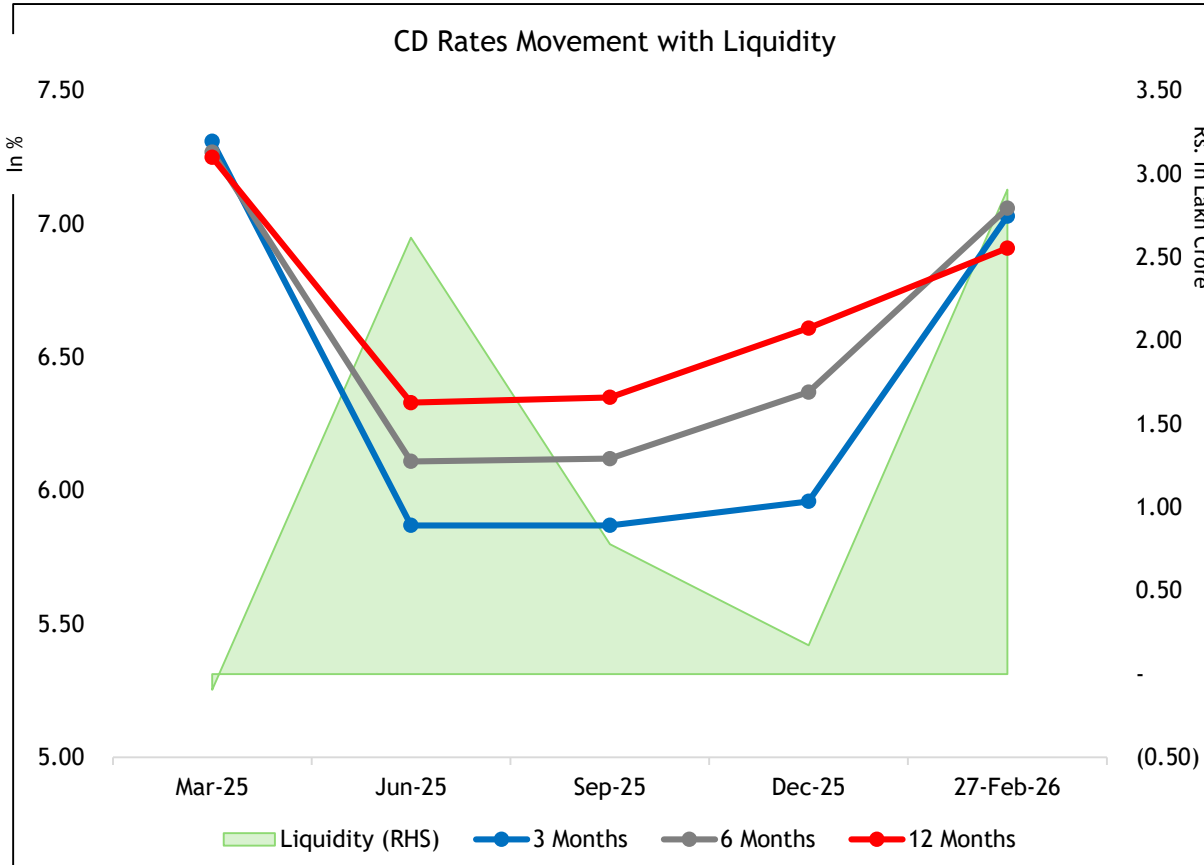


- RBI has been actively using policy buffers (like OMO announcement of Rs 1 lakh cr. to be held on 9th and 13th March apart from secondary market purchases) to ensure rates volatility is in check.*

# Uptrend in funding and lending rates on Fresh deposits & lending



WALR – Weighted Average Lending Rate  
WATDR – Weighted Average Term Deposit Rate  
Source: RBI, CEIC, UBI Research



- Despite ample liquidity, banks are offering higher yields on CDs to attract term funding, reflecting a cautious stance on locking in funds amid evolving market conditions.
- The spread between Treasury Bill and corresponding CD rates has reached historic highs, signaling that even amid surplus liquidity, investors seek a premium on CDs over risk-free T-Bills.

What will be the end game?

# Endgame Scenarios:

## Why Oil Prices Are the War's Only True Timer

### THE MILITARY REALITY

~\$1T

US Defence Budget 2026

vs. \$10–25bn

Iran Defence Budget (40–90x gap)

Iran cannot win militarily. So it fights on a different battlefield: **the oil market.**

### IRAN'S ASYMMETRIC WEAPON

#### Strait of Hormuz

Iran's mechanism — 20% of global supply

#### Oil Price Spike

WTI +45% from Dec low. Now \$90+ and rising

#### CPI Pressure Builds

Every \$10 oil = ~20bps inflation (US). \$100 = 3.3% CPI

**Result:** Mid-terms 8 months away. Oil above **\$90–\$100** is where the political cost likely exceeds the military objective.

### THE PROOF: 3 MARCH

#### The Mechanism Already Playing Out

- 01 US ordered DFC war-risk insurance for Persian Gulf maritime trade
- 02 Navy began escorting tankers through the Strait
- 03 Oil fell ~10% immediately to ~\$71/bbl conflict briefly 'contained'
- 04 Relief lasted days. Prices rebounded above \$90 tools buying days, not weeks

***“The oil market will likely determine when this war ends.”***

# Three Endgame Scenarios

How each path plays out and what markets price in under each case

01

BASE CASE

2 – 4 Weeks

**Negotiated  
Ceasefire**

**TRIGGER**

Iran signals willingness to negotiate after Khamenei succession unclear; US accepts a partial win on nuclear programme.

**OIL TARGET**

**\$70 – 75 /bbl**

↓ Sells off sharply

**FED**

Rate cuts back on table. 2 cuts priced in by year-end.

**EQUITIES**

Risk-on rally. Energy stocks give back gains.

**INR / EM**

INR recovers. Import bill relief.

02

ELEVATED RISK

1 – 3 Months

**Protracted War,  
Partial Supply Fix**

**TRIGGER**

No ceasefire. US naval escorts partially restore flow. SPR release + Russia waivers keep oil below \$100.

**OIL TARGET**

**\$80 – 100 /bbl**

Oscillates. Each flare-up spikes, each US action dips.

**FED**

Holds. No cuts in 2026. Risk of a hike signal if US CPI hits 3.5%.

**EQUITIES**

Volatile. Defensive rotation. Consumer discretionary hit.

**INR / EM**

INR remains under pressure.

03

TAIL RISK

3+ Months

**Prolonged War,  
US De-escalates**

**TRIGGER**

Oil at \$100+. US CPI hits 3.5%+. Mid-term polls collapse. Administration forced to exit not from military defeat but economic/political cost.

**OIL TARGET**

**\$100 – 130 /bbl**

↑ Sustained

**FED**

Forced hike or hold. Rate cut hopes dead. Stagflation risk.

**EQUITIES**

Dow -15%+. Growth stocks repriced. Recession fears.

**INR / EM**

INR under pressure. Significant imported inflation.

# Thank You !

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