

“Strait Under Fire: Global and Indian Macros & Markets at the Crossroads”

- This is a geopolitical stress event with both macro & Market consequences:
 - As we saw in June 2025, when the last time Israel-Iran war was witnessed, Energy is once again the transmission channel from conflict to inflation, growth, and financial stability.
 - Fears of energy supply disruption and closure of Strait of Hormuz (unprecedented, last seen only partially in 1980s amid the famous oil shock) drove ~8% oil price spike
 - Apart from spike in oil risk premium, there are implications for risk sentiment, energy flows, global trade disruption, maritime security, aviation corridors and insurance markets
 - If sustained for even four weeks (as stated by Trump), impact on inflation outlook, rates and even monetary policy seen via sharp reduction in market pricing of rate cuts by central banks like the US Fed
- 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.
 - We maintain our policy view of prolonged pause on rates by the MPC. That said RBI has various other policy tools in its kitty to address the macro shocks via liquidity infusion, among others.

FRI 28 FEB
03:00 AM

Operation Epic Fury Launched

US & Israel launch joint strikes on Iran. Targets: nuclear sites, IRGC HQ, leadership.
Israeli strike kills Supreme Leader Khamenei.

FRI 28 FEB
Morning

Iran Retaliates :9 Countries Hit

Iran fires missiles & drones at Israel, UAE, Qatar, Kuwait, Bahrain, Jordan, Saudi Arabia.
Strait of Hormuz affected for commercial shipping.

SAT 1 MAR
Morning

Trump Speaks : War Aims Defined

Trump: objective is 'eliminating imminent threats.' Calls for regime change.
3 US soldiers dies KIA confirmed. CENTCOM says operations continue.

SAT 1 MAR
Mid-day

Iran Proposes Talks :Trump Agrees

Iran's new interim 3-man council signals desire to negotiate. Trump: 'They want to talk and I agreed to talk... they waited too long.' No ceasefire announced.

SAT 1 MAR
Evening

OPEC+ Emergency Session

V8 group agrees to raise production by 206,000 bpd from April. Russia joins.
Saudi Arabia had pre-positioned supply, but Hormuz export limitation bites.

SUN 2 MAR
Market Open

Markets Open in Full Risk-Off Mode

WTI +8% to \$72.57. Brent +9% to \$79.41. Gold +2% to \$5,334. S&P futures -1%.
INR under pressure. Treasuries rally 10Y yield hits 3.926%.

Strategic Trigger

- US & Israel launched coordinated strikes on Iran's military and nuclear infrastructure.
- The operation represents one of the most significant US foreign-policy escalations in decades.
- Iranian Supreme Leader Khamenei was reported killed; a major turning point in regional power dynamics.

Prevent Nuclear Weaponization

- US asserts Iran was attempting to rebuild nuclear capability.
- Goal: permanently disable uranium enrichment and weapon development capacity.
- Western view: enrichment levels exceed credible civilian need.

Contain Missile Development

- Concerns over long-range missile capability threatening Europe, US forces, and allies.
- Eliminate threats to US & allies, troops, regional bases, Israel, global shipping lanes.

Market & Geopolitical Implications

Elevated Oil Risk Premium

Strait of Hormuz exposure. Each escalation = sharp risk premium spike.

Central Bank Dilemma

Higher energy prices complicate global disinflation trajectory and easing paths.

Insurance & Freight Shock

Shipping and freight costs rise materially if maritime security deteriorates.

Regional Spillover Risk

Increased probability of proxy group escalation across Gulf states.

Regime Instability

Khamenei gone : IRGC chain of command unclear. Unpredictable escalation risk.

India: Triple Whammy

Pressure on trade deficit, rupee, and imported inflation if oil stays elevated.

US Election Uncertainty

Heightened policy uncertainty. War politics may dominate domestic agenda.

Immediate market reaction: March 2, 2026

WTI Crude Oil

+8%

\$78.57 / barrel
Initially surged >10%

Gold (XAU)

+2%

\$5,334 / oz
+\$200 open spike expected

S&P 500 Futures

-1%

Dow futs -521 pts
Nasdaq -1%+

US 10Y Yield

3.97%

Hit 11-month low 3.926%
Flight to Treasuries

Brent Crude

+10%

\$79.41 / barrel
Initial spike +13%

INR

-0.52%

Rupee fell to 91.4850 level

Sensex

-1.29%

Sensex was down 1,048 points

India 10Y

+6.68%

Was up 2bps from last Friday

*Levels as of the time of writing this report.

Source: Reuters, UBI research



Donald J. Trump ✓

@realDonaldTrump · Sat, Feb 28 · 03:15 AM

"A short time ago, the United States military began major combat operations in Iran. Our objective is to defend the American people by eliminating imminent threats from the Iranian regime, a vicious group of very hard, terrible people."

 8-min video posted to Truth Social at operation launch



Donald J. Trump ✓

@realDonaldTrump · Sat, Feb 28 · Morning

"Khamenei, one of the most evil people in History, is dead. He was unable to avoid our Intelligence and Highly Sophisticated Tracking Systems and, working closely with Israel, there was not a thing he, or the other leaders killed with him, could do."

 Confirmed killing of Supreme Leader — Israel strike



Donald J. Trump ✓

@realDonaldTrump · Sat 1 Mar · 12:25 AM

"Iran just stated that they are going to hit very hard today, harder than they have ever hit before. THEY BETTER NOT DO THAT, HOWEVER, BECAUSE IF THEY DO, WE WILL HIT THEM WITH A FORCE THAT HAS NEVER BEEN SEEN BEFORE!"

— President DONALD J. TRUMP

 Midnight escalation warning — most explicit threat yet



Donald J. Trump ✓

@realDonaldTrump · Sun 1 Mar · Afternoon

"We have destroyed and sunk 9 Iranian Naval Ships, some of them relatively large and important. The rest of the Iranian Naval Fleet is being targeted and will soon be floating at the bottom of the sea. We also largely destroyed their Naval Headquarters."

 Military update — Navy operations report



Donald J. Trump ✓

@realDonaldTrump · Sat 1 Mar · Afternoon

"They want to talk, and I have agreed to talk. But if they don't want to talk, that's okay too. We will have accomplished our mission anyway. They waited too long. They played it too cute."

 Diplomatic opening — Iran talks signal



Donald J. Trump ✓

@realDonaldTrump · Sat 28 Feb · Early morning

"Sadly, there will likely be more [deaths] before it ends. America will avenge their deaths and deliver the most punishing blow to the terrorists who have waged war against civilization. These actions are right, and they are necessary."

us On 3 US soldiers KIA — Truth Social video

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

IRAN

IRAN

Persian Gulf

STRAIT OF HORMUZ

OIL

ENERGY SECURITY & GLOBAL MARKETS
DEPEND ON THIS CRUCIAL PASSAGE

RISK OF DISRUPTION



POTENTIAL THREATS



OIL PRICE
SPIKES

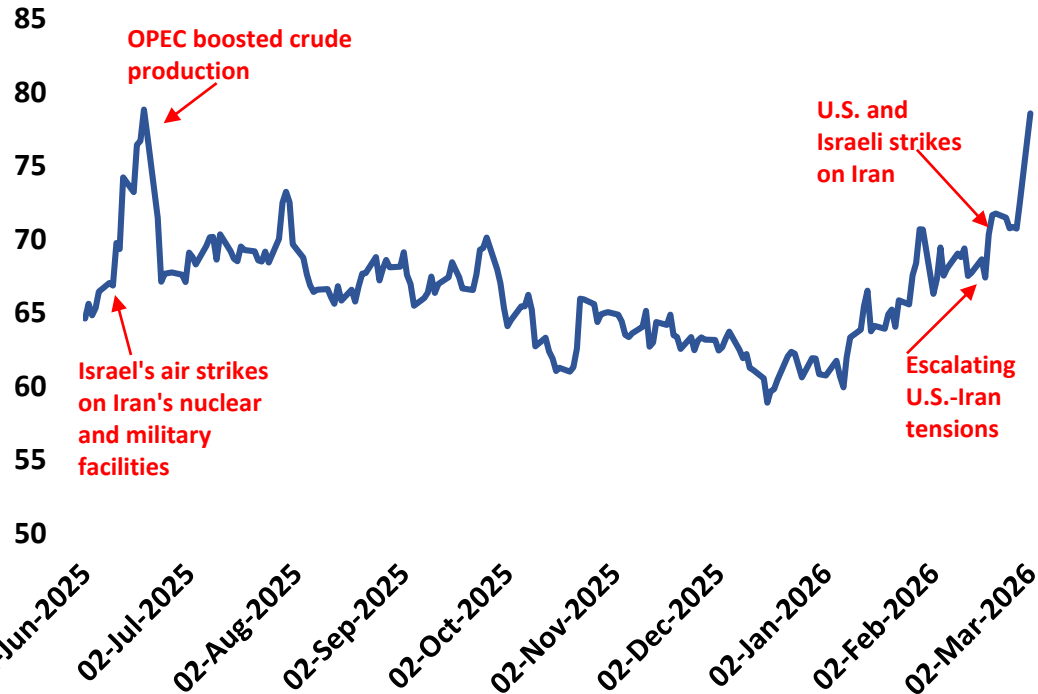


SUPPLY CHAIN
DISRUPTIONS

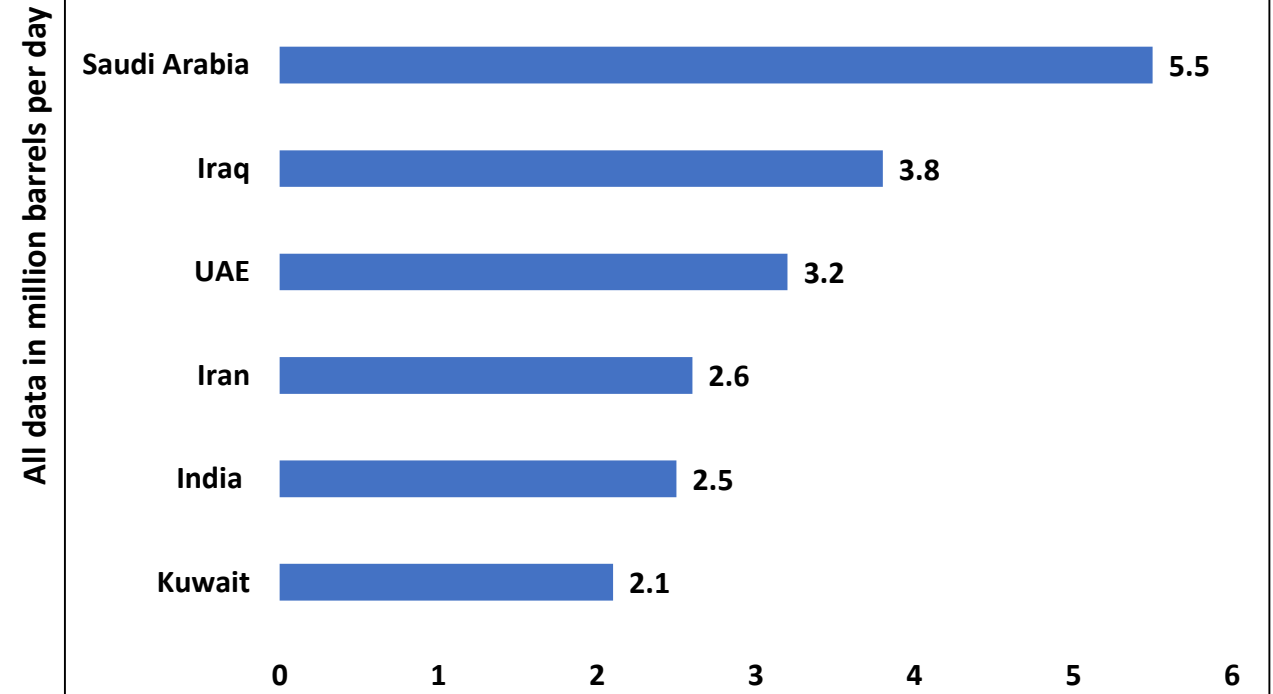


ECONOMIC INSTABILITY

Brent Crude Reprices Geopolitical Risk



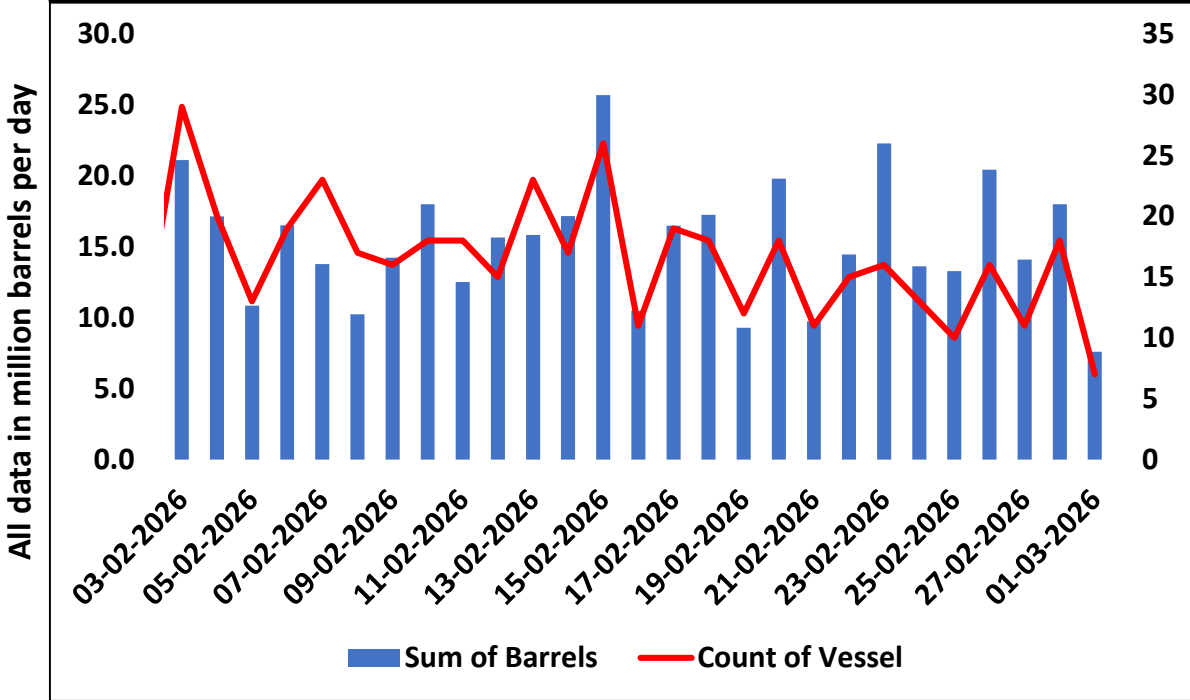
Strait of Hormuz: Daily Oil Flows by Key Exporters & Importers (mbpd)



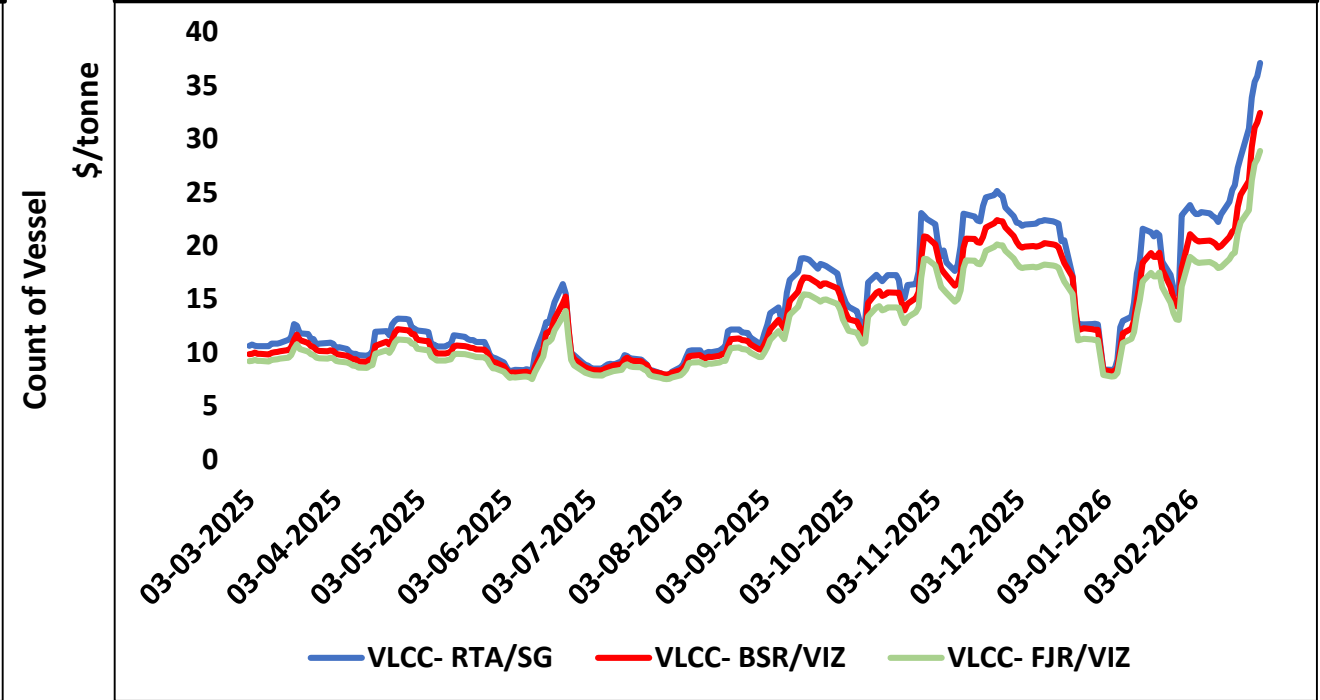
- Oil prices remain highly sensitive to Middle East escalation, with each military flare-up triggering sharp risk premiums and reinforcing energy as the primary transmission channel to global inflation and financial markets.
- Any disruption in the Strait directly impacts ~20 mbpd of global supply, with Saudi, Iraq and Asian importers (especially India and China) facing the highest immediate exposure.

Strait of Hormuz: Is It Closed? (Not completely, thereby capping the oil price spike)

Arabian Gulf DPP Loadings Passing through Strait of Hormuz, Physical Flow : No Structural Disruption Yet



VLCC (Very Large Crude Carrier) (Dirty Tanker) Freight Rates - Gulf Risk Premium



- Tanker traffic remains active: On 1-2 March 2026, dirty tanker count through the Strait stayed around 10-15 vessels per day with crude loadings consistently above 10-15 million barrels per day, showing no collapse in physical flow.
- Strait remains open: There is no sustained drop to zero in vessel count or barrel movement the data does not show a physical closure of the Strait of Hormuz as of 2 March 2026.
- VLCC freight rates have spiked sharply, reflecting rising geopolitical and insurance risk in Gulf crude shipping even as physical oil flows continue.

Variable	Estimated Shock Magnitude
Oil Price	Temporary spike toward ~\$115/bbl before easing
Global Inflation	Rises materially (~+0.5–1.0pp vs baseline)
US Inflation	Could move back toward ~5%+ levels
Eurozone Inflation	Rises toward mid-3% range
Global GDP	~0.5% below baseline trajectory
Advanced Economies	Elevated recession risk under sustained shock

- *Trump, as a self-styled war dove and highly sensitive to oil prices in a midterm election year, is unlikely to allow such a scenario to materialize.*

US-ALLIED BLOC

USA · Israel · UK · Canada · Jordan · Gulf States (via OPEC+)

Supporting strikes or staying neutral

US & Israel running the operation. 3 US KIA, CENTCOM operations continue

OPEC+ (Saudi, UAE, Kuwait, Iraq, Russia!) agreed 206K bpd output boost

UK issued threat advisory; Canada: 'supports Israel's right to defend'

Gulf states hosting US bases angered by Iranian counter-strikes on their soil

IRAN SYMPATHISERS

China · Russia · Pakistan · Brazil · UN Security Council bloc

Condemn strikes; call for ceasefire & dialogue

Russia FM: 'premeditated, unprovoked act of aggression.' But Russia is militarily overstretched

China: 'brazen attack.' Buys >80% of Iran's exported oil – watching supply chain impact

Neither Russia nor China unlikely to provide meaningful military aid

Russia + China called emergency UNSC meeting; US veto will block resolution

INDIA :THE BALANCING ACT

India :World's 3rd biggest oil importer

'Exercise restraint' classic strategic autonomy

MEA: called for 'dialogue and diplomacy' , did not condemn US strikes

PM Modi chaired Cabinet Committee on Security Sunday night

Modi had visited Israel days before; optics matter for India-US trade deal

India will not take sides but is acutely vulnerable to Hormuz disruption

Long drawn war vs. Quick truce : Scenario Matrix

	QUICK TRUCE	BASE CASE: 3–6 WEEK CONFLICT	LONG WAR / ESCALATION
TRIGGER	Iran's new council accepts deal within 2 weeks	Strikes continue; Iran retaliates but avoids Hormuz full closure	IRGC resists; Hormuz blocked 3+ weeks; proxy war spreads
OIL PRICE	WTI settles \$68–72 by month end	Brent \$80–95; peaks at \$100 briefly	\$100–120+ · supply shock risk
GOLD	Pulls back to \$5,100–5,200	\$5,500–5,800 near term	\$6,000+ · stagflation hedge
INR/FX	INR recovers	INR weakness continues	Full EM meltdown · DXY spike to 103+
EQUITIES	S&P bounces, tech recovers	S&P –3% to –8% from here	S&P –15%+ · global recession signal
INDIA IMPACT	CAD pressure eases; inflation manageable	Higher energy import costs lift CAD and inflation pressures; manageable if disruption is temporary	Sustained oil shock strains CAD, weakens INR, elevates inflation risks, and increases fiscal trade-offs.
KEY CUE	Trump tweet 'great deal' · Hormuz reopens	Hormuz AIS data · IRGC command intact?	China/Russia diplomatic intervention · Regime collapse

India Context



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 [^]	% YoY	-15	-22.5	-45
CPI inflation [^]	% YoY	+30 ^{^^}	+45	+90
Current account deficit	\$ bn	(-)\$16 bn	(-)\$24 bn	(-)\$48 bn
Current account deficit ^{^^^}	% 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.

[^]as per the Monetary Policy Report April 2025 and based on a 10% deviation from baseline crude oil assumptions,

^{^^^}negative sign indicates widening deficit; Source: RBI, UBI research

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

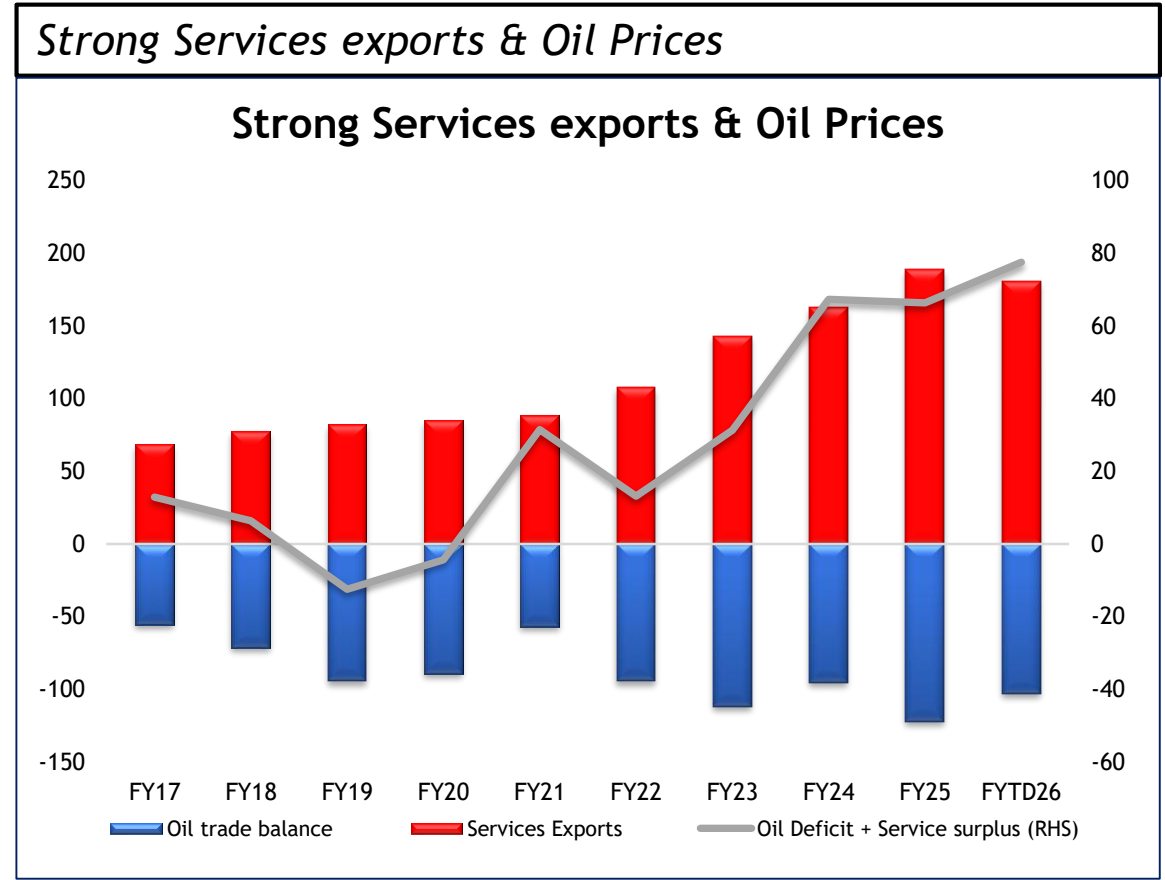
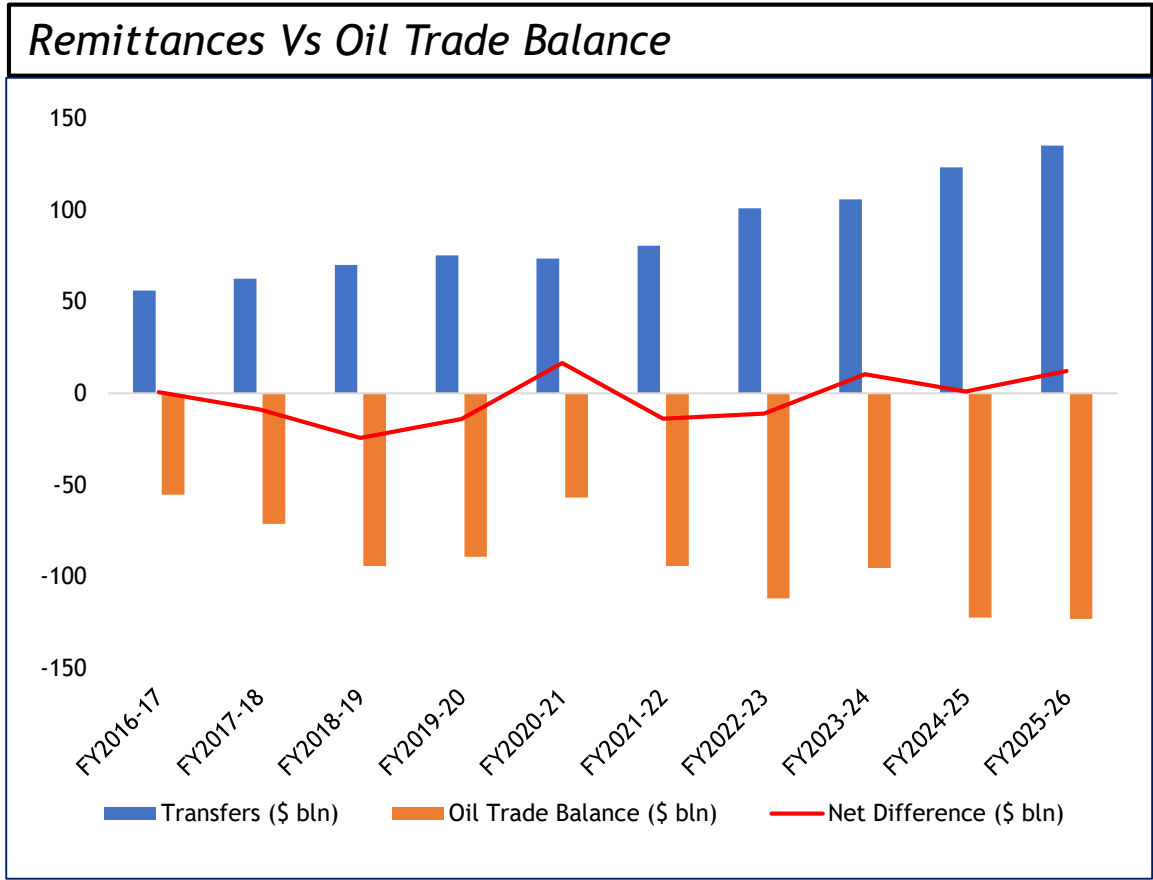
74-day strategic reserve + 10-15 day refinery stocks + 7-10 day fuel stocks. Buy time only.

🏗️ 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.

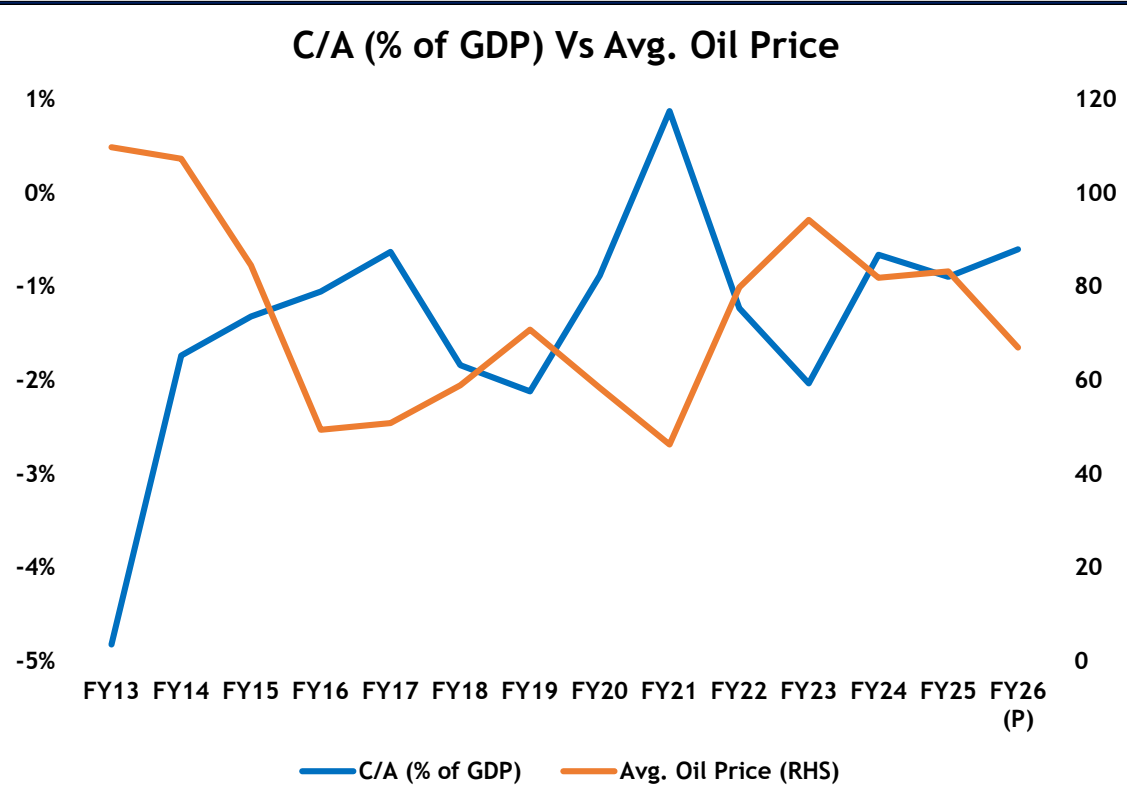
Higher services exports and remittances post covid have helped cushion impact of oil price volatility



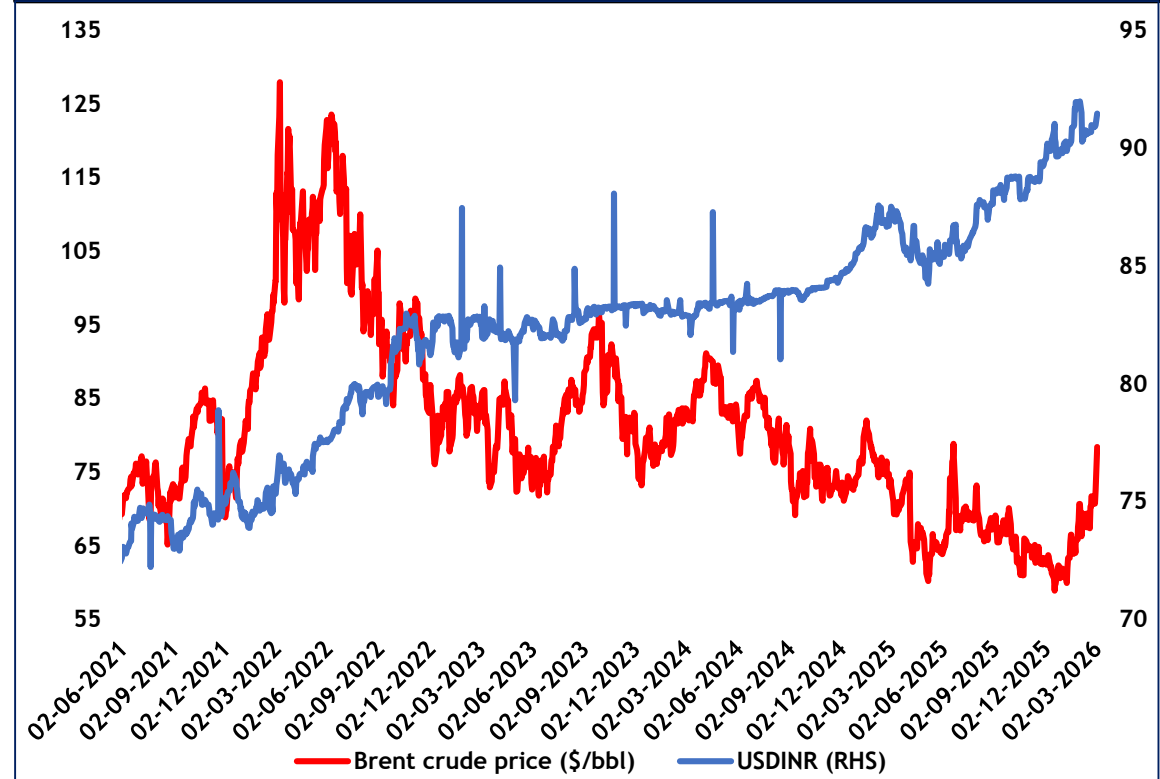
- India remittances have increased significantly and recently crossed the \$100bn mark in FY23 and growing further thereafter cushioning the India's oil deficit.
- Meanwhile, invisibles surplus stayed robust driven by strong services trade surplus ~\$180.60bln in FYTD26 vis-à-vis oil deficit of ~\$103.11bln,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



Rupee's sensitivity to oil prices have reduced in recent years



- 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.

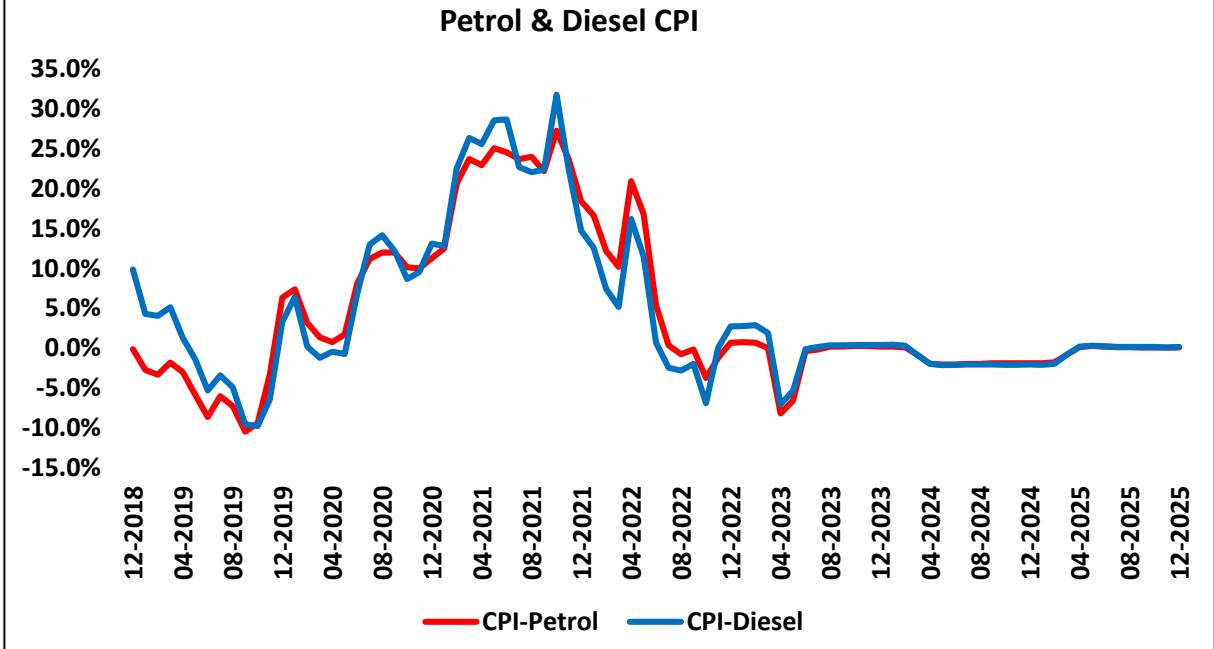
Impact on macros esp. inflation likely to be absorbed by the government and OMCs

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)

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

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.

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.

1

This is a real supply shock, not just a risk premium.

The Strait of Hormuz is de-facto closed. Physical barrels are disrupted. Watch AIS data, not just prices.

2

The world has split into blocs : but neither Russia nor China will militarize it.

Rhetorical support only. OPEC+ (including Russia) is raising supply. This limits the catastrophic scenario.

3

Trump wants a deal. Iran's new council may offer one quickly.

The 'play too cute' signal from Trump suggests room for a rapid off-ramp if Iran concedes on enrichment.

4

India has ~74 days of cover but must pivot now to alternative supply.

Russia pivot is fastest (ships already in Indian Ocean). But US trade deal creates political friction.

5

Markets will swing violently on every Hormuz headline.

Oil is the signal. Hormuz open = buy risk. Hormuz closed = go defensive. No conviction bets until clarity.

Thank You !

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