



# Decoding Market Movements in Times of Geopolitical Unrest

Crude oil markets face renewed volatility as geopolitical tensions escalate between the US–Israel bloc and Iran, testing India's enhanced macroeconomic resilience.

# Crude Back in Focus

The renewed escalation of tensions has placed crude oil back in market focus. Brent crude prices surged to approximately USD 79 per barrel, up from USD 72 per barrel just one day earlier.

**Iran's contribution:** The country produces approximately 3.3 million barrels per day (mbpd), representing about 3.2% of global crude supply. Any disruption to its output poses a meaningful risk to global markets.



# Supply Buffers and Strategic Chokepoints



## OPEC+

Has spare capacity of 2.5–3.9 mbpd available going into early 2026

This buffer should help contain sharp price rises



## Strait of Hormuz

20% of world's oil supply transits through this strategic point.

Any conflict extension threatens shipping lanes



## India's Exposure

50% of crude oil and 60% of LNG imports transit through Hormuz

For India, the more significant threat stems from potential disruptions to shipping through the Strait of Hormuz, especially if the conflict extends.



# India's Growth Sensitivity

## High Import Dependency

India imports roughly 88% of its crude oil needs, making the economy susceptible to oil price spikes.

Potential impacts include:

- Widened current account deficit
- Increased fiscal pressures
- Elevated inflation
- Pressure on economic growth

## Improved Resilience

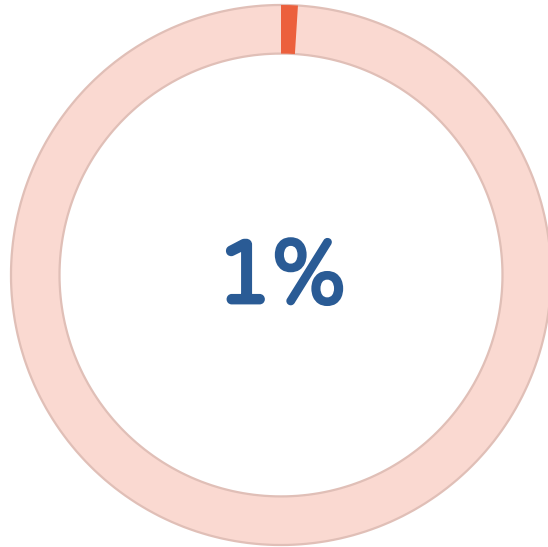
India's tolerance to price shocks has improved considerably over the past decade.

Oil intensity has fallen:

Oil required per unit of GDP has declined by more than **27%** over the past decade.

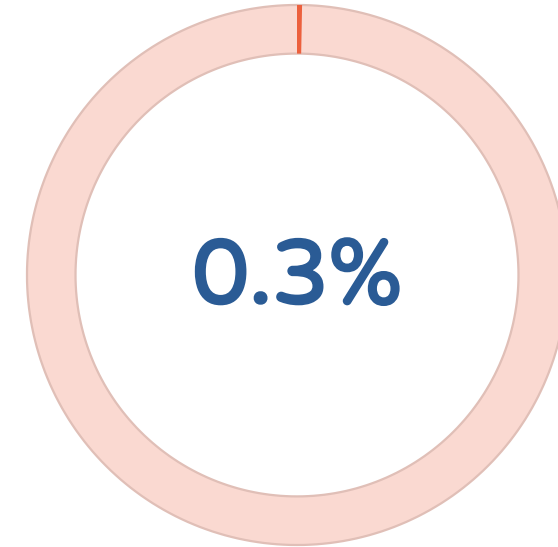
This structural improvement reduces vulnerability to price volatility.

# External Account Vulnerability



**Current Account Deficit**

As a percentage of GDP



**Impact from +USD 10/bbl**

Expected increase in CAD

India's external vulnerability to crude price fluctuations has moderated due to a stronger services trade surplus. The current account deficit remains manageable at around 1% of GDP.

A USD 10 per barrel increase in crude prices could raise the CAD by approximately 0.3% of GDP, indicating adequate buffers to manage price shocks.

# Inflation Dynamics

## Global Prices Fall

Crude drops from USD 80 to below USD 70 per barrel over two years

1

2

3

4

## Tax Increase

Government raised taxes on petrol and diesel in April last year

## No Retail Relief

Domestic fuel prices remained largely stable despite lower global prices

## Buffer Available

Tax revenue provides cushion against future price increases

## Transmission Mechanism

The RBI estimates suggest a 10% rise in crude could push CPI inflation up by about **45 basis points**.

## Contained Outlook

If higher crude prices are not fully transmitted to retail fuel prices, the inflationary impact should remain muted. Core disinflation continues to support stability.

# Bond Market Implications



## Crude Price Rise

Geopolitical tensions push oil higher



## Investor Sentiment

Bond market responds negatively to price movements



## Yield Pressure

Upward pressure on bond yields emerges

Indian bond markets remain responsive to crude oil price movements. However, improved resilience and strong macroeconomic buffers suggest any negative impact is likely to be **limited and short-lived**.

- ❑ **Key Risk:** Indian markets would face greater vulnerability if the conflict expands to a wider Gulf region and persists for an extended period.



# Key Takeaways

## Geopolitical Risk Elevated

Tensions between US–Israel bloc and Iran have renewed crude oil market focus. Brent prices surged from USD 72 to USD 79 per barrel in one day.

## Supply Buffers Available

OPEC+ spare capacity of 2.5–3.9 mbpd going into early 2026 should help contain sharp price rises.

## India Exposed via Hormuz

50% of crude and 60% of LNG imports transit through Strait of Hormuz—20% of global oil supply at risk.

## Improved Resilience

Oil intensity down 27% over past decade. Current account deficit at 1% of GDP provides adequate buffers.

## Inflation Contained

Stable domestic fuel prices and tax buffers limit transmission. CPI impact estimated at 45 bps per 10% crude rise.

## Bond Market Watch

Responsive to crude movements but strong macro buffers suggest limited, short-lived impact unless conflict widens.