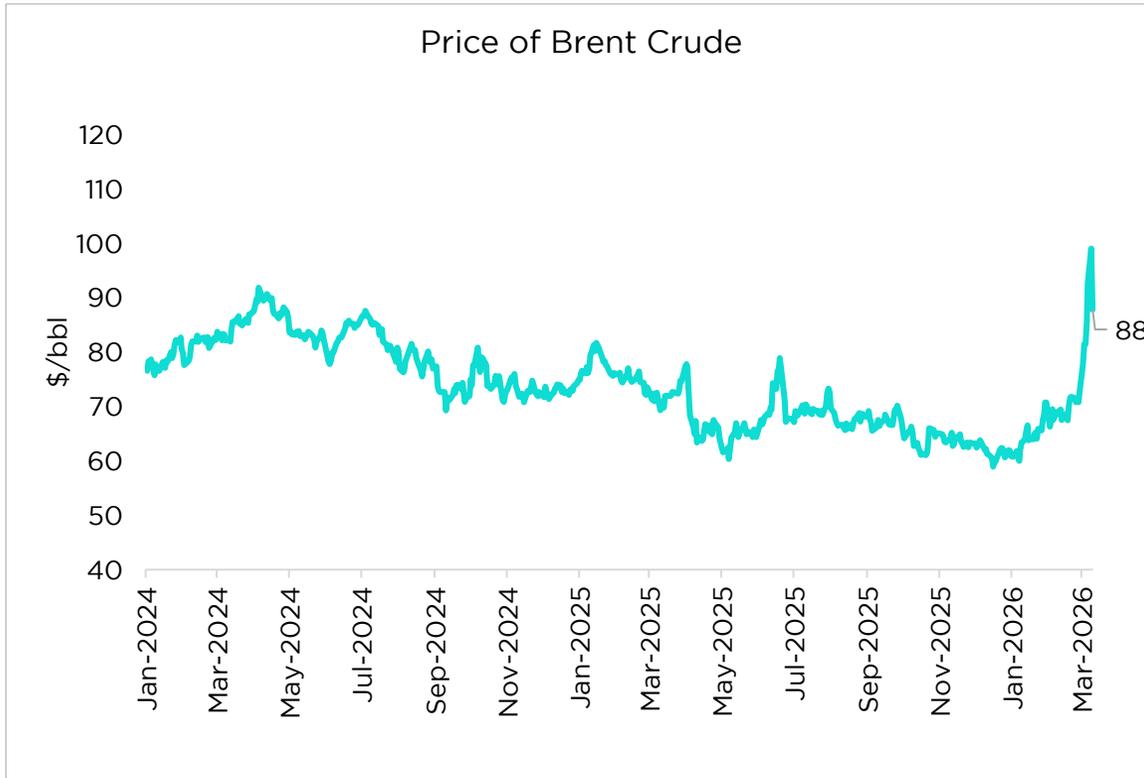




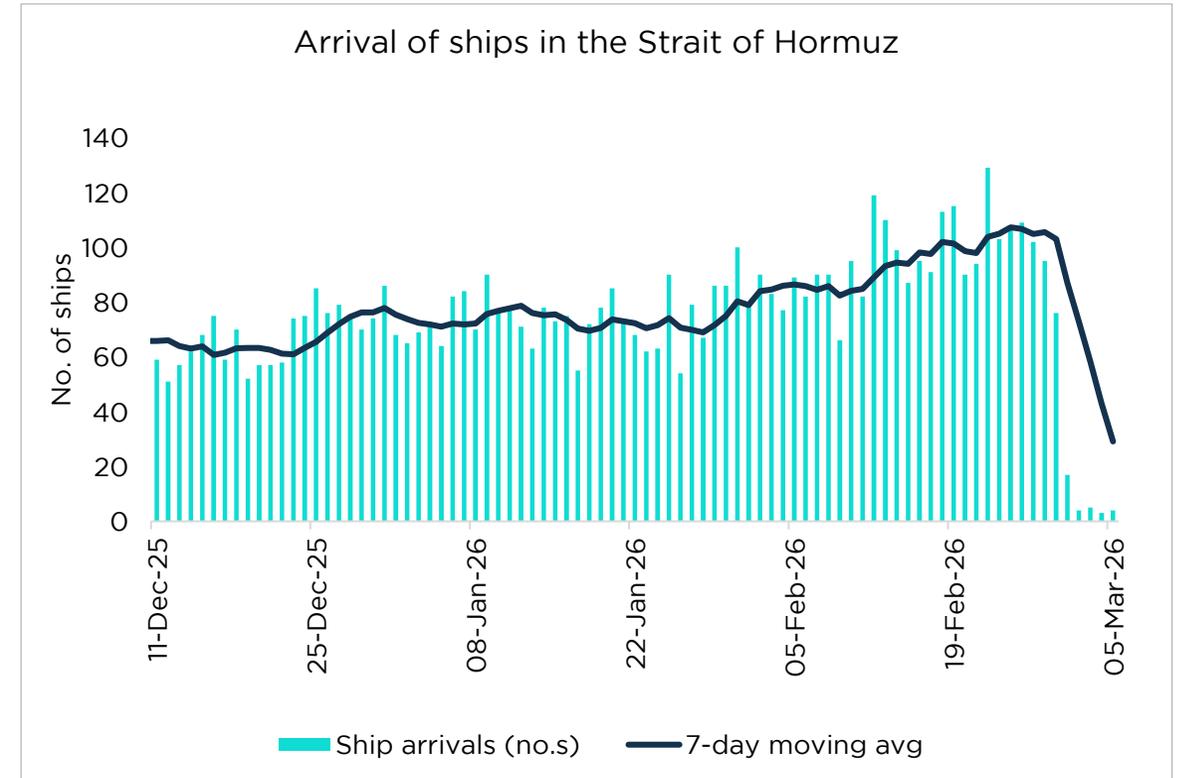
## ➤ Tensions Across Strait of Hormuz Reignite Concerns Over India's Energy Achilles Heel

March 2026

# Oil Price Rises Sharply as the Strait of Hormuz is Blockaded



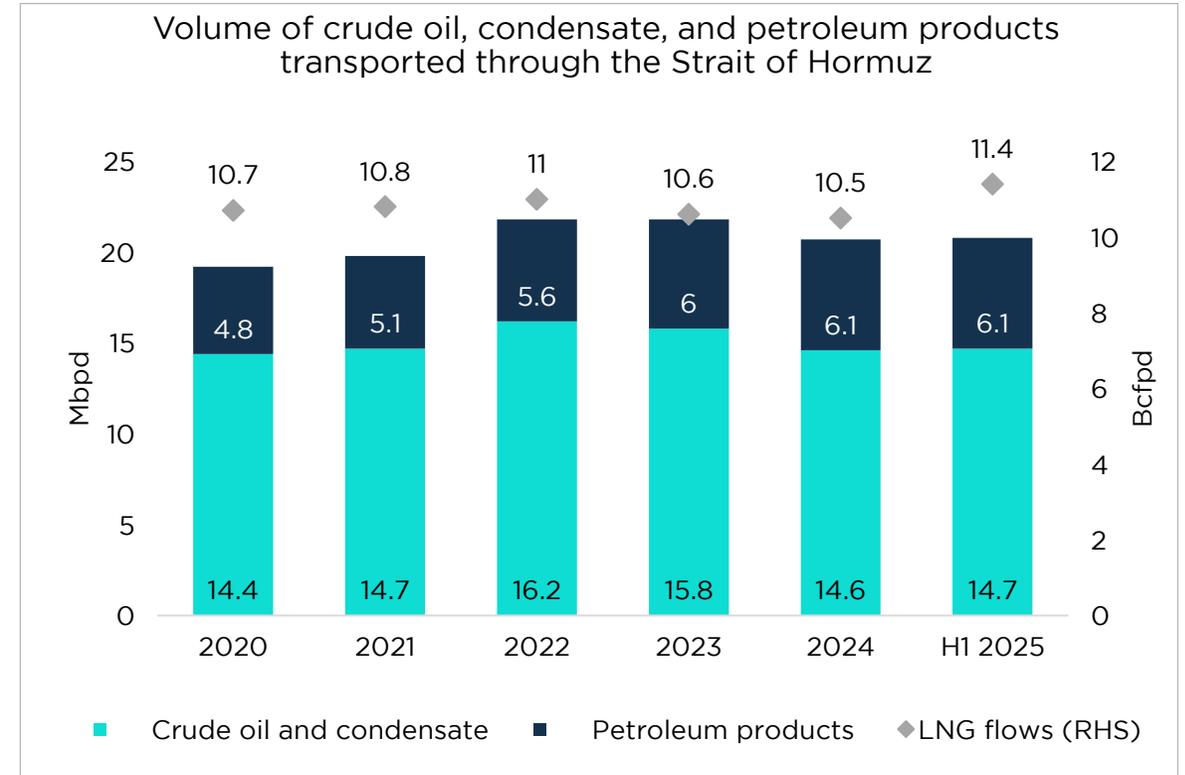
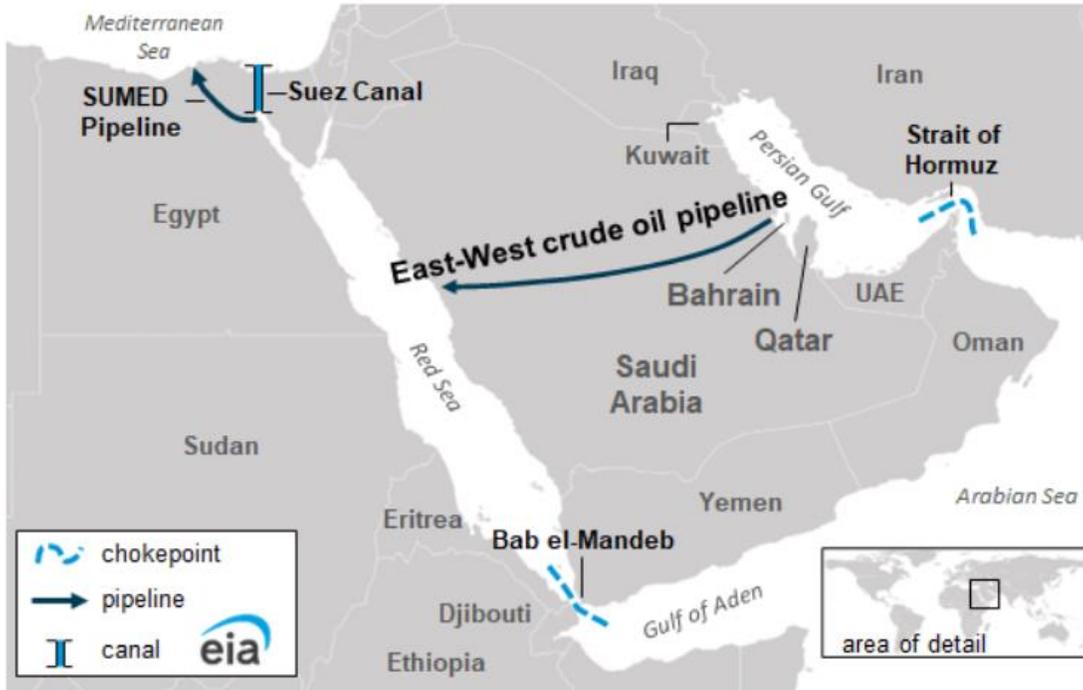
Source: Havers; Data as of 10th March 2026



Source: IMF Port Watch; Note - data as of 5th March 2026

- The price of crude oil has surged since the commencement of hostilities in West Asia on 28<sup>th</sup> February 2026. It briefly crossed the \$ 100/bbl mark before retreating.
- The conflict has resulted in a sharp decline in the number of ships and volume of trade transiting through the Strait of Hormuz.

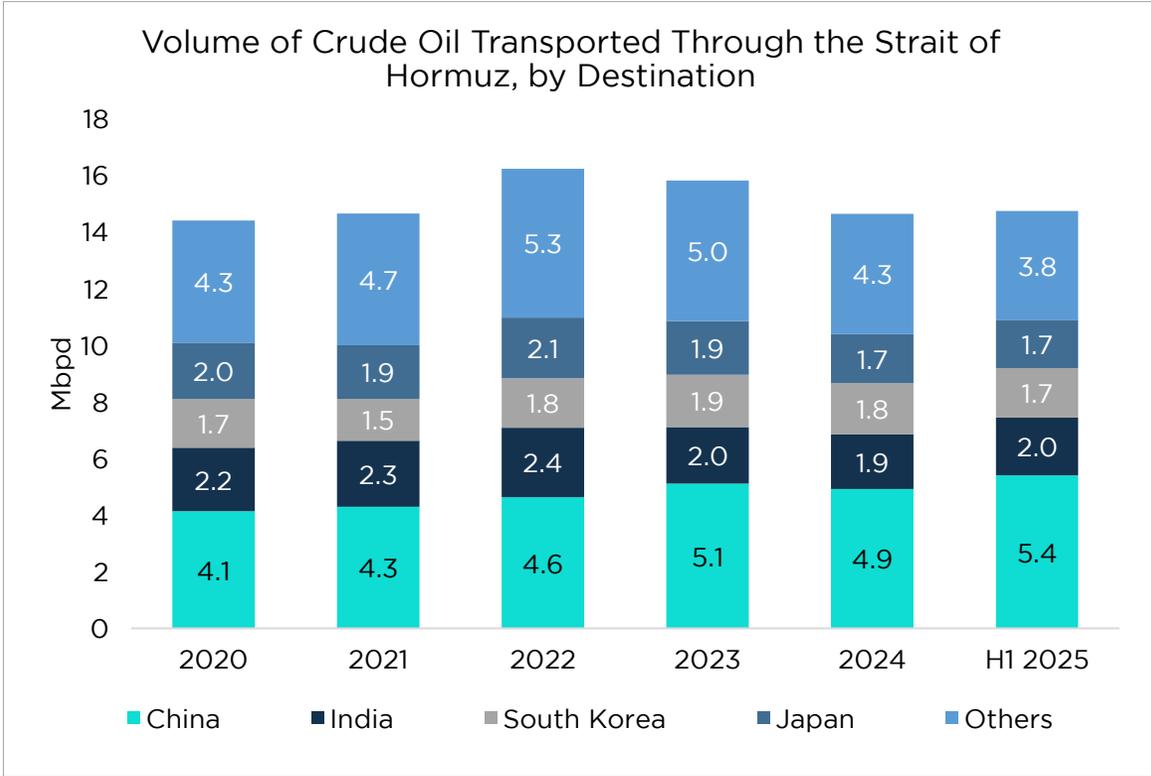
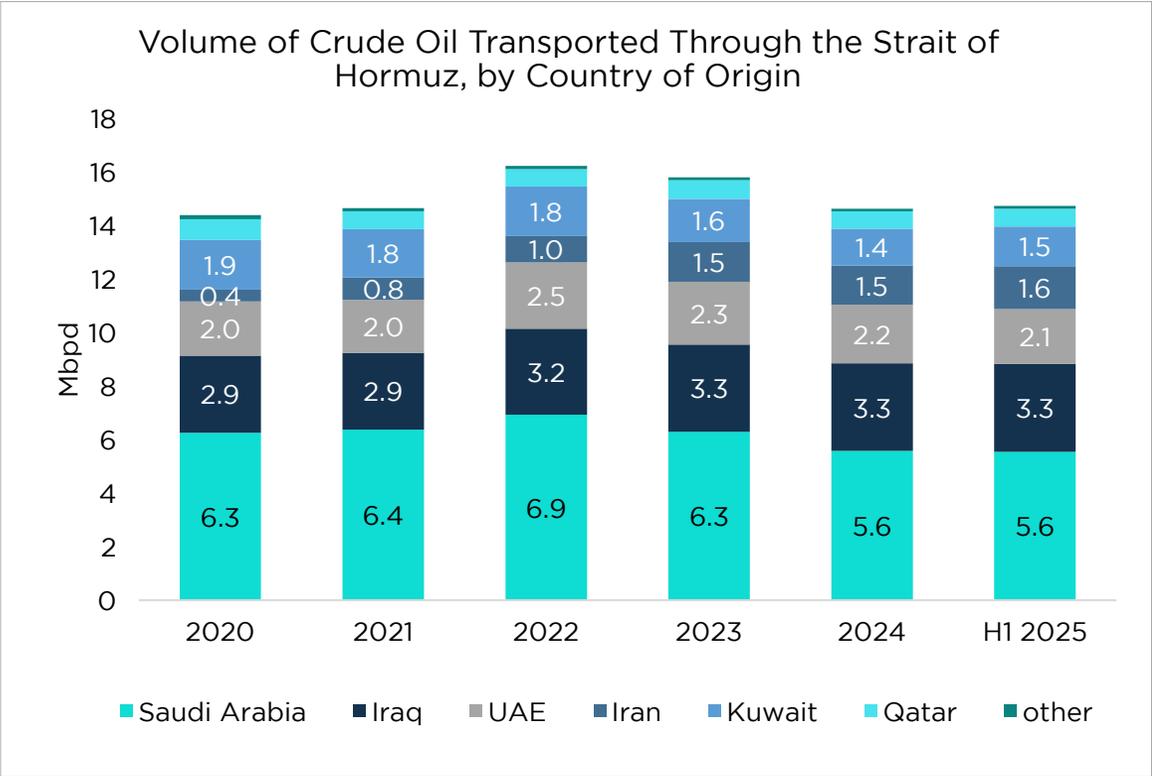
# Strait of Hormuz: A Key Chokepoint in Global Oil Trade



Source: US Energy Information Administration (EIA)

- Total oil and LNG flows through the Strait of Hormuz stood at average of 20.8 million barrels per day (mbpd), and 11.4 billion cubic feet per day (bcfpd) in H1 2025. The flows through the Strait accounted for around 20% of the world’s oil and LNG supply.
- Alternative channels of supply, such as Saudi Aramco’s East-West crude oil pipeline, could provide about 4.7 mbpd of capacity to bypass the strait. However, this channel is also vulnerable to a rise in hostilities by other rebel groups.
- Moreover, the risk of production shutdown due to the war could render these channels ineffective.

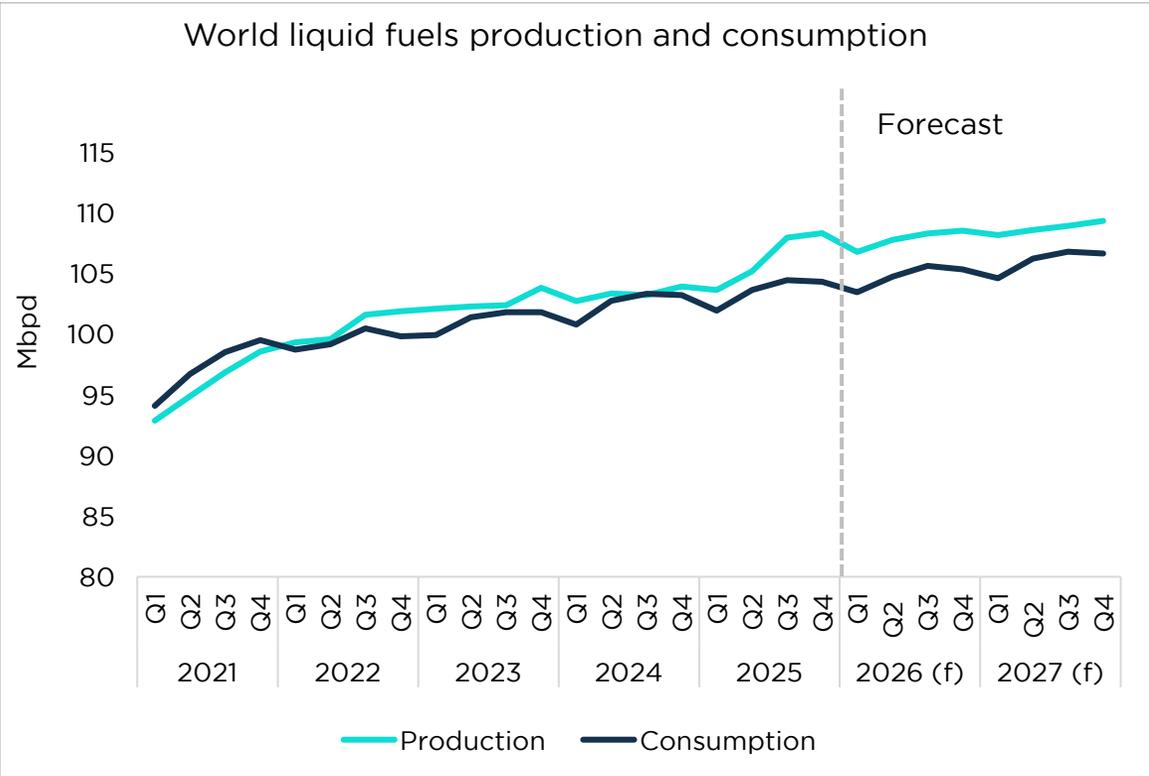
# Asia is Most Vulnerable to Closure of the Strait



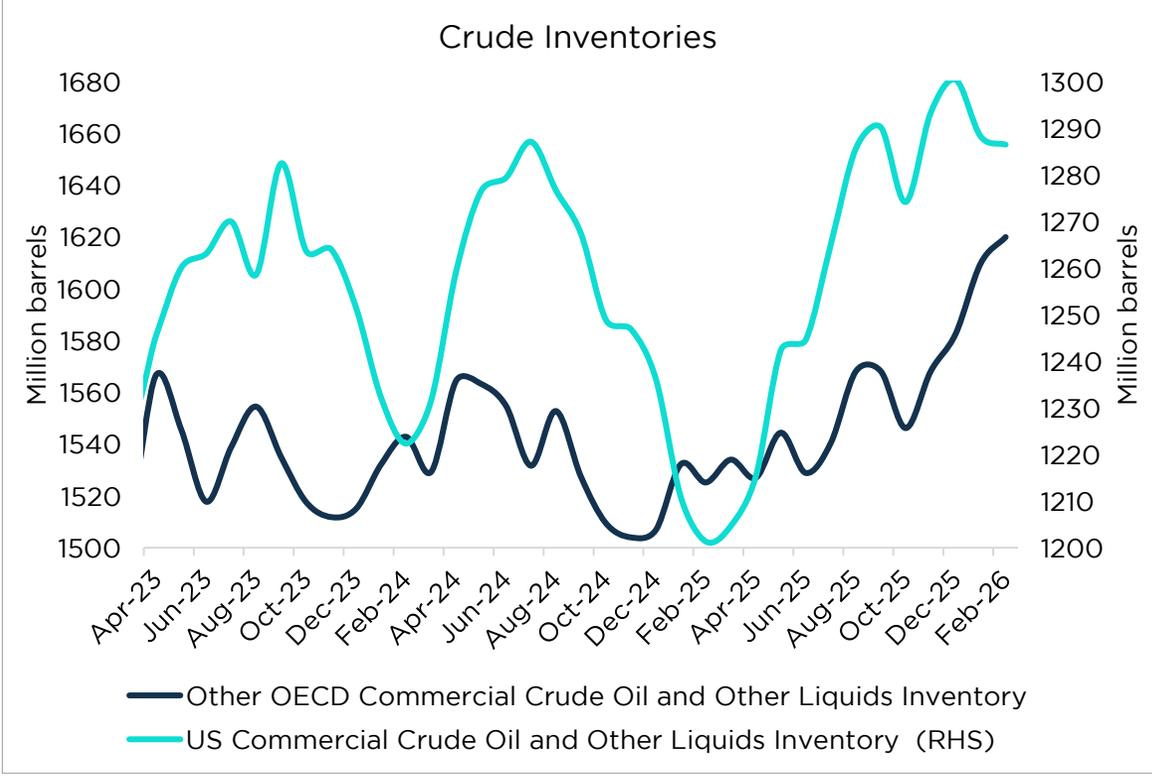
Source: US Energy Information Administration (EIA)

- 89% of the crude oil and condensate that moved through the Strait of Hormuz went to Asian markets in H1 2025, led by China, India, Japan and South Korea.
- About 40% of India’s crude oil imports are transported through the strait.

# Oil Supply Risks Have Increased Even as Demand Remains Benign

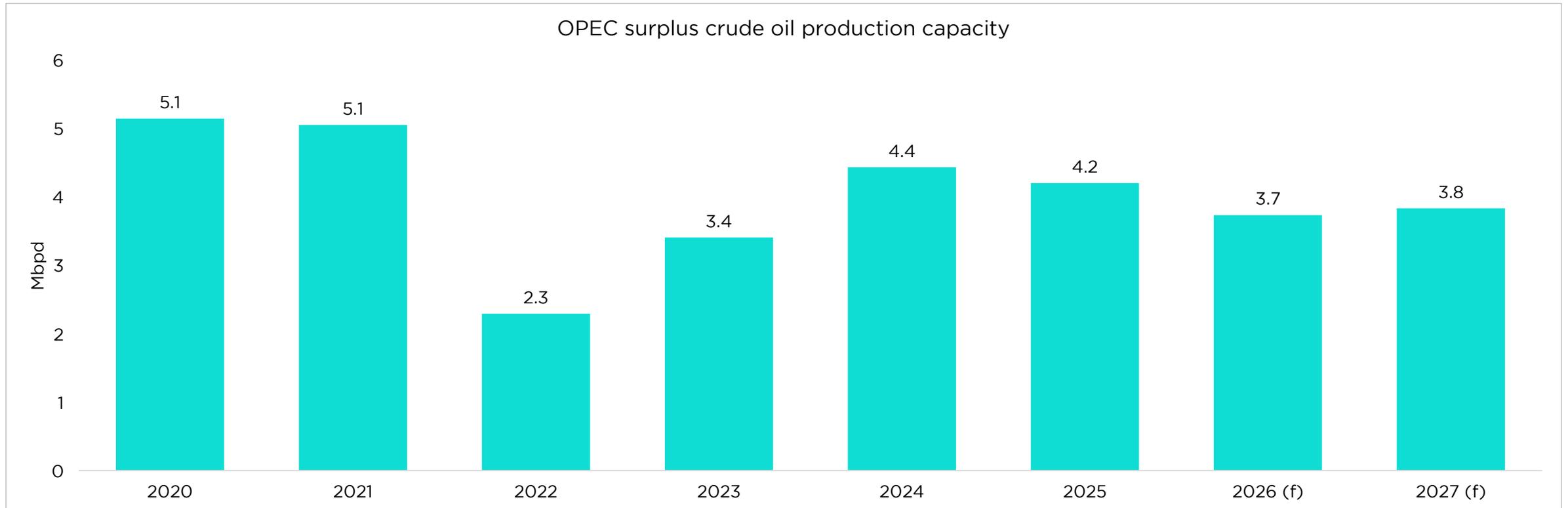


Source: US Energy Information Administration (EIA)



- The global supply glut in crude oil production was expected to persist into 2026 and 2027 before the conflict. However, the quantum of supply is likely to change with hostilities in West Asia forcing countries to take production facilities offline
- OPEC+ production policies and high inventory levels can cushion upward pressure on the price of crude only to a certain extent.

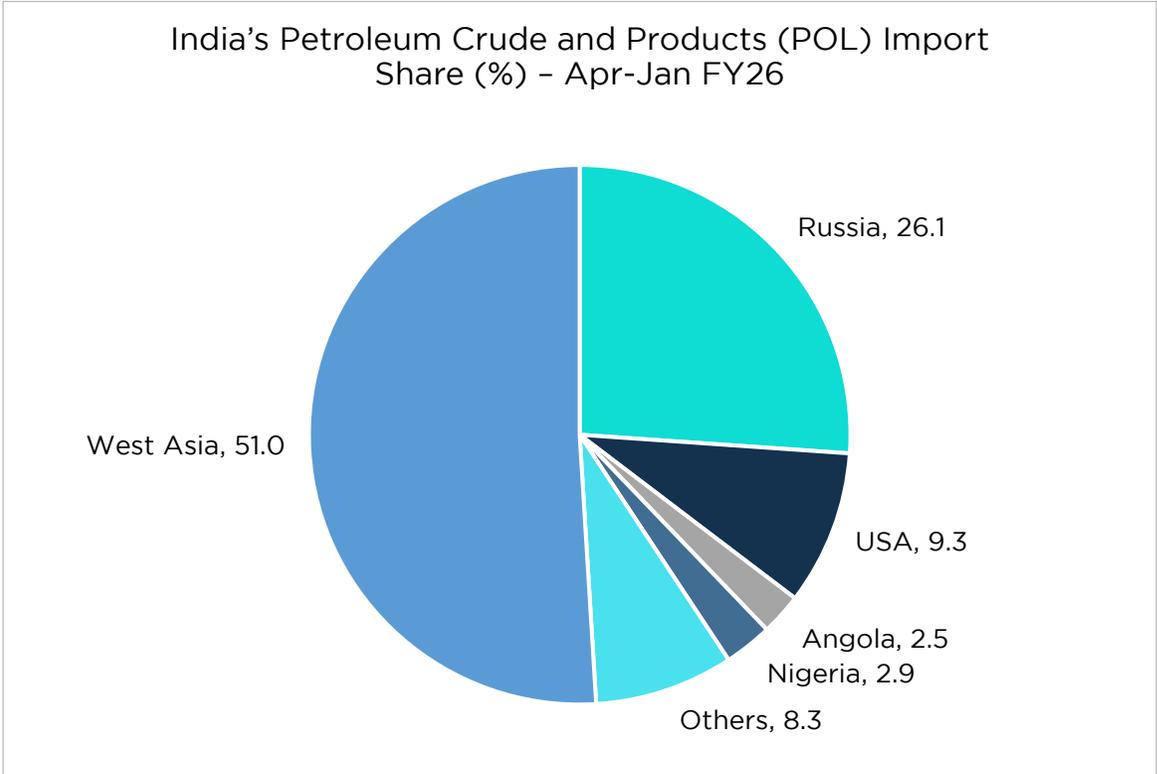
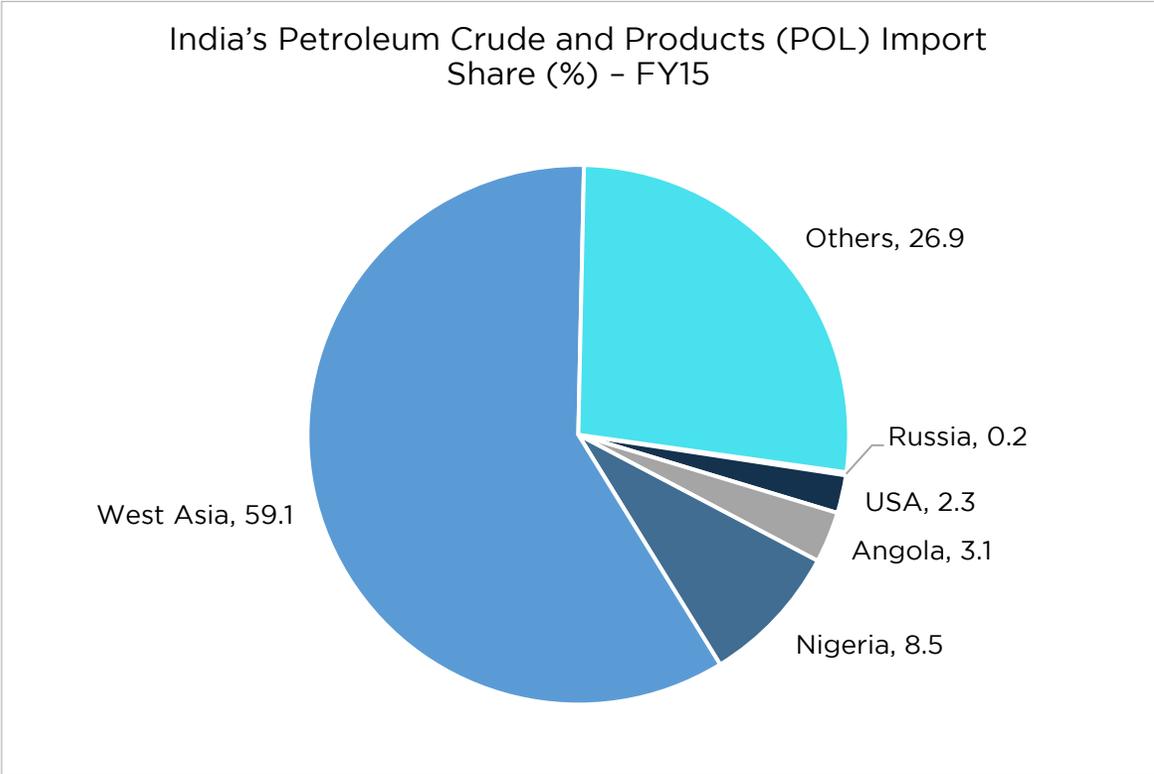
# Spare Production Capacity Remains but is Concentrated in West Asia



Source: US Energy Information Administration (EIA)

- OPEC has an estimated spare production capacity of around 4 mbpd, most of which is concentrated in West Asia, a region currently exposed to significant supply risks, thus limiting its utility.
- Shutting down crude oil production and subsequently restarting it is a time-consuming and costly process. After a complete shutdown, it can take weeks or even months for production to gradually return to full capacity.

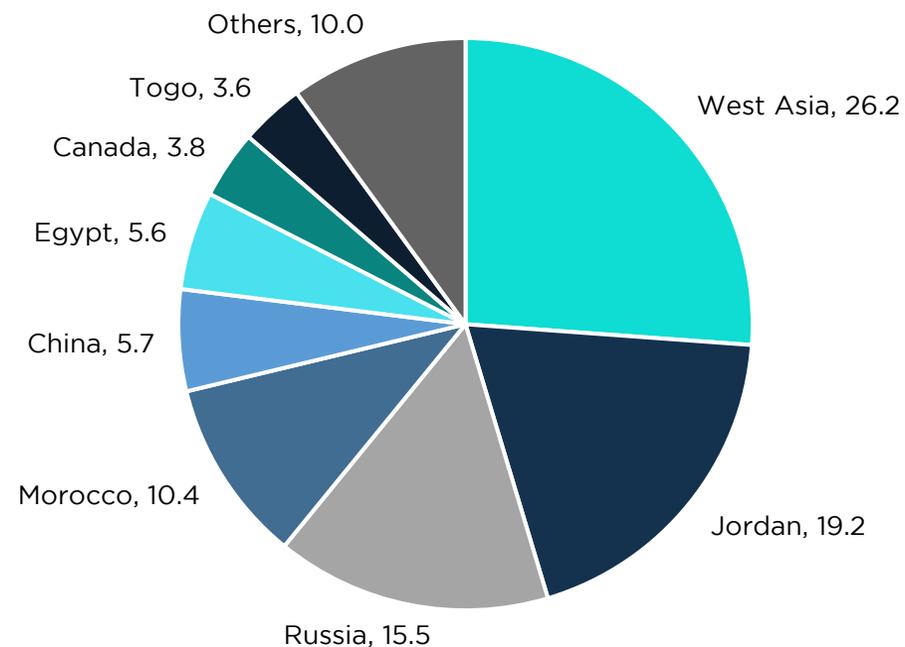
# India's Diversified POL Imports Can Somewhat Mitigate Supply Risks



Source: CMIE; Note - Data represents share in quantity imported; West Asia comprises of Saudi Arabia, UAE, Kuwait, Qatar, Iraq, Oman, Iran and Israel; Venezuela, Mexico and Malaysia used to account for 14.3% (in "others") in FY15. These countries account for 1.3% in FY26.

- India has diversified its crude oil import sources, with West Asian countries now accounting for about 51% of total Petroleum crude and Product imports. Over the past five years, India has expanded its supply from the US and Russia.

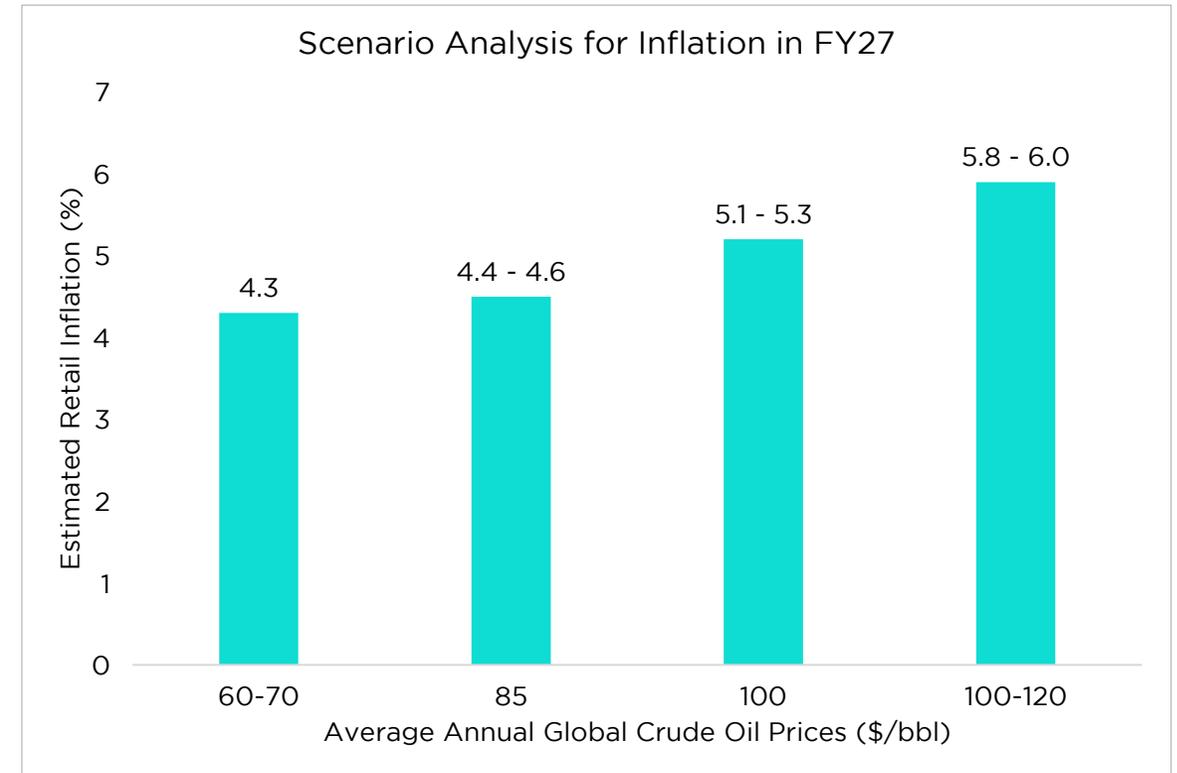
India's Fertiliser (Crude and Manufactured) Import Share by Country of Origin - FY25



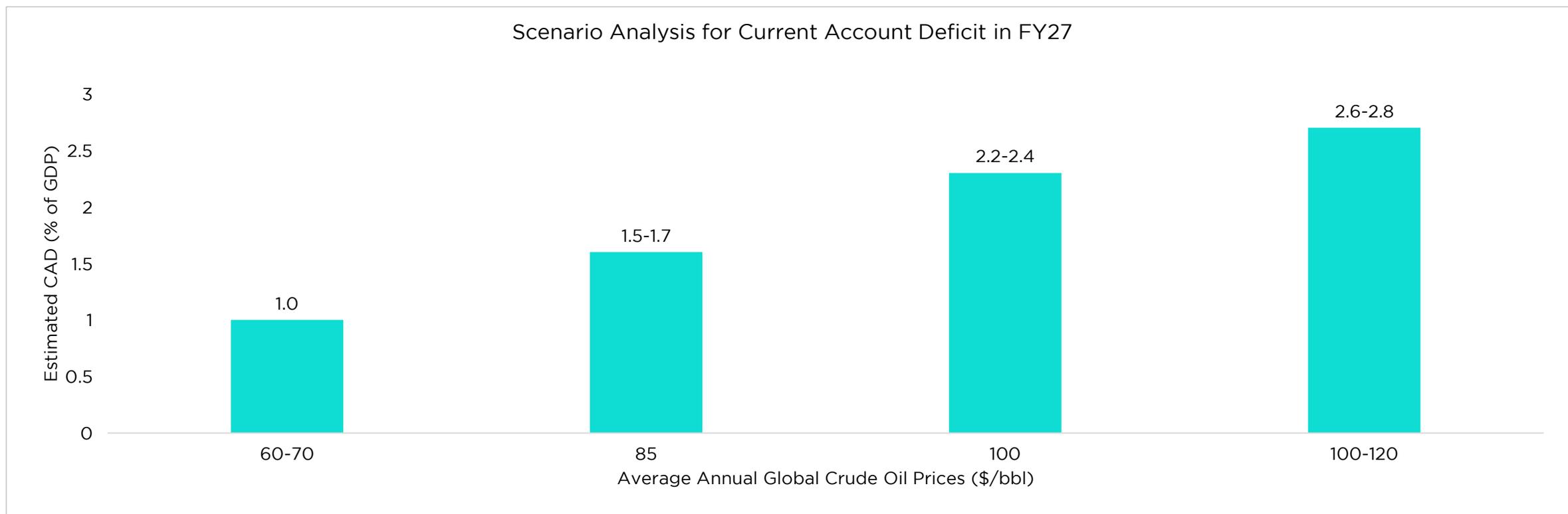
Source: CMIE; Note - Data represents share in quantity imported; West Asia comprises of Saudi Arabia, UAE, Kuwait, Qatar, Iraq and Oman, Bahrain, Israel and Iran

- India sources over a quarter of its fertiliser imports from West Asian countries.
- A supply disruption could pose problems in the upcoming Kharif season, particularly in the wake of a rising probability of the El Niño phenomenon.
- A sharp rise in LNG prices and the consequent upward pressure on fertiliser prices could result in higher subsidy outgo.

- Under the new CPI series, inflation has become more sensitive to retail energy prices. The combined weight of diesel, petrol, and LNG has increased to 4.8%, compared with 2.4% in the previous CPI series.
- A \$10 increase in crude oil prices could lead to an estimated 55-60 basis points (bps) rise in headline inflation - around 45 bps from direct effects and 10-15 bps from indirect effects. This assumes full pass-through of higher global crude oil prices to consumers
- However, oil marketing companies (OMCs) are likely to absorb part of the rise in crude oil prices, thereby limiting the impact on retail inflation. Although indirect effects could arise through higher input costs.
- OMCs should be able to absorb average crude prices of up to around \$90/bbl over the medium term, supported in part by stronger refining margins.
- However, if disruptions persist for longer with average crude prices above \$90/bbl, the OMCs may pass on a portion of the higher costs to consumers. The passthrough to consumers can be higher if crude oil prices average above \$100/bbl.
- The government has already hiked retail and commercial gas cylinder prices by Rs 60 and Rs 115, respectively.

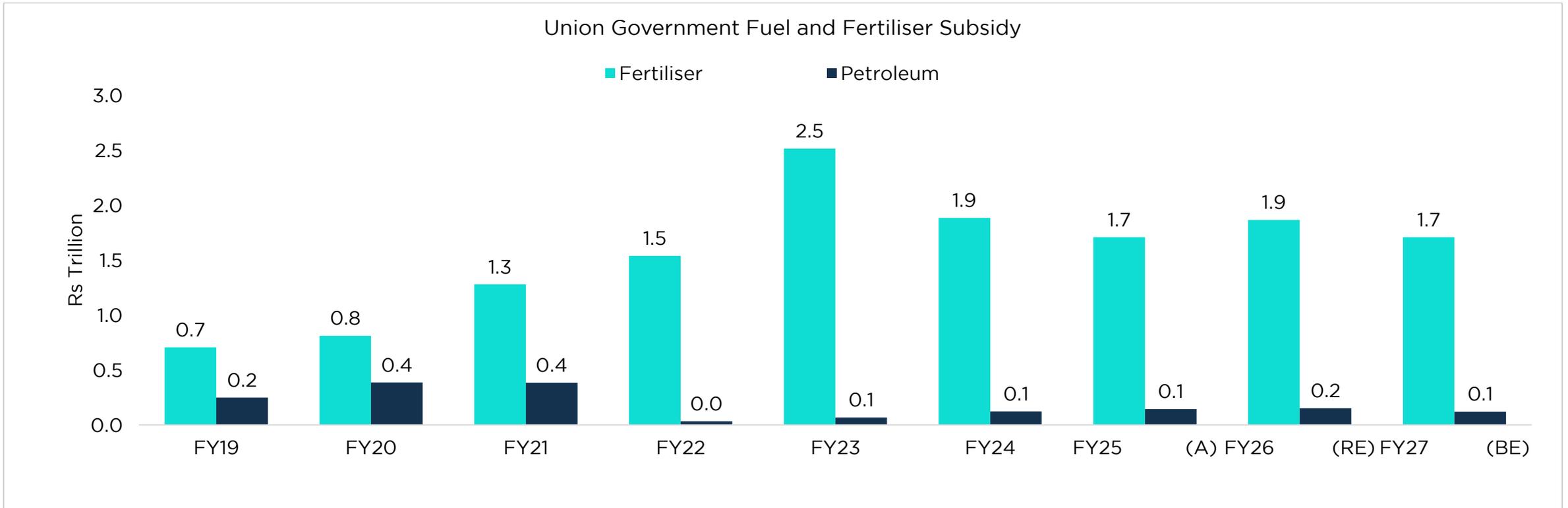


Source: CareEdge Estimates



Source: CareEdge Estimates

- India imports 5.5–6 million barrels of crude oil per day. A \$10 increase in crude prices could raise India’s import bill by around \$20 billion. India exports a significant portion as refined petroleum products, with annual exports of approximately \$60 billion.
- A \$10 rise in crude prices could increase the current account deficit (CAD) by 30–40 basis points. Apart from crude oil impact, there are two additional risks in the current context:
- **Remittance risk:** The conflict could also affect CAD through lower remittance inflows from Gulf countries. In FY25, India received \$136 billion in gross inward remittances, with over one-third coming from Gulf nations, making the external balance sensitive to disruptions in the region.
- **Export risk:** Shipping disruptions could also hurt India’s exports to the Gulf region. Exports to West Asia were \$64 billion, or 14.7% of total exports, in FY25.



Source: CEIC, Union Budget documents

- If the government adjusts fuel taxes to shield consumers from higher fuel prices, it may result in pressure on government finances.
- Prolonged high oil prices can impact corporate profitability, thus impacting government revenue from corporate taxes.
- A sharp increase in LNG prices and the resulting rise in fertiliser prices could lead to higher subsidy requirements.
- With pressure on revenue mobilisation and a higher subsidy burden, the government will have to rely on other expenditure rationalisation and alternative revenue sources to meet the fiscal shortfall.

Scenarios of Average Crude Price	USD/INR	10y G-sec
\$/bbl	Rate	%
60-70	89-90	6.6-6.8
85	90-91	6.8-6.9
100	91-93	7.0-7.2
100-120	93-95	Above 7.2

Source: CareEdge Estimates

- Global uncertainties and the ongoing geopolitical conflict may induce further FPI outflows, thereby affecting equity market performance.
- A shift toward safe-haven assets, such as the US dollar, could strengthen the dollar, putting pressure on the Indian rupee. Combined with potential adverse effects on the current account deficit (CAD), this could further weaken the rupee.
- Elevated crude prices also increase inflation risks and fiscal pressures, likely keeping yields elevated.
- Despite these external risks, India maintains sufficient forex reserves to withstand shocks, though market volatility cannot be ruled out.

Estimates for Different Oil Price Scenarios for FY27					
Average Crude Price Scenarios	GDP Growth	Inflation	Current Account Deficit	USD/INR	10y G-sec
\$/bbl	%, YoY	%, YoY	% of GDP	Rate	%
60-70	7.2	4.3	1.0	89-90	6.6-6.8
85	7-7.2	4.4-4.6	1.5-1.7	90-91	6.8-6.9
100	6.6-7	5.1-5.3	2.2-2.4	91-93	7.0-7.2
100-120	Below 6.5	5.8-6.0	2.6-2.8	93-95	Above 7.2

Source: CareEdge Estimates

- Prolonged West crisis could impact India's economy through multiple channels. If average global crude oil prices jump up to more than \$ 100/bbl in FY27, that could shave off more than 70 bps from India's GDP growth.

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