



**The Crude Catalyst:
Analyzing Oil's Ripple Effect on India's Macroeconomy**

Contents

Every Oil Spike Has
Historically Led to
Macro Stress **3**

Oil Shocks Hit Market
– But Recovery
Follow **4**

High Crude Strains
India's External
Balance **5**

Inflation climbs while
growth absorbs
external cost shocks **6**

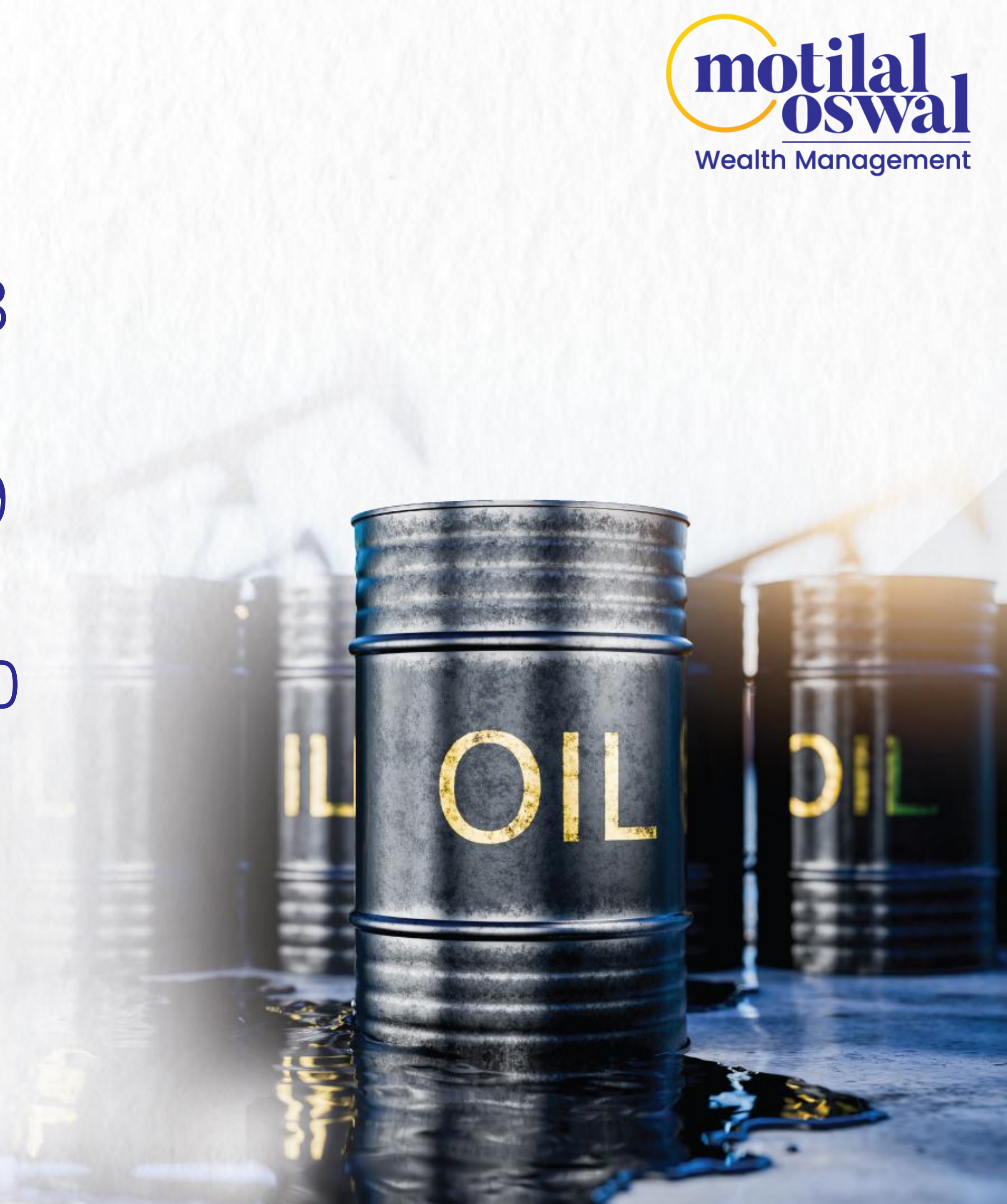
Oil Shocks Push Rates
Higher **7**

When Oil Rises, the
Rupee Slides **8**

How much Oil Shock
can India Absorb? **9**

What to Watch as Oil
Moves? **10**

The Bottom Line **11**





Every Oil Spike Has Historically Led to Macro Stress

Period	Brent's peak price	What caused this?	Impact
2008 (26/02/2008 – 26/09/2008)	146.08 \$/Bbl	Stagnant supply collided with explosive emerging market demand and a weak US dollar.	Inflation peaked during the period, forcing RBI to raise the repo rate by 125 bps within 6 months
2011-2014 (31/01/2011 – 08/09/2014)	126.65 \$/Bbl	Arab spring led supply disruption, and sanctions on Iran.	The rupee depreciated sharply, by ~24%, pushing the CAD to 5% of GDP.
2022 (28/02/2022 – 28/08/2022)	127.98 \$/Bbl	The Russia – Ukraine War, sanctions on Russia disrupted supply.	Foreign reserves fell ~12% over 12 months, while GDP growth slowed to 5.5% from 12.8%.
2026	119.5 \$/Bbl*	Escalated US – Iran conflict, disrupted oil supply and key shipping routes.	The rupee fell to ~95, while reserves dropped by \$40 bn amid Middle East tensions.

Why is Brent crude more relevant than WTI when analyzing India's oil exposure?

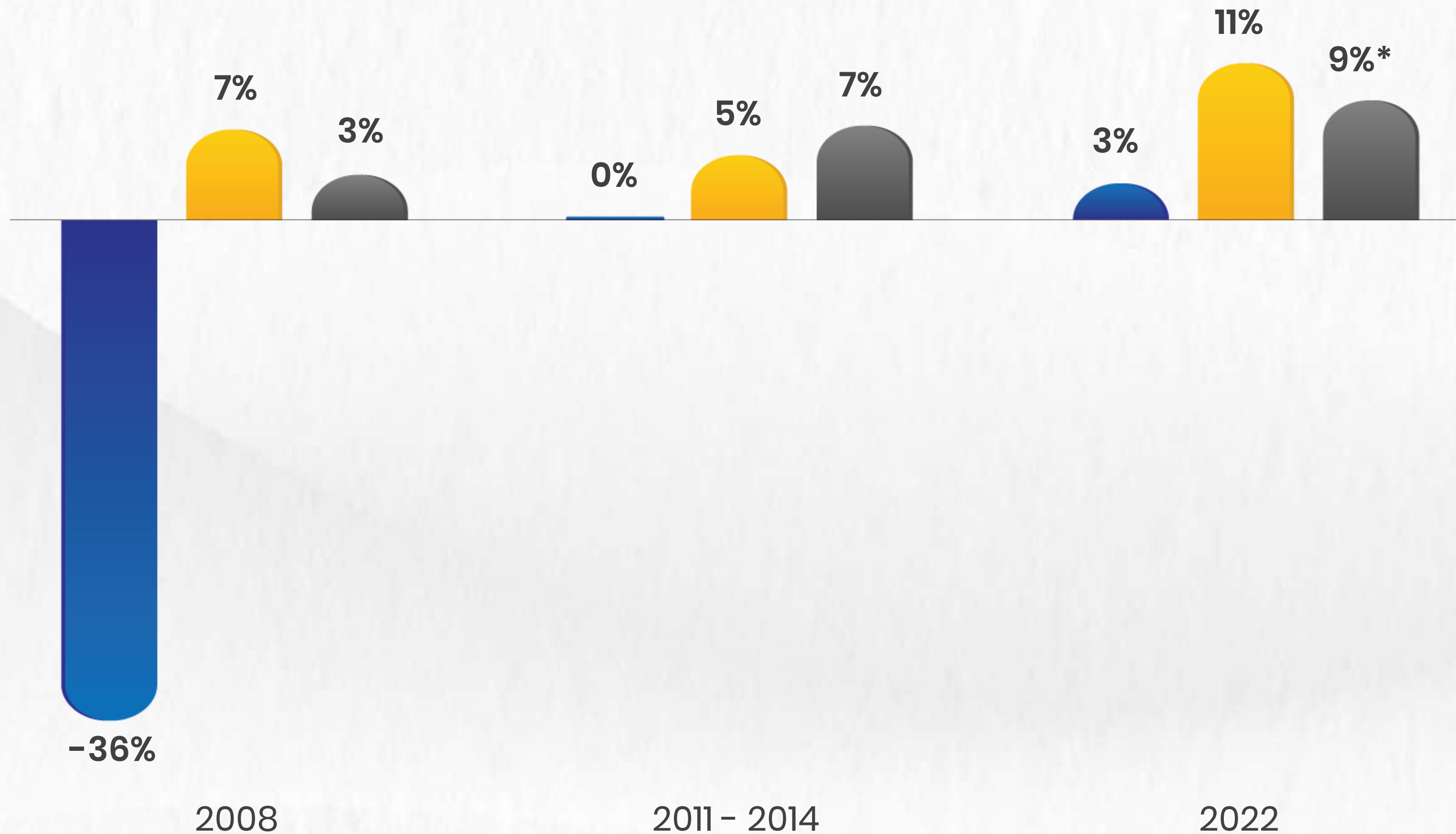
Because India's oil comes mainly from the Middle East, Brent prices reflect our domestic reality much better than WTI.

The **Arab Spring** was a wave of public protests across several countries demanding better governance, jobs, and political freedom.

Oil Shocks Hit Market – But Recovery Follow

Nifty Forward Returns

■ 1Y ■ 3Y ■ 5Y

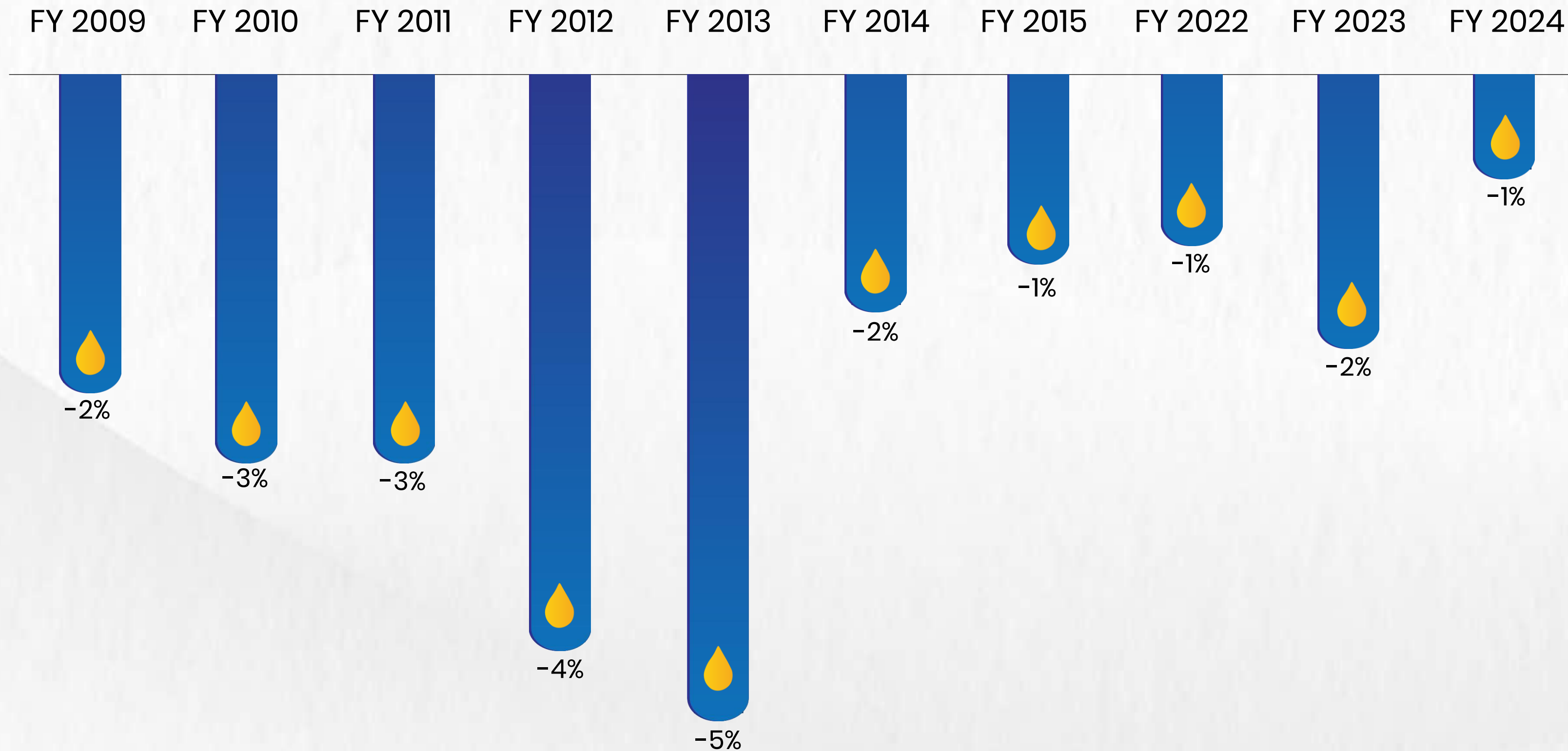


Sectors	2008	2011-2014	2022
Nifty 50	-36%	0%	3%
OIL & GAS'	-29%	-8%	-3%
Power'	-41%	-14%	-8%
Auto	-29%	17%	21%
Financial Services	-44%	3%	8%
FMCG	-11%	26%	28%
IT	-36%	-4%	-18%
Metal	-56%	-22%	-11%
Pharma	-25%	8%	-11%

Source : ACE MF | NSE | ' - BSE Index | * - Forward returns of 4 years | Forward return represents the average return for the investments made during the first month of Crude reaching 100 \$/Bbl || 3 and 5 Year returns are on CAGR basis

High Crude Strains India's External Balance

CAD (% of GDP)



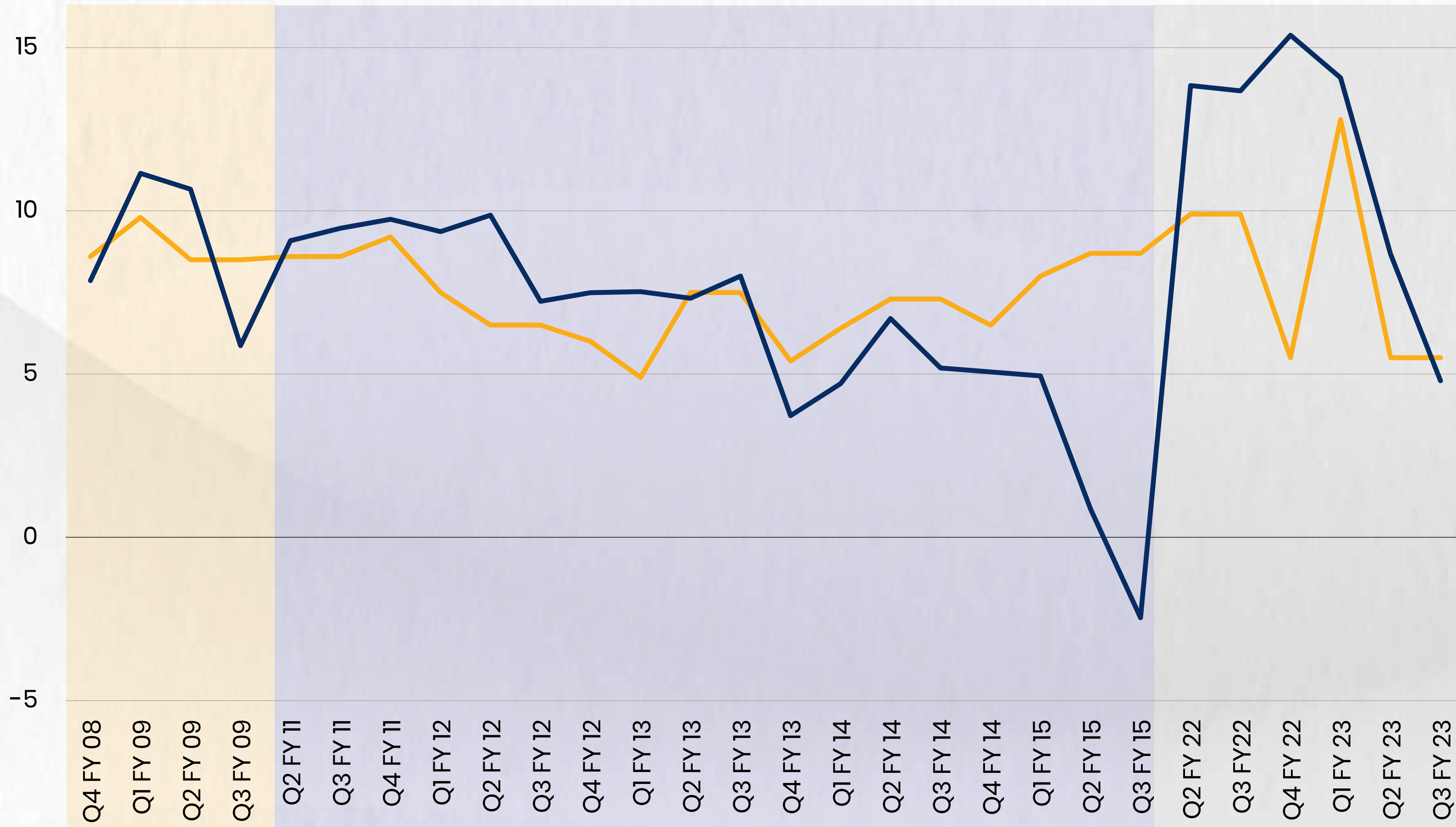
Period	Oil Import Bill (%)	Oil Import Bill (% of GDP)
FY 2008-09	17%	7%
FY 2009-10	-7%	5%
FY 2010-11	22%	6%
FY 2011-12	46%	8%
FY 2012-13	6%	9%
FY 2013-14	0%	8%
FY 2014-15	-16%	7%
FY 2021-22	96%	5%
FY 2022-23	29%	6%
FY 2023-24	-15%	5%

Oil imports were low in FY20 due to COVID disruptions; when demand normalized in FY21, imports returned to usual levels, but the YoY growth appeared inflated due to the low base effect.



Inflation climbs while growth absorbs cost shocks

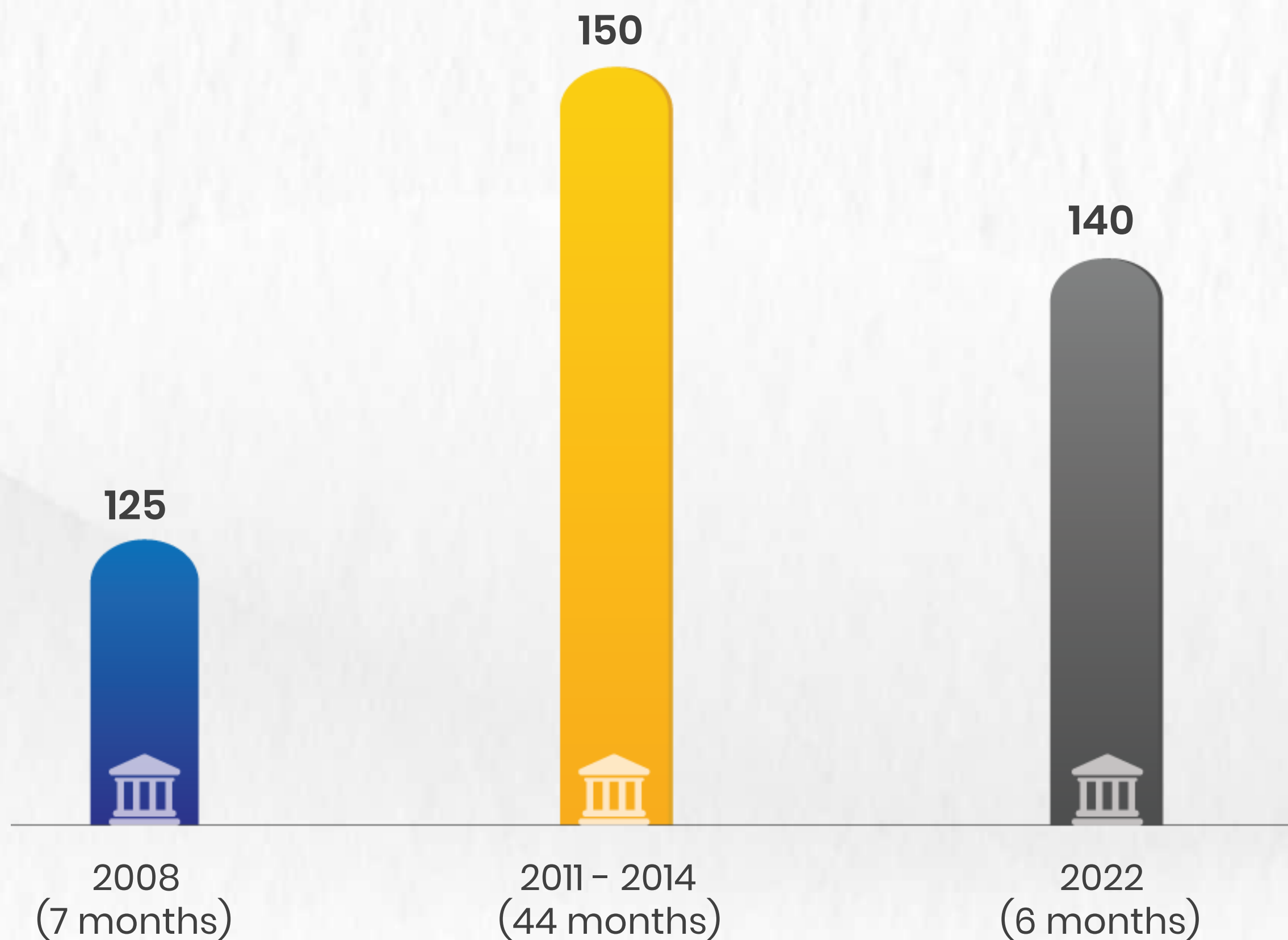
GDP Growth & Inflation
—GDP growth (%) —Inflation (%)



Period	Fiscal Deficit (%) of GDP	Change in Reserves (%)
FY 2008-09	-6%	-18%
FY 2009-10	-7%	10%
FY 2010-11	-5%	10%
FY 2011-12	-6%	-3%
FY 2012-13	-5%	-1%
FY 2013-14	-4%	4%
FY 2014-15	-4%	12%
FY 2021-22	-4%	7%
FY 2022-23	-4%	-6%
FY 2023-24	-3%	12%

Oil Shocks Push Rates Higher

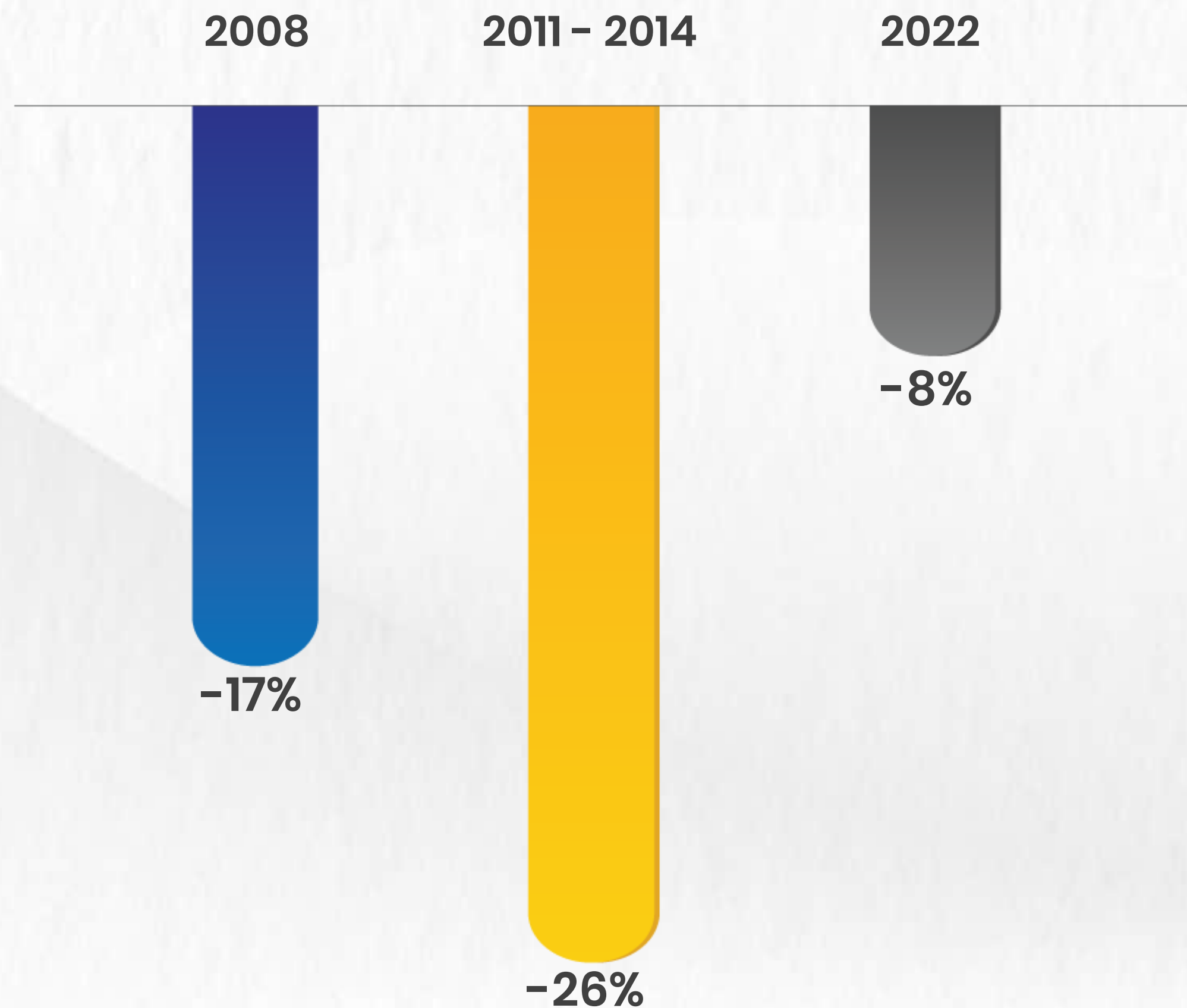
Repo Rate Hike (bps)



Sectors	2008	2011-2014	2022
Change in G Sec Yield (bps)	75	34	49
Change in Corporate Bond Yield (bps)	158	20	42
Shape of The Curve*	Inverted	Flat	Steep

When Oil Rises, the Rupee Slides

₹ Depreciation



Repo Rate Hikes

Primary anti-inflation tool. Average 125 – 150 bps per tightening cycle. Signals RBI's price-stability commitment to markets.

FX Intervention

RBI sold USD from reserves to arrest Rupee free-fall. Deployed \$45bn; reserves fell 15% from peak.

CRR / OMO Actions

Excess liquidity drained via Cash Reserve Ratio hikes and Open Market Operations to control credit growth.

Inflation Targeting

Post-2016 FRBM framework (CPI 4% \pm 2%) improved credibility. Made 2022 response more calibrated vs 2008 panic



How much Oil Shock can India Absorb?

Economic Indicator	No Shock (Baseline)	Base (<2 weeks)	Adverse (>2 weeks and <8 weeks)	Severe (>8 weeks)
Real GDP growth (%)	7	7	6.8 Temporary Shut Down of Select Industries	6.5 Restrained Operations amidst Adverse Price Effect
CPI inflation (Avg, %)	4.1	4.1 Minimal Impact on Growth	4.5 Feedback from Higher Crude Prices	5 Spillover Across Domestic Production and Services; Imported Inflation
CAD/GDP (%)	1 Assuming Crude Price at US \$65/bbl	1 Minimal Change in Retail Fuel Prices	1.7 Assuming Crude Price at US \$75/bbl, and Export Curbs	2.3 Assuming Crude Price at US \$85/bbl, and Export Curbs
BOP (US\$ bn)	7.6	7.6	-45 Assuming FPI Outflows	-70 Assuming FPI Outflows
Centre's GFD/GDP (%)	4.3	4.3 Assuming Crude Price at US \$65/bbl	4.3	4.5 Higher Subsidies / Lower Excise Duties / Lower Tax Collections
USD-INR (EOP)	92.5	92.5	93.5 Widening Goods Trade Deficit	95 Widening Goods Trade Deficit and FPI Outflows Intensify

What to Watch as Oil Moves?

GDP Growth

- Higher crude prices slow down growth as costs rise and demand weakens.
- Key Watch : Can domestic demand offset this drag?

Inflation

- Expensive crude push inflation higher, mainly through fuel and transport costs.
- Key Watch : Will inflation stay concentrated or become broad based?

Monetary Policy

- Higher inflation limits rate cut and trigger tight monetary policy.
- Impact : Liquidity tightens, borrowing costs rise, and market sentiment weakens.

CAD % of GDP

- Higher crude prices raise the import bill, leading to a wider current account deficit.
- Impact : Sustained CAD pressure weakens the INR.

Reserves

- Forex reserves acts as first LOD for falling currency.
- Impact : Reserve drawdown reduces import cover and limits currency support capacity.

G Sec

- Bond yields rise with inflation and higher borrowing, reflecting market risk expectations.
- Key Watch : Will a widening deficit trigger a sell-off in the bond market?

The Bottom Line





Disclaimer

Motilal Oswal Financial Services Limited (MOFSL)*

Member of NSE, BSE, MCX, NCDEX CIN No.: L67190MH2005PLC153397

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022-71934263; Website www.motilaloswal.com.

Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064, Tel No.: 022 7188 1000.

Registration Nos.: Motilal Oswal Financial Services Limited (MOFSL)*: INZ000158836. (BSE/ NSE/ MCX/ NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Insurance Corporate Agent: CA0579. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML, which is a group company of MOFSL. • Motilal Oswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bonds, NCDs, Insurance Products, Investment Advisor and IPOs etc . These are not Exchange traded products and the Trading Member is just acting as distributor. All disputes with respect to the distribution activity would not have access to Exchange Investor Redressal Forum or Arbitration mechanism • Research & Advisory services is backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns.

Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: na@motilaloswal.com, Contact No.:022-40548085. The securities quoted are exemplary and are not recommendatory. Brokerage will not exceed SEBI prescribed limit. Customer having any query/ feedback/ clarification may write to query@motilaloswal.com. In case of grievances for Securities Broking, write to grievances@motilaloswal.com, for DP to dpgrievances@motilaloswal.com.

***Such representations are not indicative of future results.**

Investment in securities market are subject to market risks, read all the related documents carefully before investing.

Thankyou
