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Why & how does rising Crude Oil hurt India?

A short thread ■

India is the 3rd largest consumer of Oil at 5.35 million barrels per day (MBPD) behind US (21.2mbpd) and China (15.1mbpd)

India imports nearly 85% of its total Crude oil consumption every year.

India's own production has been below 700,000 barrels per day for a long time.

India imports oil in the following share as per FY 21 numbers:

Iran 17%,
Saudi Arabia 16%,
UAE 14%,
USA 9%,
Qatar 8%,
Others 38%

India import share for Oil from Russia is under 2%, an insignificant number.

India imports about 290 Million tones of Oil in a year.

Assuming that Oil prices are at $75 (last year),
India's oil import bill is ~ $165bn

India exports refined petroleum products as well. At $75 oil price those exports would amount to $58bn

=Oil trade deficit of $105bn

Oil at:
$100, India's oil trade deficit (imports - exports) would be ~ $140bn

For every $10 rise in Crude Oil from say $100, India's oil trade deficit will rise by ~$15bn

For instance at $120 Oil price it would be ~ $170bn

How does this impact India?

India's ex-oil Goods trade deficit at current run rate is likely to be ~$100bn,

At $100 Oil add $140bn to trade deficit and it totals to $240bn

$240bn is a large deficit number.

How does Balance of payment (BOP) stack up at this no.? Read on

Assuming India goods trade deficit at $240bn with Oil at $100

India is likely to have a surplus of ~$110bn on net services exports,

$80bn in inflows through remittances (NRI's sending money into India)

and India sees outflows of $38bn in primary income.

Let's total the current account now:
Goods Trade deficit -240bn
Services surplus +110
Remittances +80
Primary income -38
Total, Current account deficit: -$88bn

How do we cover this on BOP?

This gets balanced through financial & capital account:

India gets, on average, $45bn in FDI inflows;
+can get $10bn in FPI inflows totaling to $55bn

It also raises $25bn through ECBs & other short term loans.

Adding the changes in Banking capital ($5bn) and all above heads: $55bn + $25bn +$5bn = $85bn

So India's BOP can remain normal when Oil trades between $95 to $100.

What happens when Oil prices spiral?

For every $10 rise the trade deficit rises by $15bn,
Almost all the other heads do not move as quickly as oil deficit can. In that scenario it can become a direct headwind for India.

BUT, MOST Important point: Oil has to be at or above $100 for 12 months for this impact in nos

Two other areas of impact:

Inflation: For every $10 rise in Oil it adds 90bps to wholesale inflation and about 25bps to consumer inflation in India over a 12 month period

During a market correction, India's financial account can see FPI outflows which adds stress to BOP

What now?

-In case Oil prices trade above $100 for a few weeks and revert back below pre-conflict levels of $90, India will have minimal impact

-If Oil stays above $100 or say $120 for even 3 months or more, India's external situation will deteriorate

How does the crisis gets baked into the markets?

If there is a de-escalation / ceasefire, the Russian Oil & Gas will slowly come back to market and Oil prices will cool.

Russia O&G is suffering due to self sanctions by companies and it is yet to see full sanction by Govts.

Companies fearing western sanctions are taking it slow to do business with Russian O&G.

De-escalation will have to be seen in this context.

Also, most conflict when nuclear powers are involved tend to see some ceasefire rather than escalation. This needs to be monitored.

With a cushion of $635bn in FX reserves India can withstand short term volatility quite well.

But this ability can get challenged if Oil prices keep rising.

On the contrary, if this situation normalizes India stands to benefit a lot more than its peers. More on this later...