

June 18, 2024

Demand for Crude Oil expected to peak – A Positive for India?

What's the Point?

Recently oil has been on the news, with global demand for the commodity expected to peak by 2029, and subsequently contract (as reported by International Energy Agency). Additionally, with rising supplies, led by non-OPEC+ (Organization of the Petroleum Exporting Countries) producers, expected to surpass forecast demand from 2025 onwards, it could potentially weigh on prices through the end of the decade. Further, the use of clean and energy-saving technologies is accelerating the decrease in pace of growth in oil demand. India has traditionally been a net importer of crude oil with the value of its oil imports registering ~3x growth between FY2021 and FY2024. From India's perspective, any downward movement in prices of crude oil could act as a positive as it would ease the nation's import bill, and positively impact our current account and fiscal position in the long run.

Numbers in Perspective

Chart 1: Value of India's Crude Oil imports at a recent high with prices being higher than the 10-year average

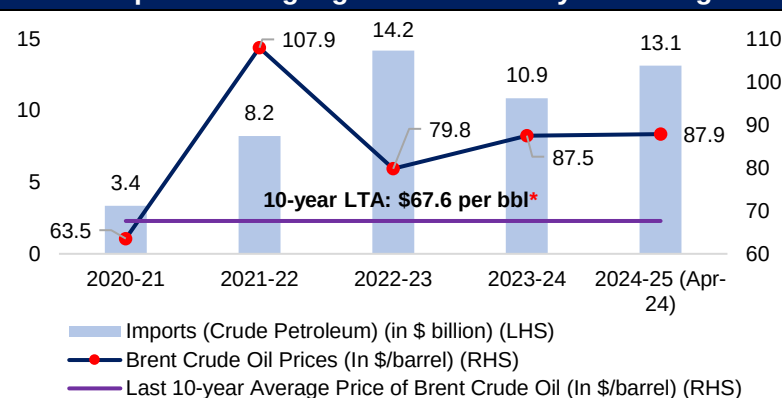
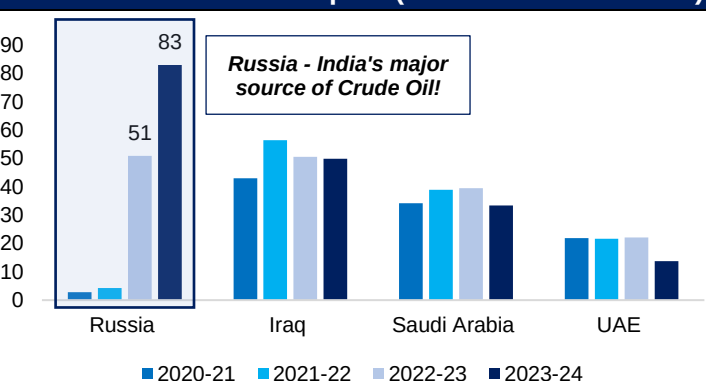


Chart 2: Rise in quantity of import of Crude Oil witnessed in the recent past (Data in million tonnes)



Source: Centre for Monitoring Indian Economy (CMIE), Bloomberg, *barrel: bbl

Why has India's import of Crude Oil increased? What does the forecasted drop in price mean for India?

As per Petroleum Planning and Analysis Cell (PPAC), India imported 233 million tonnes (MT) of crude oil in FY2024 – the highest quantity ever. The demand for petroleum products is expected to increase in FY2025. In fact, import of crude oil for April 2024 stands at 21.4MT – 7% higher than 20MT imported in April 2023, pushing import dependency to 88.4% versus the already record high of 87.8% in FY2024.

A major factor driving the rise in imports has **the import of Oil at a discount from Russia**. Post the Russia-Ukraine conflict, Russia emerged as one of the top contributors to India's oil import, with its share in total imports having risen remarkably on the back of the discounts on oil prices (Please refer to Chart 2). While the demand for Russia's crude oil has remained intact, the following observation has been made: **As per CMIE and Bloomberg, the average discount offered by Russia on its crude oil versus Brent Crude Oil has reduced by 20% in FY2024 – from \$7.13 per bbl to \$5.69 per bbl. As of CY2024YTD, the average discount stands at \$3.93 per bbl.** With the Government focussing on reducing its import bill, it would be interesting to see how it will proceed hereon.

Another major factor has been the **increase in demand for Crude Oil and Petroleum Products**. Two-thirds of India's domestic petroleum is consumed for driving vehicles and cooking – Diesel (38%), Gasoline (16%) and Liquefied Petroleum Gas (13%) for FY2024 [PPAC]. With India becoming one of the most important drivers of global petroleum consumption, demand is expected to increase. Thus, the forecasted downward movement in prices of crude oil could be a boon in disguise. Furthermore, to address this demand-supply mismatch, the Government has been focussing on navigating the demand for fuel by building capacities and infrastructure for alternate sources.

Reducing the Increased Dependency on Oil – Can this Long-Term Story pan out for India?

➤ Higher Adoption of Electric Vehicles

The registrations of Electric Vehicles (EV) have seen ~12x rise between FY2021 and FY2024. However, the share of EVs is yet to witness a notable rise. The potential has been constrained majorly by high charging time and limited charging infrastructure. In the Interim Budget 2024-25, the Government emphasized on its focus to expand and strengthen the EV ecosystem by supporting manufacturing and charging infrastructure. Keeping that in mind, the wallet share of automotive industry could rise substantially, as fuel is replaced by batteries, especially considering the favourable demand-side factors such as rising incomes, higher urbanisation rates, demographic dividend, and themes such as premiumisation and higher mobility needs.

➤ Enabling Greener Operations with “Green Hydrogen”

Green Hydrogen is emerging as a popular choice for achieving energy independence at a global level by enabling greener operations in industries such as iron ore and steel, fertilizers, refining, methanol, and maritime shipping. With Green Hydrogen estimated to substitute fossil fuel imports of ₹1 lakh crore by 2030, the Prime Minister signalled the launch of the National Green Hydrogen Mission (NGHM) in 2021 “to make India self-reliant in the field of energy and become a Global Hub for Green Hydrogen Production and Export”. Since the Cabinet’s approval of an outlay of ₹19,744 crore, Ministry of New and Renewable Energy has awarded tenders for setting up of 4.12 lakh tonnes of Green Hydrogen production capacity and 1,500 Mega Watts of electrolyser manufacturing capacity as of May 2024.

➤ Ensuring Global Uptake of Biofuels through Global Biofuel Alliance

A key initiative under the India’s G20 presidency theme of “One Earth, One Family, One Future” was the launch of the Global Biofuel Alliance, which will help the world in working towards reaching its climate goals in time. Despite elevated cost of raw materials like sugarcane and food grains, its long-term benefits prompted India to launch the Ethanol Blended Programme to: (a) enhance India’s energy security, (b) reduce import dependency on fuel, (c) save foreign exchange, address environmental issues, and (d) give a boost to domestic agriculture sector. As per PPAC, ethanol blending with petrol for May 2024 stood at 15.4% – higher than 12% for May 2023, which aligns well with the Government’s target of achieving 20% ethanol blending by FY2026.

Conclusion: Despite making decent progress in installing renewable energy capacity, India’s dependence on fossil fuels is still on the rise, especially amidst elevated demand in seasonal electricity brought on by record-hot summers. With long-term planning being crucial for India to deal with rising energy demand, the Government is focussed on prioritising fiscal prudence and managing trade deficits. Hence, in addition to the forecasted drop in price of crude oil being a positive, doubling down on the transition away from fossil fuels will help India’s broader developmental goals.

Sources: CMIE, PPAC, Bloomberg, CEEW, PIB, India Budget, and other publicly available information

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