

June 17, 2025

Crude Oil Prices Spike to ~USD 75 – Implications for India

What's the Point?

- Escalation in the Israel-Iran Conflict has had a significant impact on Crude oil prices, which have risen past the US\$70 mark after starting the month at US\$64.
- Iran produces ~4% of the world's oil supply, but its direct impact on oil markets have been curtailed owing to sanctions placed by the USA. India has not been a direct importer of oil from Iran after FY2020.
- Weak oil demand growth and increasing supply from the OPEC+ countries had weakened oil prices in 2025, and creates a potential ceiling on oil prices as supply could increase from OPEC countries and the USA.
- As a major importer of crude oil, India has historically faced significant negative effects from high oil prices. Over the years, its economic profile has been improving with buffers against oil price volatility such as lower oil dependence, robust services exports, significant forex reserves.
- Higher prices could have a negative impact, especially if they remain elevated for an elongated period of time.

Numbers in Perspective

Chart 1: Major sources of Oil for India

FY25 split of crude oil suppliers

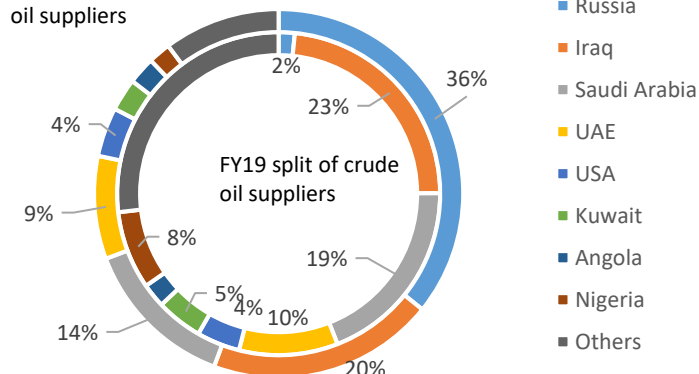
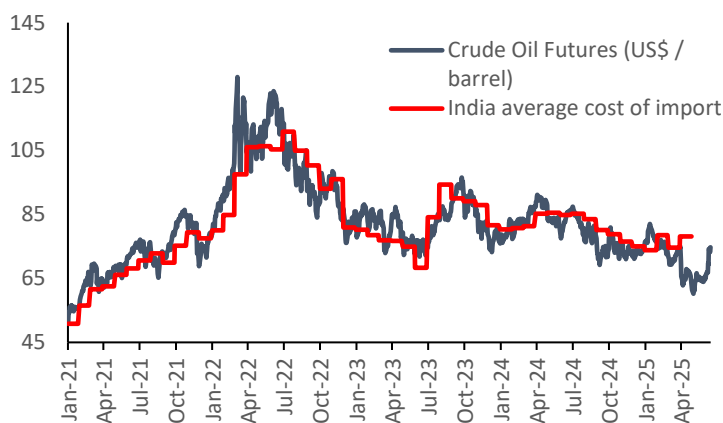


Chart 2: Spike in Brent Crude prices on account of escalation



Source: Bloomberg, CMIE, Ministry of Commerce. Note for Chart 2: India average cost of import derived from monthly import data by Ministry of commerce.

Has there been disruption of Iranian oil? What are other risks?

As per the recent [Oil Market Report](#) for June 2025 by IEA, there is currently no impact of the conflict on flow of Iranian oil production or exports. It is the fear of disruption that is potentially driving prices higher. Energy assets have been targeted in this conflict, and escalation risks could impact oil supply.

Another key risk is an event which carries potentially low probability but could have significant impact is any blockage of the 'Strait of Hormuz', a strategically important maritime passage that transports ~25% of the world's oil supply. While this Strait has historically not been blockaded despite witnessing multiple conflicts in the region, there remains the risk as Iran has repeatedly threatened to close the Strait if attacked.

Can other countries replace disruption in Iranian oil?

As per analyst commentaries coming through in the past week, spare capacities with major OPEC producers such as Saudi Arabia and United Arab Emirates (UAE) stood at 3.5 million barrels per day (mbpd), which is roughly equal to Iranian output of 3.3 mbpd and far in excess of Iran exports of 2 mbpd.

In fact, OPEC countries have been announcing higher supply, as recently as May 1 2025, when OPEC [announced](#) a tripling of the supply increase compared to what was announced in December 2024, citing healthy market

fundamentals and low oil inventories. The USA is a major producer for Shale Oil, and incremental rigs become economically feasible at higher oil prices. Hence, a prolonged conflict that triggers higher prices could also trigger an increase in oil production from the USA, which creates a potential ceiling on crude oil prices.

Diversification of energy demand has led to decreasing oil intensity

India has significantly invested in alternate forms of energy, such as solar energy, hydroelectricity, wind and so on. Other conventional forms such as coal and nuclear have also seen investments. Within the auto space, offsetting measures such as promoting electric vehicles and mixing of ethanol have reduced dependency on oil.

Chart 3: Shift towards renewables in the energy mix

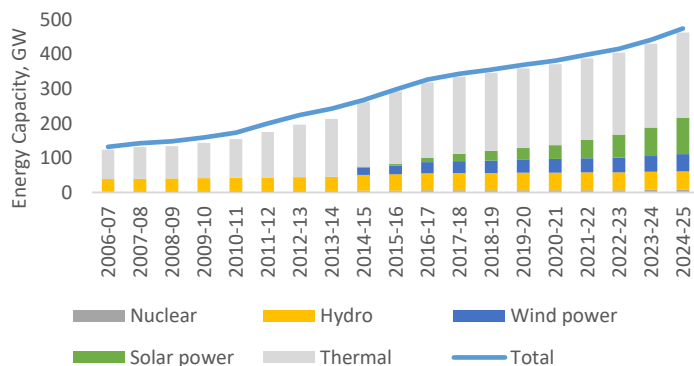
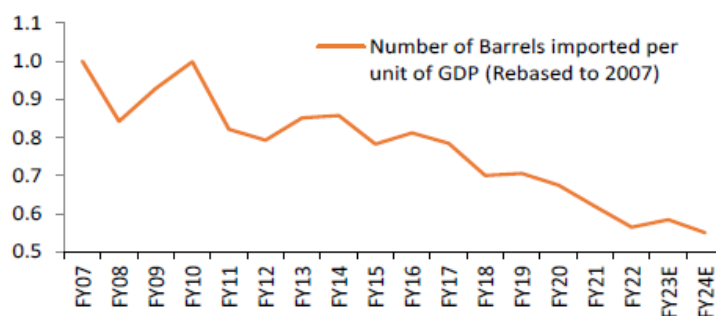


Chart 2: Reduction in Oil intensity of Indian economy



Source: CMIE, Morgan Stanley

Conclusion

Oil prices are inherently volatile and influenced by complex feedback loops. Higher prices (above \$75/b) while creating risks to Indian macro indicators, could potentially be short-lived. Multiple factors could force a reversal – reduction in conflict, increase in OPEC supply, increase in US shale oil supply.

Nevertheless, the recent increase in prices is a negative development for India. To reduce its reliance on imported oil over the medium to long term, India [has implemented several measures](#), including promoting natural gas, renewable energy sources, and alternative fuels such as ethanol and biofuels, as well as encouraging the adoption of electric vehicles. These initiatives are expected to strengthen India's macroeconomic resilience by mitigating the impact of oil price shocks. What seems clear is that this oil price shock is likely to not be as negative as historical price shocks.

Sources: Bloomberg, CMIE, IEA, OPEC, Morgan Stanley and other publicly available information

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