

RESEARCH
BOB Economics Research | Oil Prices

Rising oil prices: What does the past tell us?

SUMMARY
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Evaluating historical data of international crude price and its impact on India's growth and inflation reveal some interesting results. Over the past 51 years, we found that on 16 occasions (excl. FY22-base anomaly), global crude prices rose more than 20% in a year. And within these 16 events, India's growth was adversely impacted in 9 of them. For inflation (WPI: Fuel and power) pass through is more evident, where on 13 occasions inflation rose considerably. Thus, we feel that downside risk to our growth forecast of 7.4-7.5% and upside risk to our CPI inflation forecast of 5.5%-6% prevails.

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Daily macro indicators

Indicator	18-Apr	19-Apr	Chg (%)
US 10Y yield (%)	2.85	2.94	8bps
India 10Y yield (%)	7.15	7.15	0bps
USD/INR	76.26	76.51	(0.3)
Brent Crude (US\$/bbl)	113.2	107.3	(5.2)
Dow	34,412	34,911	1.5
Hang Seng	21,518	21,028	(2.3)
Sensex	57,167	56,463	(1.2)
India FII (US\$ mn)	13-Apr	18-Apr	Chg (\$ mn)
FII-D	(69.3)	42.3	111.6
FII-E	(126.0)	(848.9)	(722.9)

Source: Bank of Baroda Economics Research

BOBCAPS Research

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OIL PRICES

20 April 2022

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Dipanwita Mazumdar
Economist

Historically, crude prices have been impacted by geopolitical tensions. We have analysed past 51-years, to identify the occasions when there has been significant jump in crude prices. Out of 51 years data points that we looked, only in 17 occasions (includes current year), oil prices rose more than 20%.

What has been the impact on India's GDP?

Over the years, we find that out of 16 occasions (excl. FY22, due to significant anomaly in the base), where crude prices rose more than 20%, India's GDP growth fell in 9 of the events. In case of the remaining 7 occasions GDP growth has not been impacted with a lower number being registered. Interestingly, in periods of major economic events such as war or financial crisis, growth has been thoroughly impacted in tune with rising crude prices. The details are listed below:

1. In FY73, when OPEC imposed oil embargo, crude prices rose by 27%, India's GDP showed a decline of 0.3% during the same period.
2. In FY79 and 80, during the Iran-Iraq war, when crude prices rose by 48% and 57% (on an average by 53% during these two years), India's growth fell from 7.5% in FY78 to 5.5% and (-) 5.2% respectively, in the subsequent two years (on an average growth was 0.2% during FY79-80).
3. Even in FY91 post the Gulf war, crude prices rose by 28%, GDP growth moderated to 5.3% from 6.1% in FY90.
4. Similar thing happened during the financial crisis as well, crude price rose by 26% and in FY08, India's growth moderated to 7.7% from 8.1% in FY07.
5. Thus, it is evident that FY23, is going to be impacted adversely by the Russia-Ukraine war. However, the quantum of growth deceleration depends on the longevity of the supply disruption due to the war.



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HOLD – Expected return from -6% to +15%

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Note: Recommendation structure changed with effect from 21 June 2021

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