Is oil price rise a cause of worry?

Crude oil prices have soared 25% in a month as demand remains steady and supplies disrupted. Is this a worrisome trend? Will the govt address this in the Budget? Our next report takes a deep dive

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Oil prices have been on an unabated uptrend for more than a month now. From a low of $69 per barrel, hit on December 1, 2021, Brent crude prices are above $86 per barrel now. This amounts to an approximate jump of 25% in four weeks.

Last Friday, crude prices notched a fourth positive week, its longest rising streak since October. This is because consumption has held up despite the spread of the Omicron variant of the coronavirus.
At the same time, spare capacity is dwindling as some of the world's biggest producers struggle to boost output.

And now, analysts are predicting higher oil prices citing limited capacity, insufficient investment in new production, and the strength of demand.

Technically, too, one can expect Brent Crude hitting $88 per barrel-mark.

According to a report by Reliance Securities, if Brent March contracts hold above $85.50 level, they could continue their bullish momentum up to $87-$88. But, what does all of this mean for India?
Remember, the Indian government is set to unveil its Budget for FY23 in about two weeks from now.

And the document has a major influence on the price of petrol and diesel.
Given that five state elections are due next month, analysts don't expect the govt to raise the prices of petroleum products.

It is estimated that every $10 rise in crude prices raises fiscal deficit by 10 basis points. Moreover, higher cost of petroleum imports worsens the current account deficit too.

Given this, VK Vijayakumar, chief investment officer at Geojit Financial Services believes rising crude prices can pose problems to the finance minister's pursuit of fiscal consolidation in the budget. Rising crude prices and inflation will also force the RBI to withdraw from the accommodative monetary policy it has been following for the last two years.

Echoing similar views, Devendra Kumar Pant, chief economist at India Ratings and Research says prices may be passed on to consumers if the govt doesn't cut petrol prices.

That said, M Govinda Rao, Chief Economic Adviser at Brickwork Ratings says, "With the impact of the third wave hurting growth, the RBI will be slow in raising interest rates so long as the inflation rate is below 6%. It must also be noted that the weight of fuel and light in the consumer price index is just 6.84. Therefore, the impact of oil prices on overall inflation will not be large."

Thus, while rising crude oil prices may disturb the govt's fiscal maths, here's how investors can benefit from the same.

According to IIFL Securities, if Brent was to average at $85/bbl for FY23, on unchanged costs, it can potentially lead to 11-14% net profit upgrade for ONGC and Oil India Ltd.

Similarly, OMCs may see 14-16% upgrade to FY23 PAT, assuming they revise pump prices; RIL's earnings will also see an upgrade of 5%.

Other oil-linked stocks such as Pidilite Industries, Berger Paints, and Hindustan Oil Exploration Company are eyeing up to 11% upside on tech charts.

Against this backdrop, rising crude oil prices may keep indices volatile in the near-term. Q3 results of Bajaj Finance, LTTS, ICICI Prudential Life Insurance, and Tata Elxsi and other global cues will also guide the markets on Tuesday.