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Crude oil prices likely to remain volatile as Ukraine crisis continues

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New Delhi: Prices of crude oil have largely been on the boil amid the Russia-Ukraine conflict. Although the prices have declined from the recent multi-year high levels, volatility is likely to continue in the coming week as the geopolitical tensions seem unlikely to end anytime soon, analysts said.

"Brent oil prices are expected to remain volatile for the short term as global players are readying to solve the supply crunch problem. Prices are expected to remain elevated until the market absorbs the supply shock," said Tapan Patel, senior analyst for commodities at HDFC Securities. He, however, added that the upside may be capped as Russia promised to fulfil supply contracts.

During a meeting last week, Russian President Vladimir Putin said that the country will continue to meet its contractual obligations on energy supplies. Russia is a major producer and the second-largest exporter of oil.

Further, the prospects of the European Union not imposing the ban on Russian oil also supported pulling the oil prices lower.

In a recent interview, Josep Borrell, high representative of the European Union and vice president of EU Commission, said that the EU will not impose a ban on Russian oil and gas because of its heavy dependence.

Concerns of a ban by the EU were raised after the US announced to ban import of Russian oil early last week and the UK said it would phase out imports from the country by the end of 2022.

Oil prices have been elevated since the tensions intensified and Russia invaded Ukraine last month. On 7 March, Brent had touched $139.13 per barrel, the highest since 2008.

However, on 9 March, prices started to decline after United Arab Emirates (UAE), a member of the Organization of Petroleum Exporting Countries (OPEC) said that it favoured high oil production by the cartel.

On Friday, the May contract of Brent on the Intercontinental Exchange (ICE) closed at $112.67 per barrel, higher by 3.05% from its previous close. The April contract of West Texas Intermediate (WTI) on the NYMEX rose 3.12% to $109.33 per barrel.

The rising oil prices have been a cause of concern for India as the country imports 85% of its oil demand. The recent incessant rise in global crude prices has lifted the Indian energy basket, comprising of Oman, Dubai and Brent crude. It was last recorded at $128.24 per barrel on 9 March, according to data from the Petroleum Planning & Analysis Cell of the ministry of petroleum and natural gas.

Although the increase in crude oil prices has not been transferred to the consumers so far as the retail fuel prices have been unchanged for over four months now, market experts believe, with mounting pressure of high oil prices on oil marketing companies, retail fuel prices may be sharply increased going ahead.

On Sunday, the retail price of petrol was unchanged 95.41 a litre, while diesel was sold for 86.67 per litre in the national capital.

The incessant rise in crude prices would also impact the current account deficit (CAD) to a great extent given India's import dependence for its energy requirements. An Icra report recently said that the CAD is likely to widen by $14-15 billion (0.4% of GDP) for every $10 barrel rise in the average price of the Indian crude basket. "If the price averages $130/bbl in FY2023, then the CAD will widen to 3.2% of GDP, crossing 3% for the first time in a decade," it said.

Mint had earlier reported that the government is assessing the evolving geopolitical situation and will decide on cutting excise duty on fuels if the current surge in crude price lingers longer than can be absorbed by state-run fuel retailers.

The Icra report said that if the Centre reinstates the excise duty on petrol and diesel to the pre-pandemic rates, before 1 April followed by the budgeted rise of 2 per litre each on unblended fuel in H2 FY2023, the estimated revenue loss to the Centre in FY2023 would be around 90,000 crore.

A recent report by Brickwork Ratings said that the rising international crude oil prices remain a huge threat to the economy as they accentuate inflationary pressures.

Morgan Stanley also has raised its inflation estimate and GDP growth forecast for India for the upcoming financial year.

"Building in higher oil prices, we trim our F23 GDP growth forecast 50bps, to 7.9%, lift our CPI inflation forecast to 6%, and expect the current account deficit to widen to a 10-year high of 3% of GDP," it said in a recent report.

In January, India's retail inflation accelerated to a seven-month high, led by elevated prices of food and manufactured goods, breaching the Reserve Bank of India's upper tolerance band of 6% for the first time since June, at 6.01%, according to official data.