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Crude prices continue to surge amid Russia-Ukraine conflict

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The Indian basket of crude, comprising Oman, Dubai and Brent crude, was at $100.71 per barrel on Thurday. (REUTERS)

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New Delhi: Global crude oil prices jumped as much as 2.2% in early trade on Friday, a day after Russia launched its full-scale invasion of Ukraine.

The price rise is worrying for India as it is dependent on imports to meet 85% of oil demand and 55% of natural gas requirements. India, the world's third-largest oil importer, spent $62.71 billion on crude oil imports in FY21, $101.4 billion in FY20, and $111.9 billion in FY19.

Global oil prices rallied with Brent trading at $101.30 a barrel, up 2.22%, and West Texas Intermediate 2.12% higher at $94.93 a barrel.

The cost of the Indian basket of crude, comprising Oman, Dubai and Brent crude, was at $100.71 per barrel on Thurday.

This incessant surge in crude oil prices, while hurting the country's import bills and current account deficit, will ultimately hit the common man with its eventual impact on inflation and retail fuel prices.

In the national capital, petrol was priced at 95.41 per litre, while diesel was 86.67 a litre. Retail prices have been stable for over three months now, largely due to the ongoing state assembly elections. Experts, however, expect a resumption in fuel price hike after the elections are over.

In a research note S&P Global Platts said that for every 10% increase in crude oil prices, the wholesale price index (WPI) increases by 0.9%-1% and the consumer price index by 0.4%-0.6%. A 10% rise in oil prices leads to an increase of nearly $15 billion in India's current account deficit, or 0.4% of its GDP, leading to a depreciation in the rupee.

The retail inflation accelerated to a seven-month high in January, 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, according to official data. Wholesale inflation, however, eased to a three-month low in January after touching a series high in November due to softening prices of manufactured food products and crude petroleum and natural gas.

However, inflation is expected to remain elevated in the quarter because of elevated crude oil and commodity prices led by geopolitical tensions surrounding Russia-Ukraine and an unfavourable base, economists cautioned.

With an eventual rise in inflation, it is the growth prospects for the pandemic-hit economy. A report by Brickwork Ratings on Friday said that the GDP growth rate in FY22 is likely to be around 8.3%, revising its previous estimate of 8.5%-9.0%.

Lim Jit Yang, adviser for oil markets at S&P Global Platts Analytics said: "High oil prices will dampen demand and will undermine the fragile economic recovery if they continue to rise."

Along with the third wave of Covid which hit the country in January, semiconductor shortage and coal shortage, rising international crude oil and input prices have also added to the problem, Brickwork said.

On Thursday, Brent initially breached the $105-a-barrel mark for the first time since 2014, after Russia attacked Ukraine, triggering supply concerns.

The all-out invasion of Ukraine through land, air and sea by Russia is the biggest attack by a state against another in Europe since the Second World War.

In response to the invasion, US has imposed several sanctions on Russia. Europe and the UK also have committed to impose sanctions in Russia.

These sanctions too are expected to hit oil supplies.

Russia's crude oil exports stand at around 4-5 million barrels per day (bpd). India is among the major buyers of crude from the country along with China, European Union, South Korea and Japan.

As the concerns grow each day, the government is on its toes to curb the impact of external factors on the Indian economy.

Earlier this week, Finance Minister Nirmala Sitharaman said the Russia-Ukraine tension and a surge in crude oil prices pose risk to the financial stability of the country and the government is closely monitoring the situation.