

Why Indian markets are shrugging off US strike on Venezuela

Limited supply impact, stable crude prices and rate-sensitive optimism help Dalal Street look past geopolitical headlines



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Indian equity markets largely shrugged off risks linked to US strikes on Venezuelan military and port facilities over the New Year's weekend, with benchmarks trading marginally higher as investors focused on domestic interest-rate sensitivities rather than geopolitical headlines.

The Nifty edged up slightly, with technology stocks down about 1 to 2%, while banking and auto stocks gained 1 to 2%. Most other sectors traded in a narrow band, reflecting a market that viewed the Venezuela developments as a risk-premium event rather than a trigger for a sustained macro shock.

Market participants said Indian equities were diverging from the broader Asian rally, where AI- and technology-heavy markets posted sharper gains on expectations of eventual US Federal Reserve rate cuts. In India, the dominant driver was optimism around rate-sensitive sectors, particularly banks and autos.

Given that the Venezuelan situation is unlikely to trigger a rapid change in oil supply or inflation dynamics, investors remained anchored to domestic interest-rate expectations. The absence of any immediate oil-price response helped keep inflation assumptions stable, allowing rate-sensitive sectors such as banks and autos to remain the primary drivers of Indian equity performance.

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Venezuela may hold the world's largest crude reserves at about 18% but the country's ageing extraction and transport infrastructure, combined with the heavy quality of its crude, severely constrains near-term supply growth. Even with political stability, oil output and exports are unlikely to rise meaningfully in the short run, limiting the immediate impact on global prices and, by extension, on India's inflation and current-account outlook.

"Longer-term stability in Venezuela, coupled with a potential peace deal in Ukraine, could release more than 5 million barrels per day of oil onto global crude markets by the end of this decade. If so, that would amount to about 5% or more of global crude output, enough to keep oil prices depressed for longer, which would be a clear positive for global growth and a restraint on inflation," said, Stephen Dover, Chief Market Strategist and Head of Franklin Templeton.

Risk Premium, Not a Supply Shock

While Venezuelan crude accounts for barely 1% of global oil supply, investors continue to factor in a higher geopolitical risk premium, with energy-intensive and consumption-linked sectors remaining the most sensitive.

"Equities and FX react first in headline-driven geopolitical events, while macro indicators like inflation and the current account adjust with a lag," said Rajeev Sharan, Brickwork Ratings. "Airlines, paints and FMCG are likely to face margin pressures if crude stabilises meaningfully above current levels."

"Venezuelan supply was effectively not in the market to begin with," said Siddharth Bhamre, Head of Research at Asit C. Mehta. "Brent's stability around the low USD 60s reflects investor comfort. Oil markets only react meaningfully when large economies confront each other directly; Venezuela alone is unlikely to trigger a sustained shock."

Bhamre added that any near-term uptick in prices is likely capped in the USD 65 to 70 per barrel range unless the situation broadens materially.

Seshadri Sen, Head of Research at Emkay Investment Managers, echoed the view, saying even tighter US control over Venezuelan reserves would likely have only a temporary effect. "Other swing producers could step in, limiting any rally," he said.

What Would Hurt India: The Oil Thresholds

Sharan outlined the macro thresholds that markets are watching closely:

1. A sustained Brent price of USD 85 per barrel would raise India's oil import bill, slow disinflation and complicate fiscal and monetary management.
2. Every USD 10 rise in Brent adds roughly USD 17 to 18 billion to the import bill and widens the current account deficit by about 0.4% of GDP.
3. Sustained prices above USD 90 could push the CAD to 1.7 to 2.5% of GDP — manageable, but notable in an election-year fiscal environment.

He also added that secondary effects such as shipping disruptions, higher insurance costs and port congestion could lift energy costs even if headline crude prices remain stable.

Limited Corporate Exposure

India's direct exposure to Venezuela remains modest. Companies with links include ONGC Videsh, Indian Oil, Oil India, Reliance Industries, Nayara Energy and MRPL, largely through minority stakes or historical import relationships. Sun Pharma and Glenmark Pharma operate locally, while Jindal Steel & Power manages iron-ore operations.

Analysts said these linkages are fragmented and not revenue-critical, limiting direct equity-market fallout.

Swarnendu Bhushan, Research Analyst at PL Capital, said the current crude environment remains supportive for Indian energy companies rather than disruptive. With Brent near USD 60 per barrel, oil marketing companies are expected to retain profitability, although he cautioned that policy-related risks such as potential changes in fuel taxation need monitoring.

A Bigger Geopolitical Signal

Beyond near-term market moves, strategists argue the episode reinforces longer-term structural risks.

Jefferies noted that while Indian refiners such as Reliance have historically processed Venezuelan heavy crude, any benefit from cheaper supplies would hinge on sanctions relief and supply normalization, neither of which is an immediate market driver.

In a LinkedIn post, Sumeet Agrawal of ICICI Bank highlighted three themes markets must increasingly be priced in: a higher baseline geopolitical risk in energy and critical resources, the continued weaponisation of finance through sanctions and asset freezes, and a more fragmented global order where political alignment matters alongside macro fundamentals.

In a separate post, Meet Shah of Kotak Private Bank wrote: "Oil is only the entry point. Venezuela's use of non-dollar settlement mechanisms weakens US financial leverage and illustrates how markets must price broader geopolitical control."

Why Markets Stayed Calm

India's ability to absorb the shock rests on diversified crude sourcing, nearly USD 700 billion in foreign-exchange reserves and a credible inflation-targeting framework, analysts said. Energy-intensive sectors remain the most exposed, while foreign investor flows could rotate within emerging markets, potentially favouring India over more commodity-dependent peers.

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