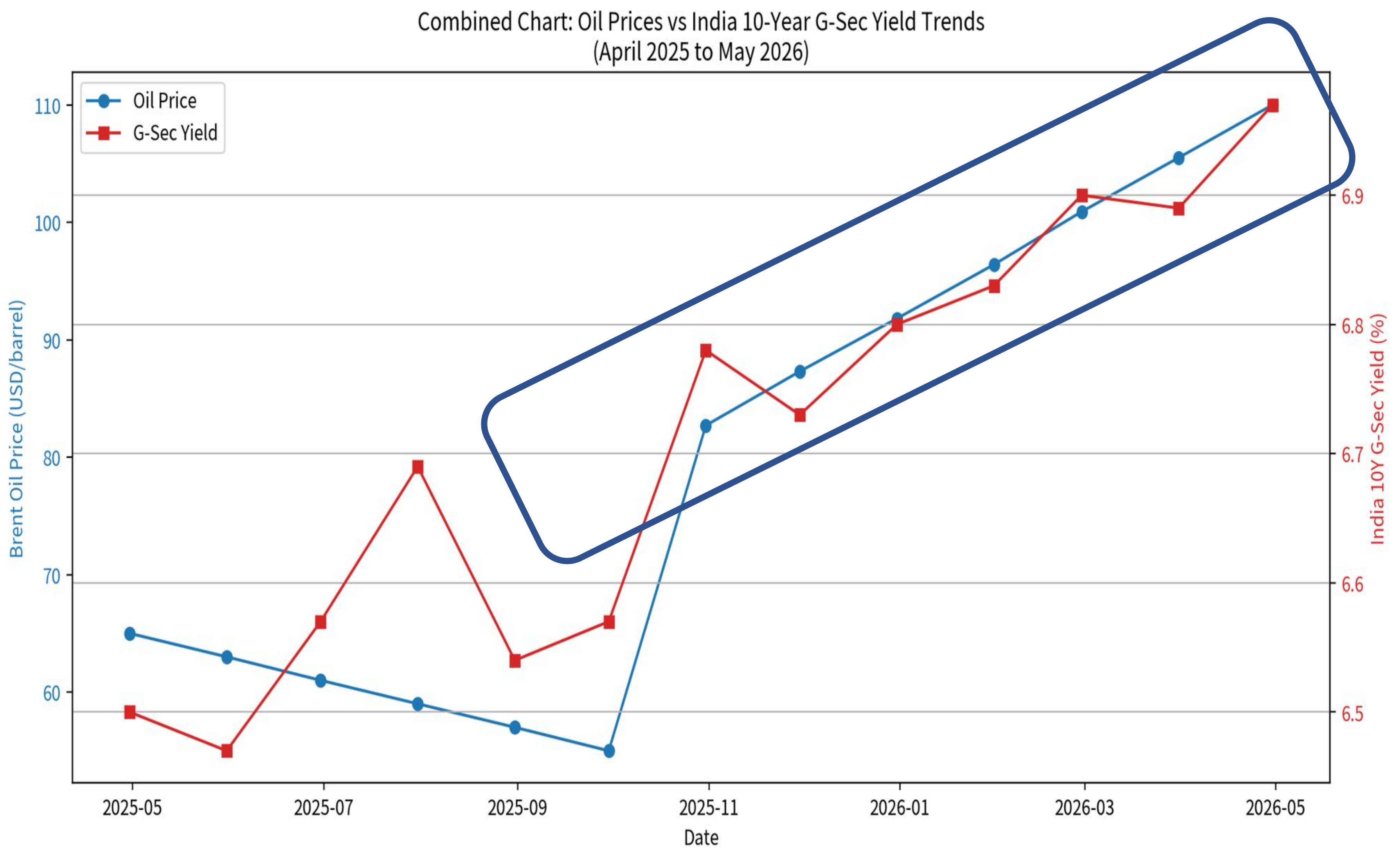
Oil Dynamics

(Whether oil shock is directing G Sec Yield & Rupee ?)

CANARA BANK | ECONOMIC RESEARCH VERTICAL | HEAD OFFICE

Oil Prices Exhibit Strong Positive Co-Movement with India's 10Y G-Sec Yield…

केनरा बैंक Canara Bank
भारत सरकार का उपक्रम A Government of India Undertaking
सिंडिकेट Syndicate



Relationship:

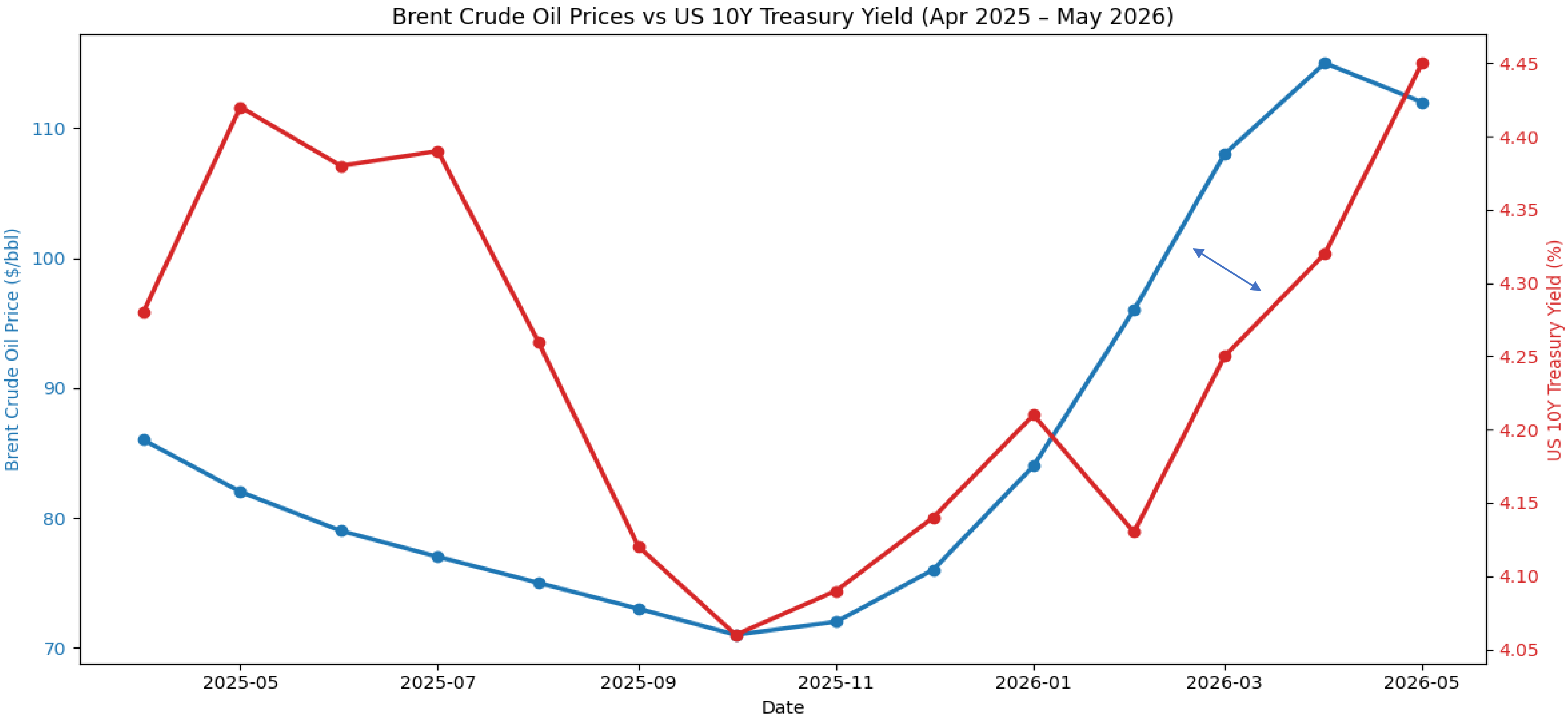
- Correlation Coefficient (R) : 0.76
- R-Squared (R^2) = 0.58

Effect

Every $10 rise in oil historically associated with 10 bps increase in benchmark yield during the observed period.

- *Oil prices = Average Brent crude in that month.*
- *G-Sec yields = Average of daily 10-year benchmark yields for the month.*

Indian G-Sec yields are structurally more vulnerable to oil shocks than US Treasury yields.



- *Oil prices = Average Brent crude in that month.*
- *US T Bill Yield*

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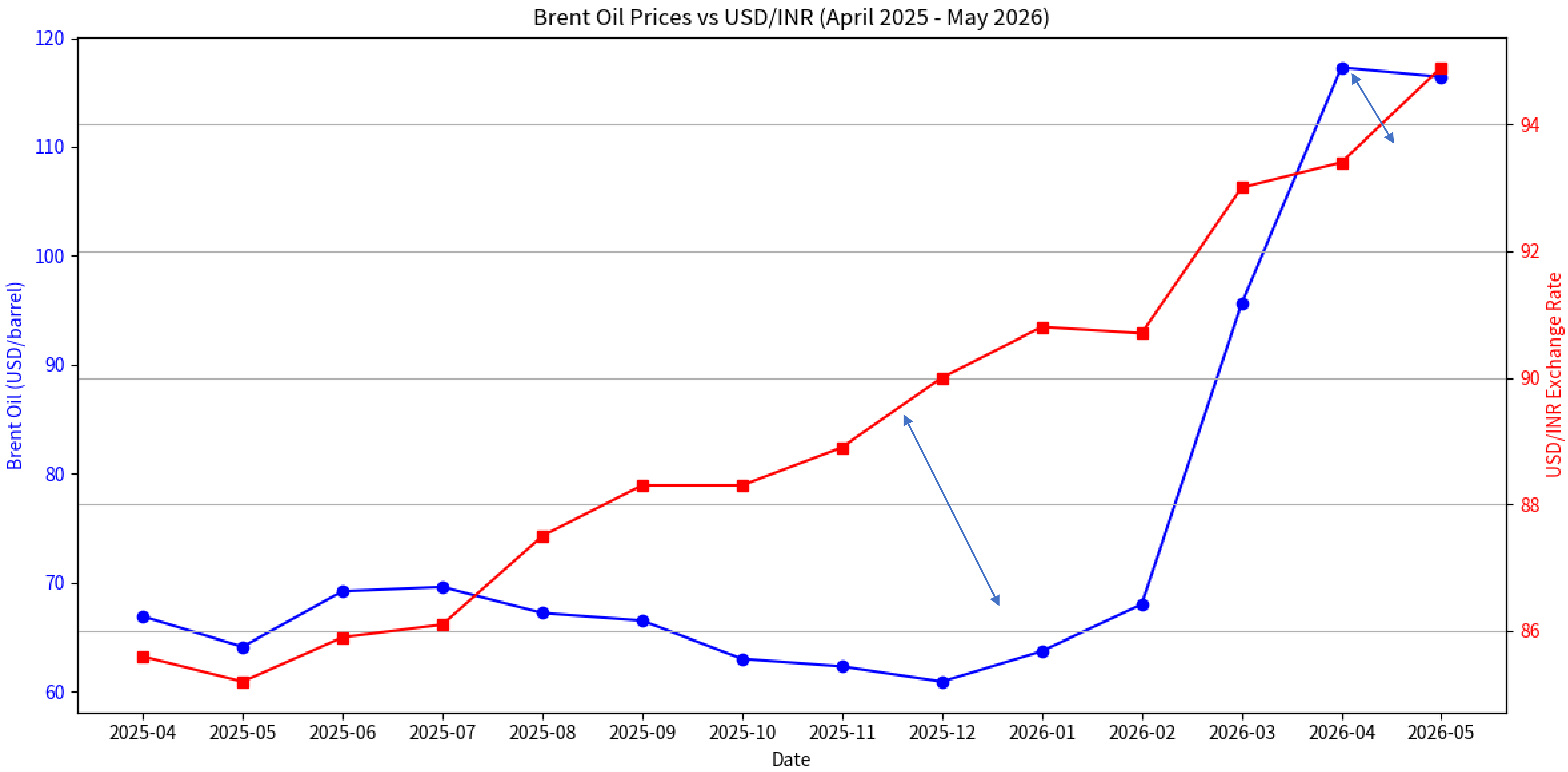
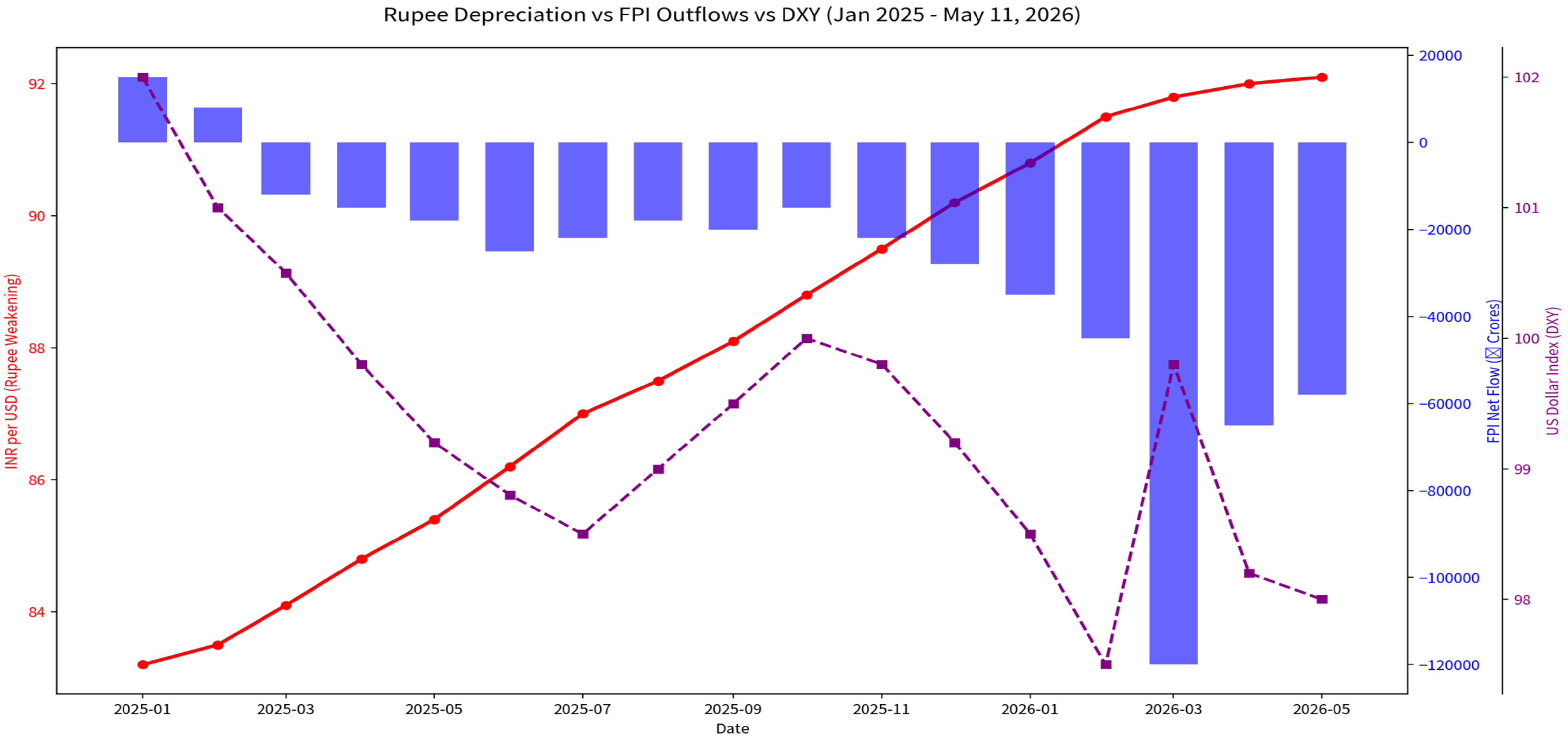
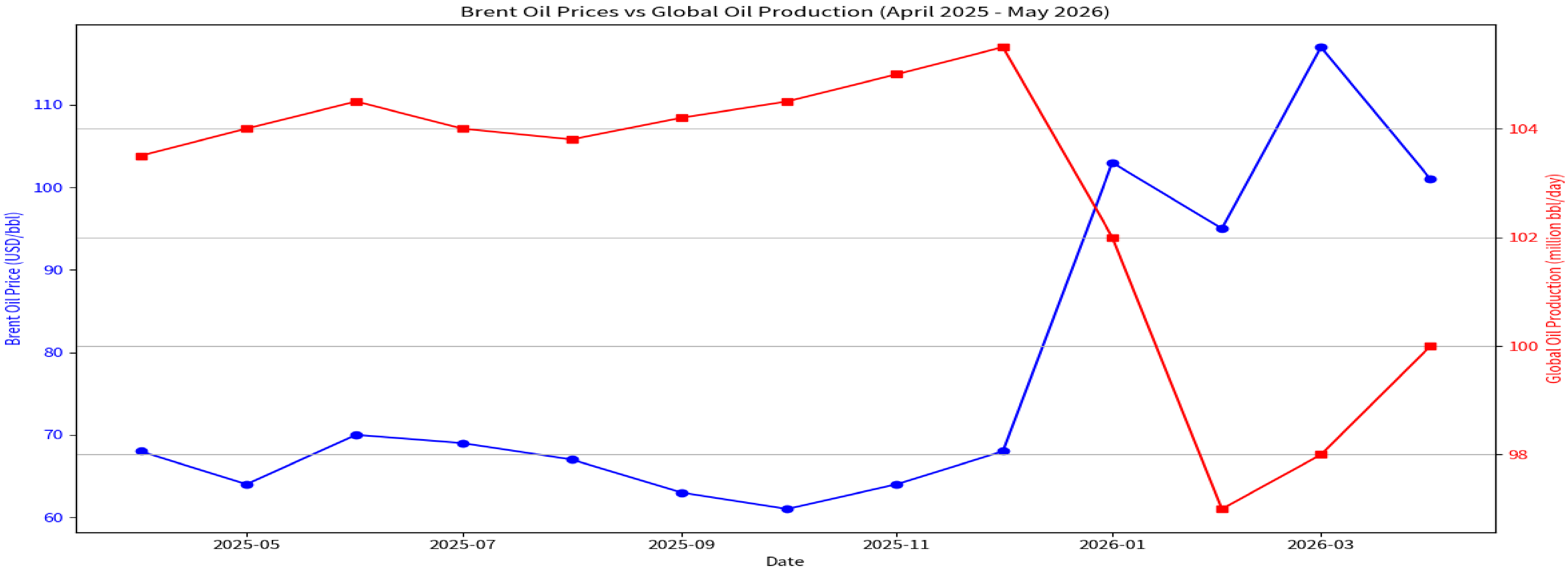
INR Weakness During 2025-26 Appears More Sensitive to Capital Flows Than Oil Alone



Recap … Rupee Depreciation has been Impacted by Net FPI Outflow ..

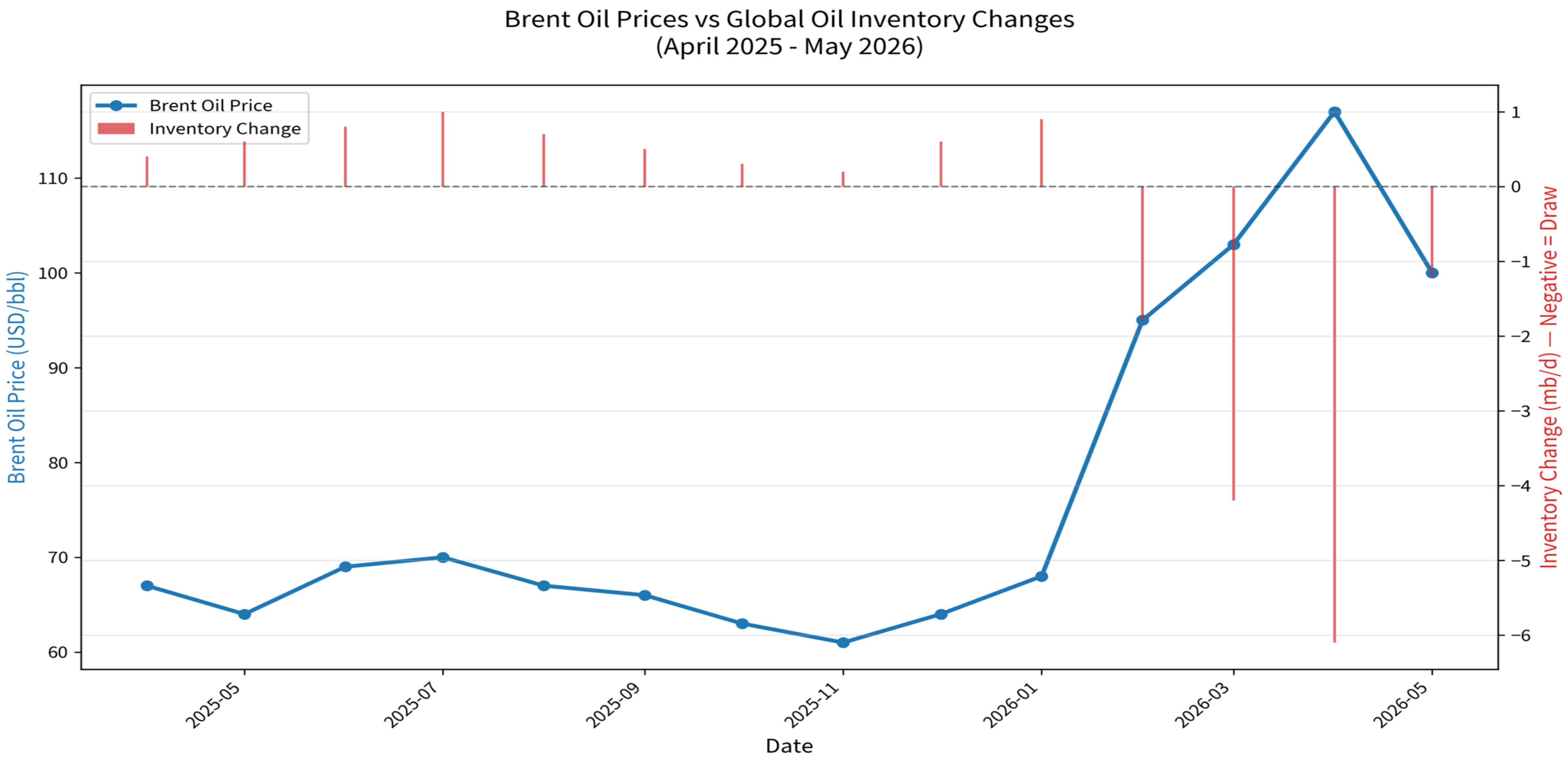


Whether Oil Supply Shock is driving Oil Prices ?

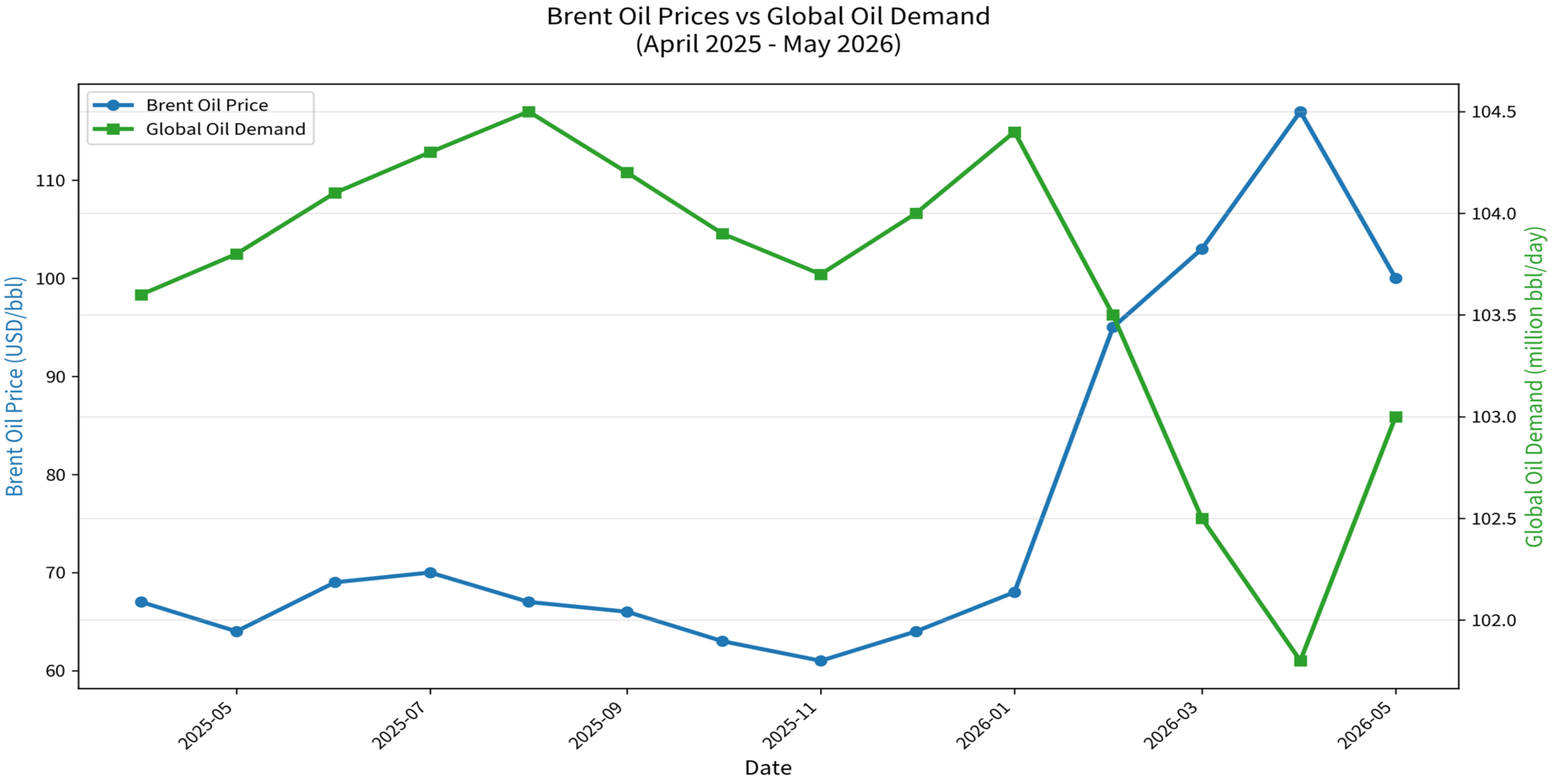


Global oil production includes crude + other liquids; disruptions in 2026 were among the largest on record for certain months.

Global Oil Inventory & Oil Prices ..



Oil Prices Remain Elevated Despite Moderating Global Demand…



Global Oil Inventory ….

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OPEC spare capacity

Indicator	Latest / Estimated Level	Historical / Comfortable Level	Interpretation
Effective OPEC+ Spare Capacity	3–4 mbpd	5–6 mbpd considered comfortable	Thin global supply cushion
Saudi Arabia Share of Spare Capacity	60–70% of total OPEC+ spare capacity	More diversified distribution historically	Market dependent on one producer
OPEC+ Planned Output Increase	0.73 mbpd	Full target implementation expected	Supply response weaker than expected

SPR Release Dynamics.

Indicator	Data	Interpretation
US SPR Level	393-403 million barrels	Well below historical peak
Recent SPR Draw	22.7 mb over 6 weeks	Emergency stabilization effort
Coordinated IEA Release	172 mb commitment	Temporary shock absorber
SPR Utilization	56% of capacity	Limited future flexibility

OECD inventories Position

Indicator	Latest Available Level	5-Year Average	Gap / Deviation
OECD Commercial Inventories	2.74-2.85 bn barrels	2.87-2.97 bn barrels	-22 mb to -128 mb
Days of Forward Demand Cover	59.6-61.3 days	64.0 days	-2.7 to -4.4 days
OECD Crude Stocks	1.26-1.30 bn barrels	1.33-1.37 bn barrels	-30 mb to -72 mb
OECD Product Inventories	1.48-1.55 bn barrels	~1.55-1.60 bn barrels	Slightly below average

Summary

- ❑ 128 mb below 5Y avg.
- ❑ 59.6 days cover
- ❑ Tight physical balances

Scenario Analysis of G -Sec Yield Based on Oil Prices

G-Sec Yield = 5.88 + 0.0102 × Oil Price

Example Predictions:
- Oil at **$80** → **6.70%**
- Oil at **$90** → **6.81%**
- Oil at **$100** → **6.91%**
- Oil at **$110** → **7.01%**
- Oil at **$120** → **7.11%**

Scenario	Oil	CPI Impact	RBI Bias	10Y Yield	INR
Base Case	$90–105	Moderate	Neutral	6.8–7.1	94–97
Bull Case	$120+	High	Hawkish	7.2–7.5	98+
Bear Case	**$75–85**	**Cooling**	**Dovish**	**6.5–6.8**	**91–93**

Data Set

Date	Avg. Brent Oil (USD/bbl)	Avg.10Y G-Sec Yield (%)
Apr-2025	67.0	6.50
May-2025	71.0	6.45
Jun-2025	69.5	6.48
Jul-2025	70.0	6.55
Aug-2025	67.0	6.60
Sep-2025	66.5	6.58
Oct-2025	69.0	6.65
Nov-2025	67.0	6.70
Dec-2025	62.5	6.75
Jan-2026	61.8	6.78
Feb-2026	63.5	6.82
Mar-2026	110.0	7.05
Apr-2026	117.0	7.10
May-2026	101.0	6.92

Key Takeaway

- *India's bond market has reacted more immediately to the oil shock through inflation and fiscal expectations.*
- *INR depreciation has remained relatively contained due to RBI intervention and external flow dynamics.*
- *Sustained oil above $100/bbl could delay domestic easing expectations and keep benchmark yields structurally elevated*

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