War impact and its dimensions

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Flow of Discussion …

- *War impact on Rupee and brent crude*
- *How INR compares with peers?*
- *Likely USD/INR rate in FY27 based on forward rates and net short forwards*
- *Bank credit to the sectors impacted by the war*
- *OIS curves and rate actions by major central banks*
- *Key takeaways*

USD INR and Brent crude movements

War period	USD/INR 3M avg pre war	USD/INR war phase	USD/INR 3M avg post war	Brent crude 3M avg pre war	Brent- war phase	Brent 3M avg post war	comments
Gulf War (Aug 90-Jan 91)	17.34	18.21	20.26	16.20	32.70	19.15	Brent crude shot up due to surprise element of the attack and 4.3 mbpd of crude which was 7% of the supplies went off from market. INR weakened even post war despite Brent fall due to BoP crisis
Afghanistan (Oct-Dec 2001)	47.30	48.08	48.36	25.30	19.35	21.14	Rupee weakened due to risk off sentiment in view of geo politics but crude didn't show any pattern as Afghan region isn't a crude producer.
Iraq War (Mar-May 2003)	47.95	47.39	46.67	30.75	27.16	28.53	Crude stayed almost flat as it had already risen due to war speculation and Iraq oil exports being hampered due to sanctions.
Iran-US-Israel ongoing	89.27	92.18	-	68.30	94.00	-	Severe impact due to unprecedented closure of Strait of Hormuz leading to total blockade in oil supply.

- *Crude likely to fall post the war when supply is restored. But INR could weaken if premiums are an indication*

How India compares vis-à-vis peers and why Indias BoP profile is vulnerable

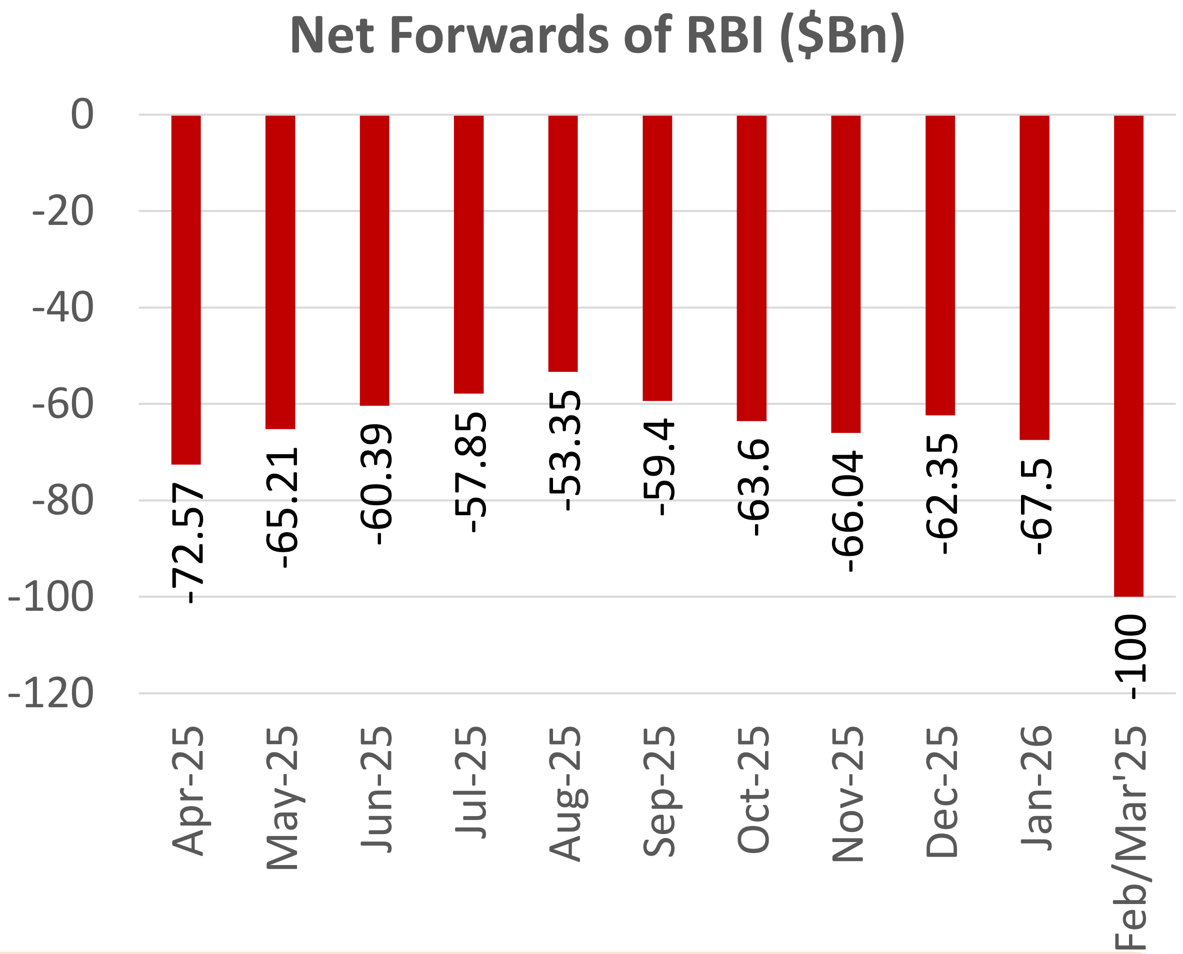
Period	Current Account (USD Bn)	Capital Account (USD Bn)	BOP (USD Bn)	USD/INR
Q1FY25	-4.48	8.94	5.23	**83.41**
Q2FY25	-20.86	39.92	18.61	**83.75**
Q3FY25	-11.34	-26.62	-37.66	**84.45**
Q4FY25	13.63	-5.62	8.79	**86.59**
Q1FY26	-2.91	7.94	4.51	**85.57**
Q2FY26	-14.13	2.14	-10.92	**87.28**
Q3FY26	**-13.20**	**-10.00**	**-24.41**	**89.08**
Q4FY26(etd)	- -15.0	-20.0	-30.0	93.71

Period	March 1- March 20	CAD %
INR	-3.52	-1.0
Yuan	+0.1%	3.3
MRY	+2.7%	2.3
Thai baht	-3.21	2.6
JPY	-0.78	3.7
Rupiah	-1.11	-0.2
Won	**-3.32**	**4.9**

India to show a significant BoP deficit in FY26 unlike in FY25 when BoP was a negligible deficit of $5 bn
Also INR is the worst performing currency in the calendar year so far and has the maximum CAD among peers. The $5T economy tag gets longer.

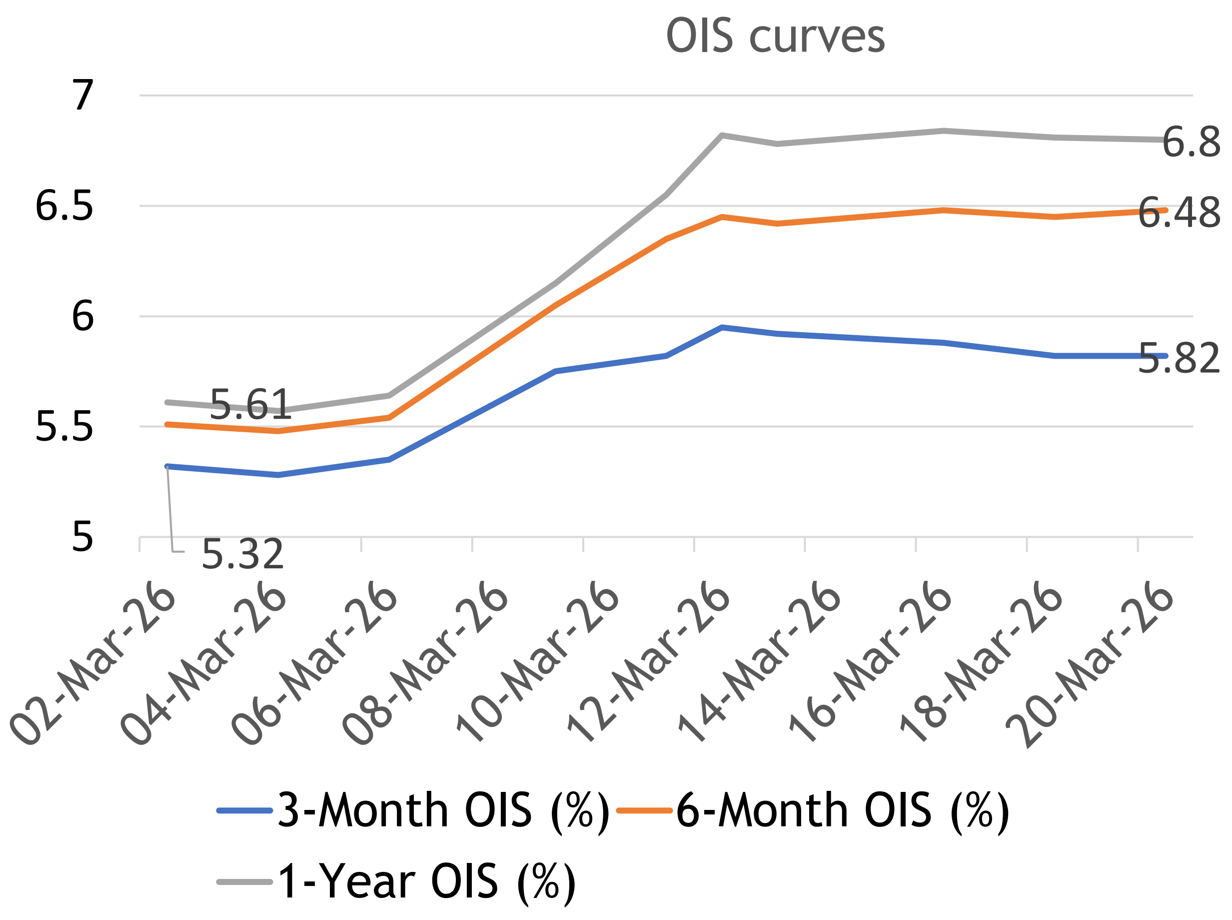
Net forward position and forward premia-what is likely USD INR rate by FY27 end?

Month	3-Month (%)	6-Month (%)	1-Year (%)
April 2025	1.45	1.62	1.85
May 2025	1.38	1.55	1.78
June 2025	1.52	1.7	1.92
July 2025	1.65	1.82	2.05
August 2025	1.8	1.95	2.18
Sep 2025	1.92	2.1	2.32
October 2025	1.88	2.05	2.25
Nov 2025	2.1	2.28	2.45
Dec 2025	2.25	2.42	2.6
Jan 2026	2.38	2.55	2.72
Feb 2026	2.15	2.3	2.52
Mar26 (1-20)	3.23	2.96	2.85



RBI net forward book (onshore +NDF) is estimated to have touched $100bn
This indicates massive intervention to support INR. Exact share of NDF not known, may be 50%
Forward premia indicates INR could depreciate to 94.81 as per 1 yr forward rates

OIS curves steepened in March



INTEREST RATE CHANGES			
COUNTRIES	LATEST	PREVIOUS	Remarks
JAPAN	0.75	0.75	Status Quo
EURO AREA	2.15	2.15	Status Quo
CANADA	2.25	2.25	Status Quo
S. KOREA	2.5	2.5	Status Quo
CHINA	3	3	Status Quo
UK	3.75	3.75	Status Quo
U.S.A	3.75	3.75	Status Quo
INDONESIA	4.75	4.75	Status Quo
ARGENTINA	29	29	Status Quo
TURKEY	37	37	Status Quo
SINGAPORE	1.15	0.97	Increased
AUSTRALIA	4.1	3.85	Increased
BRAZIL	14.75	15	Reduced
RUSSIA	15	15.5	Reduced

Source : Investment.com

- The 3 month, 6 month and 1 year OIS curves hardened during the war period
- This indicates rate hike expectations, as per current incidents

India 10 Year G sec yield is impacted....

Sensitivity and impact analysis using multivariate linear regression equation

Y =6.28 +(0.35)UST +0.24 (crude) +(0.18) CPI + (0.10)USDINR USD INR +0.34 (supply)-(0.28) FPI)-(0.12) liquidity

Variable	Impact factors	Impact on G-Sec
Crude Oil	+$10 / bbl	+7.30bps
CPI Inflation	+1.00%	+7.20bps
US 10-yr Yield	+0.25%	+6.22 bps
USD/INR	+₹1.00 (weakens)	+1.33 bps
Bond supply	**+10%**	**7.25 bps**
FPI inflows		**-4.50**
Liquidity		**-1.90**
Final impact		**22.9 bps**

Rupee depreciation has the least impact while CPI inflation, crude and bond supply has highest
FI inflows into debt and liquidity are offsetting factors as they support yields (assuming enough liquidity)

Key Takeaway of the Study :

- Crude could revert once war subsides but INR weakness could persist due to BoP deficit.
- RBI net short forward book building up to support INR .
- higher bond yields negative for corporate earnings which could worsen with rate hikes.
- If INR touches 95 in FY27 Indian economy would be just shy of $4T assuming 10% growth rate
- The combined impact of $10 barrel crude hike, 1% CPI hike, 25 bps UST hike, Re 1 weakness, along with a 10% increase in G Sec supply, FPI flows to debt and neutral liquidity position is estimated at 23 bps on 10 Y G Sec

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