SBI Research

END OF BEGINNING

Should the raging conflict in Middle East proliferate asymmetrically across jurisdictions, asset classes and supply chains, the cumulative shock could trigger a new wave of Inflation globally: India still a notable exception

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Kondratieff waves perspective on current conflict

- The Kondratiev Wave (named after Nikolai Kondratiev) is a theorized cycle in economies driven by major technological and infrastructure investments….The duration of the cycle lasts approximately 40-60 years
- **Both creation of Petro dollar (1974) and the Iran Revolution (1978-79)** coincided with end of the 4th Kondratiev wave around 1970-1980s
- Depending upon the length of the wave that is roughly of 40-60 years, the 5th wave is expected to end in next 10 years
  - The historical turn points for US dollar are 2014, 2024 and 2034
  - Similarly, the key turning points for Iran could be 2018, 2028 and 2038
- **Based on theorised patterns seen in end phase of Kondratiev wave, the current conflict can have long lasting impact on region and world at large**
- Possible impact – recession, rising bankruptcy, financial turbulence, **safe haven demand**, social unrest and conflicts etc.

The war BENEFITS a select few, Harms some and remains a Drag for most….

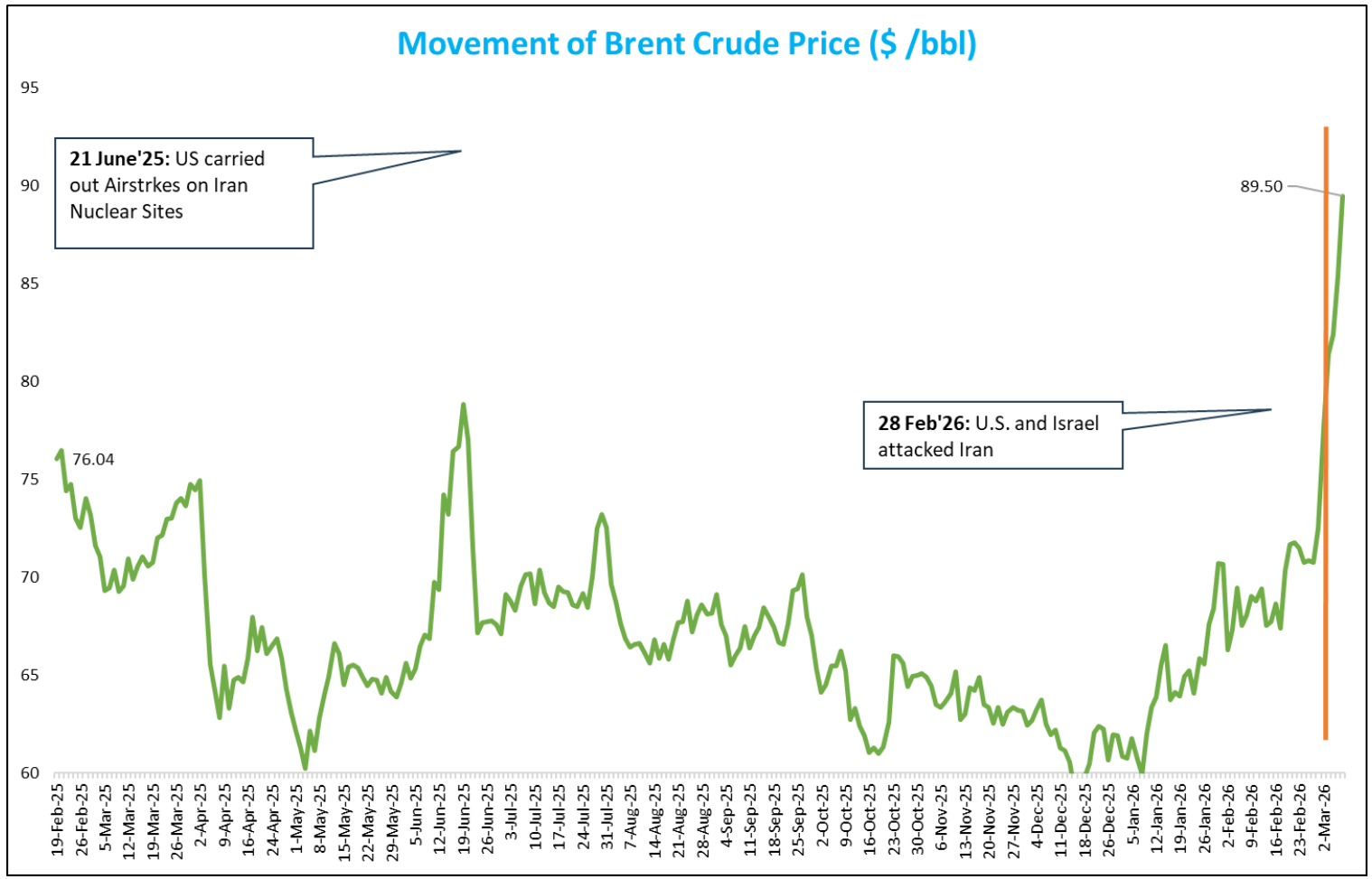
- The USA could emerge as the single (most) beneficiary of the extended war in the Middle East thanks largely to Oil & Gas
- Having a huge oil and gas capacity, the US was quick to construct floating storage tankers once the Ukraine conflict dissipated the Russian supply through 2023 (Nord Stream 1, Yamal and Turk Stream that is still operational)
- Basis Council of the European Union data, Russia's share of EU imports of pipeline gas **dropped from around 40% in 2021 to around 6% in 2025**. For pipeline gas and LNG combined, Russia accounted for around 13% of total EU gas imports in 2025
- In January 2026, the Council adopted a **regulation to prohibit both LNG and pipeline gas imports from Russia** starting 18 March 2026, with transition periods for existing contracts. By the end of 2027, all Russian gas imports may be prohibited
- This shift away from Russian gas is made possible mainly thanks to **a sharp increase in LNG imports** and an overall reduction in gas consumption in the EU
- In 2025, the EU imported over 140 billion cubic metres (bcm) of LNG (basis Bruegel data)
- **The US was the largest supplier of LNG to the EU, accounting for almost ~58% of total LNG imports. Imports from the US tripled between 2021 and 2025**
- **With the supply-supply chain triggered squeeze anchoring higher spot and forward prices across Gas and Oil, the US enterprises could reap benefits that more than adequately compensates the spending on war**

Executive Summary….

- The Israeli-Iran conflict has entered the 7th day and engulfs the region, following the Saturday (28 Feb 2026) morning attack on Iran (Operation Epic Fury and Roaring Lion)
- Following to this, Iran has launched strikes on US assets across several countries, Bahrain, Kuwait, Qatar and UAE
- Iran closed 'Strait of Hormuz', which about 20% of the world's crude oil passes through but that masks considerable regional and country variations
- The immediate inflationary impact of widening conflict in the Middle East is likely to be limited. But potential trade and supply chain disruptions, weakening business sentiment and elevated uncertainty could have major consequences for the global economy
- The impact on India's economy may be a short-term impact on remittances and crude oil imports… The forward contracts booked for future delivery of oil will partially be offset by reprieve on purchase of Russian oil through a 30 days window
- **An unorthodox attempt that could emerge in the long run is US revaluing the Federal government's 261.5 million troy ounces in gold reserves**—the largest reserves globally— from a statutory price of $42.22 per troy ounce (fixed in 1973 post Nixon shock) to current market prices (~$5000+ per troy ounce). **The corresponding revaluation reserves would create a massive jump in assets first, wiping ~70% of US Budget deficit…. The US Bitcoin act Sec 9(c) (proposed in Nov2025 by Senator Cynthia M Lummis (R-WY) to Congress) also stipulates that Treasury Secretary would revalue gold at market price to purchase one million Bitcoins**

Global Oil Price Movement: Brent Crude Crosses $89/b

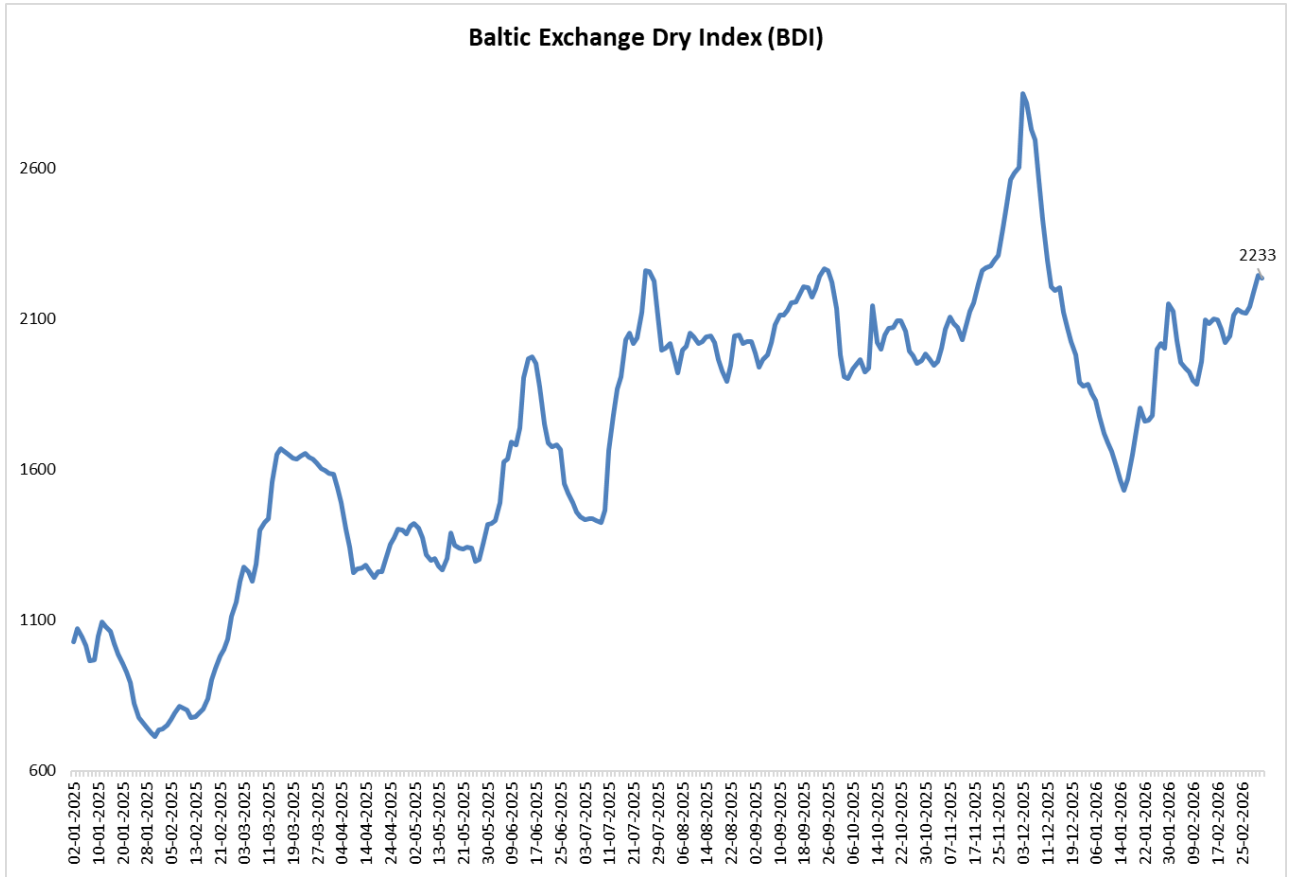
- The global oil markets has experienced an upward movement, following the conflict, which led to closure of 'Strait of Hormuz',
- The price of Brent crude oil increased from $58.92 per barrel on 16 Dec'25 and $70.75/b on 26 Feb'2026 to $85.40/b on 05 March 2026, which indicates the importance of the strait to global oil supplies..**Brent Crude has now crossed ~$89…**



Source: Bloomberg

Baltic Dry Index

- Baltic Dry Index fell to 2,233 Index Points on March 4, 2026 down 0.40% from the previous day

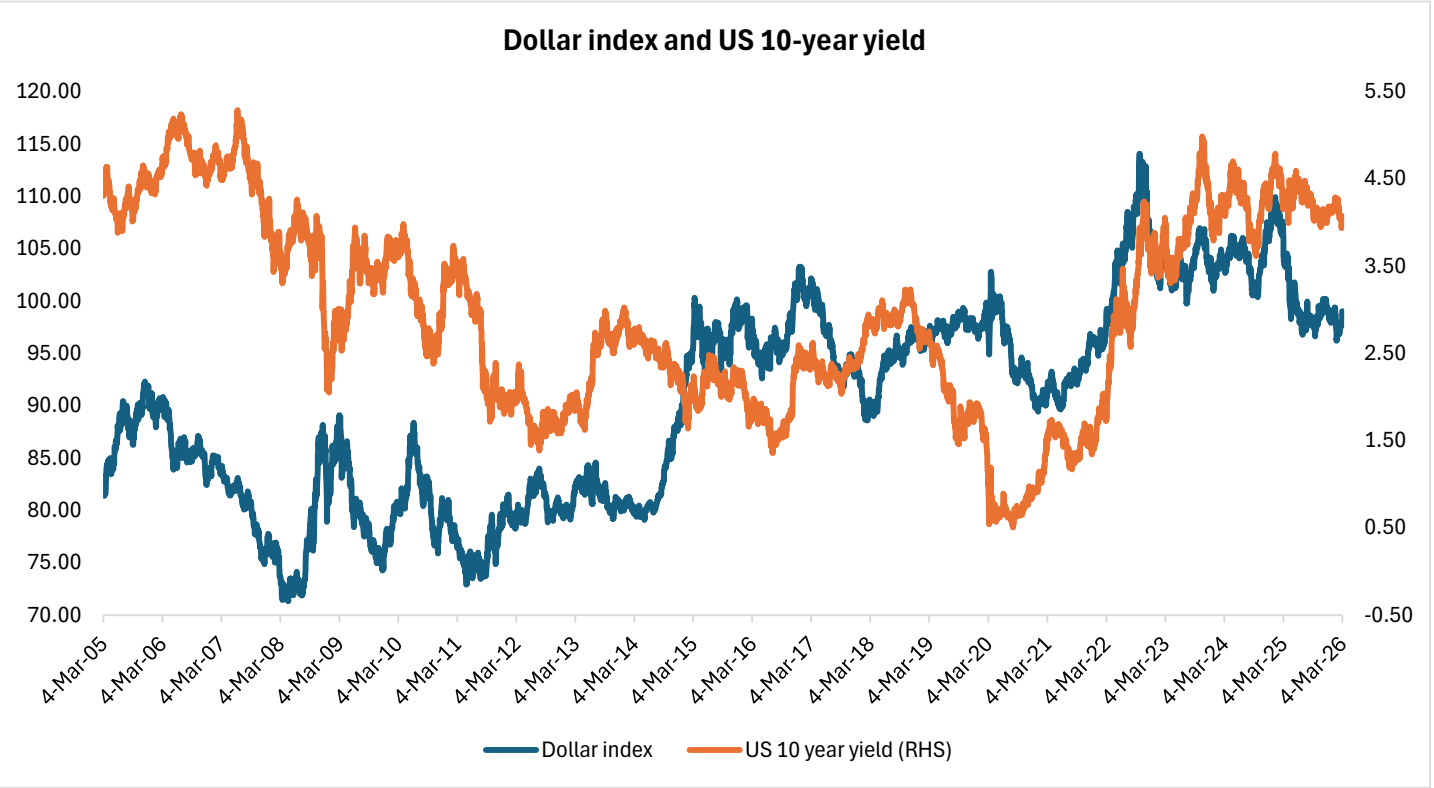


Source: CEIC

The road ahead for global economy: The re-balance of precious metals and Dollar Index

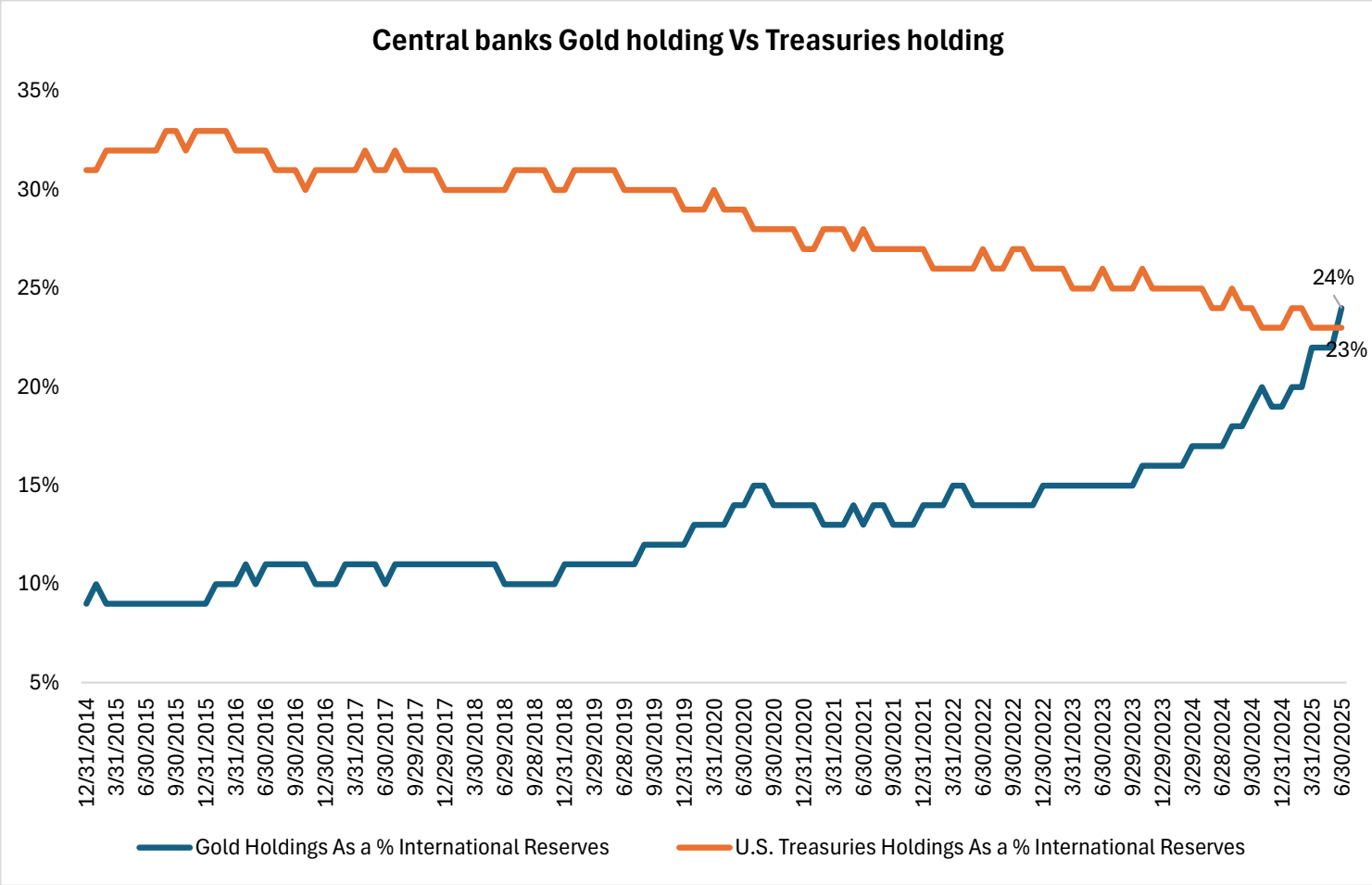
Dollar index started rising amidst the US-Israel conflict accompanied with rising yields…

- Typically, geopolitical conflict would result in renewed interest in US treasuries
- **However, this time amidst the US-Israel unrest, the dollar index started to gain with increasing demand for safe haven, and the yields on US treasury has also increased**
- Increasing oil prices has raised the fear of energy driven inflation, making markets expect higher Fed rate for longer, in turn increasing the 10-year yield above 4%



…In between, Central banks moving away from treasuries to gold holdings!

- Central banks are shifting away from treasuries to gold holdings. The transition happened in Jun'25 for the first time since 1996



Country wise gold holdings show US and Germany are the largest holders of gold

- There has been a marked increase in the gold holdings across the central banks. Gold as % of total reserves has risen to as much as 80.4% by the USA and Germany, followed by 79.4% by Italy. This implies as central bank continue to diversify into non dollar reserves, prices of gold will continue to rise
- India has around 17.6% of its reserves in the form of gold

Country wise Gold Holdings							
	Q1 2000		**Q4 2009**		**Q4 2020**		**Latest available**
Country	Gold holding as % of Total Reserves	Country	Gold holding as % of Total Reserves	Country	Gold holding as % of Total Reserves	Country	Gold holding as % of Total Reserves
USA	54.8	USA	70.4	USA	78.7	USA	80.4
Germany	33.3	Germany	66.5	Germany	76.1	Germany	80.4
France	41.2	Italy	65.2	Italy	70.7	Italy	79.4
Switzerland	43.4	France	64.6	France	66.0	France	77.7
Italy	46.1	China	1.5	Russia	23.4	Russia	40.0
Netherlands	45.1	Switzerland	27.0	China	3.5	China	8.6
Japan	2.2	Japan	2.5	Switzerland	5.8	Switzerland	12.1
Portugal	38.7	Russia	5.2	Japan	3.3	India	17.6
United Kingdom	12.3	Netherlands	54.5	India	7.0	Japan	8.7
Spain	12.3	India	6.9	Netherlands	69.0	Netherlands	70.7
Russia	24.7	Taiwan	4.1	Taiwan	4.6	Turkey	48.9

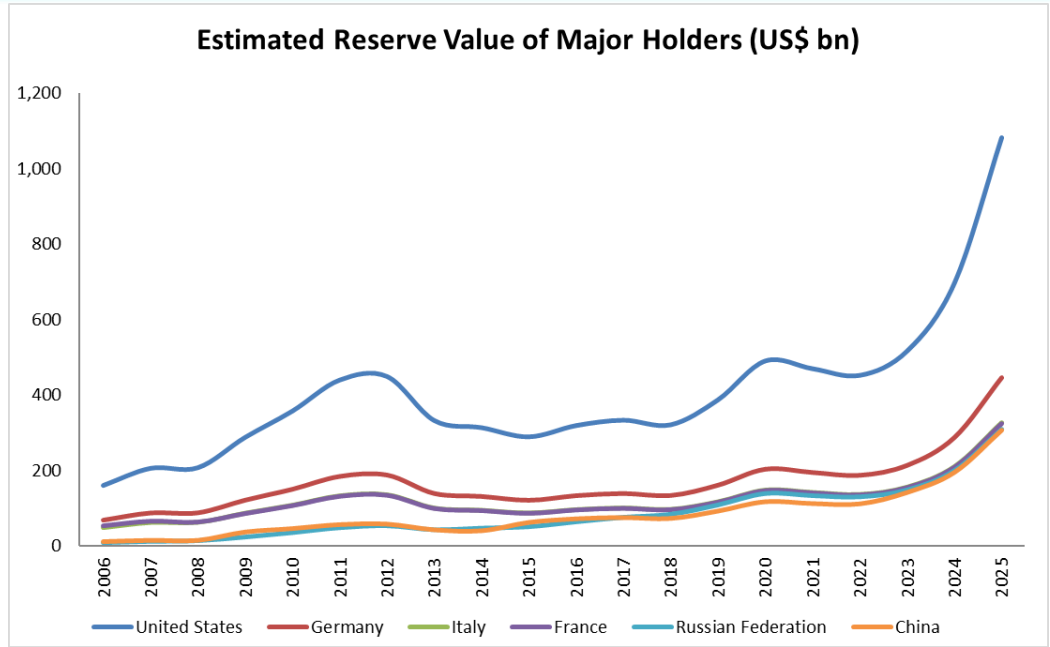
Any Change in Gold Reserve valuation of Central Banks on Asset side will have to matched by concomitant Liability increase…increase in cash.. this can be potent tool to eat away debt…1/2

- Since end-August 2025, International gold prices has increased by 47.6% to $5092/Ounce on 06 March 2025, from $3448/Ounce on 29 Aug'2025

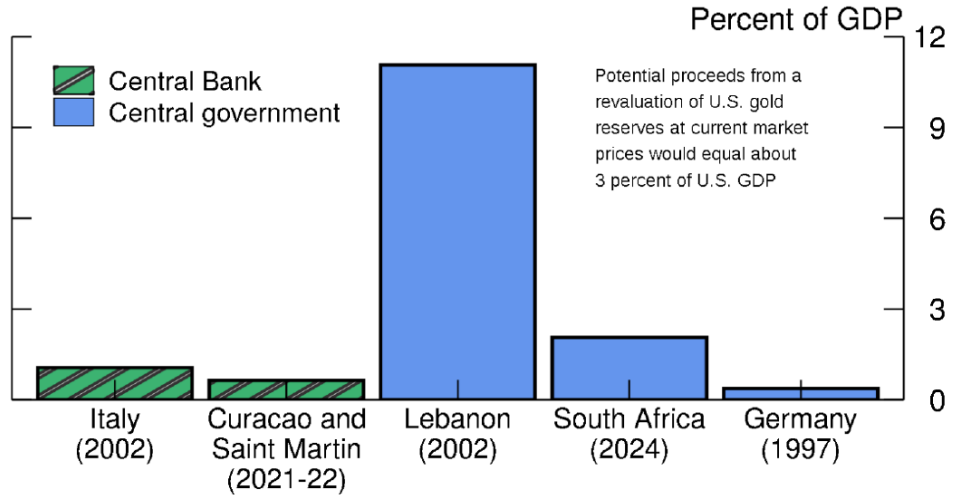
- With the rise in price, value of reserves on central bank balance sheets increases dramatically. When central banks revalue their gold holdings, the increased value is reflected as an asset, and often simultaneously increases liabilities to balance the books

- When central banks report their holdings at fair value, the unrealized profits or losses from valuation changes are recorded in "revaluation accounts" on the liability side of the balance sheet, which can be shifted to other parts of the balance sheet to generate funds

- **From the international experience that when gold reserves are reported at fair value and the central bank uses its revaluation accounts to offset other operating losses…else this can be inflationary as this must be compensated by printing of currency…this can be quick fix to the astronomical debt burden…US currently has $38.8 trillion in debt!**



International Reserve Revaluation Proceeds



Source: US Federal Reserve

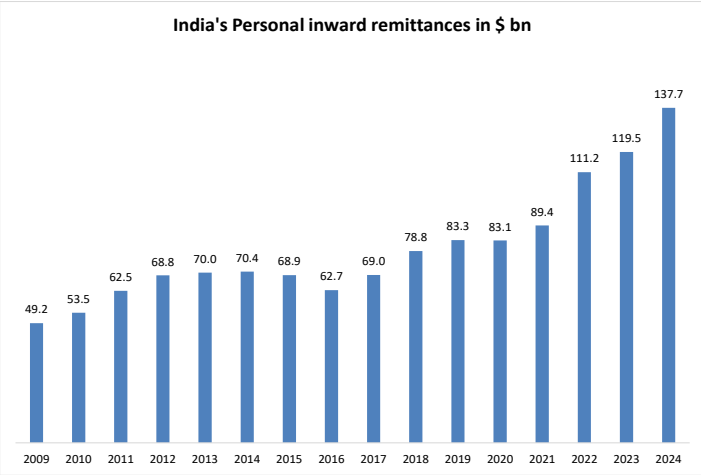
Gold appropriation at Market Prices can be a reality (check) for Treasuries/Central Banks….. 2/2

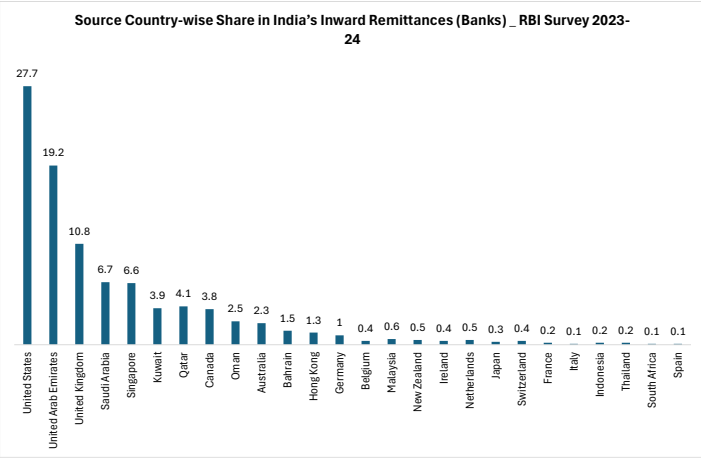
- Since mid-90s, only a few sovereigns have undertaken revaluation of Gold (Germany, Italy, Lebanon, Curacao and Saint Martin and South Africa)…An August 2025 study by the Fed (Colin Weiss) found the revaluation proceeds used to offset central bank losses, manage public debt, or strengthen balance sheets
- **US and Belgium have been toying with this idea of late, with current market turmoil in the USA signaling a growing tilt to calls for revaluing the Federal government's 261.5 million troy ounces in gold reserves**—the largest reserves globally— from a statutory price of $42.22 per troy ounce (fixed in 1973 post Nixon shock) to current market prices (~$5000+ per troy ounce). **The corresponding revaluation reserves would create a massive jump in assets first, from current ~11 Bn value to ~1.3 Tn mass, almost 4%-plus of US GDP, wiping ~70% of US Budget deficit**
- **Even though recalibrating the Fed's gold holdings would enhance its B/S (though not reduce its debt directly), a general consensus is more assets should improve America's fiscal flexibility and financial reputation, making it easier to handle the colossal debt burden… a Catch-22 could be on the nominal GDP front if liabilities jump up to balance the assets ballooning, exerting inflationary pressure and ultimately weakening the GDP**
- But the price response would not occur in a vacuum if gold is formally revalued or its monetary role reasserted by the US…. **A sizeable price uptick could be in the offing as gold would be repriced** to capture its renewed on/off balance sheet significance and its role in global reserves, **in particular if other central banks respond by increasing gold holdings or if confidence in fiat currencies weakens**

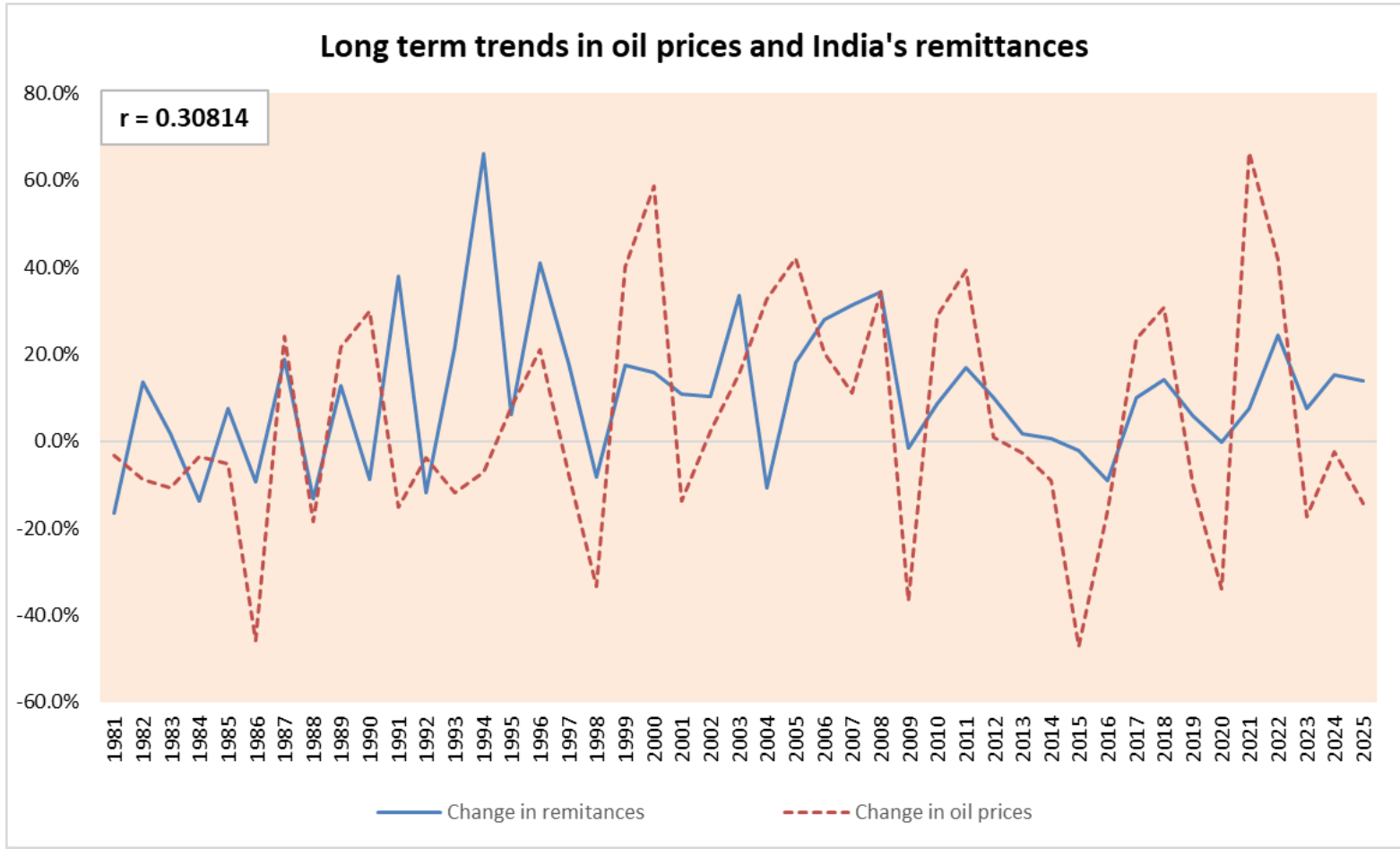
Impact on India

Firstly…India's personal remittances rose to ~$138 bn in FY25; 38% come from GCC countries alone

- India's personal remittances increased 15% to $138 bn in FY25 from $119 bn in FY24
- **GCC countries account for around 38% of the total remittances that India receives**, thus oil price dynamics is one of the key determinants to our remittances. Long term correlation is around 0.3081
- **There is 5% chance that higher prices may still result in slowing of inward remittances**



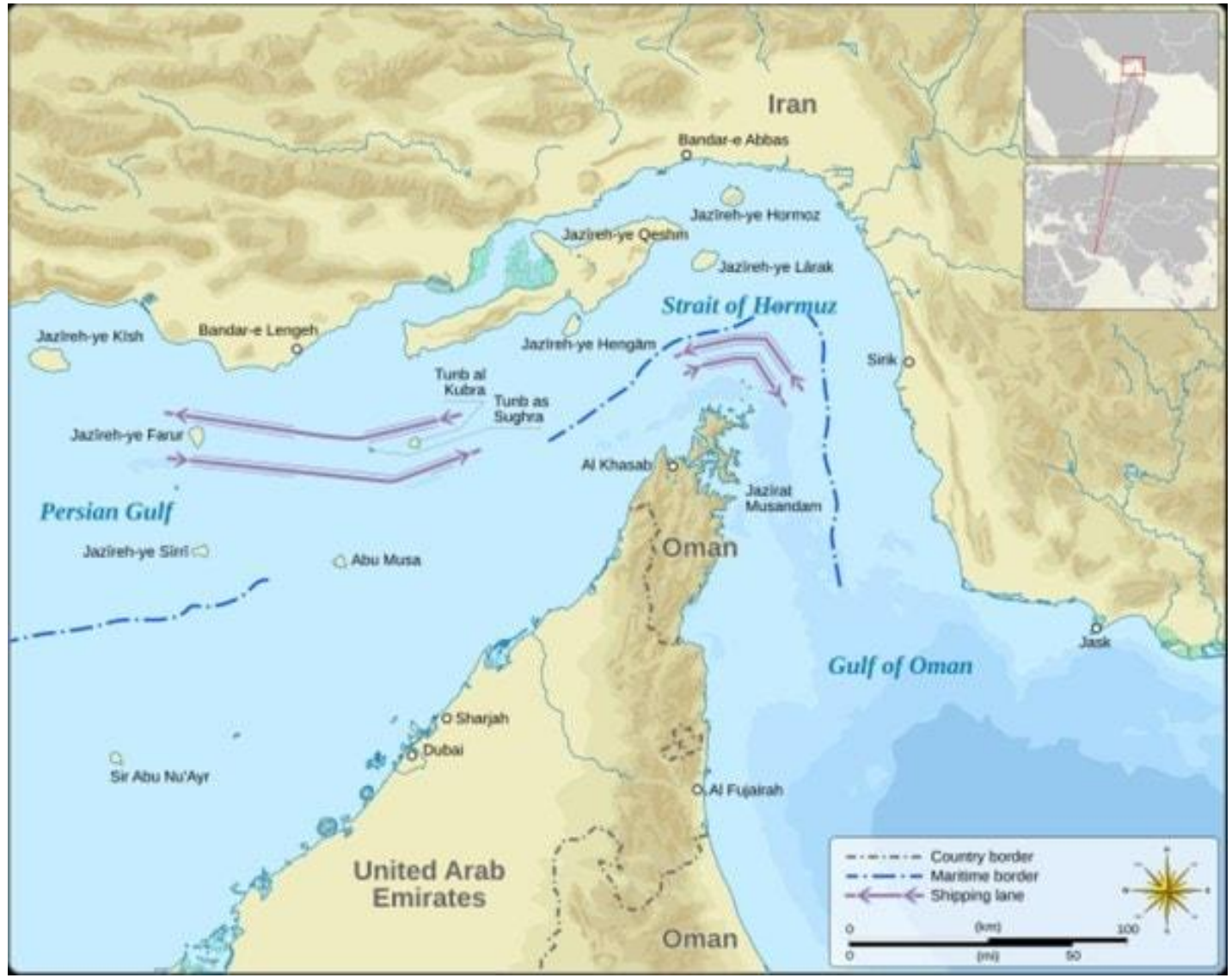




Source: World Bank, RBI

Secondly, closure of Strait of Hormuz could impact India's energy imports….

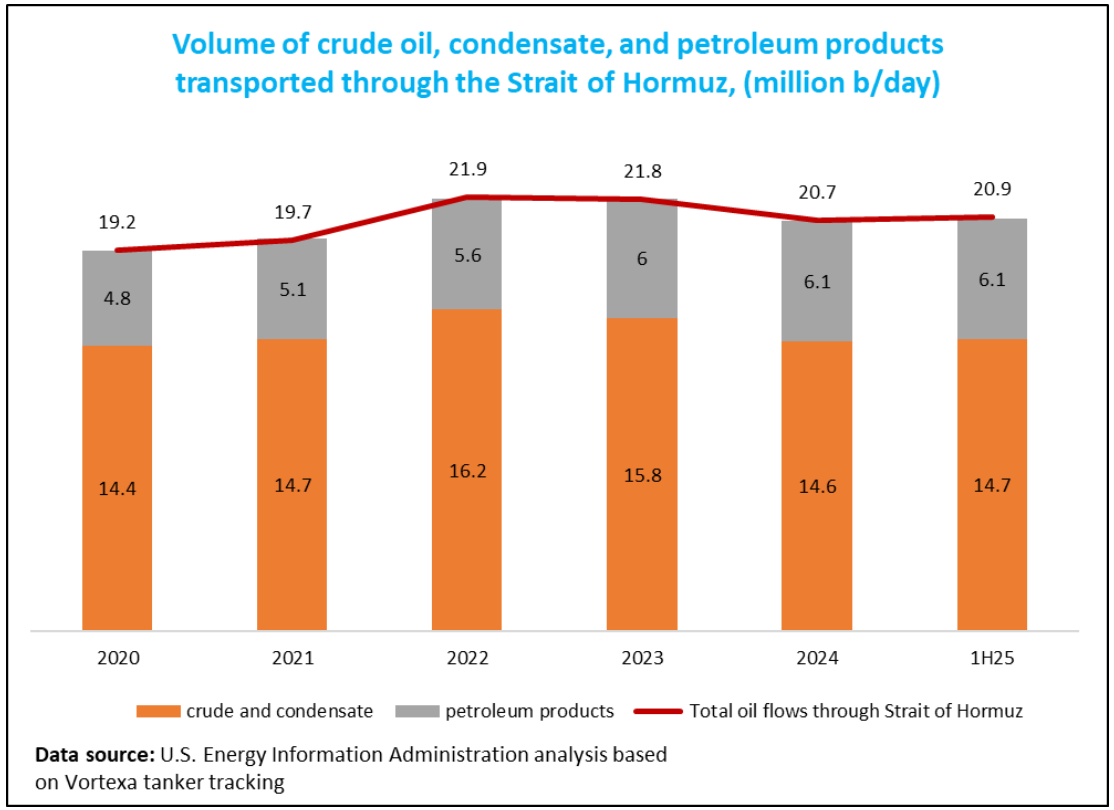
- The Strait of Hormuz is the only sea route from the Persian Gulf to the open ocean, and about 20% of the world's oil transits the waterway. The U.S. Energy Information Administration has described it as the "*world's most important oil transit chokepoint*"
- The decision to close the waterway now rests with the country's national security council, and its possibility has raised the specter of higher energy prices and aggravated geopolitical tensions
- **India imports nearly 90% of its crude oil requirements. About two million barrels per day of this, out of 5.5 million, transits through the Strait of Hormuz**

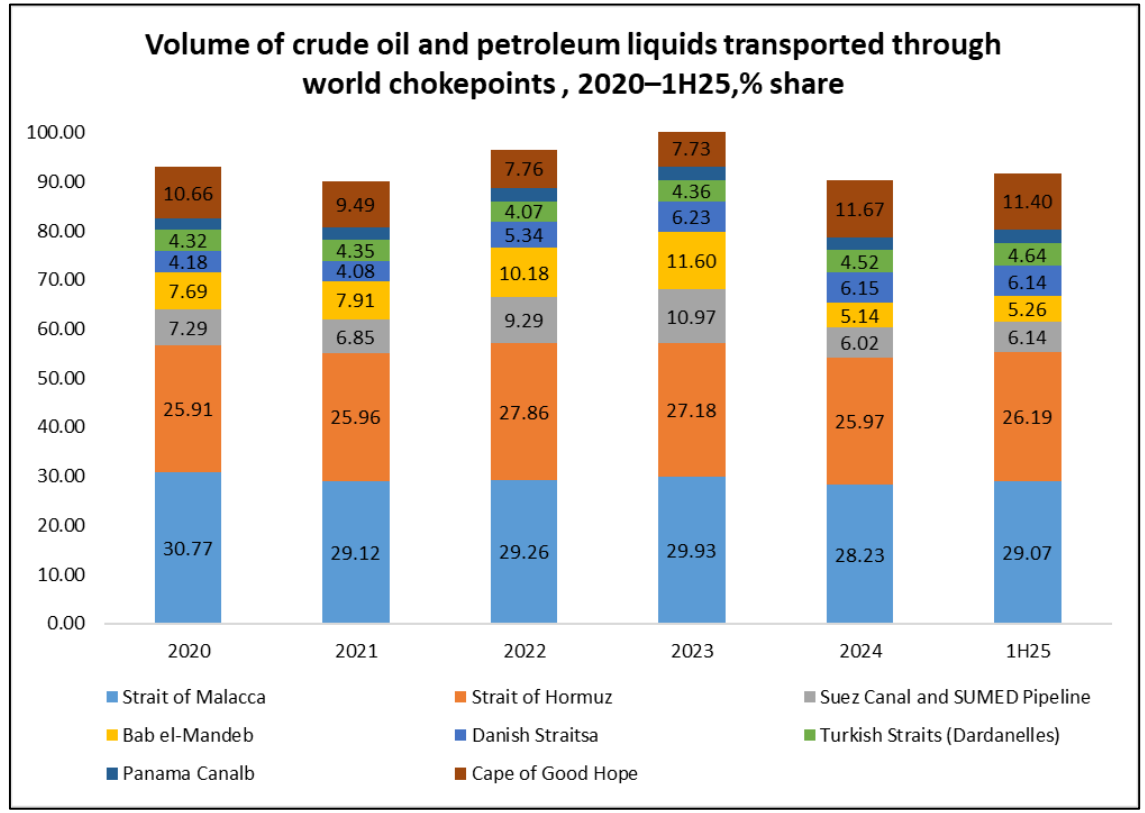


(Photo: Wikimedia Commons)

Around 26% of global consumption, flowed through the strait of Hormuz

- In 2025 H1, oil flow through the strait averaged 20.9 million barrels per day (b/d), or the equivalent of about 26% of global petroleum liquids consumption

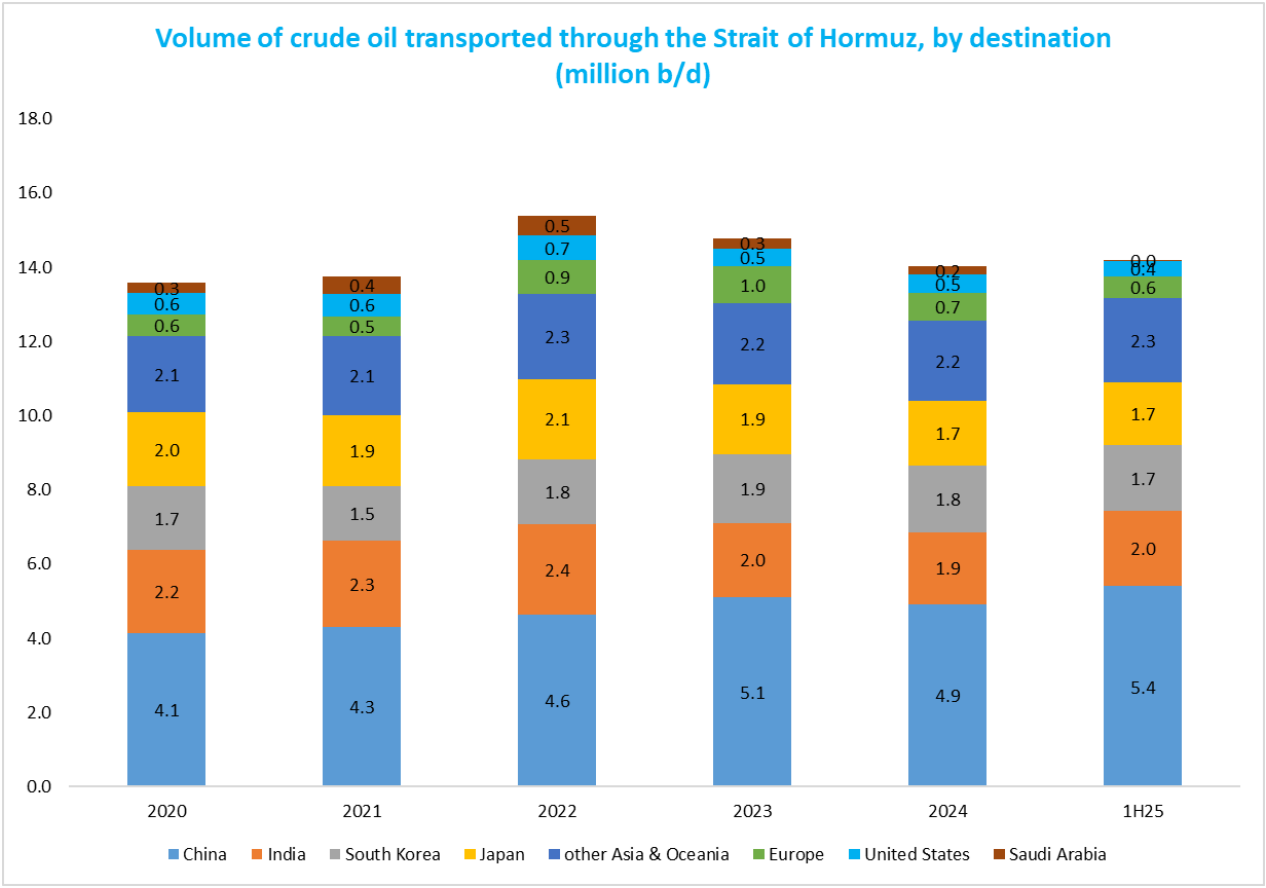




Data source: U.S. Energy Information Administration analysis based on Vortexa tanker tracking

Crude Oil Transported through Hormuz

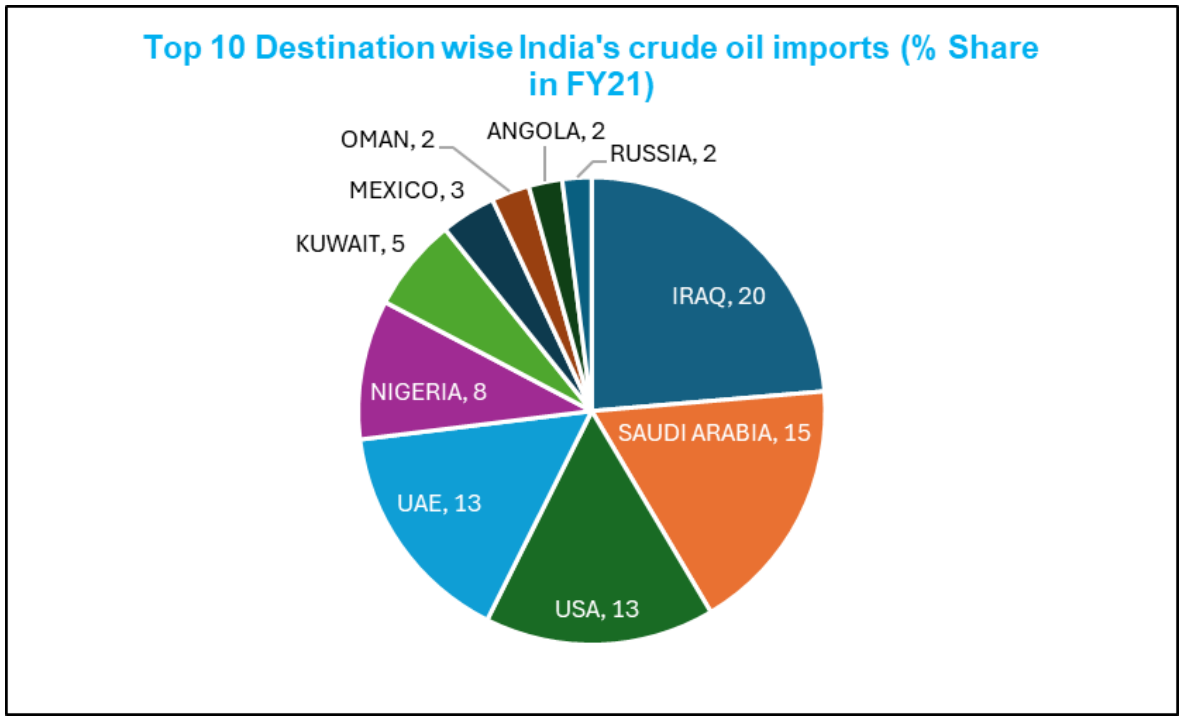
- China is Iran's biggest oil customer ~ 5.4% through the Straits of Hormuz
- An attempt to block the narrow waterway between Iran and Oman could have profound consequences for the global economy

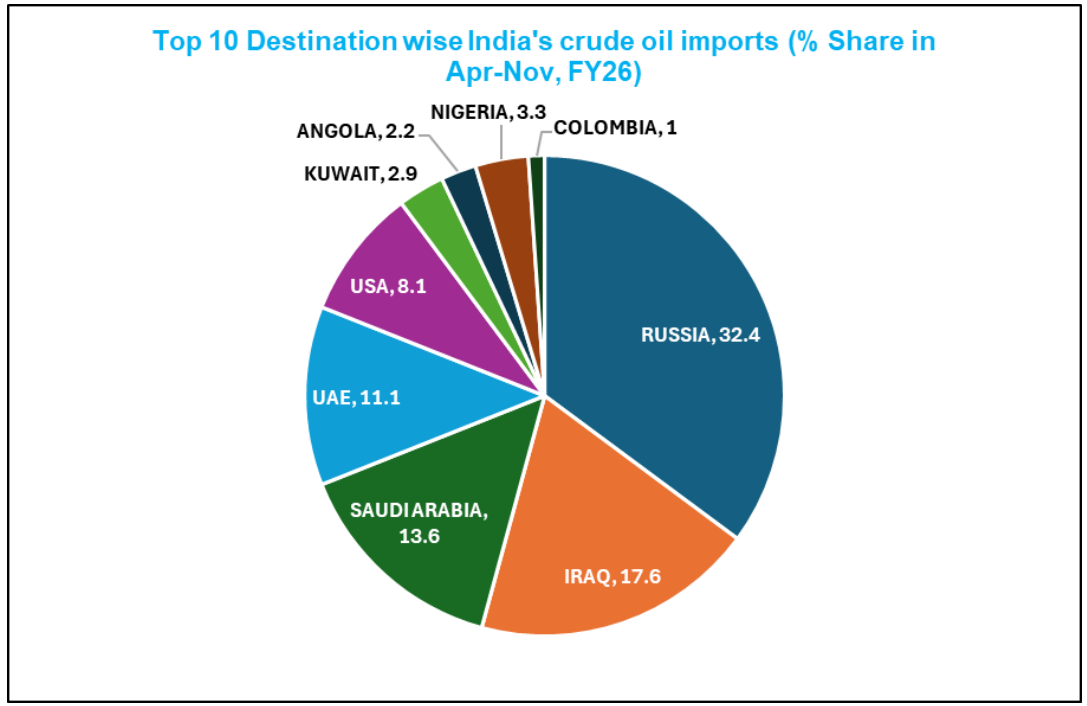


Data source: U.S. Energy Information Administration analysis based on Vortexa tanker tracking

India’s Oil Import diversified

- India, the world's third-largest oil importer and consumer, acquired approximately 5.5 million barrels of crude oil internationally. However, over the years, India has strategically shifted to import oil from more than 40 countries, more from Russia since 2022
- Though, India does not buy any oil from Iran, but Hormuz is crucial for India as 40% of oil imports still passes through this waterway between Iran and Oman





Source: Ministry of commerce and industry

Thirdly, Impact on India's Trade with West Asia

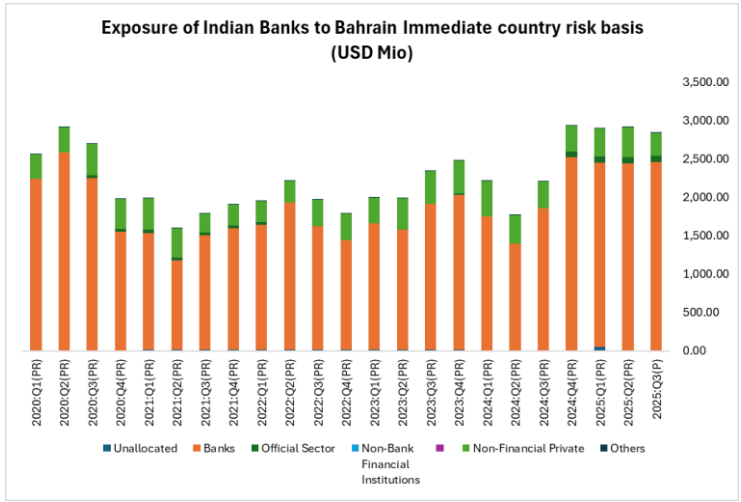
- Total GCC countries holding a share of 13.06 % in India's Export and 16.18% share in Indias Total Imports during Apr-Dec 25
- Other West Asian countries holding a share of 2.03 % in Export and 3.94 % share in Indias imports during the same period
- **Prolonged war could impact exports…**

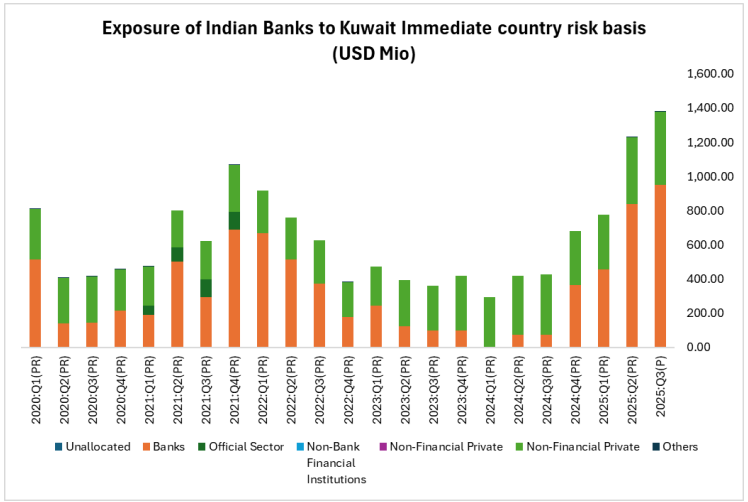
India's Export to West Asian Countries in $ mn			
Countries	**FY25**	**FY 26 till Dec**	**% share in Indias Total Export**
1) IRAN	1,241	883	0.27
2) IRAQ	3,273	2419	0.73
3) ISRAEL	2,145	1663	0.50
4) JORDAN	755	828	0.25
5) LEBANON	337	255	0.08
6) SYRIA	64	67	0.02
7) YEMEN REPUBLC	856	591	0.18
Total West Asia Excl GCC	**8670**	**6706**	**2.03**
1) BAHARAIN IS	797	612	0.19
2) KUWAIT	1935	1362	0.41
3) OMAN	4065	3190	0.97
4) QATAR	1682	1300	0.39
5) SAUDI ARAB	11757	7774	2.36
6) U ARAB EMTS	36638	28866	8.75
West Asia- GCC	**56875**	**43104**	**13.06**

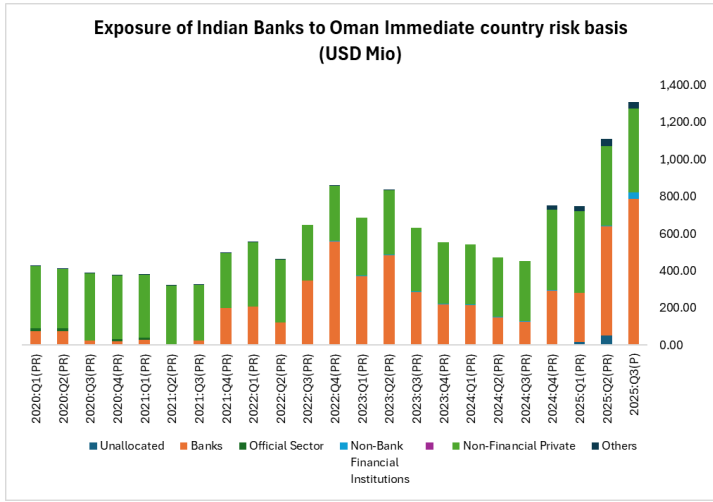
India's Import from West Asian Countries in $ mn			
Countries	**FY25**	**FY 26 till Dec**	**% share in Indias Total Import**
1) IRAN	442	262	0.05
2) IRAQ	28,891	19726	3.41
3) ISRAEL	1,481	1244	0.21
4) JORDAN	1,912	1438	0.25
5) LEBANON	85	68	0.01
6) SYRIA	16	15	0.00
7) YEMEN REPUBLC	155	70	0.01
Total West Asia Excl GCC	**32982**	**22824**	**3.94**
1) BAHARAIN IS	843	657	0.11
2) KUWAIT	8286	6073	1.05
3) OMAN	6549	4873	0.84
4) QATAR	12464	9442	1.63
5) SAUDI ARAB	30121	23029	3.98
6) U ARAB EMTS	63403	49550	8.56
West Asia- GCC	**121666**	**93623**	16.18

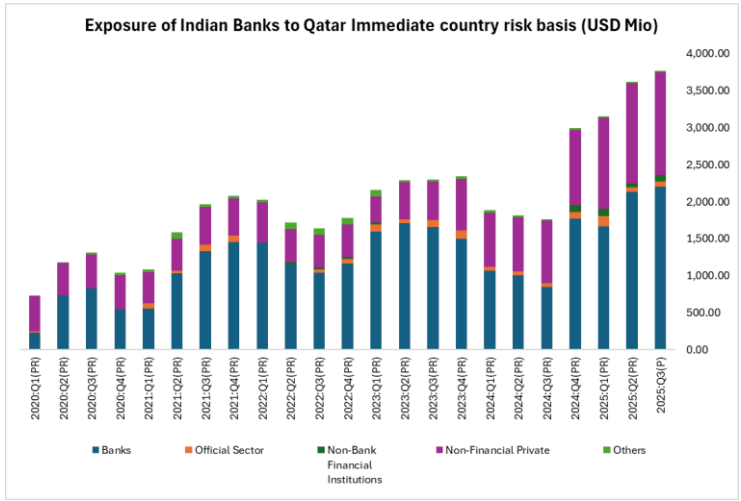
Top 5 Items Imports from West Asian Countries		
HSCode	**GCC countries**	**% share in India's Total Import**
27	Crude oil	8.77
71	Pearls and Precious Metals	3.32
28	Inorganic Chemicals	0.70
31	Fertilizers	0.63
29	Organic Chemicals	0.41
HSCode	**Other West Asian countries**	**% share in India's Total Import**
27	Crude oil	3.38
28	Inorganic Chemicals	0.12
25	Plastering Materials	0.10
71	Pearls and Precious Metals	0.06
85	Electrical Machinery	0.06

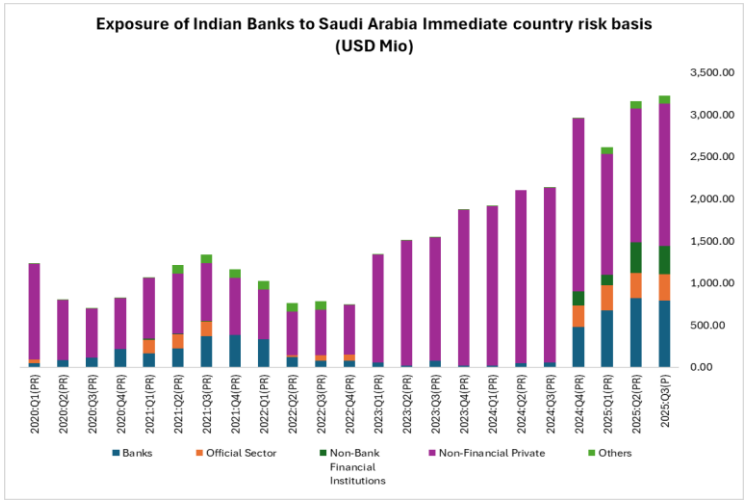
Fourthly, Banks and non-finance private sector have major exposures to affected regions

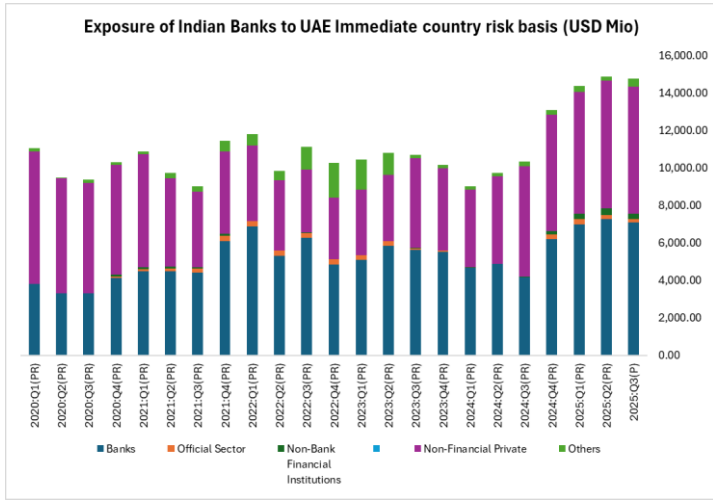












Fifthly, prolonged war could impact India's CAD, inflation and growth

- To estimate the impact of the oil price change on macroeconomic variables; Current Account Deficit (CAD) as % of GDP , Real GDP (YoY), and inflation (%) we used the regression model. The model specification as follows:

$$Y_t = \alpha + \beta OilPrice_t + \epsilon_t$$

- Y_t represents the variables namely, CAD, GDP, and inflation. $OilPrice_t$ is the crude oil price ($/bbl), and β captures the sensitivity of macroeconomic variable to oil price change.
- Our regression results indicate that for every ~$10 per bbl increase in crude oil prices may widens the CAD by 36 bps in FY27.
- The rise in oil price leads to the cost-push inflation to the economy, every ~$10 increase in the oil price may leads to 35-40 bps rise in inflation.

SBI Estimates for impact of oil price hike

Scenarios	CAD		Inflation		GDP	
	bps	% of GDP	bps	%	bps	Growth FY27 (%)
For every $10 per bbl increase	36	-	35-40	-	(-)20 to (-)25	-
If average price is ~$90 in FY27	36	-1.6	35	3.9	-20	6.8
If average price is ~$100 in FY27	64	-1.7	62	4.1	-38	6.6
If average price is ~$110 in FY27	100	-2.1	97	4.5	-56	6.4
If average price is ~$120in FY27	136	-2.5	132	4.8	-76	6.2
If average price is ~$130 in FY27	172	-2.8	167	5.2	-96	6.0

Source: SBI Research

- Higher oil prices may slow down the economic growth by 20-25 bps in FY27.
- As oil prices increase from $90 to $130 per bbl, the current account deficit widens, inflation rises, and GDP growth declines.
- In worst case scenario (if oil prices reach $130 per bbl) GDP growth may plummet to ~6% (on the assumption of 7% growth in FY27).

RBI actions have insulated domestic financial and exchange markets so far…

Firstly, RBI has acted smartly to smoothen G-sec yields

- In the current acquisition cycle, the RBI appeared to be undertaking the OMO operations by keeping up a frantic **keep the pace of acquisition through secondary market route intact that is largely anonymous and is having further sobering effect on yields…. Going by the Market reaction, we believe keeping the tempo of Secondary Market acquisitions intact, the Mint street can better calibrate the yields on benchmark, as also other tenors of the curve**

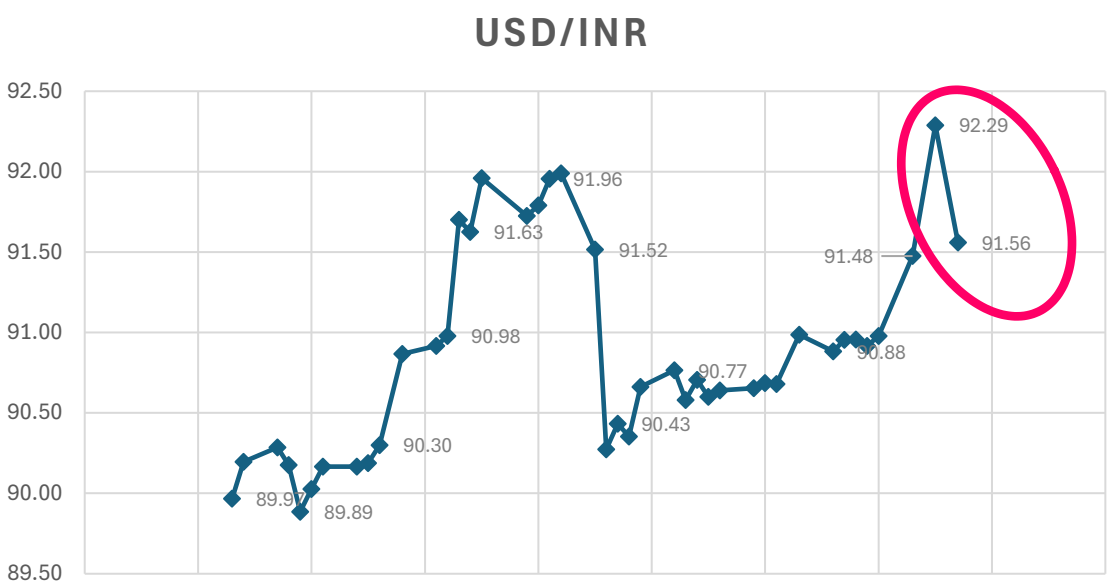
- SDLs, now gunning for a higher share of fresh debt/paper issuances, need better liquidity channels…. Commercial banks hold ~35% of total state government securities as on Sep'25 (Insurance & Provident Funds ~24% each). While RBI has conducted Open Market Operations in central government securities to address system liquidity concerns, **a similar step for state government securities could address to increase the secondary market liquidity and demand of SDLs**

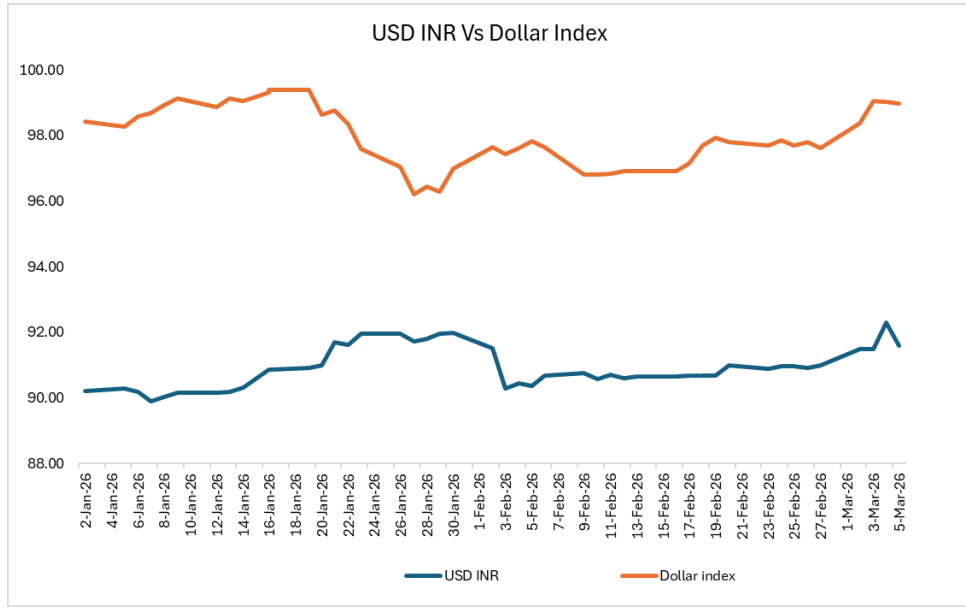
- A healthy discussion around OMOs in SDL that suffer from frustrating levels of low liquidity and other structural issues keeping it a dormant portfolio proposition.. States have no access to NSF and treasury bills…It may be worthwhile to consider

  - **Permitting select fiscally prudent states entry into the coveted T-bills club**…tying the entry/operations in a graded way, aligned to specific conditionalities and upto a pre-set level of annual borrowings…can take off some of the pressure from the G-sec markets apart from setting the tone for other market segments, corporates to inter-financial institutions

  - Ensuring buyback and switches in SDLs as recommended by 16th FC

Secondly, RBI has managed to curb excess rupee volatility





- Much to chagrin of select opinion makers, RBI's intervention in the spot market, curbing the excess volatility, while bringing Rupee to a <92 level marks a bold move given the lingering uncertainty on exchange front

- RBI has a forward short book of ~$61 Bn wherein of late it has been changing the maturity profile of forwards, with one year forwards maturing now being less than ~$28 Bn as of end Jan (which itself is less than its Feb25 high of $89 Bn) giving it more headroom and gun powder to intervene meaningfully should a persisting need arise

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