

# Failed peace talks bode ill for markets, economy

A prolonged war will impact global growth and set back a fledgling market recovery

Abhishek Mukherjee,

Subhana Shaikh & Rituraj Baruah

NEW DELHI/MUMBAI

**M**arkets are bracing for a storm after the Islamabad peace talks stalled on Sunday, breaking a brief spell of relief following the US-Iran ceasefire on 8 April.

While stocks, currency and energy markets are expected to take a beating, the broader economy appears set for protracted headwinds. Economists warned that a protracted war would raise inflation and interest rates, cooling growth. Alongside, the El Nino effect on monsoon threatens the Economic Survey's projection of a 6.8-7.2% growth, presented nearly a month before the war broke out.

The US said it had presented its "final and best offer" regarding non-proliferation, while Iran rejected the terms as "excessive demands". Soon after the collapse of talks, president Donald Trump said the US Navy would "immediately" begin a blockade to stop ships from entering or leaving the Strait of Hormuz. This may impact energy-laden vessels permitted by Iran to cross the Strait, including those heading to Indian ports.

A prolonged war could impact



US vice-president JD Vance arrives for a meeting with Pakistani PM. AFP

## BATTLE BLUES

### STRAIT SETBACK

**STOCKS**, currency, energy are expected to take a beating

**BROADER** economy : set for protracted headwinds

**ECONOMISTS** warn : of rising inflation and rates, cooling growth

global economic growth, inflation, trade and supply chains, said Sachchidanand Shukla, group chief economist at Larsen & Toubro Ltd. "However, India's starting point of 7%-plus growth for the last three financial years keeps it in better stead relative to the rest of the world or comparable economies," said Shukla.

"Given the complexity of geo-

politics, it is not surprising that peace talks sometimes take more time than expected to fructify. If the war drags on well beyond May, the near-term impact on GDP may be greater than on inflation, as the government will try to shield vulnerable consumers using policy tools, and in the worst case, growth may possibly be lower by 60-100 basis points,"

added Shukla.

The failure of talks could impact the stock market's fledgling recovery from its 52-week low, and unsettle the currency and energy markets.

"This is bad news and puts the recent recovery at risk," said Nirmal Jain, founder of IIFL Group, advising investors to wait rather than rush in to buy a likely dip.

The bellwether Nifty had recovered 8.4% from its 52-week low of 22,182.55 on 2 April to Friday's closing of 24,050.6. A further recovery toward the pre-war level of 25,178.65 on 27 February, which analysts had expected ahead of the peace talks, looks like a "tough ask," said Rohit Srivastava, founder of analytics firm IndiaCharts.

While analysts including Srivastava do not believe the market will test its 52-week low again unless the fighting widens, options traders have baked in a 23,000-25,000 range for the Nifty in April. The downside pressure will be led by foreign portfolio investors (FPIs), who have sold a whopping \$20.5 billion in the cash

TURN TO PAGE 6

Trump vows to blockade Hormuz after talks fail >P10

# Failure of US-Iran peace talks bodes ill for markets, world economy

FROM PAGE 1

market in 2026, already three-quarters of the record \$27.35 billion outflows seen in 2025.

The rupee has depreciated nearly 5% against the dollar since the war started, shedding 11% in FY26 due to continuous selling by foreign portfolio investors. On Friday, it closed at 92.73 per US dollar.

“With the setback in round one of talks, the market will reverse some of its gains,” Gopal Tripathi, head of treasury at Jana Small Finance Bank said. “The Indian rupee may react negatively, but the extent of weakness will be guided by the jump in crude prices. 93.50 may act as good resistance for the rupee,” Tripathi said.

The Reserve Bank of India (RBI) has taken several measures to curb heightened volatility in the local unit. On 27 March, it capped banks’ net open position in the domestic market at \$100 million at the end of each business day, setting a 10 April deadline. Since then, the Indian rupee has appreciated by more than 2%. The unwinding weighed on banks’ profitability—the forex

derivative market is dominated by larger banks with gross onshore positions of \$30-40 billion that offset each other, a 29 March Jefferies report said. Banks often buy dollar forwards cheaply in India and sell them at a premium abroad, keeping risks balanced on paper while profiting from the difference.

On 8 April, RBI governor Sanjay Malhotra assured markets that the aim of the recent measures concerning the rupee was to curtail excessive volatility and did not signal any structural change.

“In the long term, we stand committed to the development, broadening and deepening of the markets and the internationalization of the rupee... Obviously, these measures are not going to remain forever,” Malhotra had said.

Oil prices are likely to jump as global commodity futures trade reopens on Monday. Since India is a net importer of oil, a surge in prices would hurt its economy. Oil fell on Friday, paring initial gains as traders stayed glued to the peace talks. Prices rose nearly 1% during the morning Asian trade on Friday due to Iran’s attacks on Saudi Arabia’s East-



India imports 90% of its oil requirements.

AFP

West pipeline and crude-producing facilities. However, as the talks neared, oil prices declined. On Friday, the June contract of the benchmark Brent crude on the Intercontinental Exchange closed 0.75% lower at \$95.20 per barrel.

“While the war’s ‘macro’ impact, that is, on the broader economy, is likely to be manageable, the ‘micro’ impact could be sizeable,” Shukla of L&T said. Hence, he said, individual sectors, producers, small suppliers, supply

chains and individual balance sheets in the informal sector need careful attention and the authorities may do well to consider tailored fiscal and monetary measures.

In a statement on Sunday, the petroleum ministry said: “LPG supply continues to be affected by the prevailing geopolitical situation. No dry-outs have been

reported at LPG distributorships.”

Concerns of a continued closure of the Strait of Hormuz persist. Sultan Al Jaber, chief

**The Strait of Hormuz is a key channel for about 55% of India's oil imports, 50% of LNG imports, 90% of LPG imports**

executive officer (CEO) of the Abu Dhabi National Oil Company (Adnoc), on Thursday said passage through the crucial waterway was subject to “permission, conditions and political leverage” by Iran and the energy security and global economic stability depended on the strait being opened “fully, unconditionally and without restriction”.

Kirit Parikh, a former member of the erstwhile Planning Commission of India said: “One would expect prices to rise tomorrow, and volatility may continue. It seems like the US does not have many options. It may not go ahead with another major offensive. However, nothing is certain. For India, as soon as Iran allows India-bound ships to leave, we should not have any more problem than we already have. I do not see the problem accentuating as supplies are already impacted.”

Prashant Vasisht, senior vice-president and co-group head, corporate ratings, Iera Ltd also sees a rise in oil prices.

“Crude prices had come down after the announcement of the ceasefire. Now, with risks increasing, oil prices may rise as the markets open on

Monday. Although the marine traffic through the strait of Hormuz still has not improved and it would take considerable time for damaged energy infrastructure in the West Asian region to restore. Few ships have crossed the strait in the past few days. Opening of the strait is, however, key for the energy commodities on tankages and which are ready to sail to meet the immediate demand,” he said.

India imports 90% of its oil requirements, and a price increase of \$1 per barrel of oil for a year may lead to a Rs 16,000 crore-increase in the country’s import bill.

While projecting a 6.9% growth for FY27, the RBI last week cautioned that further escalation and wider spread of the conflict, heightened volatility in global financial markets and weather-related events weigh on the domestic growth outlook.

On the brighter side, the two-week ceasefire ending on 21 April is expected to continue. Further, an Iran spokesperson emphasized that “diplomacy never ends.” However, he said the two sides reached a consensus on some issues, but they held different

views regarding “2-3 important matters”.

Saudi Arabia’s energy ministry on Thursday said the strikes cut the kingdom’s oil production capacity by about 600,000 barrels per day (bpd) (7.5% of Saudi Arabia’s current total production of 8 million bpd) and cut flows through its East-West pipeline by roughly 700,000 bpd, about 10% of its total capacity. The pipeline has, however, been restored to operate at full capacity.

“An estimated 230 vessels sit loaded with oil and ready to sail. They, and every vessel that follows, must be free to navigate this corridor without condition. No country has a legitimate right to determine who may pass and under what terms,” Al Jaber wrote.

The Strait of Hormuz has always been key for about 55% of India’s oil imports, 50% of LNG imports and 90% of LPG imports. LPG supplies in the country have been impacted due to the war, with the government prioritizing supplies to domestic consumers.

*abhishek.mukherjee@live-mint.com*

*Gireesh Chandra Prasad in New Delhi contributed to this story.*