

Oil hits 4-year high, rupee record low, as supply fears rise

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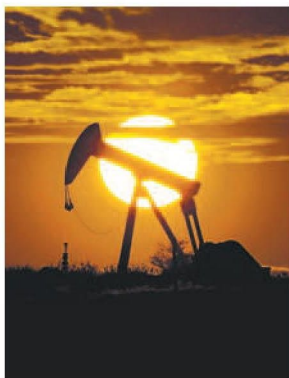
Oil prices hit a four-year peak on Thursday, as concerns intensified over a lengthy disruption to global energy supplies.

The rally was ignited by comments from US President Donald Trump, who indicated that a naval blockade of the Strait of Hormuz would continue until Iran agrees to a new nuclear deal.

"We're having talks with Iran. They've come a long way. The question is whether or not they're going to go far enough. At this moment, there will never be a deal unless they agree that there will be no nuclear weapons," said Trump, as quoted by the US department of state in a tweet.

Brent for the expiring June contract hit \$126 a barrel on the Intercontinental Exchange, and the active July contract with the highest open interest was trading at \$114.07 per barrel at the time of writing, down 3.07% from its previous close.

Costly crude poses a threat to global economic stability, particularly for major importers like India.



Costly crude poses a threat to global economic stability. AP

Since India relies on imports for 90% of its oil, sustained high prices are expected to widen the current account deficit and weaken its currency.

India's oil import bill was close to \$122 billion in fiscal year 2026 (FY26), and every single-dollar increase in oil price adds approximately ₹16,000 crore to import costs.

The Trump administration is talking to oil companies and considering measures to increase production in the US "really soon" to ease the impact of the Iran war on energy supplies, White House economic adviser Kevin Hassett said later in the day.

TURN TO PAGE 6

Oil hits 4-year high, rupee record low

FROM PAGE 1

"We've been in constant communication with the oil companies, and have been considering measures that we could take here in the US to increase US production really soon," Hassett told reporters at the White House.

"There are things, regulations that are holding up, like how quickly stuff could come through... and we're studying those, how we can change those, and we've been talking to oil companies about that," he added.

While keeping retail fuel prices unchanged amid high oil prices, state-run oil marketing companies are incurring a revenue loss or under-recovery of around ₹20 per litre on the sale of petrol and around ₹100 per litre on the sale of diesel.

On Wednesday, the department of economic affairs in its monthly economic review for April noted that while some countries are yet to pass on the cost increase to the consumers, such a move is "inevitable".

Prashant Vasisht, senior vice-president and co-group head, Icria Ltd said: "At crude



Trump said the Strait of Hormuz blockade may continue. REUTERS

prices of \$120-125 per barrel and long-term averages of crack spreads, the marketing margins on petrol and diesel are estimated to be negative ₹14 litre and ₹18 litre respectively."

During the day, the Nifty slipped 0.3% to 23,997.55, while the Sensex fell 0.8% to 76,913.5.

The rupee closed at 94.92 against the dollar after hitting an intra-day low of 95.33.

"The rupee initially reacted to the crude opening much higher and then going up fur-

ther to \$126, along with the US Fed being quite hawkish. That gave some natural dollar strength, which caused the rupee to weaken initially,"

Spike in oil caused the 10-year bond yield to rise by 0.02% to 7.01% in anticipation of potential fiscal slippages

Rajeev Pawar, treasury head at Ujjivan Small Finance Bank said.

"Towards the close, it came off slightly, possibly due to intervention or because crude started

coming off," he said, while adding that overall, the movement was in line with other markets, be it equities or bonds, it was a risk-off reac-

tion across markets.

Pawar expects some gradual depreciation ahead, with occasional pullbacks.

He said there aren't too many trading positions due to interbank restrictions; so, most of the movement is driven by actual client demand.

"If there is large buying pressure for dollars, you could see the rupee weakening further. The move might be slower but more secular. Difficult to call a range in this volatility," Pawar added.

Further, the spike in oil caused the 10-year bond yield to rise by 0.02% to 7.01% in anticipation of potential fiscal slippages, as the government subsidizes fuel and fertilizers.

"This will likely entail greater borrowing by the government as reflected by the rising bond yields," said Madan Sabnavis, chief economist, Bank of Baroda.

Also, while the selling of dollars to cushion the fall in the rupee could create a liquidity deficit, the RBI is expected to address this through open market operations, said Sabnavis.

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