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# "DE-ESCALATION" OF THE GEOPOLITICAL TENSION NEEDED.

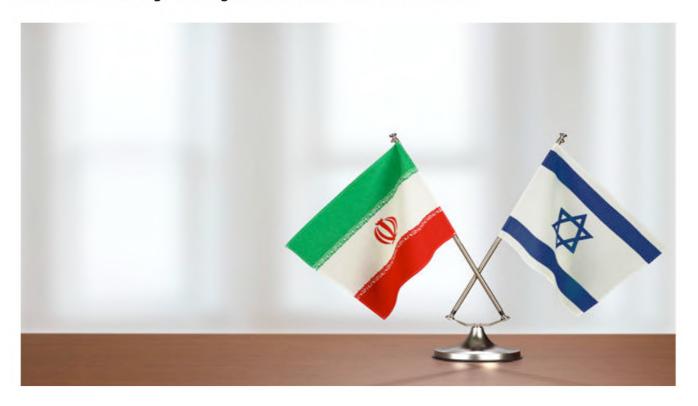
# 16 April 2024

#### Introduction

The expanding conflict in West Asia has become intense after Iran's first direct attack on Israel after an airstrike by Tel Aviv on the Iranian embassy killed seven Iranian official (including an Iranian General). According to media reports, The Iranian strikes were retaliation for the bombing of an Iranian diplomatic building in Damascus on 1st April by Israel, that marked the first time the Islamic Republic has launched a direct assault on Israel. Yemen's Iran-backed Houthi group has already disrupted global trade with attacks on shipping in the Red Sea.

#### Leading Countries urged an immediate 'de-escalation':

As reported by CNN, China has voiced "deep concern" over escalating tensions in the Middle East. Beijing has vowed to play peacemaker and promote its own security vision. Globally, US and China including India urged for an immediate de-escalation.



#### To quote,

"Following the Damascus strike, which Iran said killed seven people, including two top Iranian military commanders, US Secretary of State Antony Blinken spoke to China's top diplomat Wang Yi – and other counterparts in Turkey and Saudi Arabia – to "make clear that escalation is not in anyone's interest, and that countries should urge Iran not to escalate," according to a US State Department spokesperson. In the wake of Houthi rebels' assaults on commercial shipping in the Red Sea late last year, American officials repeatedly tried to prod Beijing into pressuring Tehran – which is believed to train, fund and equip the Houthis – to rein in the attacks."

China has been Iran's major trading partner for the past decade and purchases most of the Iran's oil exports, providing a lifeline to Tehran against US sanctions. Chinese companies also provide Iran with security and surveillance equipment. Nevertheless, it is difficult for China to influence Iran's strategy in this regard, due to China's "chronic underinvestment in Iran", and earlier endeavours to influence Iranian policy over the Houthi attacks.

### **Impact on Oil Prices:**

Iran produces 3.2 million barrels per day (bpd) crude oil with considerable command over the strait of Hormuz, the world's most crucial oil chokepoint that connects the Persian Gulf with the Gulf of Oman and the Arabian Sea. Iran maintains significant military power in the region and can unsettle shipping through the Strait if it chose to. This accounts for thirty per cent of oil transit and seventy per cent of oil shipment to Asia. The tension in West Asia can have adverse impact on oil which has surged over \$90 per barrel in April'24, and likely to cross \$100 per barrel. Flows through the strait of Hormuz constitutes more than one-quarter of total global seaborne traded oil and around one-fifth of global LNG trade.<sup>2</sup> Indian refineries and oil marketing companies (OMCs) can face losses, due to higher input costs as well as their inability to raise prices.

## **Impact on Stock Markets:**

There was an initial downslide of the Asia-Pacific markets. Brent crude futures was trading 0.14% down at \$90.32 per barrel, whereas US West Texas Intermediate Futures was down 0.32% at \$85.39. Japan's Nikkei was down by 0.74%, clipping some losses, closed at 39,232.8, while the broad-based Topix was down 0.23% at 2,753.2.<sup>3</sup> The Australian market, S&P/ASX 200 has experience a smaller loss compared to the other Asian markets, down 0.46% at 7,752. As reported by CNBC, South Korea's Kospi slid 0.42% to finish at 2,670.43, while the small-cap Kosdaq dropped 0.94%, closing at its lowest level since Feb. 13.<sup>4</sup>

Investors sentiments remain subdued in the Indian stock market, the 30-share BSE benchmark Sensex and the NSE Nifty declined by 845 points and 241 points on 15<sup>th</sup> April

<sup>&</sup>lt;sup>1</sup> CNN (15 April 2024).

<sup>&</sup>lt;sup>2</sup> Reported by both US Energy Information Administration (EIA) and Business Standard (15 April 2024).

<sup>&</sup>lt;sup>3</sup> "Asia-Pacific markets fall as Israel-Iran tensions spike; spotlight on oil, gold and bitcoin" (15 April 2024) The CNBC.

<sup>&</sup>lt;sup>4</sup> ibid.

2024, respectively. Except Maruti, Nestle India, Sun pharma, most stocks have realised losses.

Amid the uncertain geopolitical landscape, the gold prices have skyrocketed by more than Rs 1,000 to Rs 72,931 per 10 gram in the previous week, that is currently trading at 74,670.00 Indian Rupee (10 g of 24k gold), as people are resorting to safe haven.

#### **Concluding Remarks:**

The new developments have escalated the uncertainty regarding geopolitical tensions in West Asia. Already the Red Sea crisis continues to impact global trade adversely as commercial ships are required to take routes of treacherous waters to evade potential threats posed by Houthi rebels of Yemen. For India, the rate cutting cycle would get unnecessarily complicated if input prices get adversely impacted due to such geopolitical disruption, despite having a favourable inflation softening moving towards the desired target.

More importantly, the disrupted supply chain would be further affected if such tensions prolonged that would adversely impact the exportable and trade. Such external disturbances could be fatal during the election time, where domestic policies might turn unpredictable. Globally, the Fed rate cutting cycle is also getting prolonged. Therefore, globally countries, especially dominating countries like US, China should try to amicably handle the situation and attempt to de-escalate the issue at the earliest.