Rising Crude Oil Prices

Why in news?

\n\n

\n
- Oil prices hit their highest levels since July 2015 recently.
\n
- Brent futures, the international benchmark for oil prices went up, indicating a rise of 45% in less than five months.
\n

\n\n

What are the causes?

\n\n

\n
- **OPEC -** The Organization of the Petroleum Exporting Countries specified restrictions in production a few years back.
\n
- This seems to have had the desired effect of pushing prices back up from the dip in oil prices in recent years.
\n
- **Saudi Arabia** - Saudi heir's recent anti-corruption crackdown led to many high-profile arrests of powerful princes and officials.
\n
- The uncertainty about what it could mean for the stability of Saudi Arabia, the world's largest oil producer, is pushing prices up.
\n
- **Demand** - With global growth looking better than before, the demand outlook is relatively stronger.
\n

\n\n

What are the possible implications?

\n\n

\n

- The price rise is witnessed at a time when India is facing a slowdown in the economic growth.

\n

- The recent trend in oil prices is expected to reflect in many sectors of the economy.

\n

- **Oil marketing** - The first ones to get impacted would be the oil marketing companies (OMCs) and airlines.

\n

- These have limited power to pass on the cost of higher crude oil prices.

\n

- However, government may ask the public sector oil-major to shoulder some burden of higher oil prices, despite the dismantling of administered pricing mechanism.

\n

- **Indiustries** - Input costs are likely to rise as a follow up to rising oil prices.

\n

- Additionally, fuel and transportation costs are bound to increase across industries with rise in fuel prices.

\n

- Companies for whom crude or its derivatives are major inputs/costs are expected to see pressure on the demand as well as on profit margins.

\n

- These include sectors such as refining, airline, paints, tyres, footwear, lubricants, cement, logistics, construction materials and chemicals.

\n

- Thus, the ability of companies to sustain profitability will depend on their capacity to take viable price hikes.

\n

- **Fiscal** - A rising import bill of the government due to high oil prices could put downward pressure on the rupee.

\n

- While a weak rupee would benefit export-oriented players and the IT industry, it will hurt ones who import a major part of their raw materials.

\n

- Persistent rise in prices can also lead to rise in current account deficit (CAD).

\n

- These shifts in fiscal positions could weigh on inflation and rupee, and hence on interest rates, further impacting the private sector investment.

\n

- **Besides**, the high probability for further price rise could probably lead to money moving out of equities into safer havens like gold and US dollar.

\n

- Also, Indian equity market needs to digest the far-reaching implications of the grave geopolitical developments unfolding in West Asia.
\n

\n\n

What lies ahead?

\n\n

\n
- Globally, the future course of oil prices depends to an extent on the dynamics of the shale oil market in the United States.
\n
- These technological improvements and increased efficiencies in the oil sector would decide the future course in oil prices.
\n
- For India, efforts like temporary subsidy will come at a serious cost to public finances and fiscal consolidation targets.
\n
- The challenge lies in balancing the stability in domestic oil pricing and fiscal prudence.
\n

\n\n

\n\n

Source: Business Standard

\n