



Oil swings and the economy

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Oil swings and the economy-As India depends on imported crude oil, global trends have a big impact

Factors influencing crude oil price

- Global demand for oil, decisions by major producing nations to raise/ cut supplies and the global political environment are key to oil prices.

Reasons for price fall

- The recent fall has been attributed to two main factors: higher supply and volatility due to uncertainty about the global economy.
- Fears of the consequences of a full-fledged trade war between the U.S. and China have rattled speculators.
- Key support factors for oil prices would be anticipated production cuts as well as U.S. sanctions against Iran.
- Also, automobile demand has risen globally, and as internal combustion engines still rule the roost, demand for oil is not expected to plummet yet.

What's the Indian basket of crude?

- It is the weighted average of Dubai and Oman (sour) and Brent (sweet) crude.
- It's the indicator of the price of crude imports for India and the index has a bearing on price rise in the country, in general.

Crude oil price-the rupee

- India imports more than 80% of its crude oil requirements, and it has to pay for these imports in foreign currency, mainly dollars.
- If international crude prices rise, refiners in the country need to spend more in dollars.
- If there is volatility and uncertainty about which way prices will sway,

refiners tend to buy more oil and stock up.

- As rupees are exchanged for the U.S. currency in this exercise, it generates a demand for the dollar, thereby weakening the rupee.

Fuel prices-Inflation

- Prices of goods are determined as much by their supply as by the cost of transportation.
- Accelerating inflation influences the central bank to raise rates thereby making it costlier to borrow.
- Higher interest rates keep supply of money in check and hence control inflation.

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