



## Educate Yourself - An Initiative by SSL Research Centre

**Educate yourself is an educational debate dedicated to the dissemination of stock market related terminologies in the use of fundamental and technical analysis for traders and investors. Market participants can explore self-developed skills to face the growing threats of volatility through Educate yourself.**

**Educate yourself is a great way to boost your knowledge in general investing lingo and helps you to trade strategically.**

**Title of the topic: "Crude Oil Prices and Its Impact"**

**Volume: 05/2026 (Issue-7)**

## A) Introduction

“Sir, crude oil prices are discussed almost every day in financial news relating to stock markets. But why are crude oil prices so important for the Indian economy?” Ravi asked while discussing current events during the economics lecture.

Before answering, the professor turned to the class and asked, “What happens if fuel prices increase?”

“Transportation becomes expensive,” one student replied.

“Manufacturing costs rise,” another added.

“And overall inflation may increase,” said a third.

The professor nodded and wrote on the board – “Global Commodity”. He then continued to explain, “Crude Oil is not just another commodity. It is closely connected with transportation, manufacturing, logistics, and day-to-day economic activity of the whole nation. Now imagine the impact on a country like India, which imports a large portion of its crude oil requirements. The effect is not limited to petrol pumps alone — it can influence company profits, the value of the rupee, investor sentiment, government finances and even movements in the Indian stock market.”

The discussion soon revealed that crude oil prices influence so much more than one can imagine. It is closely connected with both the performance of various sectors and the health of the comprehensive Indian economy. Therefore, understanding this relationship has become increasingly important in today’s global economy.

## B) What is Crude Oil?

Now, the most important question that arises is what is this buzz word that has terrorized every news outlet? Crude oil is the natural liquid that we get out of the ground. It is a depletable, non-renewable source found mostly in liquid form beneath the Earth’s surface. This is further refined into various usable products such as gasoline, diesel, jet fuel, kerosene etc.

Crude oil is primarily traded electronically on global commodity exchanges using financial derivative contracts like futures and options to either speculate on the price movements with the intention of gaining profits or to hedge against the various energy and inflation risks.

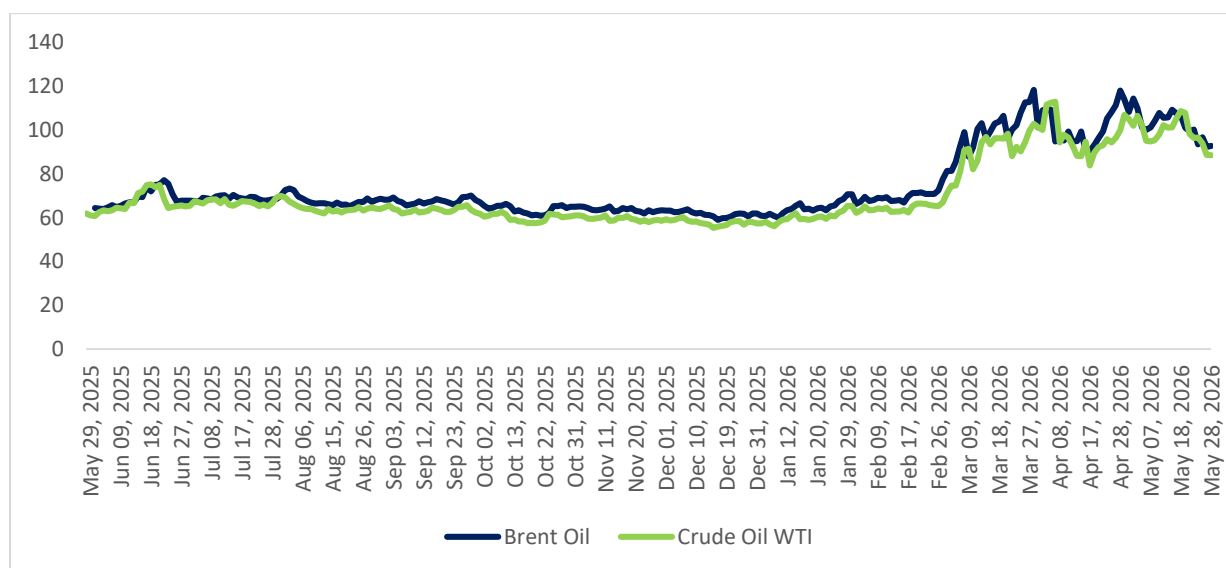
At present, countless times, while addressing the current state of economic affairs the media has highlighted crude oil prices, typically referring to the two most dominant oil benchmarks, that is Brent Crude and WTI (West Texas Intermediary) which are traded on the Intercontinental Exchange (ICE) and the New York Mercantile Exchange (NYMEX) respectively.

### C) Factors Affecting Crude Oil Prices

The following are some of the influential factors that are significant to consider when understanding about crude oil:

1. **Production Decisions:** Any refining or drilling decisions taken by the countries controlling the oil reserves and production like cutting down or increasing output can influence the global availability thereby shifting the prices.
2. **Supply Disruptions:** Wars, natural disasters, or any other massive geopolitical change in major oil-producing regions can suddenly hinder production as they create a sudden imbalance in the global market because they create a sudden imbalance in the global market. When less oil is available to meet steady demand, buyers compete, driving up the cost of crude oil and, consequently, refined petroleum products like gasoline and jet fuel.
3. **Demand:** Recessions or economic downturns that reduce industrial activity or consumer travel causing the energy demand in the oil-importing countries to plunge while there exists surplus of oil, could drive the price down. And on the other hand, during an economic expansion, high demand outpaces supply, driving prices up.
4. **Strength of USD:** Crude oil is priced and traded in US dollars globally. When the USD strengthens, oil often becomes more expensive for foreign buyers, reducing global demand and pushing prices down. Similarly, when the USD weakens, the oil becomes comparatively cheaper and demand for the commodity boosts, lifting the prices up.

### D) Crude Oil Price Chart



### **E) Which are the Oil Dominant Countries?**

The top 3 oil producing countries in the world in December 2025 are United States of America (13,585.852 Barrel/Day), Russia (9,129.233 Barrel/Day), and Saudi Arabia (6,768.000 Barrel/Day).

While the top oil exporting countries in December 2025 include Saudi Arabia (6,431.548 Barrel/Day), Russia (4,538.354 Barrel/Day) and United States of America (3,987.000 Barrel/Day).

And on the other hand, are the top oil importing countries in December 2025 are namely, China (11,611.570 Barrel/Day), United States of America (6,169.000 Barrel/Day) and India (4,985.548 Barrel/Day).

### **F) Impact on Indian Economy**

India is one of the world's largest consumers and importers of the crude oil.

This makes the Indian economy highly vulnerable to fluctuations in global oil prices. The following are some of the key sectors that are influenced by the fluctuating crude oil prices:

- 1. Automobiles & Auto Components Sector:** As mentioned before, Crude oil is one of the main sources of many of the raw materials required in these sectors. If the crude oil prices rise in the global market, the above products become more expensive, leading to rising vehicle operating costs and reduced consumer demand for vehicles, thereby impacting the revenue of Indian auto and auto component companies. Whereas, when the price declines these companies tend to save more money due to lower manufacturing expenses and improved consumer sentiment.
- 2. Aviation Sector:** Jet fuel is one of the key operating costs incurred by the Indian airline companies. Rising oil prices, thus hamper aviation company's profitability as it often leads to higher airfares cause and reduced passenger demand in the Indian aviation industry. On the other hand, when fuel prices ease, airline's operating costs reduce and they witness improved profit margins.
- 3. Fertilizers & Agriculture Sector:** Crude is an essential feedstock for producing fertilizers like urea. Spikes in crude prices raise the fertilizer and transportation costs in India, increasing the overall cost of agricultural inputs. This can lead to higher food prices and contribute to food inflation in the Indian economy. While cheaper crude oil, in turn cause moderating food prices.
- 4. Paint and Chemical Sector:** The Indian paint and chemical industries rely heavily on crude oil-derived raw materials. An increase in crude oil prices raises production costs, which puts pressure on profit margins and adversely affects the profitability of

companies operating in these sectors and the opposite effect occurs when the oil prices fall.

In addition to the sectoral impact, elevated crude oil prices also lead to these following changes in an economy:

- 1. Reduced Disposable Income:** Higher crude oil prices reduce the disposable income of Indian households as they now need to spend a larger portion of their income on higher transportation costs, pricier groceries, etc., leaving less money for saving or their personal needs. India's high dependence on imported crude oil makes consumers particularly vulnerable to such price shocks.
- 2. Burdening Government's Finances:** Jump in Crude oil prices place significant pressure on the finances of the Government of India. To protect consumers from rising fuel prices, the government absorbs a heavy subsidy bills, expand their borrowings and take many such similar steps.
- 3. Widening Fiscal Deficit:** Since crude oil constitutes one of India's largest import items, any sharp increase in global prices substantially raises the country's import bill and foreign exchange outflows. This generates a worsening fiscal deficit as the now costlier imports are afforded by the government draining more of the foreign exchange reserves.
- 4. Currency Depreciation:** Economies like India are heavily reliant on imported crude, a spike in global prices dramatically increases the volume of dollars needed to finance the imports. This exerts a downward pressure on the Indian Rupee. Historically, spikes in crude oil prices have often led to rupee depreciation as larger dollar outflows weaken India's currency position and foreign exchange reserves.
- 5. Volatile Stock Market:** Rising crude oil prices negatively affect investor sentiment in the Indian equity market due to fears of inflation, lower corporate profitability and slower economic growth. Foreign Institutional Investors (FIIs) often withdraw funds during periods of rupee weakness and rising import costs, leading to increased volatility in Indian stock markets.

Sources: SSL Research Centre <https://www.ceicdata.com/en/indicators>

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