

SBI Research

Iran-Israel Conflict: An Imperfect Sandstorm

Tracing the economic costs of elevated aggression on growth & asset classes, impact on India likely to be contained

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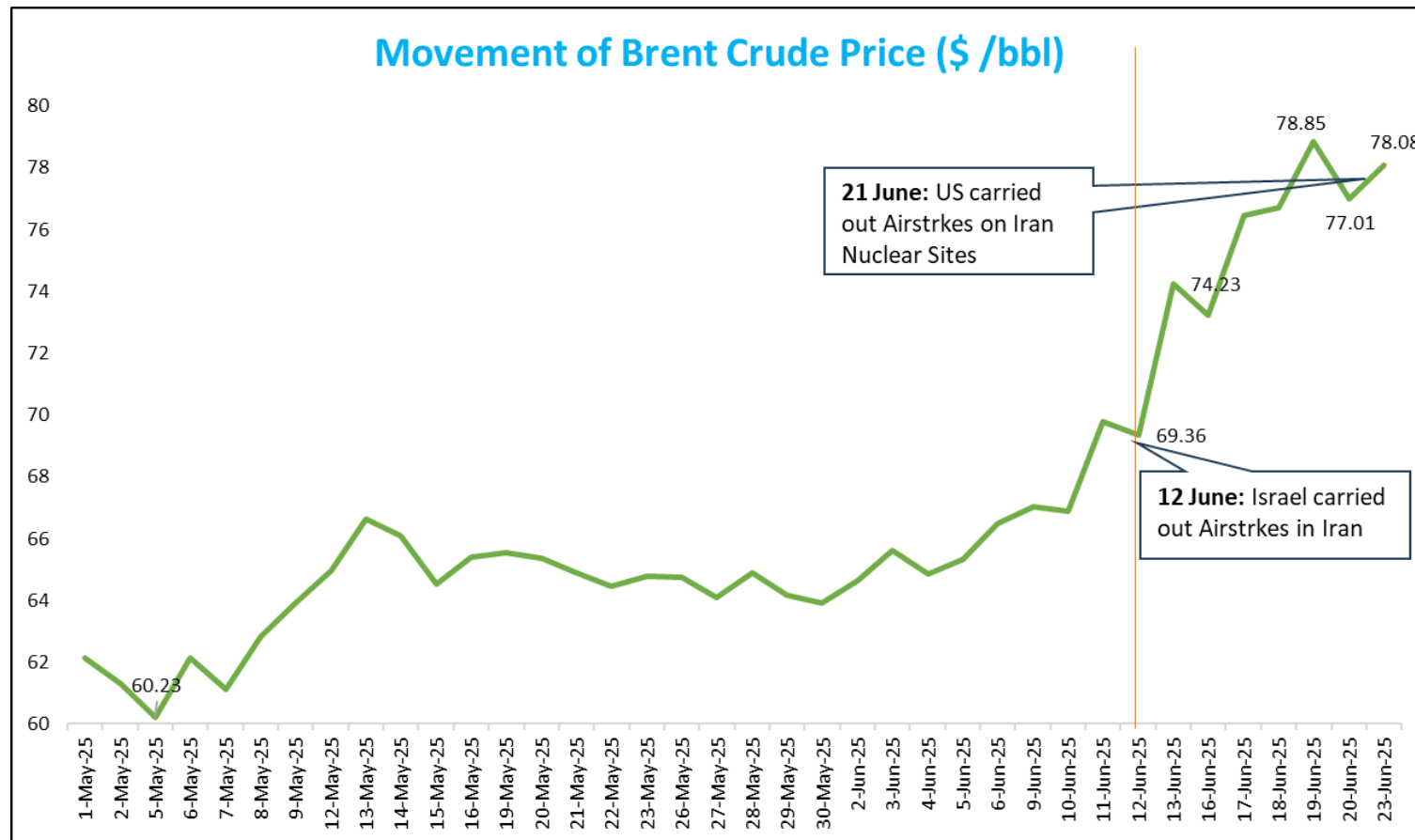
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- ❑ The upended, Israel-Iran confrontation, have put the global markets on tenterhooks, with a very likely US participation (more explicit now than implicit) roiling the nervous markets and asset managers, chiefly with disjointed global supply chains and elevated crude prices
- ❑ With world attention fixated to the Strait of Hormuz, the only sea route from the Persian Gulf to the open ocean, with ~20% of the world's oil transits passing through the troubled waterways, the needle has also moved to countries like us with a substantial dependency on oil imports since India imports nearly 90% of its crude oil requirements. About two million barrels per day of this, out of 5.5 million, transits through the Strait of Hormuz
 - In 2024, oil flow through the strait averaged 20 million barrels per day (b/d), or the equivalent of about 20% of global petroleum liquids consumption. Large volumes of oil flow through the strait, and very few alternative options exist to move oil out of the strait if it is closed
 - Iran is the 9th-largest oil producer, despite international sanctions, so a large disruption in Iranian production or export would leave supply very precarious dent on global supply chains, with profound consequences for the global economy
 - Though, India does not buy any oil from Iran yet Hormuz is crucial for India as 40% of oil imports still passes through this waterway between Iran and Oman....diversification of supply sources to 40+ countries counter checks the cost shock though
- ❑ Global shipping lines, tagged with crude transportation, are mirroring the elevated tensions with the Chinese Import crude oil Tanker Freight Index (CTFI) vaulting up, while the Friday close of Baltic Dirty Tanker Index shows the levels still below recent highs... an interesting thing to watch would be the pricing of maritime insurance, a true reflector of elevated volatilities
- ❑ Under a Base case scenario, the jump in crude prices can be restricted to \$82-\$85 which may not be too restrictive for our economic indicators viz. CAD / BoP.... Brent has averaged ~\$74 during the last 12 months, whereas its LPA (Long Period Average) of 5 years is ~\$78

- ❑ Contrarian, as it may seem, Iran was one of the handful of countries from the Islamic world that recognized the formation of a full-fledged Jewish state back in 1948...The first Arab-Israeli war saw Iran not participating while establishing ties with Israel post war, second country after Türkiye to do so influenced by the “periphery doctrine’ of Israel that emphasized upon building strategic ties with Non-Arab jurisdictions
- ❑ Iran maintained close ties with both US, as also Israel under the rule of erstwhile ruler Shah Mohammad Reza Pahlavi, even selling oil to Israel during Arab economic boycott
- ❑ The overthrow of the Shah regime was a watershed moment in the bilateral relations, leading to the establishment of a deeply religious state in Iran, altering its stance on Israel to view it as an occupier of Palestinian territories
- ❑ Post revolution, Iran aimed to expand its influence in an oil rich landscape, challenging regional powers like Saudi Arabia and Israel, both closest allies of US that knew the economic costs of a vaulting crude, and its impact on the local economy (the oil shock of 1974 and the runaway inflations).... Also, the need to keep the war in Afghanistan in favour of western powers that were losing to the Soviet advances, kept US much hooked to the Middle East
- ❑ Iran’s ceasing support for Kurdish-Iraqi separatists, reduced hostilities post the Iraq wars affected the regional balance of power while its nuclear ambitions, and strife torn geographies tilted the balance to an uncertain trajectory
- ❑ Iran's support for beleaguered militant groups like Hezbollah and Hamas, in confrontation with Israel and other nations including the USA further escalated tensions but Israel, long worried of Iran’s clandestine outreach in nuclear technology, moved forward only after decapitating Hamas decisively, **even as Middle East appears to be losing the sway it had on oil prices**

- ❑ Israel and Iran opened a new chapter in their long history of conflict when Israel launched a major attack with strikes on June 12 that set off explosions in the Iranian capital of Tehran. Israel said it targeted nuclear and military facilities, killing Iran's top military and nuclear scientists
- ❑ Israel's attack comes as tensions have escalated over Iran's rapidly advancing nuclear program, which Israel sees as a threat to its existence
- ❑ On 21 June, US joined Israel's bombing campaign against Iran with a series of strikes that did "severe damage" to the country's three top nuclear sites (Fordow, Natanz & Isfahan). As fears rose of more dangerous escalations, the US administration tried to emphasize that it did not intend to enter an all-out war with Iran

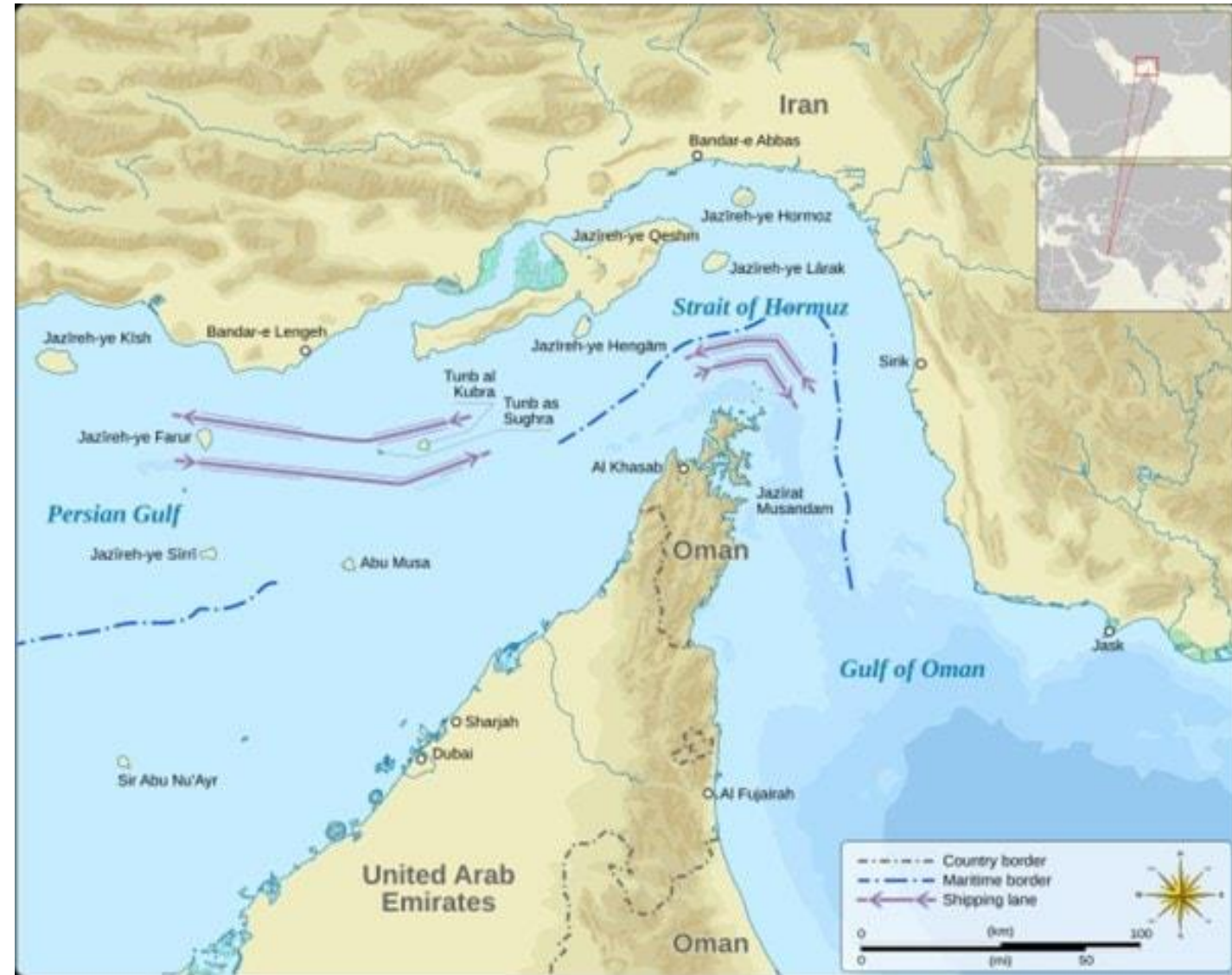
- ❑ The global oil markets has experienced a series of events over the last 2-weeks. On 31 May, OPEC+ countries has announced to increase production quota, but a lot changed overnight, when Israel strikes on Iran
- ❑ The price of Brent crude oil increased from \$69 per barrel (b) on June 12 to \$74/b on June 13, which indicate the importance of the strait to global oil supplies



Source: Bloomberg

Closure of Strait of Hormuz

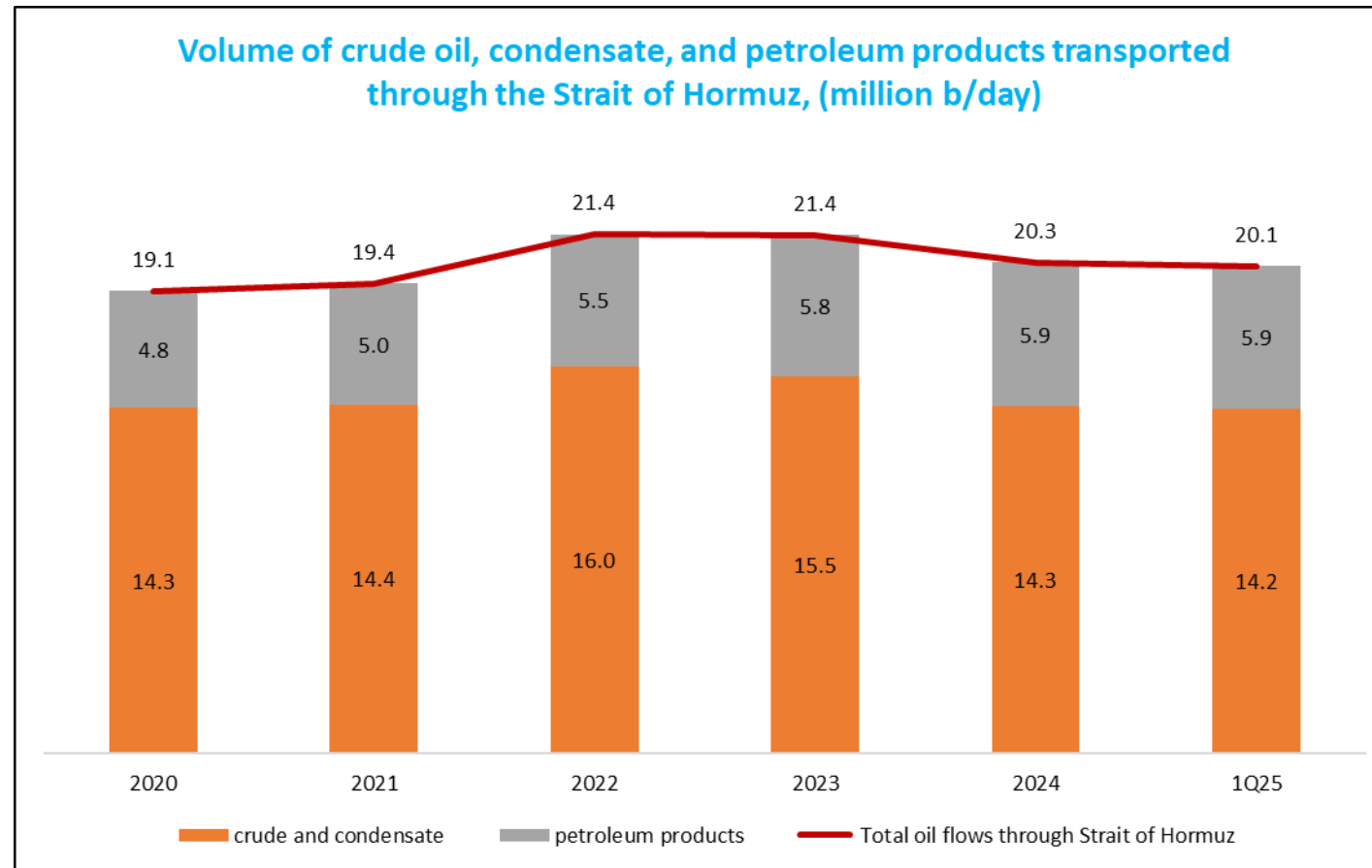
- ❑ The Strait of Hormuz is the only sea route from the Persian Gulf to the open ocean, and about 20% of the world's oil transits the waterway. The U.S. Energy Information Administration has described it as the "*world's most important oil transit chokepoint*"
- ❑ The decision to close the waterway now rests with the country's national security council, and its possibility has raised the specter of higher energy prices and aggravated geopolitical tensions
- ❑ India imports nearly 90% of its crude oil requirements. About two million barrels per day of this, out of 5.5 million, transits through the Strait of Hormuz



(Photo: Wikimedia Commons)

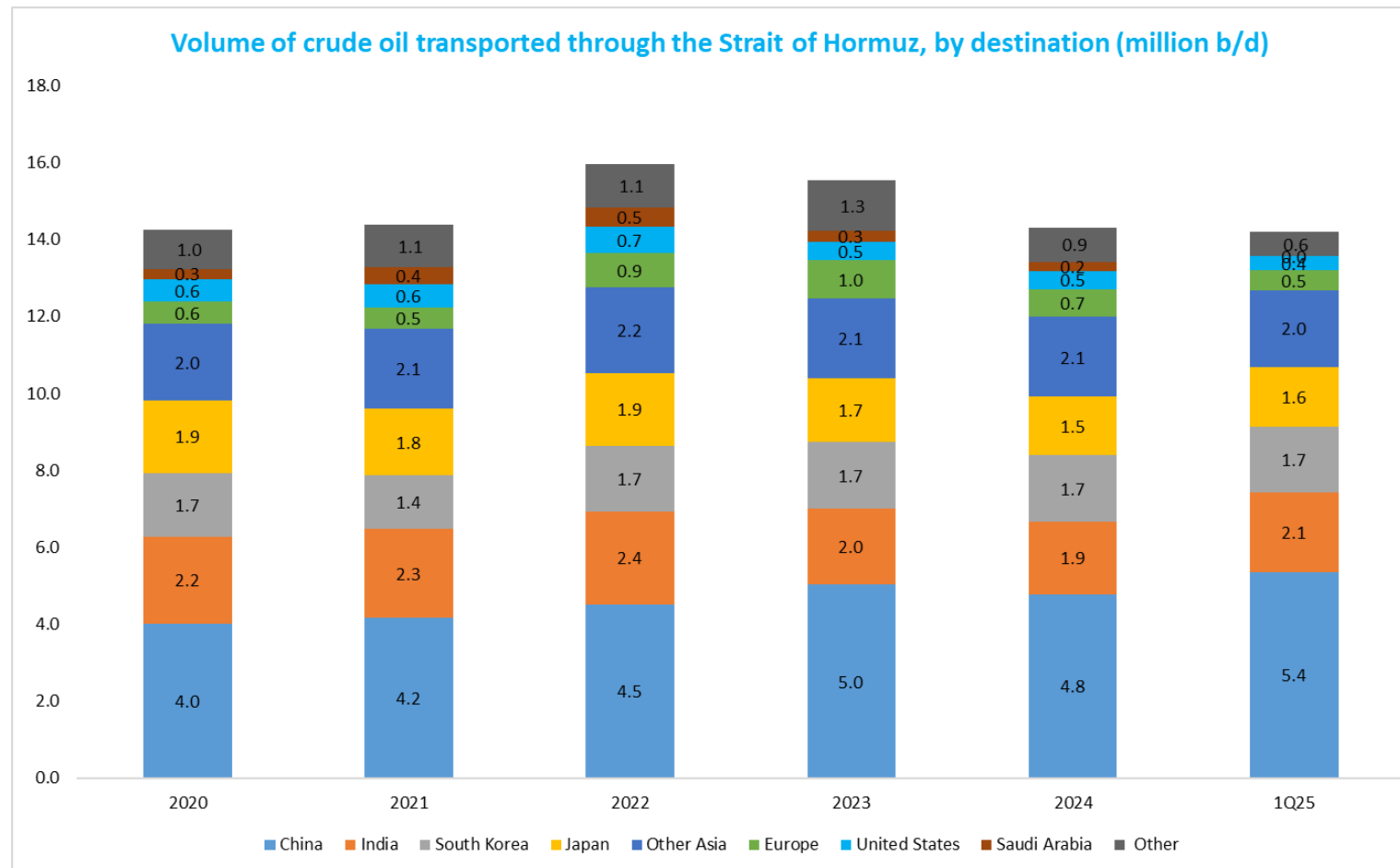
Around 20% of global consumption, flowed through the strait of Hormuz

- ❑ Large volumes of oil flow through the strait, and very few alternative options exist to move oil out of the strait if it is closed
- ❑ In 2024, oil flow through the strait averaged 20 million barrels per day (b/d), or the equivalent of about 20% of global petroleum liquids consumption. In the first quarter of 2025, total oil flows through the Strait of Hormuz remained relatively flat compared with 2024



Data source: U.S. Energy Information Administration analysis based on Vortexa tanker tracking

- ❑ China is Iran's biggest oil customer ~ 5.4% through the Straits of Hormuz
- ❑ Today, Iran is the 9th-largest oil producer, despite international sanctions, so a large disruption in Iranian production or export would leave supply very precarious
- ❑ An attempt to block the narrow waterway between Iran and Oman could have profound consequences for the global economy



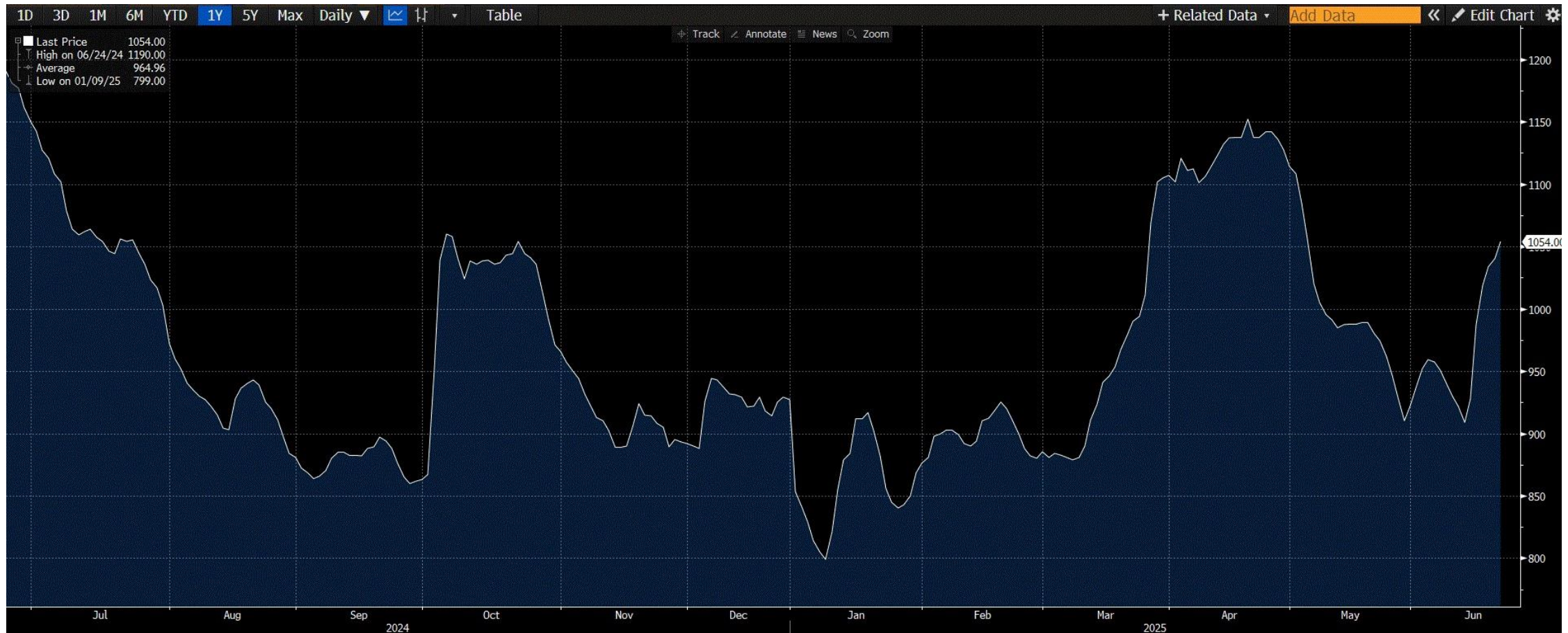
Data source: U.S. Energy Information Administration analysis based on Vortexa tanker tracking

China Import Crude Oil Tanker Freight Index (CTFI)

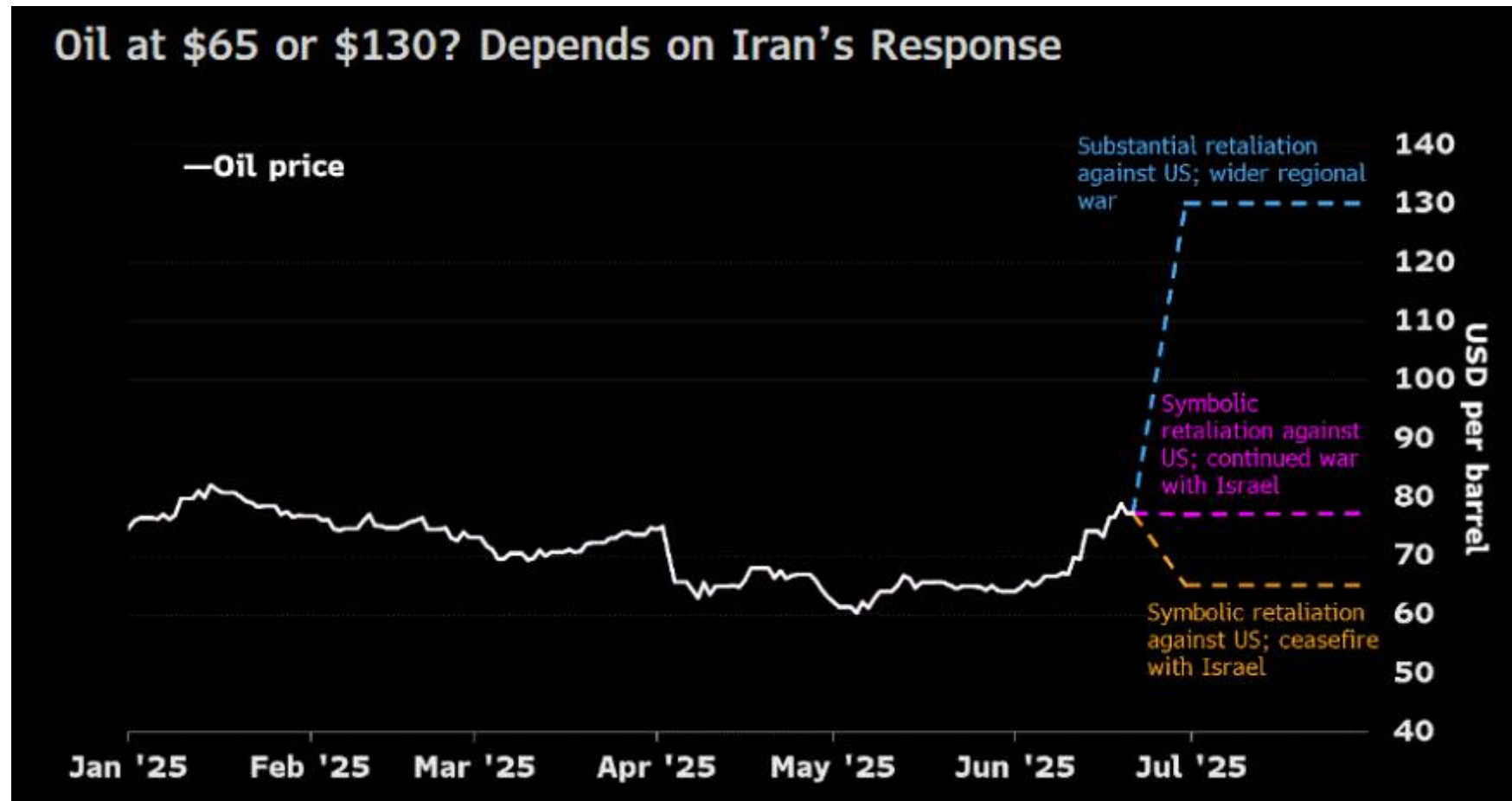


- ❑ The CTFI is a composite index that tracks the changes in freight rates for crude oil tankers carrying imported crude oil into China. The index helps to provide transparency and benchmark rates for chartering crude oil tankers in China, influenced by various factors, including global crude oil demand, tanker supply, and broader economic conditions. For example, increased oil imports by China, especially if driven by refiners building up stockpiles, can affect tanker demand and thus the CTFI levels. The present spike due to Iran-Israel conflict takes it to early 2025 levels

Baltic Dirty Tanker Index shows a divergence though.... Regional disparities at play!



The Baltic Dirty Tanker Index (BDTI) measures the transportation cost of unrefined crude oil and fuel oil by tank vessels commonly known as "dirty tankers" as against the Baltic Clean Tanker Index (BCTI), which tracks the transportation cost of refined oil products, such as gasoline and diesel, by tank vessels typically referred to as "clean tankers". BDTI level (as on closing of last Friday), though careening up fast, has remained below the levels seen this April... The Baltic Exchange calculates the index by assessing multiple shipping rates across more than 20 routes

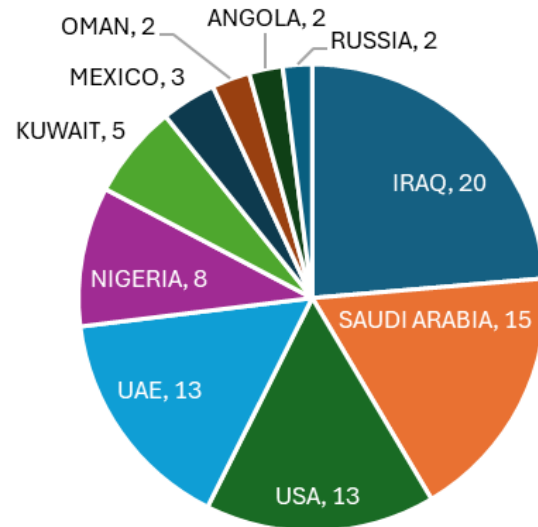


Graph Credit: Bloomberg

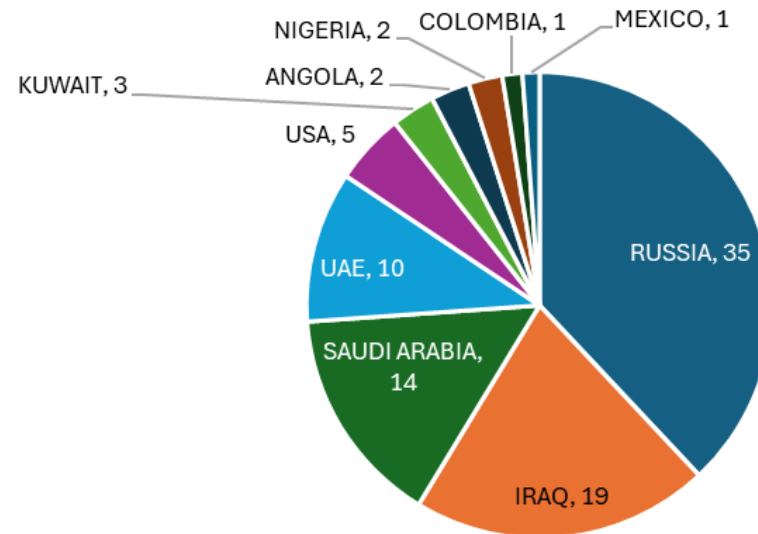
- Different Scenarios being built along the Iran-Israel conflict seem a little far-fetched, especially a Worst-case scenario, on Oil's trajectory given any sharp increase in prices may not be a long-term phenomenon, with monthly average of contract prices remaining much lower than the highest point seen during active days of extreme confrontation... the only scenario leading to a worst-case scenario could be the usage of weapons of mass destruction by either side, its costs too big to factor by a model

- ❑ India, the world's third-largest oil importer and consumer, acquired approximately 5.5 million barrels of crude oil internationally. However, over the years, India has strategically shifted to import oil from more than 40 countries, more from Russia since 2022
- ❑ In June, for example, oil imports from Russia and the US outpaced combined volumes of from traditional West Asia suppliers like Iraq and Saudi Arabia
- ❑ Though, India does not buy any oil from Iran, but Hormuz is crucial for India as 40% of oil imports still passes through this waterway between Iran and Oman

Top 10 Destination wise India's crude oil imports (% Share in FY21)



Top 10 Destination wise India's crude oil imports (% Share in FY25)



Source: Ministry of commerce and industry

- India's exports to Iran stood at \$1.24 billion in FY25, with key items including Basmati rice (\$ 753.2 million), banana (\$ 53.2 million), soya meal (\$ 70.6 million), Bengal gram (\$ 27.9 million), and tea (\$25.5 million). Imports stood at \$ 441.8 billion in FY25
- With Israel, India's exports stood at \$ 2.1 billion and \$ 1.6 billion in imports in 2024-25
- The ongoing US-Israel strikes on Iran and the threat of wider conflict could significantly disrupt this trade

India's Export to Israel and Iran in FY25			
Iran (% share in country's total export to Iran)		Israel (% share in country's total export to Israel)	
BASMATI RICE	60.69	DIAMOND(OTHR THN INDSTRL DIAMOND)CUT	25.52
Meal soyabean, solvent extracted defatted products	5.69	BASMATI RICE	4.69
BANANAS, FRESH	4.29	water absorption coefficient by weight not exceeding 0.5%	3.39
BENGAL GRAM (DESI CHANA)	2.25	Parts suitable for use solely or principally with the apparatus of headings 8525 to 8528	3.05
Tea, whether or not flavoured, other black tea and other partly fermented tea	2.06	Other electric conductors, for a voltage not exceeding 1,000V, fitted with connectors,	1.65
Mixtures of odoriferous substances and mixtures with a basis of one or more of these substances, of a kind used as raw materials in industry	1.97	T-SHIRTS ETC OF COTTON	1.52
Safety Glass, Consisting Of Toughened (Tempered) Or Laminated Glass	1.43	Non-Industrial Diamonds	1.35
BONELESS MEAT OF BOVINE ANIMALS , FROZEN	1.08	OTHERS ARTICLES OF ALUMINIUM N.E.S.	1.31
KERNELS, H.P.S	0.71	TOILET LINEN AND KITCHEN LINEN, OF TERRY TOWELLING OR SIMILAR TERRY FABRICS, OF	1.02
OTHER SEEDS OF CUMMIN EXCL. BLACK; NEITHER CRUSHED NOR GROUND	0.66	OTHER SESAMUM SEEDS W/N BROKEN	1.00
Source: Ministry of commerce & industry			

India's export to West Asian countries(Excl GCC)				
Country	USD Mn		% share in India's total export	
	FY 24	FY 25	FY 24	FY 25
IRAN	1222	1241	0.28	0.28
IRAQ	3355	3272	0.77	0.75
ISRAEL	4526	2145	1.04	0.49
JORDAN	1465	755	0.34	0.17
LEBANON	345	337	0.08	0.08
SYRIA	63	64	0.01	0.01
YEMEN REPubLC	876	856	0.20	0.20
Total	11852.25	8670.13	2.71	1.98
India's imports from West Asian countries(Excl GCC)				
Country	USD Mn		% share in India's total imports	
	FY 24	FY 25	FY 24	FY 25
IRAN	625	442	0.09	0.06
IRAQ	29961	28891	4.42	4.01
ISRAEL	2007	1613	0.30	0.22
JORDAN	1411	1912	0.21	0.27
LEBANON	113	85	0.02	0.01
SYRIA	18	16	0.00	0.00
YEMEN REPubLC	191	155	0.03	0.02
Total	34326.56	33114.13	5.06	4.59

- Since early May, crude oil prices have escalated by ~10% so far
- Our research indicate that for every ~\$10 per bbl increase in crude oil prices lead to 25-35 bps increase in CPI inflation and 20-30 bps decline in real GDP growth
- In worst case scenario (if oil prices reach \$130 per bbl) GDP growth may plummet to ~5.1%

SBI Estimates for impact of oil price hike							
Scenarios	CAD			Inflation		GDP	
	bps	Amount (\$ bn)	% of GDP	bps	%	bps	Growth FY26 (%)
For every \$10 per bbl increase	35	13.8	-	25-35	-	(-)20 to (-)30	-
If average price is ~\$90 in FY26	35	-55.8	-1.6	30	3.8	-25	6.1
If average price is ~\$100 in FY26	68	-69.6	-1.9	58	4.1	-38	5.9
If average price is ~\$110 in FY26	103	-83.4	-2.2	88	4.4	-56	5.7
If average price is ~\$120 in FY26	138	-97.2	-2.6	118	4.7	-99	5.3
If average price is ~\$130 in FY26	173	-111.0	-2.9	148	5.0	-124	5.1
Source: SBI Research							

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