Oil reality check

Why a deal may not be enough

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Economic Update ▸ US-Iran deal ▸ **June 15, 2026**

The US-Iran deal and the imminent reopening of SoH has led to Brent plummeting below USD85/bbl; however, there is a material risk of continued physical market imbalances causing prices to move toward and beyond USD90/bbl in coming weeks. Supply normalization delays and especially a return of pent-up demand largely from China could put a floor on oil prices. However, prices should correct meaningfully beyond 1HFY27 and fall to USD70/bbl by end-FY27. With 1HFY27 likely to see elevated oil prices, we retain FY27E Brent forecast at USD90/bbl, with GDP growth at 6.3%, headline inflation at 5.1%, CAD/GDP at 2.3%. BoP should, in our view, move to near-zero on USD70-75bn of estimated flows following GoI and RBI measures, with the rupee appreciating toward 93 by end-2QFY27.

Physical market imbalances a key risk to lower oil prices

The US-Iran peace agreement has arrived, in line with our expected timelines, with oil market pressures building up. We had previously assessed that oil prices would have skyrocketed beyond USD120/bbl if a deal to open SoH was not agreed on by end-Jun, with buffers rapidly being exhausted. While Brent prices have fallen below USD85/bbl post-announcement, we continue to look at the physical oil market to gauge the path ahead for oil prices. With supply normalization via Hormuz (to pre-crisis levels) expected to take weeks, if not months, there is a material risk that oil prices will slowly grind upward, toward and beyond USD90/bbl in coming weeks, if pent-up demand returns quickly. However, prices should correct meaningfully and sustainably beyond 1HFY27, in our view, falling to USD70/bbl by end-FY27. Crucially, this does not move the needle for our baseline forecasts – With 1HFY27 likely to see elevated prices (avg: USD95/bbl; 2HFY27E: USD85/bbl), we retain FY27E Brent forecast at USD90/bbl (*Oil imbalances: The price of war and resilience*).

SoH supply normalization to take time, while US oil exports to drop materially

On the supply front, normalization of flows via SoH is likely to take weeks. Operational friction such as tanker availability, insurance costs, war-risk premiums, and clearance of mines/security risks in SoH, etc will linger, while resumption of production from shuttered oil wells will also require time. At the same time, historically high US oil exports, which had provided a substantial buffer for the oil market in the absence of Hormuz flows, are set to meaningfully decline. US oil will be redirected domestically with the start of the US driving season, amid record-low gasoline and domestic crude stocks. The expected oil glut post-SoH reopening will only occur post 1HFY27, as flows eventually normalize and global oil production ex-Middle East continues apace.

Chinese oil imports to surge substantially, alongside global inventory restocking

The biggest factor behind oil prices remaining relatively contained despite the scale of the supply hit has been China. Chinese oil imports have fallen to multi-year lows (down 50% in Jun vs Feb), as it has drawn down on commercial inventories and restricted refinery production to manage the crisis. With commercial inventories beginning to dry up, China will soon return to the oil market as a buyer, thus adding a significant source of demand that had been absent so far. This will be supplemented by global oil demand rising in response to the deal – OECD commercial stocks are also at multi-year lows, while the US (and others) will also look to refill its strategic reserves. Global oil demand is expected to remain higher than supply in 2026 which will put a floor on prices in the short-term, till supply normalizes to pre-crisis levels.

Domestic macro environment to improve from 2HFY27 onward

We maintain our FY27 macro estimates – real GDP growth at 6.3%, headline CPI inflation at 5.1%, and CAD/GDP at 2.3%. Notably, the macro impact will depend on how the crude price shock (and reversal) is shared between the government, OMCs, and consumers – with a possible partial reversal of the retail fuel price hikes in 4Q as crude oil prices fall below USD75/bbl. Additionally, while the current account will see pressure from higher oil prices (vs FY26), the GoI and RBI measures to attract capital flows should help address the BoP deficit. With USD70-75bn in capital flows expected after these measures, FY27E BoP could move to near-zero deficit or even a minor surplus. This should help INR appreciate toward 93 in the near term (by end-2QFY27), as these flows materialize. However, a heavy net short forward book (USD95bn, with USD45bn maturing by end-FY27) may put depreciation pressure on the currency beyond 2QFY27. Potential inclusion of Indian sovereign bonds in global bond indices could bring in further large passive FPI debt inflows of USD20-25bn; however, these are likely to materialize only in FY28.

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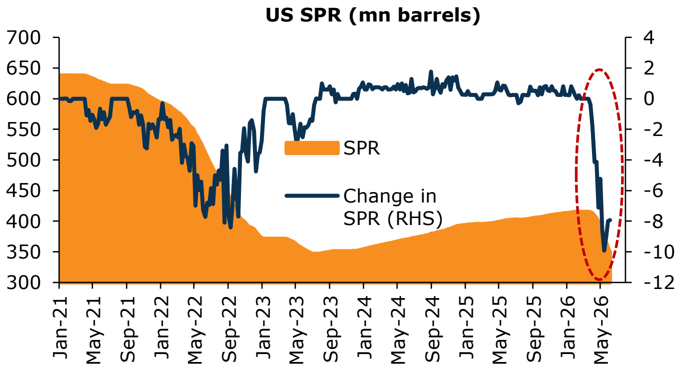
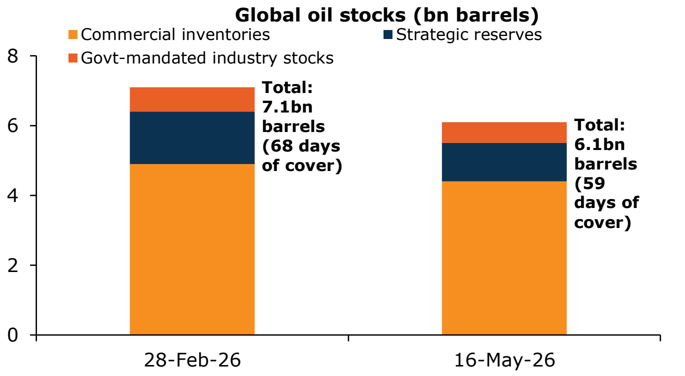
Exhibit 1: US SPR has seen the highest so far weekly drawdowns recently



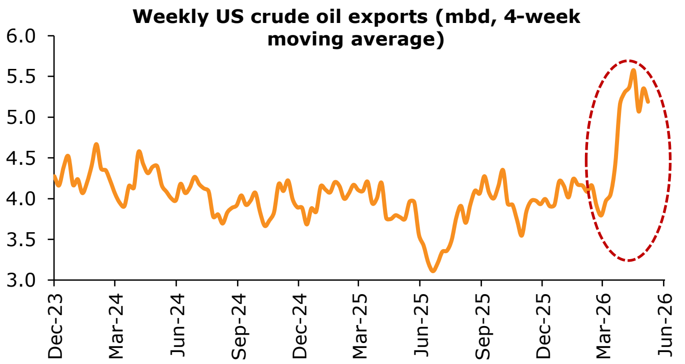
Source: US EIA, Emkay Research

Exhibit 2: Global oil inventories have fallen sharply due to heavy drawdowns



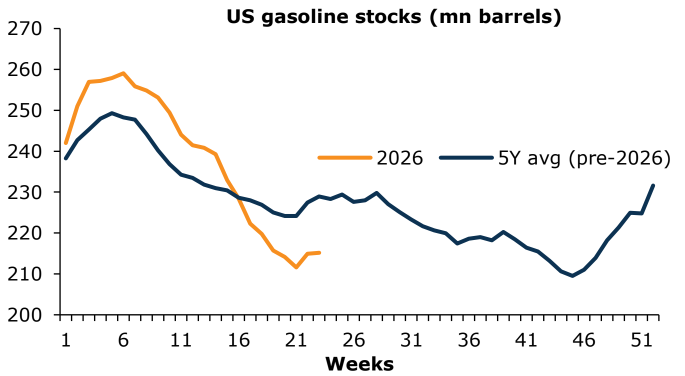
Source: Oil 101, Morgan Downey, Emkay Research

Exhibit 3: US crude exports have surged to >5mbd, helping offset some of the SoH supply shock…



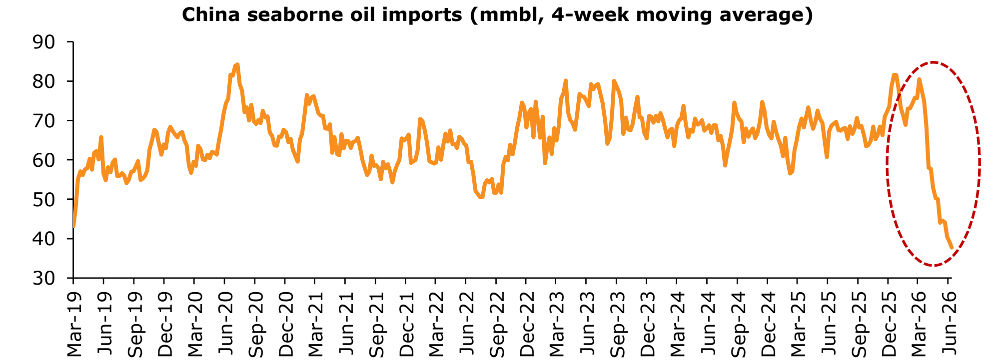
Source: US EIA, Emkay Research

Exhibit 4: …but are likely to moderate going ahead, to replenish domestic oil and gasoline stocks—which are at multi-year lows



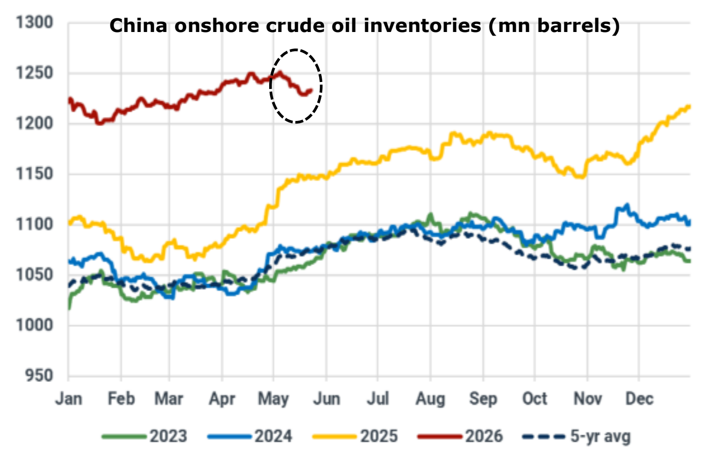
Source: US EIA, Emkay Research

Exhibit 5: Chinese oil imports have dropped to multi-year lows



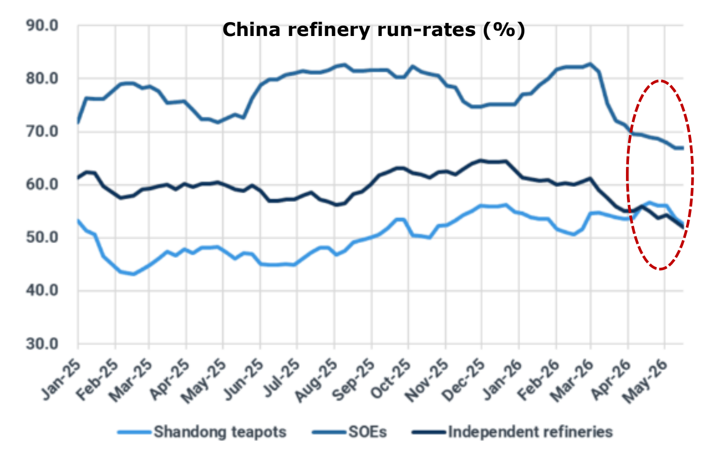
Source: Bloomberg, Emkay Research

Exhibit 6: China's crude oil inventories have started moving lower



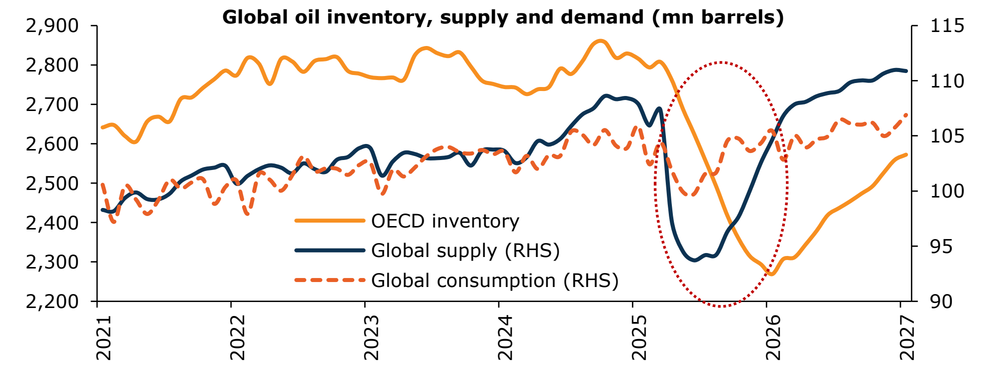
Source: Kpler, Emkay Research

Exhibit 7: Chinese refinery run-rates are at multi-year lows



Source: Kpler, Emkay Research

Exhibit 8: Global oil demand is forecast to remain higher than supply in 2026, putting a floor on oil prices



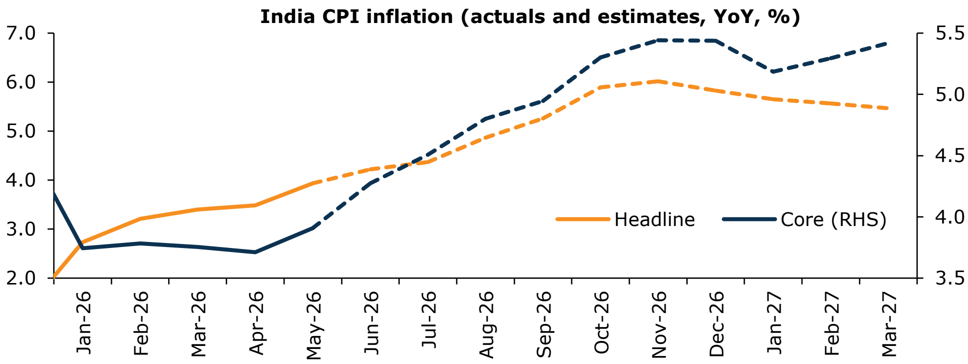
Source: US DoE, Bloomberg, Emkay Research

Exhibit 9: Real GDP growth seen slowing to 6.3% in FY27E, on account of the energy shock and weak monsoons

YoY, %	FY22	FY23	FY24	FY25	FY26	FY27E
Real GVA	**9.4**	**7.2**	**7.2**	**7.3**	**7.9**	**6.4**
Agriculture and allied	4.6	6.3	2.6	4.2	3.0	2.0
Industry	12.2	2.5	10.9	8.3	8.5	6.8
Mining	6.3	3.4	2.4	11.7	5.2	7.3
Manufacturing	10.0	(1.7)	12.7	9.3	10.7	7.5
Electricity	10.3	10.8	10.7	2.9	1.7	6.2
Construction	19.9	9.1	9.9	7.3	7.4	5.5
Services	9.2	10.3	7.0	7.9	9.0	7.8
Trade, hotel, transport, communication	15.2	12.3	10.1	6.6	10.1	7.9
Financial, real estate, professional services	5.7	10.8	5.5	10.0	9.9	8.5
Public admin, defence, and others	7.5	6.7	6.8	5.0	5.8	5.9
Real GDP	**9.7**	**7.6**	**7.2**	**7.1**	**7.7**	**6.3**

Source: CEIC, Emkay Research estimates; Note: Data and estimates for FY24-27 are per the new GDP series (base year: 2022-23)

Exhibit 10: FY27E headline CPI at 5.1%, with core at 4.8%



Source: CEIC, Emkay Research estimates

Exhibit 11: FY27E CAD/GDP to widen to 2.3%, with average Brent at USD90/bbl, but BoP to improve materially to near-zero deficit or even a mild surplus after large capital inflows

	Oil @83	*Oil @78.8*	*Oil @66.5*	*Oil @90*
(USD bn)	**FY24**	**FY25**	**FY26**	**FY27E**
Current account	**(26)**	**(23)**	**(25)**	**(94)**
CAB/GDP (%)	**(0.7)**	**(0.6)**	**(0.6)**	**(2.3)**
Trade balance	(245)	(287)	(337)	(414)
Trade balance/GDP (%)	**(7.0)**	**(7.6)**	**(8.6)**	**(10.2)**
- Exports	441	442	446	471
- oil exports	84	63	54	67
- non-oil exports	357	379	392	405
- Imports	686	729	783	886
- oil imports	179	186	174	235
- non-oil imports	508	543	609	644
Net invisibles	219	264	312	320
- Services	163	189	217	233
- software	142	160	180	190
- non-software	21	29	37	43
- Transfers	106	123	144	139
- Net Income	(50)	(48)	(48)	(53)
Capital account	**90**	**17**	**2**	**94**
% of GDP	**2.7**	**0.4**	**0.3**	**2.3**
Foreign investment	54	5	(9)	3
- FDI	10	1	7	12
- FPI	44	4	(16)	(9)
Banking capital	41	(10)	6	63
Short-term credit	(1)	7	14	5
ECBs	(0)	16	11	25
Others	(12)	(7)	(22)	(8)
Overall BoP	**64**	**(5)**	**(24)**	**1**

Source: CEIC, Emkay Research estimates

Exhibit 12: The FCNR scheme could offer equity-like USD returns to depositors at higher levels of leverage

Investor returns from current FCNR(B) scheme under various leverage scenarios			
Investment amount (USD mn)	1	2	5
Borrowed from bank (USD mn)	9	10	15
Total FCNR deposit	10	12	20
Leverage	*9x*	*5x*	*3x*
3Y US SOFR OIS rates	4%	4%	4%
Bank charge over swap rate	0.80%	0.80%	0.80%
Total borrowing cost	4.80%	4.80%	4.80%
3Y FCNR deposit rate	6.50%	6.50%	6.50%
Interest earned pa (USD mn)	0.65	0.78	1.3
Interest paid on borrowing pa (USD mn)	0.43	0.48	0.72
Investor return (USD mn)	0.22	0.3	0.58
Investor return pa (%)	**21.80%**	**15.00%**	**11.60%**

Source: Emkay Research calculations

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