



INDIA STRATEGY

“Oil” is *well*

India’s bear case is leaving the building?

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INTRODUCTION

Oil has been the single most powerful driver of India's macro narrative in 2026 — and its sharp reversal, following the Iran-US MOU, marks a defining pivot for Indian markets. This note argues that the combination of falling crude, decisive policy on NRI deposits and a highly anticipated AI plus capex cycle makes the current pessimism on India not just overdone — but a strong potential entry point for foreign investors. The Russia-Ukraine precedent shows exactly what happens next when the oil fear leaves the building.

Oil is the most defining pivot for Indian macro and its markets. A sustained US\$10 per barrel increase adds 35–60 basis points to CPI inflation, takes 20–40 basis points off GDP growth, widens the current account deficit by 30–50 basis points of GDP, and hits consumer sentiment through higher fuel and transport costs at a time when discretionary spending is already the market's most watched variable. The reverse is equally powerful — when oil falls, inflation eases, the RBI gets room to cut and the rupee finds its footing.

OIL IS INDIA'S FOREIGN INVESTOR BAROMETER

Beyond the domestic macro, oil is also the lens through which foreign investors read India. When crude rises sharply, the narrative shifts quickly — India becomes a current account deficit story, a currency depreciation story, a fiscal slippage story. FII flows turn cautious or reverse, the rupee comes under pressure, and the cost of hedging India exposure rises.

We see this in every instance when oil rises. We saw this play out in real time following the onset of the West Asia conflict in late February 2026. Crude prices surged from US\$69 per barrel in February to US\$113 in March and crossed US\$118 by late April. Foreign investors did not wait to see how the macro would settle. FPIs recorded a historic outflow of approximately US\$12.6bn in March alone, followed by a further US\$6.5bn in April, taking total outflows in the first four months of 2026 to approximately US\$20.6bn, already exceeding the entire outflow recorded in calendar year 2025. The rupee moved from INR90 per dollar at the start of 2026 to 96 by mid-May, eroding dollar returns for foreign investors even on positions that were flat in rupee terms. Foreign ownership of Indian equities fell to a 14-year low of 14.6%.

WHEN THE SPRING RECOILS

We have watched oil markets and Indian equities long enough. As with all asset markets, the most powerful price moves are not driven by supply and demand — they are driven by fear and the removal of fear. The West Asia conflict was fear in its most concentrated form. When the Strait of Hormuz closed on March 4, Brent surged past US\$120 per barrel, stranding oil and LNG exports. Markets priced the worst. The repeated upsets in negotiations raised the markets' fear gauge. The MOU removes that fear, for now. The Hormuz reopens within 30 days, the US naval blockade lifts immediately, and the US Treasury issues explicit waivers for Iranian crude, and petrochemicals. It removes the single biggest friction cost in Iranian oil trade. Pre-war, Iran was exporting 1.6 million barrels per day; the conflict collapsed that to roughly 0.4 million barrels by late April — barrels sitting in tankers off Kharg Island, fully produced, going nowhere. The sanctions waiver does not just enable future production. It releases a coiled spring of stored supply back into a market that had priced scarcity. The oil price path for the next twelve months is now materially more bearish than the consensus currently reflects.

THE PIVOT IS HERE

Foreign investors who reduced India allocations on oil fears now have a symmetrically compelling reason to rebuild that allocation. And crucially, oil is not the only variable that has turned. The combined impact of the taxation changes on FII debt and liberal returns announced on FCNR accentuate the potential turnaround in India's Balance of payments. All concerns on the 'bottomless rupee' are now more than adequately addressed. Put it together — oil falling nearly 40% from its peak, the geopolitical risk premium deflating, the tax overhang on foreign bond investors removed, and the FCNR window opened wide — and the balance of payments picture has shifted from one of the most uncomfortable it has been since a similar situation in 2013 to one of the most actively supported. This is the pivot — and for foreign investors watching India from the outside, the entry point is becoming harder to argue against.

HISTORY DOESN'T REPEAT. BUT IT RHYMES.

The precedent for what happens next is already in the data — you just need to look at the Russia-Ukraine precedent. When Russia invaded Ukraine on February 24, 2022, Brent surged from \$97 per barrel to \$127 within two weeks, briefly touching an intraday high above \$139 — the highest since 2008. The response from foreign investors in India was immediate and brutal. FIIs sold approximately US\$7.5bn in a single month, dragging the Nifty down approximately 11% from its base near 18,000. Then oil peaked and started falling. From its June 2022 high of over \$120, Brent declined steadily through the second half of the year, closing in December at \$85 — a fall of nearly 30% in six months. Foreign investors did not wait for a formal all-clear. Once the market bottomed, the rebound was broad-based and swift. The script that always worked, worked again: oil up, FIIs sell India; oil down, FIIs come back.

The numbers that followed oil's peak tell the story precisely. Between October 2021 and June 2022, FPIs pulled out US\$33.3bn from Indian equities as oil surged and macro fear peaked. As oil began its descent in the second half of 2022, US\$11.5bn came back in within six months. But the real reversal came in 2023, once it became clear that the oil shock had definitively passed. In the six months between March and August 2023 alone, FPIs infused US\$21.3bn into Indian equities, of which US\$15.8bn came in just three months — May, June, and July. By July 2023, FPI inflows into India since March were the highest of any emerging market globally — nearly twice the next closest, Taiwan at under US\$6bn — as the Nifty scaled fresh all-time highs. That is the template. And today, with US\$28.7bn in outflows sitting on the table from March to June 2026 (till 12th June 2026), the reversal potential is not incremental — it is substantial.

INDIA'S BEAR CASE IS LEAVING THE BUILDING

In financial markets, templates do not change. The underlying mechanics of fear, capitulation and recovery play out with remarkable consistency across every cycle, as we have highlighted. The Russia-Ukraine precedent we cited is one of the many. India's valuations are at long-run averages, not at a premium. Foreign ownership is at a 14-year low — which means the re-entry trade has significant room to run. Private capex, dormant for the better part of a decade, is stirring into life, led by AI and infrastructure. And the single biggest macro headwind that drove the entire narrative of pessimism has now reversed. Markets, in our experience, do not wait for certainty before they move. They move when the weight of evidence shifts. The weight of evidence, in our view, has shifted. The pessimism on India is overdone — and the data, the history and the macro all point in the same direction.

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