Mizuho Brief: India

Economics & Strategy | Asia ex-Japan

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India's Russian Oil Quagmire

In a Nutshell:

- **Trump's threats** of "substantial" tariff hikes on account of **import of Russian crude** pose **a quagmire for India.**
- Between *exacerbated US-imposed geo-economic headwinds* and *financial/macro setback* from Russian oil advantages lost, **pain will be hard to avert**.
- Colliding risks suggest **rupee pressures liable to be amplified**, and *likely to persist to some degree*, ***even if alleviated*** by a compromise deal.
- But *for now*, **India's resistance to relinquishing Russian oil imports could persist**.
- Not just due to account for and assess complex and *sharp economic/financial trade-offs*, but crucially to *retain leverage for a US trade deal*.
- That said, **some reduction in Russian oil imports** as part of a grand bargain is **not outlandish**, given that *Russian crude share of total crude imports has surged from being negligible to ~38% since 2022*.
- Despite some degree of cushioning from by bumped up OPEC+ supplies, **financial/economic dent from Russian oil advantage lost** will inevitably ripple through.
- FX: Accordingly, **rupee downside risks could be more accentuated amid** these **colliding risks in H2**. *Possibly under-performing scope for AXJ* recovery *into 2026* ***if US relations remain terse***.

Rock & Hard Place: Between "Substantial" US Tariffs & Losing Economic/Strategic Advantage

- **Trump's threats** of "substantial" tariff hikes on account of **import of Russian crude** pose **a quagmire for India**.
- On one hand, ***even more punitive US tariffs***, over and above the 25% currently imposed at the point of writing, **threatens to exacerbate headwinds** amid elevated global trade uncertainties.
- But equally, **cutting off Russian oil** will be **at the expense of** India's *external balance*, and possibly its *fiscal position*. Certainly, the *wider economy*, which is **highly sensitive to energy costs**.
- The upshot is that India is **caught between a rock and a hard place**. Either way, it appears that **significant economic costs will be imposed**.
- These **colliding risks**, entailing unavoidable economic pain and financial setback are likely to **manifest as bouts of rupee pressures**, and *risk of persistent lingering drag* that bobbles subsequent recovery.

Keeping Options & Leverage Against US Tariff Assault

- Confronted by this potentially high-cost dilemma, **New Delhi's optimal response** may arguably be to **retain maximum leverage** and **optionality**.

- Especially *as India seeks to strike a more favorable trade deal with a cuttingly transactional and extractive Trump Administration.*
- In this context, **India's reluctance, if not resistance, to completely abandoning Russia oil** is understandable..
- Point being, **India must account for the costs –** *financial-/macro support dented* and *geo-political leverage/strategic non-alignment undermined* – **associated with Russian oil imports forsaken**.
- What's more, **"Russia Oil" is but one chip in the grand bargain on a US trade deal**. And one *that is best not conceded prematurely given that aggressive US trade posturing.*

Reducing Russian Energy Reliance as Part of a Wider Deal

- That said, **dire threat of unrelenting US geo-economic pressures**, it is **not hard to imagine that India could *reduce* dependency on Russian crude/energy as part of a grand US trade deal bargain**.
- Consistent with this, there are *reports alleging back-up plans should India need to cut back on Russian oil imports.*
- Given that **Russian crude share of India's total crude imports have surged to ~38%** (from being negligible) since the 2022 Ukraine Russia way, there is **scope for India to calibrate its crude import mix**.

Least Bad Strategic Trade-Off

- The caveat though is that **India will be very clear-eyed about the financial costs** and the **strategic trade-off** involved.
- *Given how critical affordable energy is beyond merely trade bottom-line*, India may **ideally** pursue a **"hedged" solution**, whereby ***Russian crude imports are calibrated***, *not eliminated.*
- And **to retain some mix of Russian crude imports**, **India may necessarily have to concede trade/geo-economic ground elsewhere**.
- **Not without pain.** But nevertheless, *premised on holistic view of the* ***least damaging trade-energy-geopolitical sphere*** **in an increasingly fraught and fragmented world order**.

Mitigation is Limited

- **Curtailed access to cheaper Russian oil imports curtailed may prompt a hunt for** (at least partially) **compensatory oil discount** elsewhere. But significant **mitigation of macro-/financial hit** may be **challenging**
- To be clear, a *relatively more prolific OPEC+* is *a consolation, not a compelling substitute.*
- Simply because while **OPEC+ supply** may dampen global oil price benchmarks, there will be **no meaningful comparative price advantage** for India (from **additional discount** related to Russian risk premium).
- Arguably, *Iran is an option*. Specifically, **if China gets to bypass Iranian sanctions**, **India could arguably negotiate with the US for a similar exception**.
- Alternatively, India may possibly pursue mutually beneficial deals with *other producers pressured by US barriers.*

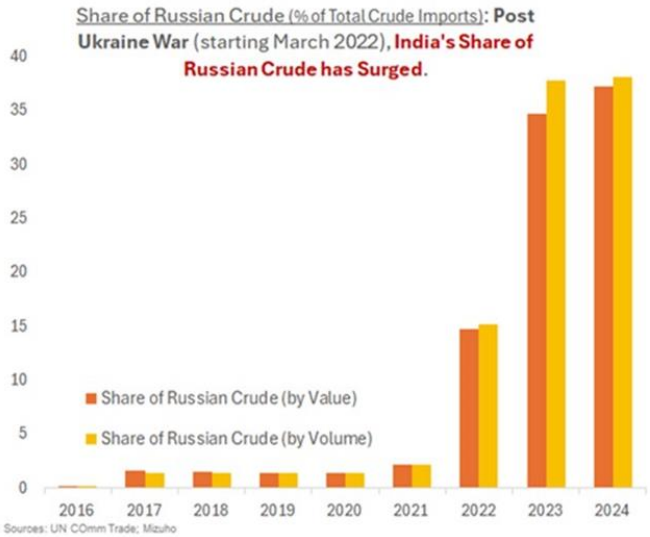
- But **neither Iran nor any other global producers viably offer the scale**, and *attendant discount*, **to offset Russian supply forsaken**.

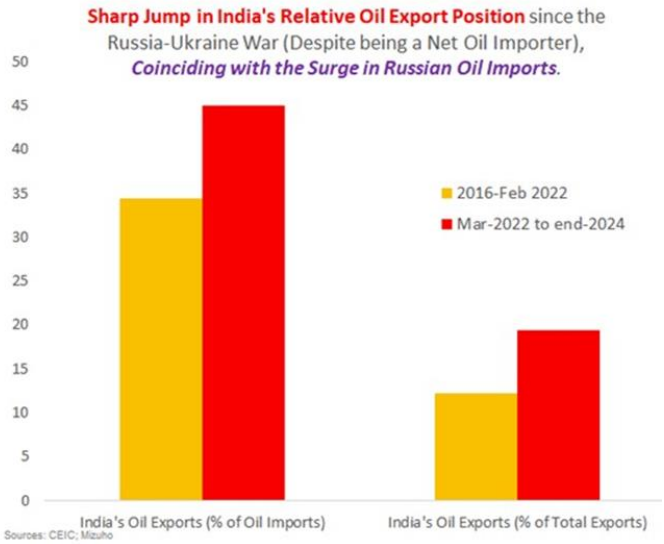
Pain is Unavoidable, But May be Managed on Broader Alignment of Interests

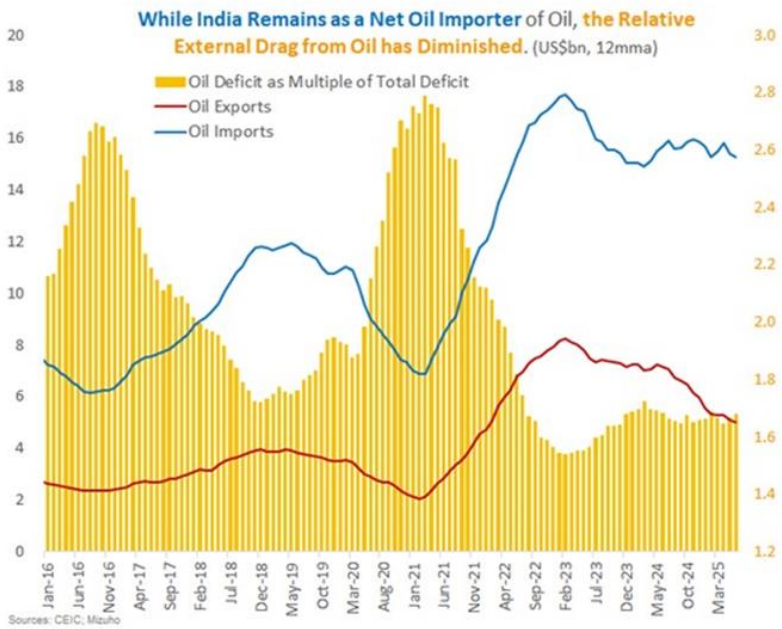
- The bottom-line is that **India will struggle to find substitutes to reproduce more compelling financial/geo-economic advantage of Russia's supply**.
- In which case, **economic/financial/geopolitical pain points cannot be fully circumvented**.
- But *if US trade/tariff negotiations are managed well*, this **may be effectively mitigated**.
- Especially if India manages to appeal to Trump's trade negotiators to recognition of the **bigger picture of aligned geo-economic/security interests**.

But Pushing a Narrow Envelope

- Nonetheless, *given Trump's propensity for narrowly defined trade/tariff negotiations framed in bilateral zero-sum game*, there is a **real danger that the envelope on punitive Russian oil-related sanctions is pushed**.
- If so, the **rupee** could inevitably **reflect the pain** emitting via *"twin deficit" ripples and wider economic drag* further exacerbated by *strategic geo-economic leverage compromised.*
- Accordingly, **rupee downside risks could be more accentuated amid** these **colliding risks in H2** – A clearer *test, possibly breach, of 88 USD/INR is now a more distinct risk.*
- *Possibly under-performing scope for AXJ* recovery *into 2026* ***if US relations remain terse***.






While India Remains as a Net Oil Importer of Oil, the Relative External Drag from Oil has Diminished. (US$bn, 12mma)
Oil Deficit as Multiple of Total Deficit
Oil Exports
Oil Imports
20
18
16
14
12
10
8
6
4
2
0
3.0
2.8
2.6
2.4
2.2
2.0
1.8
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