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Trade to inflation, how Iran-Israel conflict may affect India, markets

The escalating tensions between Iran and Israel are also sending shockwaves through global stock markets, with India's benchmark Sensex closing 573 points lower on Friday.

Written by Ravi Dutta Mishra
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Israeli Iron Dome air defense system fires to intercept missiles over Tel Aviv on Friday night. (Photo: AP)

Just as global shipping lines and traders had begun to breathe a sigh of relief from elevated freight rates, with vessels returning to the crucial Red Sea route from the longer Cape of Good Hope passage, a direct conflict between two major West Asian powers has reignited fears of surging oil prices and more trade disruptions. The **escalating tension between Iran and Israel** sent shockwaves through global stock markets, with India's benchmark Sensex closing 573 points lower on Friday.

Experts warn that Iran may respond by closing the strategic Strait of Hormuz — a key passage through which 20–25 per cent of global oil supply transits, as well as a critical corridor for LNG (liquefied natural gas) shipments from Qatar and the UAE. Qatar, notably, is among the top LNG suppliers to India.

Israeli security forces inspect destroyed houses that were struck by a missile fired from Iran, in Rishon Lezion on Saturday. (Photo: AP)

Inflation risk in India

The renewed instability could pose deeper macroeconomic challenges for India, extending beyond trade, particularly as the country's reliance on oil imports continues to rise. While India was compelled to halt oil imports from Iran following US sanctions in 2019, Goldman Sachs estimates that Iranian supply could fall by 1.75 million barrels per day (b/d) for six months before gradually recovering.

"Assuming OPEC+ compensates for half the peak shortfall from spare capacity, Brent could rise above $90 per barrel before retreating to the $60s by 2026 as supply recovers," the investment bank noted.

A fall in prices of fruits, pulses and cereals had helped lower India's headline retail inflation to a 75-month low of 2.82 per cent in May 2025. This easing inflationary trend had prompted the Reserve Bank of India's Monetary Policy Committee (MPC) to cut the policy repo rate by a larger-than-expected 50 basis points. However, the RBI cautioned that "monetary policy is left with very limited space to support growth".

Risk of wider energy disruption

S&P Global noted that, so far, both Iran and Israel have avoided directly targeting energy infrastructure. However, Israel has temporarily shut its Leviathan gas field — a key supplier to Egypt and Jordan — as a precaution. Iran, meanwhile, reported no damage to its oil refineries or storage depots in the initial attacks.

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Iran possesses approximately 2.2 million b/d of crude refining capacity and an additional 600,000 b/d of condensate splitter capacity. In May, it produced about 4 million b/d of crude and condensate. According to S&P Global, Iran's crude exports could fall below 1.5 million b/d this month.

Rising freight rates, insurance premiums

Federation of Indian Export Organisations (FIEO) president S C Ralhan had said in May that conditions in the Red Sea were improving, with ships resuming their regular routes. Exporters believed the risk of a wider conflict remained contained — as long as major powers like Israel and Iran stayed out of direct confrontation.

Now, with traders' worst fears materialising, vessels may be forced to continue using the Cape of Good Hope route. This detour means sustained upward pressure on freight rates. The Red Sea crisis had already caused a spike in shipping costs due to voyage duration increasing by 10–14 days. Longer voyages also tightened vessel availability, exerting inflationary pressure on freight rates.

The crisis also hit LNG flows through the Suez Canal, which dropped to 4.15 million tonnes in 2024 — a sharp fall from 32.36 million tonnes in 2023 and 34.94 million tonnes in 2022, according to Kpler data. Meanwhile, LNG volumes via the Cape of Good Hope rose more than five-fold, from 11.76 million tonnes in 2022 to 59.37 million tonnes in 2024.

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