Decline in Oil Prices

Prelims: Current events of national and international importance

Why in news?

Recently the oil prices slipped as much as 9% which were soaring for the past week due to Iran – Israel conflict.

Reasons for Decline in Oil Prices

- **Strait of Hormuz remains open –** About **25% of the global oil supply** passes through the Strait. Iran's decision not to close it calmed the oil market, reversing last week's price spike.
- **Iran's controlled retaliation –** Iran retaliated to US involvement in the Israel-Iran conflict by attacking US military bases in Qatar, but *did not disrupt* the Strait of Hormuz — a crucial oil shipping route which reduced fears of a major supply shock.
- **Ceasefire announcement –** US President Donald Trump announced a "fully agreed" ceasefire between Iran and Israel, boosting hopes of regional stability and reducing supply concerns.
- **Restoration of market confidence –** Traders gained confidence that global oil supplies won't face significant disruption, pushing Brent crude prices down by up to 9%.

Implications of Declining Oil Prices:

- **Upstream companies (Exploration & Production) –** They are hurt by lower prices as extraction costs remain fixed.
- Profit margins shrink and stock prices of companies like **ONGC** and **Oil India** fell by 2.94% and 5.6% respectively.
- **Downstream companies (Refining & Marketing) –** Benefit from cheaper crude inputs. and higher profit margins on refined products.
- Stocks of **BPCL**, **HPCL**, and **IOC** rose by 1.92%, 3.24%, and 2.04% respectively.
- **Stable fuel prices –** Crude oil falling below $65/barrel could translate to cheaper petrol and diesel, though cost optimisations by oil companies may be needed.

- **Reduced vulnerability –** India has diversified crude sources and built inventories.
- Many imports bypass the Strait of Hormuz, limiting exposure to West Asian disruptions.
- **Government assurance –** Petroleum Minister Hardeep Singh Puri confirmed several weeks' worth of supplies are secured, and alternate routes are being utilised to maintain fuel availability.

Reference

The Hindu| Why oil prices have declined

