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Middle East Conflict – Impact on Market

Study Note

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The ongoing Iran conflict carries broader risks than recent regional tensions. The US–Israel action against senior Iranian leadership and the subsequent retaliatory strikes have heightened instability across the Middle East, raising the risk of wider regional escalation.

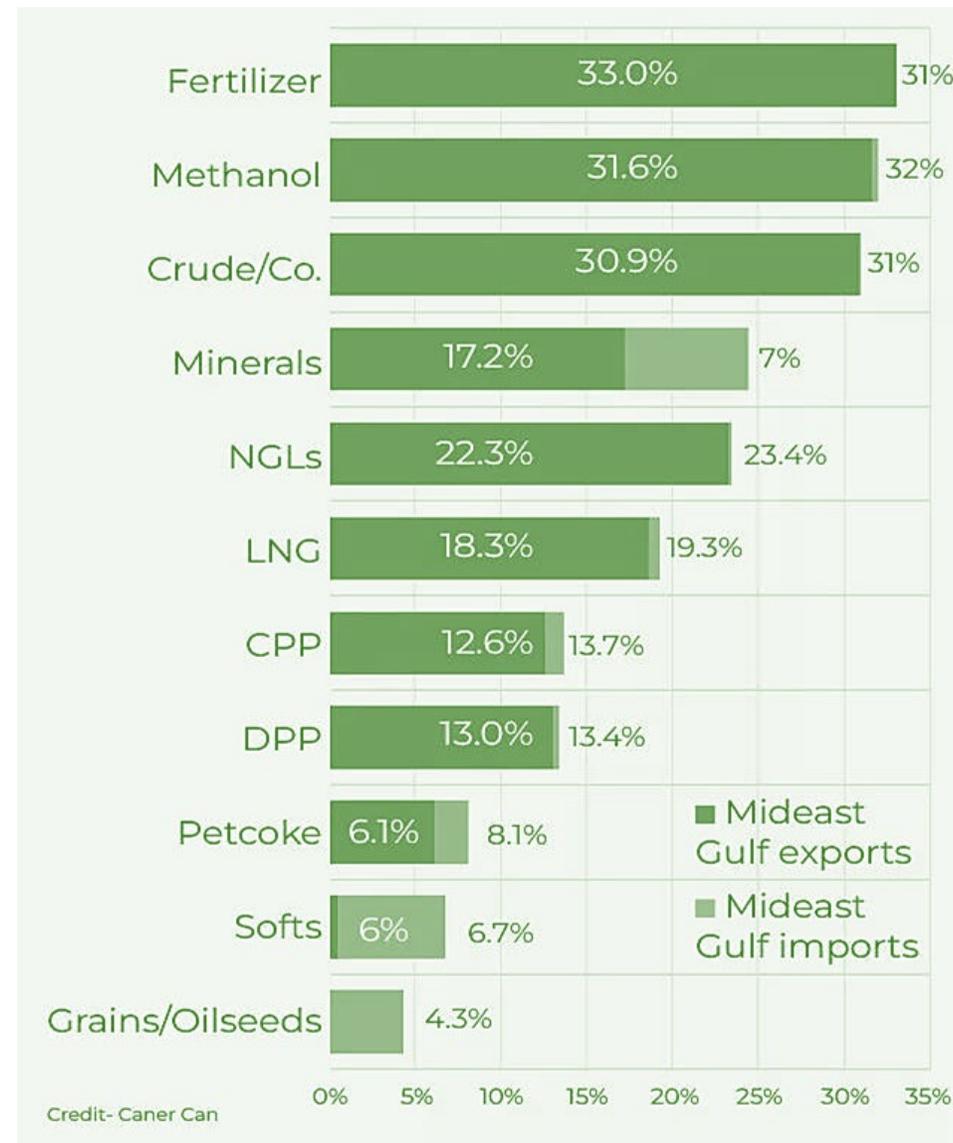
With nearly 9mn Indians residing in the Middle East – contributing ~38% of India’s total remittances – the region holds strategic importance for India. It also accounts for ~15% of India’s exports and ~21% of imports, with the UAE, Iraq, and Saudi Arabia forming the core of bilateral trade flows.

Exporters have raised strong concerns that the conflict could disrupt shipping through the Strait of Hormuz and the Bab el-Mandeb Strait, both of which are crucial maritime corridors. These routes serve as important links connecting India with the gulf region as well as major markets in North America and Europe.

Highlights

While the ongoing conflict highlights concerns around crude oil prices, it is important to recognize that the passageway is equally critical for broader global trade flows.

Such disruption would raise concerns regarding increasing freight costs, insurance premiums, fuel prices etc.



India's Crude Oil

As per Dec'25 data, crude oil share from Middle East was 58% which would have increased further as supplies from Russia have significantly reduced.

For India, any disruption in the Middle East could necessitate higher crude sourcing from the US, Latin America, and potentially Russia. Notably, ~45% of India's crude imports transit through the Strait of Hormuz, underscoring the vulnerability.

India's Crude Oil Import Mix

Country	Import Mix
Russia	24%
Iraq	21%
Saudi Arabia	16%
UAE	15%
USA	5%
Kuwait	3%
Brazil	2%
Qatar	2%
Egypt	2%

Source: Trade Commerce Dept, Gov. of India



Sectors reliant on crude-linked inputs—such as chemicals, paints, pharma & APIs, airlines, tyres, agrochemicals, and oil marketing companies (OMCs)—are likely to face margin pressure from higher oil prices.



Companies with meaningful exposure to the Middle East—such as L&T, Adani Ports, and selected chemical players—may also face operational and earnings risks.



The defence sector is likely to benefit from improving sentiment amid rising global defence spending.



Bullion, traditionally regarded as a safe-haven asset, has scaled consecutive record highs this year, underscoring heightened economic and geopolitical uncertainty. Any further escalation is likely to support gold and silver prices in the short term, which would be positive for Gold and Silver ETF investments.

Other Sectors	Impact Sensitivity	Reason - Key Risk Driver	Earnings Impact
Aviation	High Negative	ATF cost surge + rerouting Expenses	Sharp margin pressure
IT Services	Low–Medium	Risk-off sentiment	Limited impact
Chemicals	Medium–High	Feedstock disruption - Methanol, Intermediates	Input cost pressure
Fertilizers	Medium	Gas & ammonia pricing	Subsidy payment delay risk
Cement	Medium	Fuel & petcoke inflation	Margin compression
Auto	Medium	Demand slowdown + logistics	Limited direct crude risk
Shipping	Medium Positive	Freight rate spike	Higher charter rates
Precious Metals	High Positive	Safe-haven flows – Gold / Silver	Positive for mining companies
Banks / NBFCs	Medium	FPI outflows & volatility	Banking Book (treasury) MTM loss
Mid/Small Caps	High	Risk-off FPI selling	Valuation correction risk

*The geopolitical situation in the Middle East has triggered **risk-off sentiment in Indian stocks**, with crude-linked pressure weighing on broad markets, while some sectors (like defence and upstream energy) benefit from safe-haven or commodity dynamics.*

Continued conflict may keep volatility high and markets biased negatively but markets eventually refocus on earnings, liquidity, and growth — unless the geopolitical event alters those fundamentals structurally.

Technical View



Nifty continues to display distribution characteristics at elevated levels, with the 25,800 and 26,000 zones acting as stiff resistance. Repeated failures near this band indicate exhaustion of bullish momentum and the emergence of supply at higher levels. On the broader structure, price action has turned tired, and the index is struggling to sustain above short-term moving averages. Market breadth has also weakened, further validating the distribution narrative.

Technical Outlook: Next 1–2 Quarters May Stay Under Pressure., as structural signals point to a cooling-off phase after an extended up-move: Key Downside Levels to Track 24,300 – A crucial medium-term support; repeated testing increases vulnerability. A decisive breakdown below 24,300 may accelerate selling pressure. Worst-case scenario: Nifty retreats towards 23,000, aligning with the lower boundary of the multi-month rising channel.

Thank You

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