

## Will Indian Stock Markets Feel the Tremors of a Polycrisis?

There is a fear that other countries could be drawn into this conflict. If Iran, Egypt, and Syria were to join this religious war, the price of crude may spin out of control.



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*This piece was first published on [The India Cable](#) – a premium newsletter from The Wire & Galileo Ideas – and has been republished here. To subscribe to The India Cable, [click here](#).*

Joseph Campbell, author of *The Hero with a Thousand Faces* and scholar of myth and comparative religion, once recounted a Japanese story. A samurai hunted down his master's killer and was about to decapitate him when the assassin spat in the samurai's face. The enraged samurai immediately sheathed his sword and walked away. His master had taught him never to act in a fit of blind anger, because retribution should be exacted from an objective, righteous distance. Too close to and too soon after any ghastly atrocity, blood feuds like

what is unfolding in Israel and Gaza may make us believe that we are heading for a polycrisis.

How plausible is the likelihood of a polycrisis emerging, and importantly, what would be the impact on the Indian stock market and the Indian economy in general? The Ukraine war arguably had a limited impact on the US stock market, which was riding on AI stocks. India is a swing country, like Saudi Arabia, and it gained from the surge in its mid and small-cap stocks. But if it is not contained swiftly, the fallout of the Israel-Hamas conflict may inflict more catastrophic collateral damage on the global economy.

There is a fear that other countries could be drawn into this conflict. In particular, if Iran, Egypt, and Syria were to join this religious war – with the presumption that this war is affecting the sentiment of the Arab and Muslim world – the price of crude may spin out of control. The price of crude oil has jumped 6% since the start of this crisis. The oil price has inched towards \$90 a barrel, and it could cross the symbolic danger mark of \$100 per barrel.

If that happens, interest rates will stay higher for longer, not only in the US but in India as well. There's also the possibility of another financial accident in the US, like more banks going belly up. Furthermore, the dollar index inching up doesn't bode well for India. If fickle FII/FPI money rushes out, the much-valorised domestic retail money may hold up the market only for some time.

It is to be noted, that for India, crude has the largest share with 30% of the import bill. With a requirement exceeding more than 5 million barrels per day, a rise in crude price beyond the psychological \$100 mark will impact the exchange rate and the real economy. Every \$10 increase in crude oil price widens India's current account deficit by 0.5%.

How much more oil prices will rise would depend upon whether the war spills over to other countries. Although there has been an exchange of fire between Lebanon and Israel, it is unlikely that Iran would join the fight on religious grounds. It is known that Iran is backing Hezbollah leaders in Lebanon. However, it has already gained much from this ongoing crisis. The continuing military offensive in Gaza is going to scuttle the normalisation of ties between Israel and Saudi Arabia. That alone is a big win for Shia-

dominated Iran, which otherwise may feel left out if Sunni-dominated Saudi Arabia joined hands with the Zionists.

On the other hand, there is not much of a religious angle either. Iran is supporting the Christian-dominated Armenians in their war against Azerbaijan, a Muslim-dominated country. In fact, Armenia is a transit point for Iranians to establish a connection with Syria and Lebanon. The Assad regime in Syria is backed by Russia, which is again fighting a battle with Ukraine.

But if Egypt is drawn into a war, it would be a cause for concern — it plays a pivotal role in the global supply chain because of its control of the Suez Canal. Its economy is also going to take a hit, with more than a million Palestinians waiting to enter Egypt. Egypt is the world's largest importer of wheat, most of which used to come from Russia and Ukraine. The Russia-Ukraine war has pushed up the price of wheat, and Egypt is reeling under inflation, which touched 40% in September. With a weak economy and high debt, Egypt could not fight a war.

The good news is that with President Biden visiting Israel, there is a likelihood that aid will now flow back to the Gaza region. Also, the US and Venezuela agreed on a deal that would ease US sanctions on Venezuelan oil. With slowing demand in China and more oil hitting the world market, the price of oil may not cross the danger limit. The market is signalling this. The US market is staying strong, and so is the Indian stock market. Nifty fell only 0.7% on the day the market opened after the Hamas attack on October 10, and has been going up ever since. The price of oil has still not crossed the September highs. If the unrest in Lebanon can be contained, and with humanitarian aid flowing into Gaza again, a polycrisis could be averted.

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