



Current Affairs of the Day

Oil, nickel soar on fears of supply chaos

Oil jumps to 2008 highs, Brent surges past \$139 a barrel as the U.S., Europe mull the Russian import ban. Oil prices spiked after the U.S. and European allies said they were considering banning imports of Russian oil.

War economy: High prices

1. Commodity prices went on the rampage as industrial buyers and traders scrambled to source raw materials hit by supply disruptions caused by Russia's invasion of Ukraine.
2. Nickel soared 30%, platinum hit a record and gold broke through \$2,000 an ounce on safe-haven appeal, while oil and wheat jumped to 14-year highs.
3. Russia's invasion has been condemned around the world and triggered sweeping sanctions that have isolated Russia to a degree never before experienced by such a large economy.
4. Commodity markets have been shaken not only by tough Western sanctions on Russia that might be widened to include oil but logistics turmoil that has blocked the flow of grains and metals from the region.
5. The searing rally in raw material prices has sparked concerns over economic growth in countries still recovering from the COVID-19 pandemic.
6. Growth projections for 2022 around the world will need to be sharply revised lower.

'Oil-led global recession'

1. JPMorgan analysts said oil could soar to \$185 this year, while analysts at Mitsubishi UFJ Financial Group Inc. said it may rise to \$180 and cause a global recession. Worries about a ban also roiled European gas prices, which hit record highs.
2. The panic spurred investors to take cover in gold, regarded as a safe haven from turmoil in other markets. Spot gold hit \$2,002.40, its highest since August 2020.



3. Palladium bounded 15% higher to an all-time peak of \$3,440 an ounce on fears of shortages of the metal used in catalytic converters since Russia accounts for 40% of global production.
4. Industrial metals also lurched higher, led by nickel, which surged more than 30% as global supply chains tried to price in the possible absence of supplies from Russia, the third-largest nickel producer.

Women Voters Outdid Men In All 5 States: EC

1. The latest round of assembly elections in five states that ended with the final phase of voting in Uttar Pradesh saw a higher proportion of female voters (70.42%) than males (68.78%), according to the Election Commission data.
2. The data also showed that this year's polls saw a voter turnout of 67.8%, barely 1 percentage point lower than the 68.78% in the same states in 2017. Besides, UP, elections were held in Punjab, Goa, Manipur and Uttarakhand. The number does not include data from UP's seventh phase of polling.

'Jan Aushadhi' Has Led To Huge Savings, Says PM

1. India sold generic medicines worth ₹8,000 crores in the financial year 2021-22 under the Pradhan Mantri Bhartiya Janaushadhi Pariyojana, leading to savings of approximately ₹5,000 crores, Prime Minister Narendra Modi said during an interaction with Jan Aushadhi Kendra owners and beneficiaries.
2. Jan Aushadhi week is being celebrated from March 1 to generate awareness about the usage of generic medicines and the scheme's benefits.

5 challenges to recovery amid war crisis

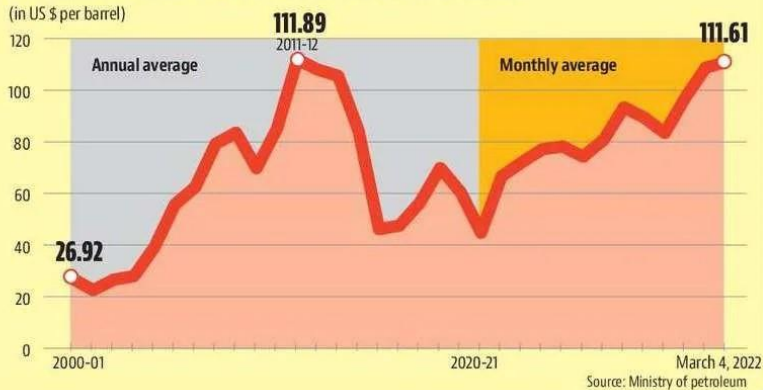
Managing the economy in the current environment will involve a very hard bargain between controlling inflation and preserving the fiscal balance. Here are five charts that capture the government's challenges.



1 The oil shock is here

This year's Economic Survey assumed that crude oil prices will be in the range of \$70-75 per barrel. As far as assumptions go, very few have been at the cusp of being as wrong as this one. Brent crude prices were \$124.5 per barrel at 5 pm on March 7 after touching \$130 per barrel earlier. Petrol and diesel prices have been kept frozen in India since November 4. This is in keeping with the unofficial practice of keeping prices unchanged when elections are underway. This time, however, the gap between what should have been market determined prices and the actual prices has become very big. One of the biggest decisions the government will have to take (perhaps on March 8 itself) is the quantum of increase in petrol-diesel prices. This is likely to boost both inflation and inflationary expectations.

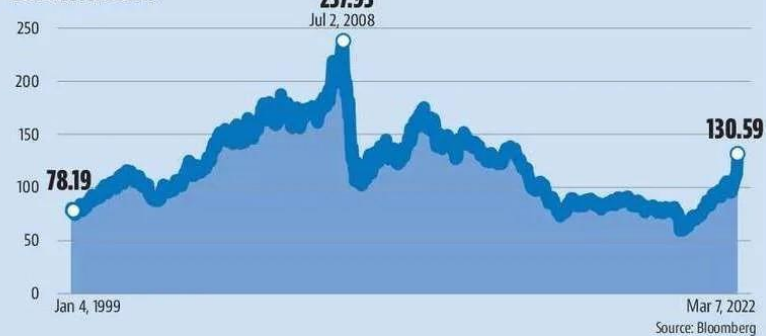
AVERAGE PRICE OF INDIA'S CRUDE OIL BASKET



2 Oil is not the only commodity experiencing tailwinds to prices

The current crisis would be easier to handle if its effects were limited to just crude oil prices. That does not seem to be the case and prices of other commodities have been increasing at a rapid pace as well. The Bloomberg Commodity Index (BCOM) was at 132.37 at 5.15pm on March 7. This is the highest value it has been at since July 7, 2014. BCOM has gained 17 points since February 24, the day Russia launched a military aggression against Ukraine. To be sure, it has had significantly higher values in the past. Its peak came on July 2, 2008 when it reached a value of 237.9. However, commodity price pressures are unlikely to ease going forward.

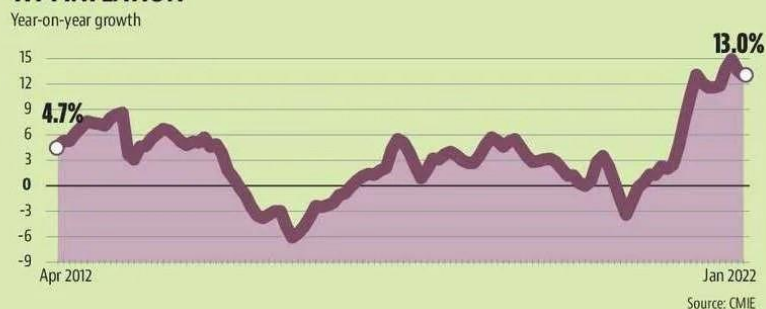
BCOM INDEX



3 Rising commodity prices do not bode well for India's already high wholesale price inflation

India's wholesale price index (WPI) has been growing in double digits in the 10 months to February. While it has been losing momentum in the past two months, the latest boost to prices because of the war is likely to reverse this trajectory. As and when RBI is forced to increase interest rates because of heightened inflation concerns, the real interest rate will increase with a rise in WPI. To be sure, an increase in WPI also means that even at unchanged nominal interest rates, real interest rates become higher. This is not good news for the government, as investments might suffer going forward thanks to an increase in the cost of capital.

WPI INFLATION





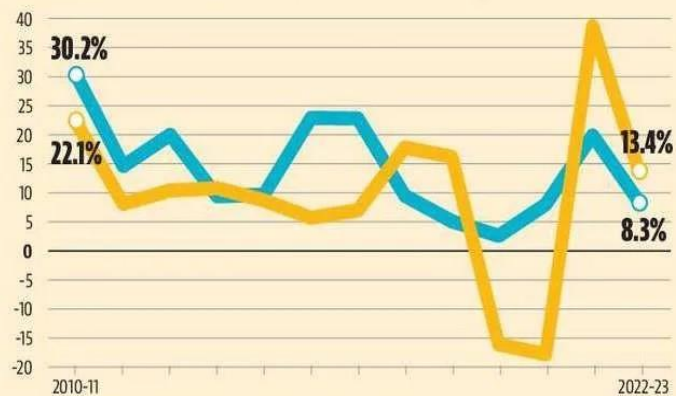
4 Pressure to cut fuel taxes not the only squeeze on revenues

As crude prices increase and stay at elevated levels, the pressure is on the government to cut back its union excise duties on petrol and diesel. This is not going to be the only potential squeeze on the fisc. A research note by Pranjal Bhandari, Chief India Economist at HSBC India, says that with an increase in prices, corporate profits too will come under squeeze. "We estimate that a 10% rise in domestic oil price will shave 0.25ppt from the profit-to-GDP ratio. In the past we have calculated that for every 1ppt rise in input costs, profits tend to fall by 0.4ppt, and the remaining 0.6ppt tends to be passed on to consumers as higher prices. Using these sensitivities, we estimate that corporate profits could fall by 0.3% of GDP," the note says. PPT stands for percentage point

While the profit-led economic recovery (as opposed to a wage led one) has been described by many economists as a cause of concern, higher corporate profits were a source of revenues through the corporate tax route. A fall in corporate profits because of cost pressures will mean headwinds for tax collections through this route.

CORPORATE TAX COLLECTIONS

Annual growth ■ Corporation tax ■ Gross Tax Revenue excluding Corporation Tax



2021-22 and 2022-23 tax numbers are revised estimate and budget estimates respectively; Source: CMIE

5 Food price shock: Challenge or opportunity for India?

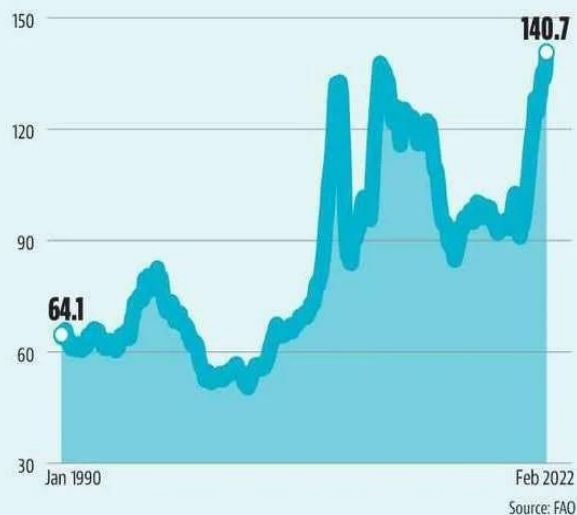
"Ukraine and Russia account for about 30% of the world's traded wheat and still have crops from last year to ship," said a report published in the Financial Times (FT) on March 4. "There is no end in sight to the upswing because 30% of the world's wheat exports have been cut off from the global market," the FT report quoted Carsten Fritsch, an analyst at Commerzbank, as saying.

As global shortages and therefore prices increase, India is eyeing an opportunity to utilise its record wheat stocks, as per an HT report published on March 5. While this could indeed be an opportunity, the tightness in global wheat markets also comes with a flip side of a possible surge in food inflation.

The Food Price Index of the United Nation's Food and Agriculture Organisation (FAO) had already reached an all-time high of 140.7 in the month of February. This is likely to increase further going forward.

As international prices increase and a bigger amount of India's agricultural production is diverted to international markets, domestic food price pressures are expected to become broad based. A sustained rise in cereal prices is bad news for food inflation. Any effort to ban large-scale exports to contain domestic prices is likely to breed discontent among farmers. With international prices and possibly domestic prices also increasing, the government might come under pressure to increase the Minimum Support Price (MSP) in order to remain competitive in procuring grains. Once again, this is a situation, the government would have been happy to not confront.

FAO FOOD PRICE INDEX



Source: FAO



MAINS DAWP	<p>Q1. “<i>Women’s informal work is central to the feminisation of poverty</i>” Comment.</p> <p>Q2. Examine the role of the ‘Gig Economy’ in the process of empowerment of women in India. (CSE MAINS 2021)</p>
MCQs	<p>Q1. What is the theme of <i>International Women's Day 2022</i>?</p> <ul style="list-style-type: none">a. Gender equality today for a climate-resilient tomorrowb. Gender equality today for a sustainable tomorrowc. Gender equality and armed conflictsd. Gender equality and food security