

India

India Strategy

Money, Military and Markets- IV

- Donald Trump winning the US presidential race will have a profound impact on the Middle East politics, oil prices, long-term LNG slopes and India's exports.
- We expect an emboldened Israel to exert more pressure on Gaza and Lebanon. An attack by Israel on Iran's nuclear facility is also not ruled out.
- Higher tariffs by the US on Chinese imports will help Indian companies. Higher prices of Chinese chemicals will improve these companies' competitiveness.

Trump's win = emboldened Israel, lower LNG, and stable oil prices

Donald Trump is known for his strong support of Israel, including recognizing Jerusalem as its capital and backing Israeli policies in the region. His 'maximum pressure' campaign against Iran could be reinvigorated, and Israel might feel more empowered to take decisive action against Iran's nuclear capabilities. According to Iran Online, a state-run news website, Iran has "enriched uranium to 60% with IR-6 advanced centrifuges and could achieve nuclear weapons capability within a few weeks... Completing the nuclear deterrence cycle is Iran's greatest trump card against Trump." The Joe Biden administration had banned new permits for LNG terminals, which contributed to the lack of softening in long-term LNG pricing slopes (LNG prices as a percentage of oil prices). With Trump vowing to lift this ban, we can expect a softening of these long-term pricing slopes. Trump's policies on oil are crystal clear: he aims to increase oil production, which will lead to more fracking and, as a result, higher oil production in the US. Higher oil production in the US will help counterbalance the Middle East disruption premium in oil prices, providing a stabilizing effect on global oil markets.

Higher import tariff on China can lead to benefits for India

Trump has reiterated throughout his election campaign that, if elected, he will impose a 60% tariff on Chinese goods, which would likely prompt some diversification in the global supply chain. Taiwan is already planning to support companies in relocating their production centres outside of China. Additionally, the implementation of the Biosecurity Act now appears imminent. Some smaller Indian chemical companies, which had previously suffered from Chinese dumping in the US, could see near-term benefits. While the China+1 strategy didn't yield significant gains for India post-Covid, this could be a second opportunity for the country, as businesses may look to shift their production bases to avoid tariffs. Rarely do countries get a second chance to position themselves within five years, but India has now been presented with this opportunity.

Markets will provide multiple opportunities in the next 6-12 months

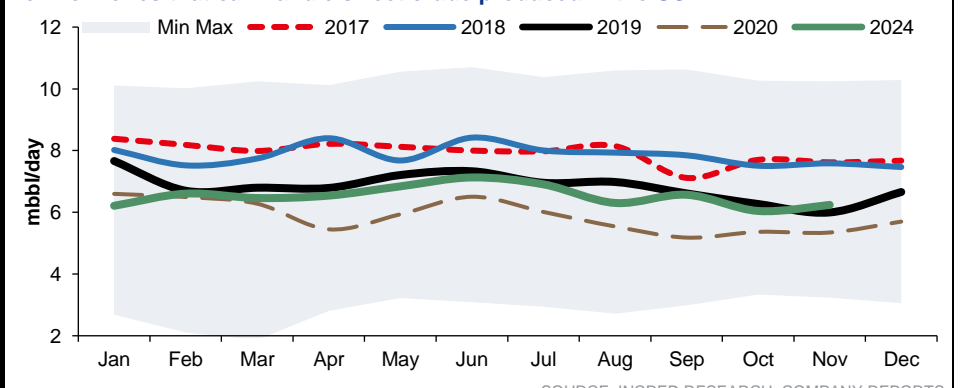
The changing geopolitical landscape, policy-driven uncertainty, and conflict in the Middle East will increase market volatility. For instance, if Israel attacks Iran's nuclear facility—a high-probability event—oil prices could spike, triggering panic-selling. However, this could present a buying opportunity for Indian equities. Unlike the broad-based rallies of 2021-23, the Indian market now appears highly stock-specific. Companies with strong earnings growth will be disproportionately rewarded, while earnings misses may face severe punishment.

Research Analyst(s)



Satish KUMAR
 T (91) 22 4161 1562
 E satish.kumar@incredresearch.com
Abbas PUNJANI
 T (91) 22 4161 1598
 E abbas.punjani@incredresearch.com

Figure 1: US imports of heavy crude are rising, which necessitates the construction of new refineries that can handle sweet crude produced in the US



Money, Military and Markets- IV

This edition of *Money, Military, and Markets* will look at the post-Trump Middle East, oil markets, and the issue of higher duties on Chinese imports in the US. It is now evident that fracking will increase on federal land, and the nonsensical embargo on LNG exports will be lifted. Additionally, it is clear that Chinese imports into the US will continue to attract higher duties. The threat of US military power was enough for the Houthis to declare a unilateral ceasefire, and most of the Middle East's issues are expected to be resolved soon.

Middle East – complex geopolitics will drive crude oil prices to ~US\$75 per barrel

Historically, Trump has been highly pro-Israel >

Trump's strong support for Israel has been a hallmark of his Middle East policy. His administration took several historic steps in support of Israel, including:

- **Recognizing Jerusalem as Israel's capital:** Trump formally recognized Jerusalem as the capital of Israel in 2017 and moved the US Embassy there, signalling strong symbolic and political support.
- **Golan Heights recognition:** In 2019, Trump officially recognized Israel's sovereignty over the Golan Heights, a disputed territory that Israel captured from Syria in 1967.
- **Abraham Accords:** His administration brokered the Abraham Accords, which normalized diplomatic relations between Israel and several Arab nations, including the UAE and Bahrain. This initiative was a strategic push to align regional allies against common concerns, notably Iran.
- **Shift in approach to the Israel-Palestine conflict:** Trump took a markedly pro-Israel stance by recognizing Israeli settlements in the West Bank and proposing a peace plan that heavily favoured Israeli interests, including leaving Israel in control of major settlement blocs.
- **Security and military support:** The Trump administration bolstered military assistance to Israel, advocating for enhanced arms deals, intelligence-sharing, and cooperative defence initiatives, strengthening Israel's security position in the region.

Trump has already issued multiple warnings to Hamas >

US President-elect Donald Trump, a few months ago at the Republican National Convention (RNC) in Milwaukee, warned Hamas of paying a "very big price" if they did not return the hostages that were taken during the 7 Oct 2024 attack. With Trump now poised to take office, all eyes are on Hamas and its response to the threat. After winning the US elections, Trump received a congratulatory call from **Israeli Prime Minister Benjamin Netanyahu**, one of the first world leaders to reach out, signalling the potential for strengthening ties between the two allies. With Trump set to return to office, the former CIA director and US defence secretary, Leon Panetta, has predicted that, in reference to the Middle East, the 78-year-old leader could give a "blank check" to Israeli Prime Minister Benjamin Netanyahu, paving the way for an all-out war between Israel and Iran. "With regards to the Middle East, I think he's basically going to give Netanyahu a blank check," Panetta was quoted as saying by *The Guardian* in its report. "Whatever you do, whatever you want to do, whoever you want to go after, you have my blessing. I mean, he basically said that before the election," Panetta claimed.

"We want our hostages back, and they better be back before I assume office, or you will be paying a very big price," said Trump, who won the presidential election this week and will assume office for the second time in January next year.

Hamas & Hezbollah are reeling under Israel's onslaught >

Israel has eliminated the leaders of Hamas or Hezbollah. Both groups have a history of operating with decentralized leadership, but the death of key figures could disrupt their operations and strategies. For Hamas, this could impact its leadership structure in Gaza, but other senior commanders and officials might step into leadership roles. For Hezbollah, which is more entrenched in Lebanon with strong backing from Iran, the loss of a leader might also cause a temporary disruption, but it is highly likely that the group would continue to operate due to its well-organized structure. Having said that, Israel appears to have penetrated deep into Hamas and Hezbollah leadership and even the leadership have been eliminated in most cases.

Exploding pagers and walkie-talkies have created a significant psychological impact on Hamas and Hezbollah's rank-and-file mindset >

One could easily dismiss it as a spy film plot if it weren't so real: a highly sophisticated 'pager attack' purportedly by Israeli agencies has left dozens dead and opened a new front in the ongoing Gaza crisis. Nine people were reported killed and over 2,700, including civilians, were injured when a series of text pagers supposedly used by Hezbollah members exploded in various parts of the country. Iran's ambassador to Lebanon, Mojtaba Amani, was also injured in the explosions.

Reports suggest Israel had intercepted the group's supply chains and laced more than 5,000 of these devices with explosives. A Taiwanese company, Gold Apollo, has denied charges that it was the provider of the consignment. Earlier, in Feb 2024, Hezbollah chief Hassan Nasrallah had warned his group against the use of mobile phones.

With the latest explosions, Hezbollah's 'low-tech' pager communication network has already been busted, making it harder for the group to operate, debate, and deploy forces. In the short term, if not tactically, Israel has been managing to secure at least psychological victories against Hezbollah and its ilk. In the long term, things remain as uncertain as before. It won't be surprising if the Gaza crisis and accompanying regional tensions spill well into 2025.

While Hamas has been chest-beating and threatening the US, it's laughable, to say the least >

"The election of Trump as the 47th president of the USA is a private matter for the Americans... but Palestinians look forward to an immediate cessation of the aggression against our people, especially in Gaza, and look for assistance in achieving their legitimate rights of freedom, independence, and the establishment of their independent self-sovereign state with Jerusalem as its capital," a Hamas spokesperson said.

"The blind support for the Zionist 'Israel' and its fascist government, at the expense of the future of our people and the security and stability of the region, must stop immediately," the spokesperson added.

Earlier, Hamas had issued a terse statement saying, "Our position on the new US administration depends on its positions and practical behaviour towards our Palestinian people, their legitimate rights and their just cause."

Iran may cave in under Trump pressure, more so after the recent attack by Israel >

- Iran's main concern is the potential for Trump to empower Israeli Prime Minister Benjamin Netanyahu to strike Iran's nuclear sites, conduct targeted assassinations, and reimpose his 'maximum pressure policy' through heightened sanctions on their oil industry.
- Trump, who served as US president from 2017 to 2021, will exert intense pressure on Iranian Supreme Leader Ayatollah Ali Khamenei to concede to a nuclear containment deal on the terms set by the US and Israel.

- If Trump reinstates stringent sanctions, Khamenei may be compelled to negotiate and accept a nuclear pact more favourable to US and Israeli interests to preserve theocratic rule in Iran, which is facing increasing foreign pressure and has been impacted by waves of mass protests in recent years.
- A US-Saudi defence pact, linked to Riyadh's potential diplomatic relations with Israel and now in its final negotiation stages, also poses a significant challenge to Khamenei. This alliance could shift the regional balance of power, creating a more unified front against Iran and affecting its geopolitical standing and strategy in the Middle East.
- Israel's recent attacks on Iran and its allies are widely viewed as a success for Israel. They have provided insights into what a limited strike on Iran could entail, setting a precedent and challenging the assumption that military action against Iran would inevitably trigger a wider Middle East war.
- In 2018, Trump unilaterally withdrew the US from Iran's 2015 nuclear deal with world powers and ordered the killing of Qassem Soleimani, Khamenei's right-hand man and architect of overseas operations against US and allied interests.
- Trump also imposed punitive sanctions on Iran's oil exports and international banking transactions, which led to severe economic hardship and heightened public discontent in the Islamic Republic.
- Throughout his presidential campaign, Trump frequently stated that President Joe Biden's policy of not strictly enforcing oil export sanctions has weakened Washington and emboldened Tehran, allowing Iran to sell oil, accumulate cash, and expand its nuclear pursuits and influence through armed militias.

But before that, expect a decapitating attack on Iran's nuclear facilities by Israel ►

Iran Online, a state-run news website, stated that when Trump left office, Iran was capping uranium enrichment at 3.67% under the nuclear deal, far below the 90 per cent required for weapons-grade material. Now, Iran has *"enriched uranium to 60% with IR-6 advanced centrifuges and could achieve nuclear weapons capability within a few weeks ... Completing the nuclear deterrence cycle is Iran's greatest trump card against Trump,"* the website noted.

Arab and Western officials warn that as Iran hints more strongly at nearing atomic bomb development, it further incites the perceived need for Israel to strike. Trump supports such an attack by Israel on Iran. In an Oct 2024 election speech, he stated his unwillingness to go to war with Iran but suggested that Israel should *"hit the Iranian nuclear [facilities] first and worry about the rest later,"* following Iran's missile attack on Israel on 1 Oct 2024.

Oil will boil for some time and then will cool down ►

An Israeli attack on Iran's nuclear facilities could lead to a heightened risk premium for oil, potentially spiking prices above US\$80/bbl. However, prices are likely to cool down as Trump's agenda to expand drilling on federal land would increase US oil production, easing supply concerns. The Organization of Petroleum Exporting Countries or OPEC may need to implement further cuts if the cartel aims to push oil prices to US\$85/bbl or higher, which is the sweet spot for Saudi Arabia and other oil-exporting nations.

Imposing duties on Chinese products and lifting the ban on LNG exports are positive developments for India

The President-elect has promised to impose a 60% tariff on Chinese imports into the US. There will also be tariffs on imports from other countries, including India, ranging from 10-20%. However, these duties could benefit certain Indian companies. Additionally, the issuance of permits for LNG export terminals in the US is a welcome step for India and the world, as it is expected to lower LNG prices.

In a strange move, the Biden administration has imposed a ban on grant of new permits for export terminal construction ➤

On 26 Jan 2024, the Biden administration announced a temporary ban on new export permits for LNG-exporting plants to non-FTA countries. Please see the announcement of the same by the White House: <https://www.whitehouse.gov/briefing-room/statements-releases/2024/01/26/fact-sheet-biden-harris-administration-announces-temporary-pause-on-pending-approvals-of-liquefied-natural-gas-exports/>

The injunction on the same was granted by US courts in Jun 2024 ➤

A federal judge issued a ruling that blocks the Biden administration's ban on new exports of liquefied natural gas (LNG) following a challenge by a group of more than a dozen states. The US District Court for the Western District of Louisiana, Lake Charles Division granted the multi-state coalition's request for a preliminary injunction that prevents the ban on new LNG export projects from taking effect while the case plays out.

However, this move was a setback to the anticipated decline in slopes on long-term LNG supply contracts ➤

While the courts have provided short-term reprieve, it's important to remember that government opposition plays a significant role in commercial decisions. This ban has granted suppliers increased pricing power for long-term contracts in an otherwise oversupplied LNG market. We have previously noted that the US has abundant natural gas; the primary challenge is constructing LNG terminals to facilitate exports. As fracking continues, it's likely that natural gas prices in the US domestic market will remain stable, with new capacities consistently coming online.

Trump's new agenda is to drill more to get more oil and gas ➤

"We will drill, baby, drill," US President-elect Donald Trump said in a speech earlier this year, making it undoubtedly clear what the Republican Party's stance is for the future of the oil industry: one of continued growth and scaled-up plans to grow the country's output of what Trump coins 'liquid gold'.

Trump has expressed his desire to increase oil drilling on public lands, offer tax breaks to oil, gas and coal producers as well as expedite the approval of natural gas pipelines.

However, the US still imports ~6m bbl/day of heavy oil, as much of its older refining infrastructure is not equipped to process the light, sweet crude produced by fracking ➤

Please note that the US has not built any significant refinery capacity in the last 15-20 years. In fact, much of the refining infrastructure is geared towards the refining of heavy crude imported from the Middle East. Hence, despite increasing the production of oil, the US is not becoming truly less dependent on oil imports. While a 1973-like crisis is unlikely, it's possible that any disruption in trade flow of oil from the Middle East can lead to a severe spike in gasoline prices in the US.

Figure 2: US oil imports have increased after President-elect Donald Trump's last presidency...

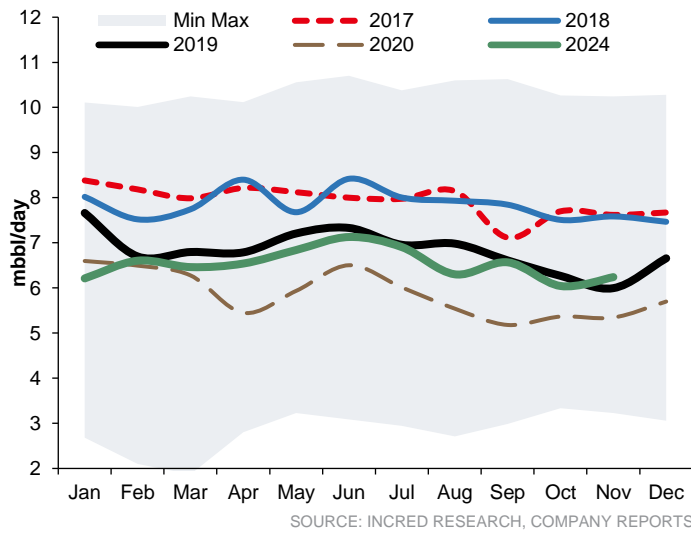
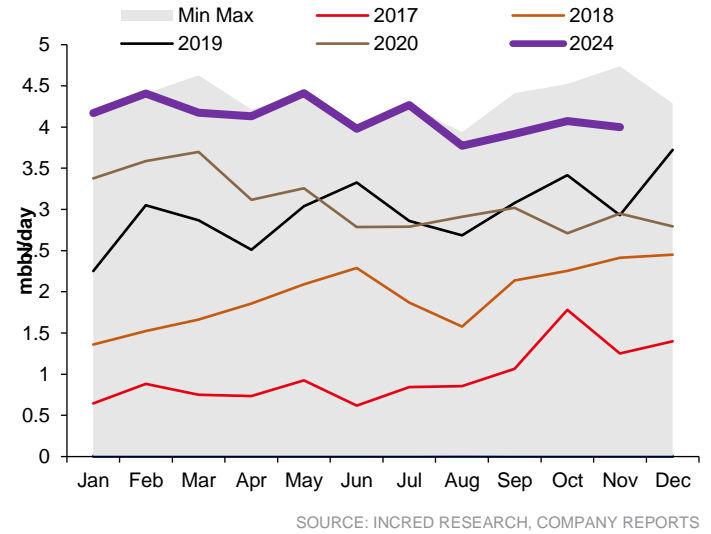


Figure 3: ...and oil exports have also gone up



To realize truly the Make in America mandate and self-sufficiency in energy, Trump needs to incentivise refinery construction ►

While increasing the oil production is important, refining capacity is just as critical to ensure the supply chain can handle higher output, especially given the growing trend toward sweeter crude oil, which requires different processing methods.

If the US wants to stay competitive in the global oil market, incentivizing refinery construction or major upgrades to existing facilities will be necessary. This could involve:

- **Investment in new refineries:** With rising domestic production, building new refineries that are capable of processing sweet crude efficiently would help mitigate the bottleneck between production and refinement. Such projects would require significant capital investment, but they could bolster energy security, employment, and local economies.
- **Upgrades to existing refineries:** Many US refineries are optimized for processing sour crude. A shift to sweet crude would require upgrading equipment and refitting refineries to handle lighter, less sulphur-intensive oil. This could be less expensive than building new refineries but still demands substantial investment.
- **Policy incentives:** To spur these investments, it would likely take tax incentives, deregulation (such as easing environmental restrictions where feasible), and potentially public-private partnerships. These policies would be important to bridge the gap between the capital-intensive nature of refinery expansion and the economic benefits they would offer.

As of now, this focus on refining capacity isn't prominently discussed in the upcoming administration's rhetoric, but given the scale of US oil production, it might be a necessity for future energy independence and market competitiveness.

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