

**THE YUAN CHALLENGE**

# How India-Russia trade gap may threaten rupee internationalisation efforts

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IN A strategic move to curb its burgeoning oil import bill and reduce dependence on the expensive US dollar, New Delhi aims to bolster bilateral trade with Moscow to \$100 billion by 2030. However, the dynamics of India-Russia trade have been skewed since the onset of the Ukraine war in 2022. Russia has rapidly ascended to become India's top oil supplier, but Indian exports to Russia have struggled, resulting in a \$57 billion trade deficit in the bilateral trade worth \$66 billion in FY24.

While India has managed to save over \$10 billion by importing cheaper Russian oil in the last two years and has benefited from exporting petroleum products by processing Urals crude, meager exports to Russia mean that a historic geopolitical opportunity to cut dependence on the expensive US dollar has remained elusive. *The Indian Express* explains why continued unbalanced trade with Russia could force India to use the Chinese yuan, which runs counter to its efforts toward internationalising the rupee.

## Why is the widening trade gap with Russia benefiting the yuan?

Unlike India, China has seized the export opportunities emerging in Russia amid crippling Western sanctions and a host of Western companies and banks exiting the war economy. Chinese exports to Russia have actually grown faster than imports of Russian oil. Chinese customs data shows that shipments to Russia jumped by 47 per cent year-on-year to \$111 billion in 2023, while imports grew by 13 per cent to \$129 billion. The two-way trade crossed a record \$240 billion in 2023.

Since trade between the two countries is more balanced compared to India-Russia trade, it has fostered the use of domestic currency. The Russian government has stated that 95 per cent of trade between China and Russia occurs in domestic currency. As a result, the yuan is the most sought-after currency in the Russian stock market, even more popular than the powerful US dollar. Russian oil exports are therefore requesting payments from Indian refineries in Chinese currency, while the use of the rupee has remained restricted.



The biggest challenge has been the reluctance on the part of the private banks to facilitate trade with Russia due to fear of Western sanctions. *File*

## How can India internationalise the rupee?

Even as India aims to reduce its dependence on the US dollar, it does not support the yuan as a currency for settling international trade due to recurrent border tensions with neighboring China. In July 2022, the Reserve Bank of India (RBI) issued a circular permitting an additional arrangement for settling trade using the rupee.

However, the FY23 Economic Survey states that one prerequisite for the emergence of an international currency is that it "needs to be increasingly used for trade invoicing."

According to the BIS Triennial Central Bank Survey 2022, the US dollar is the dominant vehicle currency, accounting for 88 per cent of global forex turnover, while the rupee accounts for just 1.6 per cent.

The survey indicated that if rupee turnover rises to equal the share of non-US, non-Euro currencies in global forex turnover (4 per cent), it will be regarded as an international currency.

## Why are exports to Russia challenging?

The biggest challenge has been the reluctance of private banks to facilitate trade with Russia due to fears of Western sanctions. Most private banks have significant business interests in Western countries and multiple branches that could face sanctions imposed by the European Union (EU) and the US.

To address this, the joint statement following Prime Minister Narendra Modi's visit stressed the need to "increase Indian exports to Russia" by

strengthening industrial cooperation. Indian exporters are also facing difficulties using the rupee settlement mechanism while trading with Russia. Exporters initially complained that although the RBI had launched the mechanism, they were unable to use it due to the absence of a Standard Operating Procedure (SOP) for banks. Moreover, the ruble and rupee, unlike the yuan, have experienced considerable volatility, complicating trade in domestic currency.

## How are Russia and India planning to boost trade?

During Modi's visit, both countries decided to eliminate non-tariff and tariff barriers in trade and to initiate negotiations for a trade deal with the Russia-led Eurasian Economic Union (EEU), which could ease the flow of Indian products into the EEU. The EEU consists of five member states: Russia, Belarus, Kazakhstan, Kyrgyzstan, and Armenia, representing a \$5 trillion economy.

According to the joint statement, India and Russia agreed to cooperate in manufacturing sectors such as transport engineering, metallurgy, and chemicals.

Russia and India have also planned the implementation of joint projects in priority areas and emphasised the importance of expanding reciprocal trade flows of industrial products to increase their share in bilateral trade. The statement further reflected discussions on the migration and mobility partnership agreement between the two countries.



# Support can power a rally

## **CRUDE CHECK.** Traders can retain longs

**Akhil Nallamuthu**

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Crude oil prices moderated over the past week. The Brent crude oil futures on the Intercontinental Exchange (ICE) lost 1.6 per cent and ended the week at \$85.1 per barrel. Similarly, the crude oil futures on the MCX was down 1.9 per cent, as it closed the week at ₹6,797 a barrel.

### **BRENT FUTURES (\$85.1)**

Brent Crude futures marked an intraweek low of \$84 mid-week; but it recovered to close the week at \$85.1. Therefore, the support band of \$84-85 remains valid and can help the contract rebound.

There is a good chance for Brent futures to resume the uptrend and move towards \$92. A breakout of this level can take the contract to \$98. But if the support at \$84 is breached, the short-term outlook can turn bearish. In such a case, it can extend the downward move to \$81, a good support.

### **MCX-CRUDE OIL (₹6,797)**

In line with our expectations, the price of crude oil futures softened last week. However, the key support levels stay true, which are likely to



prevent further fall from here. We shall consider the August contract for analysis as the July contract is nearing expiry.

The August crude oil futures has a strong support at ₹6,680. We expect the contract to rebound on the back of this and rally to ₹7,250. However, if it breaks below the support at ₹6,680, it can turn the outlook bearish and extend the decline to ₹6,500, a potential support.

**Trade strategy:** We recommended buying July futures if the price dips to ₹6,800. Roll-over the longs to August contract. That is, exit longs in July contract at the current level of ₹6,890 and buy August futures at ₹6,800. Place stop-loss at ₹6,620. When the contract rises above ₹7,000, tighten the stop-loss to ₹6,880. Book profits at ₹7,250.





## Indian Oil launches STORM-X racing fuel from Paradip Refinery

Indian Oil announced the maiden dispatch of STORM-X, a high-octane gasoline specifically formulated for racing cars.

The event was virtually flagged off by V Satish Kumar, Director (marketing), in the presence of N Senthil Kumar, Director (pipelines), and Alok Sharma, Director (R&D).

Indian Oil has recently launched premium racing fuel for top-end motor rac-



ing events across the country and in the international circuit.

Ideated and inspired by Shrikant Madhav Vaidya, Chairman, IndianOil, the

introduction of premium racing fuels stands as a symbol of IndianOil's relentless pursuit for innovation and excellence.

This premium race fuel was developed by the IndianOil Research & Development Centre, Faridabad, and produced at the state-of-the-art Paradip Refinery. Indian Oil has partnered with Madras Motor Sports Club for supplying STORM-X for the 3rd

and 4th rounds of the Indian National Racing Championship at Madras International Circuit in the 2024 season. A total of 55 barrels of STORM-X were dispatched for the 3rd round at the launch ceremony.

Paradip Refinery, known for its advanced technological capabilities, played a crucial role in developing and producing this premium race fuel.