



Effects of LPG Shortage in Financial Market

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❖ ABSTRACT

The Strait of Hormuz sits at the centre of the world's hydrocarbon trade. In 2024, around 20 million barrels per day of oil moved through the strait, equivalent to roughly 20 percent of global petroleum liquids consumption, making it one of the world's most critical oil transit chokepoints. A disruption here interrupts vessel movement, raises freight, delays cargo scheduling, and weakens confidence in forward supply. Liquefied Petroleum Gas (LPG) traffic through the corridor has been severely disrupted due to the current crisis in the Middle East, with cargo movements stalling and importers scrambling for replacements. For a country like India, where a large share of a welfare-sensitive fuel depends on seaborne imports, the global shock has quickly become a domestic allocation problem.

This paper aims to analyze the effects of LPG shortages on the financial market, focusing on the advantages of financial markets, the benefits of LPG in daily life, and the challenges faced by financial markets during an LPG crisis. For this purpose we use some references from government sites, tracking oil companies share volatility, evaluating Government Interventions, analyzing academic journal as a secondary resource and Industries Reports.

❖ INTRODUCTION

A financial market is a platform where buyers and sellers trade assets (Bonds, Stocks, Currencies & Derivatives). The financial market serves as a critical component of the global economy, facilitating the allocation of resources, risk management, and investment opportunities..

❖ TYPES OF FINANCIAL MARKET:

- 1) Capital market (Long Term Debt & Equity)
- 2) Money Market (Short Term Debt)
- 3) For Trading Currencies there have Foreign Exchange Market
- 4) Derivative Market (For Deriving Value from another assets)



❖ ADVANTAGES OF FINANCIAL MARKETS

Financial markets provide crucial economic benefits by mobilizing savings into productive investments, offering high liquidity for buying/selling assets, and enabling efficient price discovery and risk management. They allow investors to buy and sell assets quickly, ensuring that capital can be allocated efficiently and facilitate capital formation for business growth and create employment opportunities within the financial sector.

❖ ADVANTAGES OF LPG IN DAILY LIFE

LPG is widely used for cooking, heating, and as a fuel for vehicles. Its advantages include low emissions compared to oil fuels or charcoals. The availability of LPG can significantly enhance the quality of life, particularly in developing regions where access to clean energy is limited, it can be used for various purposes like from commercial purpose in industry to use for cooking in home or domestic.

It is smokeless, when we compared to others fuel burning LPG Gas does not cause harmful air pollution.

❖ CHALLENGES IN FINANCIAL MARKETS

Despite their advantages, financial markets face numerous challenges, including,

- 1) **Highly Volatile:** Stock market are volatile and highly dynamic. Today's technological driven world continuously shrinking. Also stock prices go up and down multiple times within a single trading day.
- 2) **Highly Risky:** Volatility and unpredictability of the market make it highly risky and especially for small time traders who don't have access to high quality research.
- 3) **Malpractices:** The regulator has intensified vigilance some skill take advantage of loopholes in the system. For that some traders are at an advantage as they are having access to information such as purchases by parties close to management, expected company results, auction data released by the stock exchanges etc..
- 4) **High volume- Low margin:** Stock trading can be started with low capital and no educational qualification, stock trading is a high volume-low margin profession for which the odds are usually stacked against the trader.
- 5) **Taxation:** The Taxation structure or framework for trading in india can sometimes not be clear. For that the results of frequent short term buying and selling should be treated as capital gain or loss. This leads to harassment of traders at the time of assessment.

❖ CHALLENGES AND LIMITATIONS IN FINANCIAL MARKETS DURING LPG CRISIS

The LPG crisis in India(March-2026) driven by disruptions in the strait of Hormuz due to West Asia conflicts has presented significant challenges and limitations for Financial Markets because India imports over 60% of its LPG, making its financial sectors, Energy and commercial sectors susceptible to supply chain bottlenecks, inflationary pressures and stock market volatility. An LPG shortage can exacerbate existing challenges in financial markets. The crisis can lead to increased volatility, as investors react to supply constraints and rising prices. Additionally, for interconnectedness an LPG shortage in one region can have adverse effects, impacting commodity prices and investor sentiment worldwide

Here are the key challenges and limitations in financial markets during this crisis:



❖ VOLATILITY IN ENERGY AND UTILITY STOCKS

- **Oil Marketing Companies (OMC) Under Pressure:** Oil Marketing Companies (OMCs) like IOCL, BPCL, and HPCL face severe margin pressures. While they may experience inventory gains from rising crude prices, their inability to fully pass on costs to consumers—due to government regulation—leads to "under-recoveries" (losses).
- **Volatility in Nifty Energy Index:** The index has experienced significant drops over 2.16% in a few weeks, reflecting investor fear regarding fuel supply disruption.

❖ HIGH INFLATIONARY PRESSURES

- **Input Cost Surge:** The rise in global energy prices, combined with high import costs, creates inflationary pressure across sectors. Industries dependent on LPG, such as food processing, hospitality, and ceramics, face increased operational costs.
- **Commercial LPG Price Hike:** The cost of commercial cylinders has risen sharply, impacting small and medium enterprises (SMEs) and its also affected badly in domestic consumption.
- **Black Market Activity:** The shortage has resulted in inflated black market prices for LPG, reaching up to ₹9,000 for commercial cylinders in some areas.

❖ IMPACT ON SPECIFIC FINANCIAL SECTORS

- **Quick Service Restaurants under Pressure:** Stocks for restaurant chains like in West Bengal Hindustan sweets, Bhuter Raja Dilo Bor (Jadavpur outlet) and Posto (Patuli, Garia) and many other restaurants in India have faced selling pressure due to potential operational shutdowns.
- **Manufacturing and Export Disruptions:** Industries such as textiles, pharma, and agriculture in regions like Haryana face shutdowns, threatening output, and reducing the ability to meet export schedules.
- **Rise in Appliance Stocks:** Conversely, manufacturers of induction cooktops, rice cookers, and electric burners have experienced sharp intraday rallies due to increased consumer demand for alternatives.

❖ MONETARY & FISCAL CONSTRAINTS

- **Widening Current Account Deficit (CAD):** Continued high prices could cause India's Current Account Deficit to widen from 1% to 2% of GDP, placing pressure.
- **Fiscal Burden on Subsidies:** The fiscal burden of subsidies for the financial year(2026-2027) is experiencing pressure due to rising global commodity prices, geopolitical tensions in the West Asia conflicts.

❖ HIGHEST RISK COMPONENTS:

- **Budgeted Amount:** The government initially pegged the fertilizer subsidy at ₹1.71 lakh crore for FY27, a decrease from the FY26 Revised Estimates.
- **Rising Burden:** Due to surging global energy prices (LNG) caused by the West Asia conflict, this subsidy bill is projected to rise.
- **Potential Revisions:** Official estimates suggest the fertilizer subsidy could exceed ₹2.20 lakh crore in FY27 if elevated prices persist, with a likely shortfall of ₹10,000–15,000 crore, potentially requiring a 28% increase over budget estimates.



- **Dependence:** India's dependency on imported LPG is high with imports meeting approximately 60%-66% of domestic consumption. This has grown from around six years prior that was 49% (as per J.M Baxi Newsletter). Roughly 90%-92% of these imports are sourced from middleeast particularly via the strait of Hormuz(as per India Today Article).
- **Investor Caution:** Investors are tracking the conflict in West Asia, and volatility is expected to continue until supply chains normalize or alternative sources become consistent.

❖ **REGULATORY & STRUCTURAL LIMITATIONS**

- **Limited Strategic Reserves:** Unlike crude oil, India lacks long-term storage, with only about 25–30 days of LPG stock, making the system vulnerable to a sustained blockade.
- **Bottleneck at Strait of Hormuz:** Over 85% of India's LPG imports pass through this single chokepoint, providing limited flexibility to reroute in the short term.
- **Essential Commodities Act:** The government has been forced to invoke the Essential Commodities Act to prevent hoarding, which directly limits free market operations and imposes strict supply regulations.

The crisis has highlighted the need for diversifying energy sources and accelerating the shift to piped natural gas (PNG) to reduce dependence on vulnerable import routes.

❖ **METHODOLOGY**

This research employs a qualitative analytical approach for analyzing LPG supply disruptions and financial market performance in India involves monitoring geopolitics (Strait of Hormuz), tracking Oil Marketing Companies (Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited) share price volatility, calculating rising import costs/inflationary impacts, and evaluating government intervention, including prioritized domestic supply, utilizing secondary data from academic journals, industry reports, and government publications. The analysis focuses on the relationship between LPG supply disruptions and financial market performance.

Key Components:

- 1) Geopolitical Risk Factor: Tracking conflicts in West Asia, especially blockades or rising insurance costs around the strait of Hormuz through which 85%-90% of India's LPG imports travel.
- 2) Import Vulnerability Metrics: Measuring the percentage reduction in monthly LPG imports and shifts in inventory levels.
- 3) Diversification Progress: Assessing the volume of imports from alternative suppliers
- 4) Stock market Volatility: Measuring the performance of Indian Oil Corporation Limited(IOCL), Bharat Petroleum Corporation Limited(BPCL), Hindustan Petroleum Corporation Limited(HPCL) which face pressure due to higher procurement costs.
- 5) Short Term Panic Factor: Monitoring media reports and public sentiment it leads to buying LPG Cylinder frequently due to panic which can causes the shortage of inventory.



STOCK CHART ANALYSIS OF INDIAN OIL CORPORATION LTD. (IOCL), BHARAT PETROLEUM CORPORATION LTD. (BPCL), HINDUSTAN PETROLEUM CORPORATION LTD.(HPCL)

INDIAN OIL CORPORATION LTD.



BHARAT PETROLEUM CORPORATION LTD.





HINDUSTAN PETROLEUM CORPORATION LTD.



❖ RESULTS

An LPG shortage in March 2026, primarily driven by geopolitical tensions in the Middle East affecting the Strait of Hormuz, has led to significant disruptions in the Indian financial market, creating a "ripple effect" termed the energy-inflation-equity loop. The situation, largely resulting from India's heavy reliance on imports, has caused volatility across several sectors.

Here are the key consequences in the financial market:

❖ STOCK MARKET IMPACT & SECTORAL PERFORMANCE

- **Winners(Alternative Buying):** Kitchen appliance manufacturers, including TTK Prestige, Stove Kraft, and Butterfly Gandhimathi Appliances, saw substantial gains in share prices (up to 14.5% intraday) as consumers pivoted to electric cooktops.
- **Losers (Commercial Users):** Quick Service Restaurants and companies relying on commercial LPG face pressure due to supply rationing.
- **Industrial Impact:** Ceramic makers (Kajaria, Somany) and fertilizer companies face operational risks due to gas supply limitations.
- **Oil Marketing Companies (OMCs):** State-run refiners such as Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited, and Hindustan Petroleum Corporation Limited are facing margin pressures, with shares experiencing drops due to high import premiums that cannot fully be passed on to households.

❖ INCREASED INFLATIONARY PRESSURE

The scarcity has spurred a rise in energy prices, contributing to higher inflation, which negatively affects the broader equity market. The rise in operational costs for businesses is expected to increase consumer prices.



❖ IMPACT ON COMMERCIAL OPERATIONS

- **Supply Chain Disruption:** Many hotels and restaurants, particularly in cities like Mumbai, Bengaluru, and Kochi, have reported partial closures or severe operational stress due to a shortage of commercial cylinders.
- **Menu Restrictions:** Businesses are limiting menus to avoid high-consumption cooking, decreasing their efficiency and affecting profitability.

❖ POLICY AND REGULATORY INTERVENTION

- **Essential Commodities Act:** The Indian government invoked the Essential Commodities Act to combat hoarding and prioritize household supply.
- **Government Incentives:** A 10% additional allocation of commercial LPG has been offered to states, linked to incentives for transitioning from LPG to piped natural gas (PNG).
- **Import Diversification:** The government is sourcing non-Hormuz crude from other regions, including the U.S., Canada, and Russia, to mitigate the supply bottleneck.

❖ DISCUSSION

India is now dealing with difficulties in getting enough LPG because of problems happening near the Strait of Hormuz, which is an important place for ships carrying goods around the world. However, despite these geopolitical tensions, the country is not experiencing shortages of petrol or diesel. Petrol and diesel are mostly made within India using its big network of refineries. LPG, on the other hand, relies more on direct imports and has a smaller amount of stored supply. Because of these differences in structure, providing LPG becomes more difficult when there are problems with international shipping routes. The findings suggest that although financial markets provide many benefits, they are not protected from external shocks like LPG shortages. The uncertainty caused by these crises can make investors lose trust, which might lead to less money coming in and higher costs for borrowing. The difficulties financial markets face during an LPG crisis show how important it is to have strong rules and ways to manage risks in order to reduce the negative impacts of disrupted supplies.

❖ CONCLUSION

LPG shortage in India, triggered by West Asia conflicts, specifically Strait of Hormuz disruptions, is causing significant distress, particularly within the commercial sector. While homes get priority for electricity, businesses like restaurants, hotels, and small factories are struggling with big shortages, which makes running their operations more expensive and could lead to higher prices for customers. The lack of LPG can affect financial markets in several ways, causing problems with money availability, making investors less sure, and making the market less stable overall. Financial markets offer important benefits, but they also encounter major difficulties when crises happen. Understanding these dynamics is essential for policymakers and investors, as they work through the challenges of an increasingly interconnected global economy. India's Finance Ministry has announced the "Economic Stabilisation Fund," which will partially support fertiliser subsidies, but the suspension of LNG supply would still cause significant disruption to the agriculture sector. A bigger problem for the economy right now is the lack of liquefied petroleum gas, or LPG. In India, LPG is mostly used for cooking, both at home and in businesses.

❖ BIBLIOGRAPHY

WEBSITES

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