INR MACRO

# The Rupee at a Crossroads: Depreciation, Buffers, and What Comes Next

The rupee fell over 11% in last 1 year till May 2026 end amid structural capital outflows, oil-led terms-of-trade shocks, and US tariff pressure - yet India’s macro buffers remain intact.

**₹94.6**
Current Jun 2026

**₹96.96**
All-time low May 2026

June 2026

WHERE WE ARE

# The Rupee Has Fallen Over 11% in 12 Months
## And It Did So Against a Weak Dollar

KEY STATISTICS

**₹94.6/$**
Current rate (Jun 2026)

**₹96.96**
All-time low (May 2026)

**-11%**
Rupee fall in last 1 year at May 2026 end

- Started 2025 at ₹85.5. Breached ₹90 in December 2025. Hit a record low of ₹96.96 on May 20, 2026.
- The dollar index fell ~10% in 2025, The rupee weakened anyway.
- The drivers: US tariffs, record FPI equity outflows of ~₹2.25 lakh crore in 2026 till May 2026 end, and a West Asia oil shock that pushed Brent prices.
- The rupee is now 'broadly fairly valued on a trade-weighted basis', the overvaluation that built through 2024 has been fully corrected - Goldman Sachs

WHAT DROVE THE COLLAPSE

# Four Forces Broke the Rupee - Structural, Cyclical, and a 2026 Shock

### Capital Flight

•FPI equity outflows: ~₹2.25 lakh crore in 2026 till May 2026 end

•March 2026 alone: ~$12.3 bn sold

### Terms-of-Trade Shock

•Brent crossed $100, petroleum bill hit $212 bn in FY26

•Gold imports: record $72 bn (+24% FY26)

### US Tariffs & Trade War

•US tariffs on Indian goods

•Compressed India's export competitiveness

•No trade deal confirmed as of June 2026

### Rate Gap Compression

•RBI repo: 5.25% | Fed funds: 3.50-3.75%

•Spread now ~150 bps, no strong carry signal

**Structural Overlay:**
FPI outflows (cyclical) combined with the oil shock (structural) and tariff overhang (policy) - three drivers at once.

# India Has the Buffers - But Buffers Did Not Stop Depreciation

**INDIA'S BUFFERS**

Strong but not unlimited

### Forex Reserves

•$682.3 bn (May 2026) - ~11 months import cover
•Covers ~89% of external debt ($765 bn)

### Remittances & Services

•Remittances: $135.5 bn in FY25 - world's largest recipient
•Services exports: $387.5 bn in FY25 (+13.6%)
•Together, nearly offset the merchandise trade deficit

### The Honest Caveat

•~$58 bn in FPI equity selling since Sep 2024 overwhelmed support
•RBI net forward short: ~$103 bn (end-Mar 2026) - constrained
•Buffers cushioned CAD; they did not stop the currency from falling

India is not in a balance-of-payments crisis. It is in a capital-flow-driven depreciation cycle. These require different policy responses.

RIPPLE EFFECTS

# Who Wins, Who Loses - The Currency Move Is Not Neutral

| BENEFITS | PRESSURES |
|---|---|
| **IT & Software Exporters**<br>Revenue in USD, costs in INR - structural margin tailwind<br>Caveat: gains being reinvested, not flowing to EPS (Kotak, Motilal) | **OMCs (IOC, BPCL, HPCL)**<br>Crude import costs rise in INR terms - refining margin risk<br>Government under pressure to cap retail fuel prices |
| **Pharma Exporters**<br>Net beneficiary via stronger USD realizations on exports<br>Export-heavy balance sheets benefit directly from weaker INR | **Import-Heavy Sectors**<br>Electronics, capital goods face INR-denominated cost inflation<br>Supply chains with USD-linked inputs squeezed on margins |
| **REER Undervaluation**<br>INR now modestly cheaper on a trade-weighted basis<br>Makes Indian goods structurally cheaper for trade partners | **Inflation Pass-Through**<br>Every 1% INR fall adds ~7bps to CPI (RBI model)<br>CPI already nudging toward 5% - limits RBI rate-cut room |

IT and pharma gain; OMCs and macro stability lose. A sustained move past ₹96 tips the inflation-policy balance materially.

POSITIONING

# Three Signals to Watch - The Trigger Framework

1

## FPI Flows

Track NSDL weekly. Selling moderated from ~$12.6 bn (Mar 2026) to ~$3.4 bn (May 2026). Not bullish yet - but direction matters. Two consecutive positive months could be a turning point.

2

## RBI Forward Book

Net short ~$103 bn (Mar 2026) - intervention capacity is constrained. Watch for any drawdown in spot reserves toward $660 bn. That would signal the RBI is losing the battle.

3

## US-India Tariff Talks

US tariff is the structural overhang on India's export competitiveness. A confirmed deal is the single largest INR-bullish catalyst. No deal = range-bound or worse.

Hormuz reopens and oil retreats, a confirmed and executing US-India trade deal plus two consecutive months of net-positive FPI flows are required for a rupee long position. Neither alone is sufficient. **FCNR window ($40-60 bn by September) provides a floor, not a catalyst.**

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