

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

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.

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

BENEFITS

IT & Software Exporters

Revenue in USD, costs in INR - structural margin tailwind
Caveat: gains being reinvested, not flowing to EPS (Kotak, Motilal)

Pharma Exporters

Net beneficiary via stronger USD realizations on exports
Export-heavy balance sheets benefit directly from weaker INR

REER Undervaluation

INR now modestly cheaper on a trade-weighted basis
Makes Indian goods structurally cheaper for trade partners

PRESSURES

OMCs (IOC, BPCL, HPCL)

Crude import costs rise in INR terms - refining margin risk
Government under pressure to cap retail fuel prices

Import-Heavy Sectors

Electronics, capital goods face INR-denominated cost inflation
Supply chains with USD-linked inputs squeezed on margins

Inflation Pass-Through

Every 1% INR fall adds ~7bps to CPI (RBI model)
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.

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.**

20 *years of
financial excellence*

THE SKG GROUP

SKG India Small & Midcap Fund
SKG Assets & Holding Pvt Ltd
SKG Asset Management Pvt Ltd
Equity first LLP
Madhuri Holding Ltd

Disclaimer

The above material is neither investment research, nor investment advice. SKG - Investments & Advisory (“SKG”) does not seek payment for or business from this material/email in any shape or form. No content of this publication including the performance related information is verified by SEBI. If any recipient or reader of this material is based outside India, please note that SKG may not be regulated in such jurisdiction and this material is not a solicitation to use SKG’s services. The recipient of this material is urged to consult their own legal and tax consultants/advisors before making any investments. The recipient, if not the addressee, should not use this material if erroneously received, and access and use of this material in any manner by anyone other than the addressee is unauthorized. If you are not the intended recipient, please notify the sender by return email and immediately destroy all copies of this message and any attachments and delete it from your computer system, permanently. No liability whatsoever is assumed by SKG as a result of the recipient or any other person relying upon the opinion unless otherwise agreed in writing. The recipient acknowledges that SKG may be unable to exercise control or ensure or guarantee the integrity of the text of the material/email message and the text is not warranted as to its completeness and accuracy. The material, names and branding of the investment style do not provide any impression or a claim that these products/strategies achieve the respective objectives. Further, past performance is not indicative of future results. SKG and/or its associates, the authors of this material (including their relatives) may have financial interest by way of investments in the companies covered in this material. SKG does not receive compensation from the companies for their coverage in this material. SKG does not provide any market making service to any company covered in this material. Authors of this material have never served the companies in a capacity of a director, officer or an employee. All recipients of this material must before dealing and or transacting in any of the products referred to in this material must make their own investigation, seek appropriate professional advice and carefully read the Private Placement Memorandum/Disclosure Document, Form ADV, Form CRS and any other documents or disclosures provided to them by SKG, as applicable.