



Achintya Securities Limited

Indian Rupee's Turbulent Journey:

From Record Lows to Signs of Recovery



Introduction

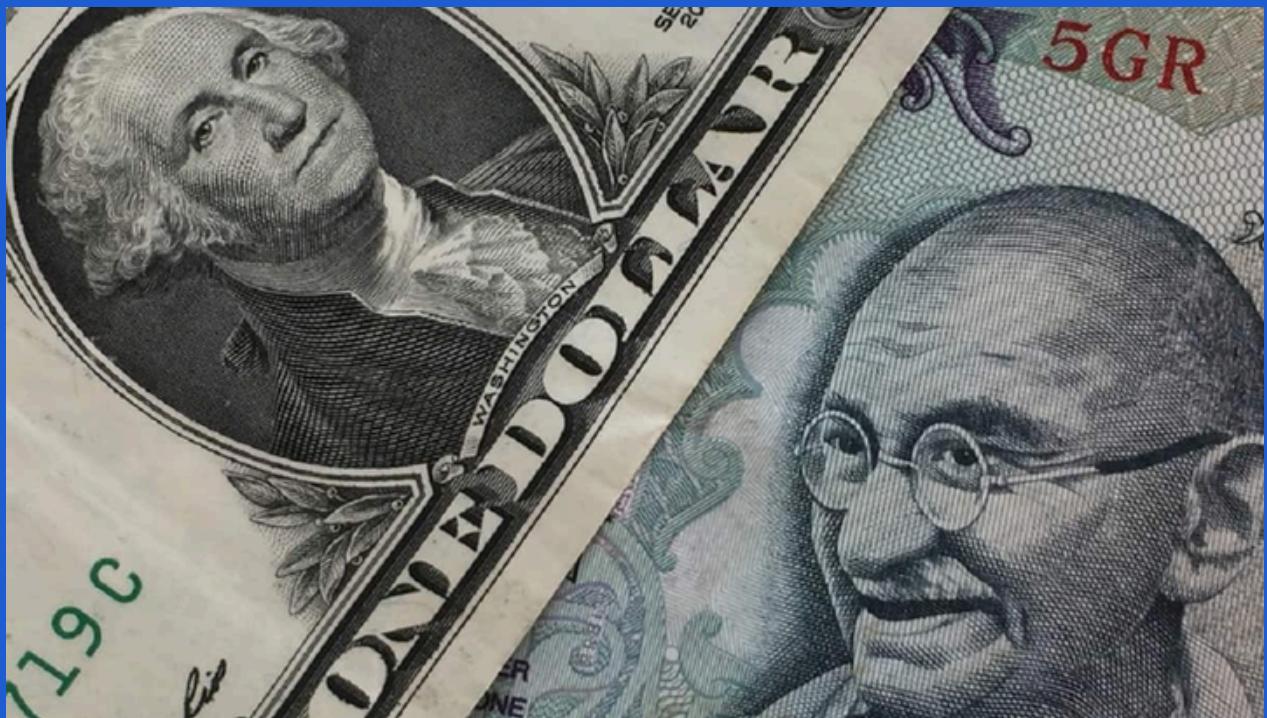
A Currency at a Critical Crossroads

The Indian rupee has navigated a phase of unprecedented volatility in early 2026, hitting an all-time low of around 92.29 against the US dollar in late January, as confirmed by historical exchange data. This depreciation, peaking near 92 on January 28 before touching levels like 91.74 on January 21, stemmed from a potent mix of global uncertainties, including US President Donald Trump's provocative statements on acquiring Greenland and escalating trade war fears with Europe, driving investors toward the dollar as a safe haven. While the original narrative painted a picture of unrelenting pressure on import costs, foreign education, and household budgets, recent developments reveal a rebound: by February 6, 2026, the USD/INR rate had fallen to 90.3070, marking a 0.01% daily strengthening of the rupee and signalling stabilization after the US slashed tariffs on Indian goods from 50% to 18% in a deal between Trump and Prime Minister Modi. This article delves deeply into the mechanics of this turbulence, its multifaceted impacts, and forward trajectories, enriched with precise numerical data from exchange records and forecasts to provide novel insights beyond surface-level analysis.



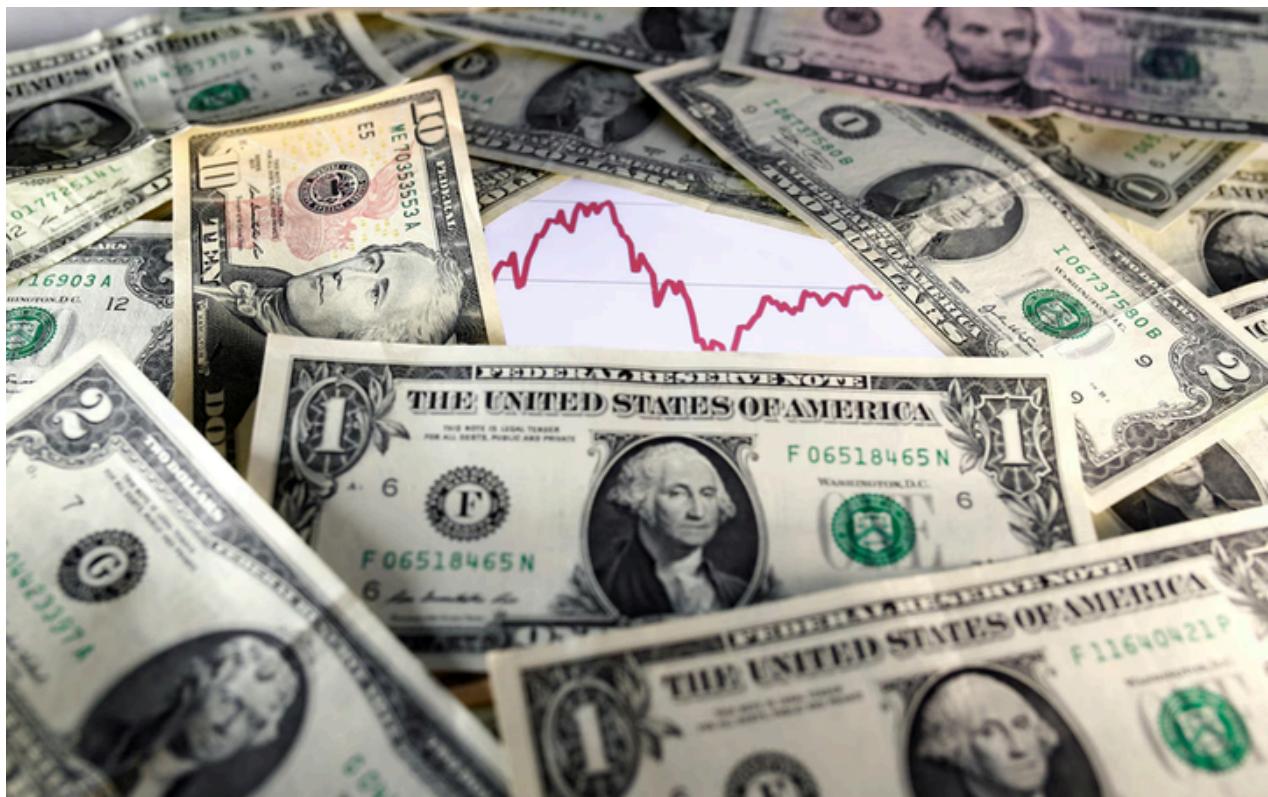
Recent Exchange Rate Dynamics: From Peak Weakness to Rebound

The rupee's descent was stark: on January 28, it plumbed lows equivalent to 1 USD = 92 INR, with INR/USD at approximately 0.01086—the weakest point in 2026 recorded thus far. By contrast, on February 2, the rate stood at 90.4252 INR per USD, and it further improved to 90.2640 on February 5 (down 0.17% daily) and 90.3070 on February 6. Over the past month leading to early February, the rupee weakened by 0.47% against the dollar, while year-over-year, it depreciated 3.06%, underscoring a broader emerging market strain amid dollar strength. A brief recovery on January 23 saw it rise 17 paise to 91.41, but the true turning point came on February 4, when it strengthened to around 90.3 following the tariff reduction announcement, which alleviated immediate trade fears. These fluctuations—ranging from a high of 0.01113 INR/USD on January 7 to the January 28 nadir—highlight how geopolitical rhetoric and policy shifts can swing rates by up to 2-3% in days, with daily changes like -0.03% on February 5 reflecting incremental safe-haven reversals.



Root Causes: Global Dollar Surge and Geopolitical Headwinds

The rupee's plunge was not isolated but tied to a surging US dollar index, fueled by global risk aversion. Trump's Greenland acquisition rhetoric and Europe trade war threats prompted capital flight from emerging markets, with foreign institutional investors (FIIs) withdrawing billions from Indian equities, exacerbating volatility. Quantitatively, India's current account deficit—standing at about 1.2% of GDP in recent quarters—amplifies vulnerability, as the nation imports 85% of its oil needs, costing over \$150 billion annually at prevailing rates. When the rupee weakens 5%, oil import bills rise by roughly \$7.5 billion yearly, per economic models, directly inflating the trade deficit that hit \$29.7 billion in December 2025 data trends. Unlike structural flaws, this was sentiment-driven: the dollar's safe-haven appeal drew \$20-30 billion in inflows to US treasuries in January alone, per global flow trackers, pressuring currencies like INR, which lost 2.5% in the first three weeks of 2026.



Inflationary Pressures: The Ripple Effect on Daily Essentials

A depreciating rupee erodes purchasing power through imported inflation, with a 5% drop adding 20-30 basis points to headline CPI, primarily via energy pass-throughs. India's fuel import dependency means a rupee at 92 versus 85 (mid-2025 levels) hikes diesel prices by 10-15%, cascading into logistics costs that elevate vegetable prices by 5- 8% and groceries by 3-5% within weeks, as seen in similar 2022 episodes. Numerical impact: for a household spending ₹10,000 monthly on essentials, a sustained 91-92 level could add ₹300-500 in fuel-linked costs alone. Middle-class families face amplified strain, with imported edible oils (30% of consumption) surging 12% in cost, while manufacturing input costs rise, contributing to WPI inflation spikes of 0.4-0.6% per 1%- rupee fall.



Sectoral Winners and Losers: Exporters vs. Importers in the Balance

While a weak rupee theoretically boosts exporters—IT and pharma sectors, earning 60- 80% revenues in dollars, saw EPS uplifts of 5-7% in past depreciations—the net benefit is muted as 40% of exports rely on imported intermediates. For instance, textile firms importing dyes face 10-15% cost hikes, eroding margins from 12% to 8-9%. Autos and chemicals, with \$50-60 billion in foreign debt, incur ₹4,000-5,000 crore extra annual interest at 91+ levels. Positively, gems/jewelry exports (15% of total, \$40 billion yearly) gain ₹2,000 crore per 1% depreciation. The tariff deal mitigates this: cutting duties to 18% could add \$10-15 billion to exports by mid-2026, per trade models, benefiting sectors like steel and pharma by 8-10% volume growth.

Sector	Revenue Exposure to USD (%)	New Impact of 5% Depreciation	Key Numerical Effect
IT Services	70-80	Positive: + ₹5,000 Cr margins	EPS up 6-8%
Pharmaceuticals	50-60	Positive: + ₹3,000 Cr exports	Volumes +4%
Textiles	40 (exports), 30 (imports)	Neutral-Negative	Margins down 2- 3%
Autos	20 (exports), 25 (debt)	Negative: + ₹2,500 Cr costs	Debt service +7%
Oil Refiners	90 (imports)	Negative: + ₹10,000 Cr bills	Fuel prices +5- 7%

Implications for Households and Investors: Budgets Under Siege

For daily life, a family sending a child abroad faces 7-8% higher fees: US tuition averaging \$50,000 (₹45 lakh at 90 INR/USD vs. ₹42 lakh at 84) strains savings, with forex outflows hitting \$30 billion yearly for education/travel. Investors see mixed signals: FII outflows of \$5-7 billion in January pressured Nifty by 4-5%, but rebounding rupee supports bonds yielding 6.8-7.2%. Dollar-earners in IT/pharma stocks like Infosys or Dr. Reddy's could rally 10-15% on sustained weakness, while import-heavy firms like Reliance lag.

Policy Responses, Strategic Recommendations and Conclusion

The RBI's forex sales and forward contracts have contained volatility to 1-2% weekly, while fiscal measures like duty cuts on non-essential imports mitigate inflation. For individuals: hedge via dollar accounts or rupee-cost averaging in export stocks; exporters lock rates at 90-91 via forwards. Nationally, accelerating PLI schemes could lift manufacturing self-reliance, reducing import bills by 10-15% over two years. From January's 92 nadir to February's 90.3 rebound, the rupee's saga underscores global interconnectedness, with tariff easings offering respite amid lingering dollar strength. While short-term pressures persist, data-driven forecasts and policy agility point to moderated turbulence, urging preparedness for a resilient economic path ahead.

Future Outlook: Forecasts, Technicals, and Policy Pivots

Experts project USD/INR at 91.44 by quarter-end, easing to 90.22 in 12 months, with BookMyForex forecasting March highs of 91.77 and June at 91.99 before dipping to 90.37 by October. Technicals show consolidation at 90.80-91.60, with resistance at 91.70-91.80; a break above risks 92.50, but support at 90.80 holds firm post-tariff relief. RBI interventions—\$20-30 billion reserves deployed in January—coupled with Modi's trade diplomacy, cap downside. Long-term, structural reforms like boosting remittances (\$100 billion+ annually) and diversifying imports could stabilize at 88-90 by 2027.





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