



Economy • Forex

Rupee Near ₹97

Why the RBI's New Forex Defence Matters
for Inflation, Companies and Investors

The Indian rupee came under pressure in early October, nearing ₹97 against the US dollar and approaching record lows, driven by crude oil prices above \$100 per barrel, persistent foreign portfolio outflows, elevated US bond yields and a strengthening dollar.

The Reserve Bank of India introduced strong currency-market measures, including a special dollar window for public-sector oil companies, restrictions on speculative foreign-exchange derivatives and new cash-reserve requirements for banks handling certain currency hedges.



The measures produced an immediate result, with the rupee recovering from approximately ₹96.96 to ₹95.28 against the dollar by October 13. However, the intervention does not eliminate underlying dollar demand; it redirects market flows, raises certain currency-trading costs and uses RBI reserves to reduce short-term volatility.

This makes the rupee story more important than a simple movement from ₹96 to ₹95. A weaker currency affects inflation, corporate margins, foreign investment, interest rates and equity valuations. The real question is whether the RBI has created a durable defence or merely purchased time while the pressure from oil, foreign selling and global interest rates continues.

What's Happening?

On October 10, the RBI announced a special dollar facility for Indian Oil Corporation, Bharat Petroleum Corporation and Hindustan Petroleum Corporation, operational from October 12 until further notice.

Instead of buying dollars from the normal foreign-exchange market, the three public-sector oil marketing companies can now obtain dollars from the RBI through designated banks. Oil companies are among India's largest regular buyers of foreign currency because crude oil is internationally priced and settled in dollars.

The RBI has not disclosed the volume it expects to supply through the window. However, market estimates place the three companies combined daily dollar demand at approximately \$500 million. Diverting such a large and predictable buyer away from the open market can immediately reduce pressure on the rupee. The RBI simultaneously introduced four important restrictions in the foreign-exchange derivatives market:

- Cancelled rupee-linked derivative contracts can no longer be rebooked, although contracts can still be rolled over at maturity.
- The limit for taking derivative positions without demonstrating an underlying currency exposure has been reduced from \$100 million to \$5 million.
- The same reduction applies to exchange-traded currency derivatives across recognised stock exchanges.
- Banks must maintain a Foreign Exchange Risk Reserve, or FERR, equal to 20% of the rupee value of qualifying derivative contracts exceeding \$2 million.

Banks must also obtain an undertaking confirming that a customer has not used the same underlying exposure to obtain currency hedges from multiple authorised dealers.

The central bank aims to improve market discipline and ensure orderly trading. RBI Governor Sanjay Malhotra noted that nearly one-third of derivative trades were cancelled or closed on the same day, suggesting significant short-term speculation rather than genuine currency hedging.

Why the Rupee Came Under So Much Pressure?

India's Dependence on Imported Oil

Crude oil is the most important structural weakness in India's external account. India imports approximately 88% of the crude oil it consumes, while domestic production has declined from 37.46 million tonnes in FY2014-15 to 28.70 million tonnes in FY2024-25.

The country's oil demand is currently around 5.5 million barrels per day and could rise to as much as 10.5 million barrels per day by 2050. Therefore, economic growth, urbanisation and higher transport and petrochemical consumption are likely to keep India dependent on imported energy for several years.

This dependence creates two pressures when crude prices rise.

First, oil companies require more dollars to purchase the same quantity of crude. This directly increases demand for dollars and weakens the rupee. Second, rupee depreciation makes every dollar of crude more expensive in domestic currency, even if the international oil price remains unchanged. For example, crude costing \$100 per barrel has a rupee cost of ₹9,000 at an exchange rate of ₹90 per dollar. At ₹97 per dollar, the same barrel costs ₹9,700—a 7.8% increase produced entirely by the currency movement.

India's petroleum trade balance already deteriorated during the first quarter of FY2026-27. The net petroleum, oil and lubricants deficit increased from \$32.2 billion a year earlier to \$37.6 billion. The RBI has also raised its crude-oil assumption for the second half of FY2026-27 from \$85 to \$95 per barrel.

Therefore, the dollar window is addressing the most visible source of immediate currency demand. However, it does not make India's crude imports cheaper or reduce the country's actual requirement for dollars.

A Stronger Dollar and Higher US Yields

The second pressure is global. The US Dollar Index has risen approximately 4% during 2026, including nearly 3% during the latest one-month period. At the same time, the US 10-year Treasury yield has moved to around 5.2–5.35%, while the 30-year yield has approached 5.5%.

When US government bonds offer unusually high yields, global investors demand greater returns to hold emerging-market debt and equities. Indian assets must compensate investors not only for corporate and market risk but also for the possibility that the rupee will lose value against the dollar.

Suppose a foreign investor earns 10% from an Indian stock but the rupee falls 7% during the same period. The investor's dollar return is only about 2.8%, before taxes and transaction expenses. If a US Treasury security offers more than 5% with significantly lower risk, the relative attraction of Indian assets declines.

This is why a weak currency can become self-reinforcing. Rupee depreciation reduces dollar-adjusted returns, encouraging foreign selling. Those investors then convert the proceeds into dollars, creating additional pressure on the rupee.

Record Foreign Portfolio Outflows

Foreign investors have sold more than ₹2.92 lakh crore, or approximately \$31.9 billion, of Indian equities during 2026. This is already higher than the ₹1.65 lakh crore sold during the whole of 2025.

Selling accelerated in recent weeks. Foreign investors withdrew approximately ₹45,536 crore in September and another ₹41,487 crore during the first seven trading sessions of October.

The Nifty 50 has fallen by approximately 13% during 2026. When this equity decline is combined with the rupee's roughly 5.9% year-to-date depreciation, a dollar-based investor's loss approaches 18%.

The calculation is important because international investors do not judge Indian equities only in rupee terms. A domestic investor sees the Nifty decline; a foreign investor experiences both the index decline and the currency loss. Domestic mutual-fund inflows have prevented foreign selling from creating a still larger equity-market correction. However, domestic savings cannot directly solve the currency problem because they do not bring new dollars into India.

India's External Account Is Under Pressure—but Not in Crisis

The rupee's decline should not be confused with a balance-of-payments crisis. India recorded a current-account deficit of \$4.2 billion, or only 0.5% of GDP, during the April–June quarter of FY2026–27. The merchandise trade deficit widened sharply from \$68.9 billion to \$86.1 billion, but services exports and remittances provided substantial protection.

Net services receipts increased from \$47.9 billion to \$51.6 billion, while personal transfer receipts—mainly remittances from Indians employed overseas—rose from \$33.2 billion to \$42.9 billion. This is one of India's most important external strengths. IT services, business services, transportation income and remittances generate a large and relatively stable supply of foreign currency, partially financing the merchandise deficit.

Foreign portfolio investment recorded a net outflow of \$9.6 billion in the first quarter, compared with a \$1.6 billion inflow a year earlier, while India's foreign-exchange reserves declined by \$8.1 billion on a balance-of-payments basis.

Therefore, India does not presently face a shortage of foreign currency. The concern is that high oil prices and prolonged capital outflows could require the RBI to keep using its reserves to smooth the adjustment.



Which Sectors Could Benefit?

IT and Business Services

Information-technology companies earn substantial revenue in foreign currencies while incurring most operating expenses in rupees. A weaker rupee can improve reported revenue and margins, depending on hedging strategies, geographic exposure, wage costs and pricing agreements. However, these benefits are temporary and cannot offset weak client spending, pricing pressure or technological disruption. Investors should distinguish currency-related gains from genuine growth in dollar revenue.

Pharmaceuticals and Healthcare Exports

Export-oriented pharmaceutical companies may benefit from a weaker rupee, particularly those with high overseas revenue and India-based manufacturing. However, imported raw materials, equipment, regulatory costs and overseas price controls can limit margin gains.

Textiles, Chemicals and Engineering Exporters

Textile, speciality-chemical, auto-component and engineering exporters may gain competitiveness from a weaker rupee. Companies with high domestic value addition, low foreign-currency debt and limited import dependence benefit most, while those relying heavily on imported inputs may see minimal gains.

Which Sectors Face the Greatest Pressure?

Oil Marketing Companies

The RBI's dollar window reduces currency execution risk for IOC, BPCL and HPCL but does not shield them from high crude prices. Profitability depends on retail fuel pricing, refining margins, inventory fluctuations and government compensation. If selling prices remain controlled despite rising costs, margins may weaken.

Airlines

Airlines face higher costs as aviation fuel, aircraft leases, maintenance and spare parts are largely dollar-linked. Rising oil prices and a stronger dollar increase expenses, while the ability to offset them through higher fares depends on demand, competition and passenger capacity.

Electronics and Consumer-Durable Companies

India's dependence on imported semiconductors, components and electronics raises procurement costs for smartphone, computer and appliance companies. Strong brands may pass costs to consumers, while price-sensitive businesses risk lower margins and weaker demand.

Automobile and Renewable-Energy Manufacturers

Automobile and renewable-energy companies rely on imported components, batteries and equipment. Rupee depreciation raises costs and may reduce project returns unless contracts allow currency cost pass-through. Companies with higher domestic sourcing remain better protected.

Companies With Unhedged Dollar Debt

Rupee depreciation increases repayment costs for companies with dollar-denominated debt. A \$100 million loan rises from ₹900 crore at ₹90 per dollar to ₹970 crore at ₹97. With dollar debt exceeding half of India's external debt, investors should assess company-level foreign-currency exposure.

What Does This Mean for Investors?

The first lesson is that “exporter” does not automatically mean “rupee beneficiary.” Investors need to examine the company’s net foreign-currency position.

The second lesson is that rupee weakness changes equity valuation through foreign flows. Even when domestic earnings remain strong, persistent currency depreciation can reduce the valuation international investors are willing to pay.

The third lesson is that diversification becomes more valuable during a currency shock. Overseas assets can provide a currency cushion for Indian investors because foreign holdings become more valuable when translated into a weaker rupee. Gold may perform a similar role because domestic gold prices reflect both international prices and the exchange rate. However, investors should avoid buying international equities or gold only because the rupee has recently fallen. If the RBI’s intervention succeeds or the dollar weakens globally, part of the currency gain can reverse.

The most durable portfolio defence remains a combination of:

- Businesses with pricing power and low leverage.
- Exporters with genuinely positive net-dollar exposure.
- Companies with high domestic value addition.
- Banks and financial institutions with controlled liquidity and market risk.
- Sensible exposure to international assets and gold.
- Avoidance of businesses dependent on unhedged foreign debt or imported inputs without pass-through ability.

Conclusion

The RBI's new forex package has succeeded in its first objective: breaking the one-way movement toward ₹97 and producing a sharp recovery in the rupee.

But the measures do not eliminate the forces that created the pressure. India still imports close to 88% of its crude oil, oil prices remain elevated, foreign investors have sold record amounts of Indian equities and high US yields continue to attract global capital.

The special dollar window removes oil companies from the open market, but transfers their demand to the RBI's balance sheet. The derivative restrictions reduce speculative positions, but also raise hedging costs and risk shifting trading offshore. Foreign-exchange reserves remain substantial, but their rapid decline demonstrates that intervention is not free. For investors, the central issue is not whether the rupee trades at ₹95, ₹97 or another specific level. The more important questions are whether depreciation feeds into inflation, whether the RBI must tighten monetary policy further and which companies can protect their margins from higher import and financing costs.

The RBI has bought the market time. Whether that time produces lasting currency stability will depend less on trading restrictions and more on crude oil, foreign capital flows, global interest rates and India's ability to generate larger and more diversified dollar earnings.



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