*SBI RESEARCH*
**ECOWRAP**

# RBI UNVEILS A BAZOOKA: RUPEE LIKELY TO TEST 94.50 LEVELS IN SHORT TERM, BUT LONG TERM STRUCTURAL MEASURES BY GOVERNMENT IS A SINE QUA NON FOR A PICK UP IN CAPITAL INFLOWS AS RBI CAN ONLY DO TILL A LIMIT: USING A STRESSED SCENARIO, CURRENT RESERVES ARE ~$100 BN HIGHER THAN EVEN STRESSED NORMS

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The RBI has taken cudgels, firing a bazooka of measures to arrest the depreciating trends in rupee value.

Firstly, **the RBI opened a direct dollar-supply window** for three state-run OMCs (Indian Oil Corporation, Hindustan Petroleum Corporation, and Bharat Petroleum Corporation) **shifting roughly $10-12 billion** per month away from the open spot market. This intervention marks a profound shift from past strategies like in 2008 and even in 2013 because it swaps out temporary liquidity safety nets for permanent cash drawdowns.

**Secondly**, **several liquidity withdrawal schemes**. Thus, daily CRR maintenance raised to 99% and simultaneously to tight liquidity in the system the RBI has announced a Rs 25,000 cr OMO sales. However, along with such, the RBI has introduced a Foreign Exchange Risk Reserve/FERR. Dealers will now be required to maintain with the Reserve Bank an FERR in cash, equal to 20% of the INR equivalent of the notional amount of each transaction for derivative transaction with notional value greater than $2 million. **The average monthly notional merchant forward sales are of the magnitude of US$46.94 billion. If 10% of the notional is conceived to be less than $2 million, then at ₹95 per dollar, we estimate that around ~Rs 80,000 crores, could be required as reserves against fresh contracts, albeit on a rolling basis (if monthly average notional remains the same going forward). This is a large amount indeed. Hence, overall, these measures could suck out amount in excess of Rs 1 lakh cr from the banking system over a longer period.**

**Thirdly, RBI's swift move to cap the currency derivative position** from $100 mn to $5 mn and restricting corporates to rebook cancelled forward contracts, appears more aligned to 'cutting the crap' surreptitiously stitched in currency movement. **There should definitely be a marked drop in activities in NDF market** but much of this will ultimately depend on the risk drivers affecting the global markets and how EM currencies gyrate against a nonchalant Greenback. Furthermore, FX transactions data shows that cancellation have increased sharply indicating that exporters have renegotiated after sharp rupee depreciation. **Allowing not to rebook any foreign exchange derivative contract involving INR, will bring back export proceeds.**

While the RBI has been taking all possible steps to thwart a seemingly difficult global playbook, **there is an urgent need also by the Government to address some of the long pending structural issues regarding capital inflows**. Most importantly, the question is will Brent prices cool off along with US/global yields? The recurrent neural network forecast for both dated Brent and Indian baskets show a rising trend. This indicates that sharp fall in oil prices is unlikely and a decline is possible only over a longer term. **Elevated geopolitical and supply-side risks, Brent rises in forecasts from around $ 103.4 per bbl to $110 per bbl while the Indian basket increases from about $127 per bbl to $ 130 per bbl over the forecast horizon of 10 trading days.** On US yields, our central view is hardening bias in 10–30 year yields over the next 3–6 months. **For the benchmark 10-year, a rise looks more plausible than a sustained decline, with moderate conviction**. Lower yields remain a conditional outcome requiring clearer disinflation or weaker US activity. The second option is likely.

**WAY FORWARD**

- **In economic terms, in order to push up the value of Rupee, supply of rupee needs to be reduced and its price should go up. Hence withdrawal of Rupee Liquidity as currently being envisaged will reduce supply of rupee and hence enhanced corridor on the upper side by increasing MSF rate will result in higher price of Rupee. We can keep the SDF rates at same level (as it will have no relevance in a tight liquidity condition) and thus widen the corridor.**
- Streamlining of export proceeds within a reasonable period (say 6 months), given most of the proceeds usually follow a credit period of 6 months, the extension must be endowed on a case-to-case basis.
- **The Government must seriously look into anchoring hot money flows into equity segment by extending the holding period to say 2-3 years and abolishing the long term capital gains tax for equity. Greater clarity on withholding tax (at present 5-20%) for ECBs is needed chiefly in view of granting benefits under DTAA and applying taxation according to general or specific clauses by authorities with enhanced clarity as a confidence building/boosting measure.**

**To sum up, India's foreign exchange reserves even under the most stressed scenarios are more than adequate to meet any contingencies. However, BOP surplus now looks increasingly thinner at around $55-$60 bn in FY27.**

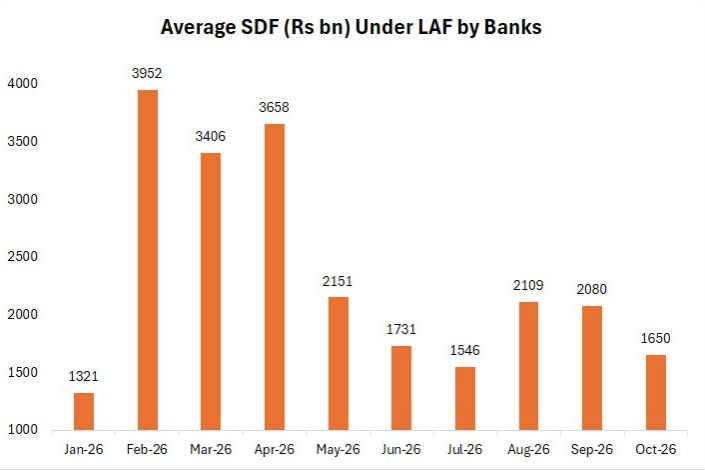
## RECENT RBI MEASURES TO SUPPORT RUPPE

- **Special Dollar Window for Oil Companies:** The RBI opened a direct dollar-supply window for three state-run oil-marketing companies (Indian Oil Corporation, Hindustan Petroleum Corporation, and Bharat Petroleum Corporation) to meet their daily dollar needs, shifting roughly $10-12 billion per month away from the open spot market. This intervention marks a profound shift from past strategies because it swaps out temporary liquidity safety nets for permanent cash drawdowns, combined with highly aggressive market crackdowns. During the 2008 and 2013 crises, the RBI insulated the open market by using a repayable swap mechanism, effectively lending the $12 billion allocated in 2013 and the $8.5 billion monthly pool in 2008 to oil marketing companies with a strict requirement that the dollars be returned later.
- **Daily CRR maintenance raised to 99%, to tight Liquidity in the system:** RBI has raised the minimum daily CRR maintenance requirement for scheduled banks to 99% from the existing 90%, effective from the reporting fortnight beginning October 16, 2026. The average over the 15-day reporting fortnight must still hit 100%. The last time the daily requirement was raised to 99% was July 2013, during forex volatility after the US Fed's "taper tantrum". It was later cut to 95% in September 2013 and to 90% in April 2016.
- RBI has also announced an OMO sale of G-secs worth ₹25,000 crore on October 13, covering six securities maturing between 2030 and 2034. At present, the surplus liquidity stood at Rs 3.7 trillion on October 9. In September, the RBI absorbed Rs 1 trillion through OMO sales. Banks parked Rs 18,170 crore in the 10-day VRRR auction, with weak demand for longer-tenure funds due to the lack of a term premium. The measures aim to bring the WACR closer to the 5.50% repo rate. We believe this move will reduce flexibility in daily fund management, but banks have generally maintained CRR balances above 95% of the requirement. This may reduce the SDF amount and bring call rates to firm up as sudden shocks, such as tax outflows, can no longer be absorbed by the CRR balance and will show up directly in call rates. Overall, it tightens liquidity without raising the CRR, which suits the current phase of rupee support too and the MPC stance.

**Special Dollar Window for Oil Marketing Companies**

| Feature | 2008 Crisis | 2013 "Taper Tantrum" | Oct-2026 |
|---|---|---|---|
| Transaction Type | Forex Swaps | Forex Swaps | Direct Dollar Sales |
| Estimated Allocation | ~$8.5 Billion per month | ~$12 Billion total allocation | ~$300-400 Mn daily requirement |
| Repayment Rule | Required reversal at future date | Required reversal at fixed tenor | No reversal (Permanent drawdown from Forex Reserve) |
| Reserve Impact | Temporary liquidity shift | Temporary liquidity shift | Direct reduction of FX reserves |
| Market Outcome | Stabilized dollar liquidity | Rupee recovered | Aims to stabilize the current spot market |

Source: RBI, SBI Research




**VRRR auction since 6th Aug 26 snapshot (Rs Lakh Crore)**

| Tenure (in Days) | Frequency | Notified Amt | Amt Accepted | Amt Accepted as % of notified |
|---|---|---|---|---|
| 1 | 38 | 87 | 65 | 75 |
| 2 | 1 | 2 | 1 | 56 |
| 3 | 9 | 22 | 14 | 64 |
| 4 | 3 | 9 | 6 | 76 |
| 7 | 4 | 13 | 4 | 32 |
| 10 | 1 | 2 | 0 | 12 |
| 15 | 1 | 6 | 1 | 22 |
| 26 | 1 | 5 | 1 | 12 |
| 29 | 1 | 2 | 1 | 40 |
| 30 | 1 | 7 | 3 | 37 |
| **Grand Total** | | **153** | **96** | 63 |

## TAMING THE FORWARD-NDF LOOP BY CORPORATES

- RBI's swift move to cap the currency derivative position and restricting corporates to rebook cancelled forward contracts, along with other related measures, appears more aligned to 'cutting the crap' (read curbing speculation) surreptitiously stitched in currency movement and dragging it along the way with structural issues.
- Going by the 'hallowed' bevy of market makers and significant players in offshore NDF (where marquee Global Banks are now more into funding the margin requirements/credit lines of usual suspects in hedge fund/trading activities that FT called Wall Street's Cash Cow) arbitraging between the non-linear tenets and pillars of diverse asset classes, currency to commodities and everything thrown in-between, the proposed move may not much deter the NDF activities eventually, even tending to drive up cost of offshore hedging and widening the onshore-offshore spread with unusual opacity building upon flow of global funds across jurisdictions/asset classes.
- From the Corporates synchronous move to engage in NDF markets, tagged with their open positions through underlying-based onshore forward markets cover, there should definitely be a marked drop in activities as avenues to exploit pricing gaps in NDF market shrink but much of this will ultimately depend on the risk drivers affecting the global markets and how EM currencies gyrate against a nonchalant Greenback benefitting greatly from the overall tumult.

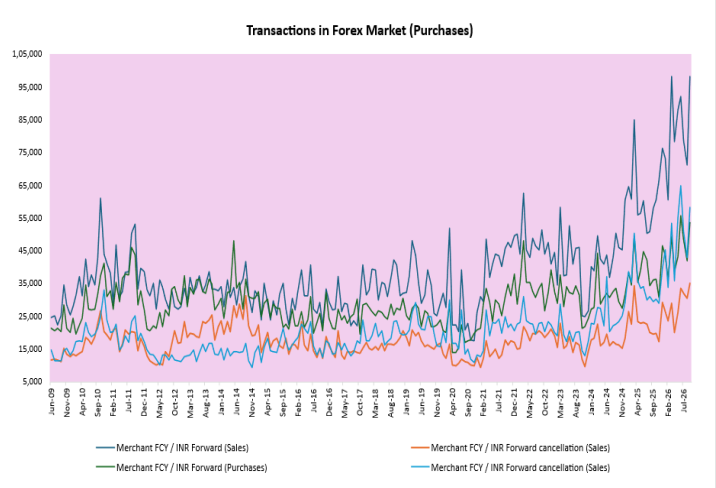
## THE MYSTIQUE OF US YIELDS (FINAL PART)

- The rapid ascent of US yields has been debated closely for a rather long time now, the upwardly mobile compensation sought by genuine investors as also speculators and the activism of Bond vigilantes penciled imperfectly in prices across the yield curve where the movement has been largely asynchronous implying the market and the mood stands divided across price points.
- **That said, the trajectory of benchmark yields remains under intense pressure, taking a cue short term rates that would gyrate from dangerously rising public debt, accentuated AI related spending supplanting general corporate/industry borrowing and political uncertainty amidst smoldering trade wars. With Fed likely to enhance rates through 2026/2027, the rates seem to remain buoyant to**

## OTHER MEASURES TO BOLSTER CONFIDENCE

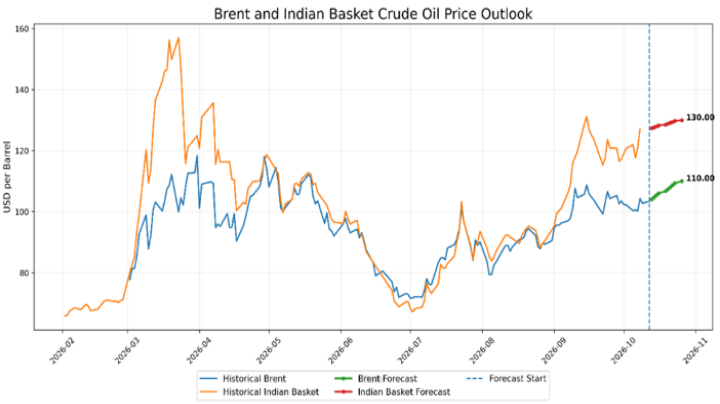
- Basis figures in public domain, the outflows by FPIs in Equity segment has been a whooping Rs 3.51 lakh cr (2021-till Sep'26), 2023 being the only outlier in a somber environment with outflows in excess of Rs 2.61 lakh cr in 2026 alone, over and above Rs 1.66 lakh cr in 2025, implying complete detachment from portfolio investment enablers. Also, a good amount of flows has come not in secondary market activities but in primary market offerings.
- The alarming situation definitely calls for suitable measures to anchor flows of Hot Money in the equity segment **($13 bn outflows in FY27)** through both alignment with themes driving allocation as also sweeteners on taxation / cap gains front.
- **Building substantially low taxation moats for such allocators, post a reasonable period say 3 years holding, can accentuate incremental flows as India Play remains structurally attractive and marquee/ blue chip names locally promise lucrative returns in a competitive market.**
- **Another point,** being reiterated by us for sometime, remains the streamlining of export proceeds within a reasonable period (say 6 months) and delays being exceptions rather than being a norm. Given most of the proceeds are usually following a credit period of 6 months, the extension must be endowed on a case-to-case basis (or say, 25% of exports turnover in 6 months) that ensures no hardships for genuine cases but ensuring no undue wait and watch by exporters who benefit in a declining currency environment, adding their weight in currency caught in a tailspin.
- **Greater clarity on withholding tax (at present 5-20%, or somewhat lower for IFSC listing) for ECBs is needed chiefly in view of granting assured benefits under DTAA and applying taxation according to general or specific clauses by authorities with enhanced clarity as a confidence measure.**

- **Introduction of Foreign Exchange Risk Reserve**: Authorised Dealers are now required to maintain with the Reserve Bank an FERR in cash, equal to 20 per cent of the INR equivalent of the notional amount of each transaction for derivative transaction with notional value greater than $2 million. This is a tool kit similar to adopted by PBOC to stabilise currency-market expectations and moderate one-sided pressures.
- The measure is basically targeted at importers/ hedger who surrender INR. By making 20% Foreign Exchange Risk Reserve on eligible INR-linked derivative contracts exceeding US$2 million, the selling pressure on rupee is penalized. At system level it also drains liquidity from banks to RBI.
- **To gauge the order of magnitude of exchange risk reserve to be maintained, we track the data on forward purchase data against INR for merchants. The monthly trends are shown in graph. The average monthly notional merchant forward sales (FYTD Sep26) are of the magnitude of US$46.94 billion. If 10% of the notional is assumed to less than $2 million, then at ₹95 per dollar, we estimate that around Rs 80,000 crores, could be required as reserves against fresh contracts if monthly average notional remains the same going forward.**
- Furthermore, FX transactions data shows that cancellation have increased sharply indicating that exporters have renegotiated after sharp rupee depreciation. To arrest this trend, authorised Dealers shall not permit users to rebook any foreign exchange derivative contract involving INR, which has been cancelled with any Authorized Dealer.




## EXPECTED OIL PRICE TRENDS

- The recurrent neural network forecast for both dated Brent and Indian baskets show a rising trend. This indicates that sharp fall in oil prices is unlikely.
- **Elevated geopolitical and supply-side risks, Brent rises in forecasts from around $ 103.4 per bbl to $ 110 per bbl while the Indian basket increases from about $127 per bbl to $ 130 per bbl over the forecast horizon of 10 trading days.**




| Horizon | Our Brent view | Reasoning and external reference |
|---|---|---|
| **Before 3 November 2026** | Rangebound with a mild downward bias; volatile headlines. | Diplomacy and emergency stocks offer relief, but implementation takes time. EIA projects a $105/bbl Q4 spot average. |
| **After the vote to April 2027** | Gradual easing if delivered supply improves; no automatic post-election rebound. | US reserve deliveries are scheduled for November–December; Russian diesel relief extends to 7 April. |
| **12 months to October 2027** | More scope for lower prices if Gulf exports recover. | EIA forecasts $87/bbl in Q2 2027 and $74 in Q4, conditional on supply restoration. These quarterly spot averages are reference scenarios, not our point targets. |

## US TREASURY YIELD OUTLOOK AND SCENARIOS

- **Our central view is broadly stable 2–5 year yields and a modest hardening bias in 10–30 year yields over the next 3–6 months. For the benchmark 10-year, a rise looks more plausible than a sustained decline, with moderate conviction. Inflation limits scope for easing, while real-rate and fiscal risks weigh on the long end. Lower yields remain a conditional outcome requiring clearer disinflation or weaker activity.**
- Recent moves show bear steepening: long yields have risen faster. The 10-year real yield also rose 23 bp, to 2.91%, leaving the nominal-minus-real gap near 2.33%. This supports caution on long bonds, but does not prove fiscal risk caused the rise or that yields must keep increasing. (See Table on top right)
- The analysis of Brent crude, Dollar Index, and US 10 year yield from 2000 depicts that in the first time all these three are simultaneously moving upwards.

| Treasury maturity | 2 year | 5 year | 10 year | 30 year | 10 year minus 2 year |
|---|---|---|---|---|---|
| 9 October yield | 4.80 % | 5.02 % | 5.24 % | 5.60 % | 44 bp |
| Change since 16 September | +6 bp | +16 bp | +23 bp | +25 bp | +17 bp |

| Before and after the US midterms | | |
|---|---|---|
| **Horizon** | **Yield view** | **What would confirm or challenge it** |
| **Before 3 November 2026** | 2–5 years broadly flat; 10–30 years rangebound with an upward bias. | The 27–28 October Fed meeting, inflation releases and oil supply developments matter more than the election date alone. |
| **After the vote to April 2027** | Short yields remain broadly stable; long yields have a modest hardening bias. | Sticky core inflation and firm real yields support the view. Clear disinflation, weaker hiring or stronger bond demand would challenge it. |
| **12 months to October 2027** | Greater scope for lower short yields if inflation eases; less conviction at the | Oil supply recovery and sustained disinflation would strengthen the case for a rally. Fiscal risk and strong real growth could keep long yields high. |

- **What would change the view:** repeated softer core-inflation readings and weaker hiring favour lower yields. Stable inflation and firm auction demand favour a flat outcome. Rising real yields, inflation surprises or worsening fiscal expectations strengthen the hardening case.

| Scenario matrix for the next 3 to 6 months | | | |
|---|---|---|---|
| **Scenario** | **Economic trigger and reasoning** | **Expected curve movement** | **Implications for markets and borrowing** |
| **Modest hardening Central case** | Inflation remains sticky without a sharp downturn. Persistent real-rate pressure and fiscal uncertainty sustain an upward bias in long yields. | Mild bear steepening 2–5 years broadly flat; 10–30 years edge higher. | Long bonds face price pressure. Mortgage and long-term refinancing relief is limited; equity valuations face a headwind. |
| **Broadly flat Main alternative** | Known inflation and fiscal risks are already reflected in prices. Subdued hiring and stable policy expectations offset upward pressures. | Rangebound yields No sustained change in level or slope. | Coupon income matters more than price gains. Borrowing stays expensive, but financing conditions do not worsen materially. |
| **Inflation accelerates Upside yield risk** | Energy costs spread into wages and services. Investors price a higher Fed path without stronger long-term growth. | Bear flattening Short yields rise more than long yields. | Bond prices fall and floating-rate funding becomes dearer. Leveraged firms and rate-sensitive equities face pressure. |
| **Disinflation resumes Lower yield case** | Oil supply recovers and core inflation slows while hiring stays subdued. Expected monetary restraint eases. | Bull steepening Short yields fall more than long yields. | Treasuries gain and refinancing eases. Equities benefit if earnings hold up; long borrowing costs fall less. |
| **Long-term risk eases Alternative rally** | Inflation uncertainty and long-term risk premiums decline while near-term Fed expectations change little. | Bull flattening Long yields fall more than short yields. | Long-duration bonds gain strongly. Housing finance and equity valuations benefit if growth remains resilient. |
| **Sharp slowdown Recession risk** | Employment and demand weaken enough to prompt expected Fed cuts. Investors seek Treasury safety. | Bull steepening Short yields fall sharply; long yields also decline. | Treasuries rally, but wider credit spreads may keep corporate borrowing costly. Equities face earnings risk. |

## POLICY OPTIONS FOR RBI TO WIDEN THE CORRIDOR

- In our earlier note (dated 09.10.2026) we proposed the widening of LAF corridor as it is entirely in the hands of RBI to widen the corridor in such exceptional times without any MPC meeting or legal hurdle.
- **In economic terms, in order to push up the value of Rupee, supply of rupee needs to be reduced and its price should go up. Hence withdrawal of Rupee Liquidity will reduce supply of rupee and enhanced corridor on the upper side by increasing MSF rate will result in higher price of Rupee. With these measure, value of Rupee can be protected in the short term.**
- **Increase the MSF rate**: Currently MSF rate (the ceiling rate) is at 5.75% (25 bps higher than the repo rate). As one of the option, RBI may hike this rate (as it did in 2013). However, currently the banking system is flooded with surplus liquidity. We need to first adjust liquidity (that the RBI has done recently) to make this channel the most potent one.
- **Keep the SDF rate at the same level**: Currently SDF rate (the floor rate) is at 5.25% (25 bps lower than the repo rate). In a tight liquidity condition, it will not much relevance. In effect, once the banking system moves to a liquidity neutral regime, short-term money market rates will naturally drift upwards We must appreciate that is there is too much liquidity, this sometimes led to the so-called "**hot-potato problem**", i.e., if there is excess liquidity, no one wants to keep it, but pass it on (as a loan) to someone else. (Norges Bank communique No. 4/2010)
- There is another least preferred option of **momentarily relinquishing the corridor system and move to floor-based system** (as it was done by many economies during GFC). This can be done by enhancing SDF to the Repo level. However, enhancing the SDF to policy rate will virtually ensure the banking system incrementally parking the surplus cash with the Central Bank, the abundant liquidity in the system veritably defeating the policy measure that otherwise works well in normal period through a unified floor in corridor. Also, the banking system's response to term VRRR has been lackluster, signaling hesitation to lock-in the surplus corpus when the uncertainty is at its zenith. **We thus don't recommend this.**

| Episodes of Asymmetric Policy Corridor | | |
|---|---|---|
| **Date** | **Action** | **Liquidity Conditions at that time** |
| 15-07-2013 | MSF hiked from 8.25% to 10.25%. Corridor widened to 400 bps (it was already 200 bps) | Deficit |
| 27-03-2020 | MSF cut by 75 bps and reverse repo cut by 90 bps | Surplus |
| 17-04-2020 | Reverse repo cut by 25 bps | Surplus |

- An interesting observation of 'surplus liquidity' in the system in 2020 is absence of demand, whereas the present liquidity is stacked against robust credit and investment demands, the pricing however being a major issue.
- **Engaging in activities like Operation Twist, at this juncture, may neither be practical, nor yield much fruitful results since the drivers of long-term rates appear to be materially different from the short-term rates (duly helped by liquidity conditions) and resorting to OT would ensure the yield curve at shorter end to inch up, creating a Double Jeopardy. The Central Bank has been cautiously conducting OMOs and the same can be continued in a calibrated manner, moving beyond 'on-the-run' securities.**

**RESERVE SUFFCIENCY**

- Based on Keynesian motives the sufficiency of current reserves is analyzed. Using stressed scenarios, current required reserves are estimated at $596 billion which is higher than the current reserves excluding gold.
- Accounting for the Japan and India renewed the Bilateral Swap Arrangement effective from February 28, 2026, the effective reserves accounting for extreme market stress is now $679 billion. Including gold reserves, reserves are more than sufficient.

| Reserve Adequacy Based on Keynesian Motives (US$ Billion) | |
|---|---|
| Transaction's Motive (@ 6 Months imports at $73 billion) | 438.00 |
| Precautionary motive (Estimated debt servicing FY27) | 40.00 |
| Speculative motive (Short term debt and FII @1.5x current year outflow) | 118.00 |
| **Required reserves** | **596.00** |
| **Current Actual FX Reserves (Ex gold) [a]** | **604.75** |
| BOJ Bilateral Swap Arrangement [b] | 75.00 |
| **Total effective reserves [a + b]** | **679.75** |
| **Total effective reserves (with Gold)** | **786.15** |

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