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A SLIDING RUPEE IS NOT A WEAK RUPEE EVEN AS IT BREACHES THE PSYCHOLOGICAL BARRIER OF 90…. DOMESTIC RESILIENCE NEEDS TO BE COUNTER INTUITIVE TO EXOGENOUS FORCES… RATE CUT MAY IMPINGE UPON MARKET SENTIMENTS THOUGH AN INFLATION TARGETING CENTRAL BANK RESPONSIBILITY IS NOT CURRENCY MANAGEMENT

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Rupee breached a psychologically important level of 90 today, the slide one of the quickest in recent times after the heady days of Taper Tantrum. The decline in the value of the currency is being driven to the edge by trifecta of limbos in US-India trade deal, FPI outflows, chiefly equities (after two years of robust inflows) and RBI's clear stance of distancing itself from an 'interventionist regime' while wagering all it takes on excessive volatility by traders, arbitrageurs and jobbers. Separately, offshore NDF has also gained momentum while signs of resurgence in Dollar index are quite palpable. However, **the decline in value of rupee as being ascertained by a section of market to a negative trade data is not factually correct. The overall goods and services deficit till Apr-Oct was at $78 bn, marginally higher against $70 bn in the like period the previous year. Clearly, the negative data on trade data has been oversold to the market.**

Since 02 Apr'25, when US announced sweeping tariff hikes across economies, Indian rupee (INR) has deprecated by ~5.5% against USD (most amongst the major economies), notwithstanding sporadic phases of appreciation owing to optimism over positive, mutually beneficial conclusion. However, while INR is the most depreciated currency amidst select major economies, it is not the most volatile. Analysis of Coefficient of variation indicate that INR is one of the least volatile currencies since 02 Apr'25 (~1.7%). This clearly indicates that the high slab of 50% tariff imposed on India, substantially higher than peers like China (30%), Vietnam (20%), Indonesia (19%), and Japan (15%), is one of the major factors behind current phase, notwithstanding evident efforts on Indian exports diversification and FTAs though ~$45 billion worth of major Indian exports is expected to be impacted by US tariff, mostly in labour intensive areas.

Looking at the REER data of 40-currency basket with base 2015-16, the index was above 100 until May 2025 but the onset of the trade war has pulled it below 100 level, as rupee lost more ground compared with other EM currencies. Since April 2023, INR has declined ~10% and the REER reached the lowest level 97.40 in September 2025, which is 7-years low since Nov'2018. Further, the latest RBI REER data as on Oct'2025 indicates INR is undervalued for 3rd straight month, which reflects softer currency and lower inflation. The NEER has also weakened dramatically, to 84.6 in Oct'2025 from 92.1 in June 2024, indicating depreciation in rupee.

Analysing the data across spot and forwards markets, the combined excess demand in merchant market has been $102.5 billion. As per the latest available data, RBI has intervened around $18 billion in the forex market during June-Sept, and we have estimated (by looking at the forward market data) another ~$10 billion in Oct'25. So, the total amount stands at around ~$30 billion till Oct25, while forex reserves declined by $15 billion during the same period. The scheduled visit of Russian President to India and the impasse on imports of oil despite slowdown in volumes could keep rupee moving in a tight zone.

Select importers have shown inclination of leaving positions unhedged, seeking to benefit from lower devaluation compared to the interest rate differential. They often pay forward premiums to hedge, but the current environment has encouraged risk-taking, adding pressure on the rupee. FPIs have also kept positions open to capture extra gains. Historically, the rupee has been one of the most stable currencies, but the one-month NDF (non-deliverable forward) is now trading 7–8 paise above the actual interest rate differential, exerting additional downward pressure as panic in NDF markets as FPIs are hedging their open positions.

At present, the ability of market participants to supply Greenback is quite limited, leaving the Mint Street as the last resort and ultimate supplier of USD to the market but the RBI has likely chosen a restrained approach, avoiding aggressive interventions as part of its policy to not protect any level. Additionally, once the rupee breached the ₹90 level, several exotic option like barriers were triggered, amplifying volatility and accelerating the pace of depreciation.

With MPC scheduled to take a call on policy rate, a cut at this juncture can be construed as a knee jerk reaction to protect the rupee which would be detrimental to an otherwise fairly resilient currency, riding the domestic vigor.

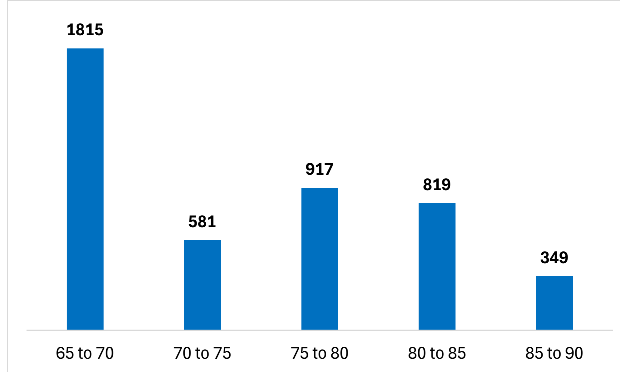
RUPEE CROSSES 90 PER DOLLAR

- The rupee, constrained of late by myriad factors, opened above all-time low and crossed the psychologically important 90-mark against the US dollar today (03 Dec'25). Past data indicates that this is the quickest fall (in terms of number of days) of rupee, scaled to 5 per USD. In less than a year rupee has slid from 85 to 90 per dollar. Earlier, rupee took 1815 days to reach from 65 to 70 per dollar, 581 days from 70 to 75 per dollar and almost ~800-900 days for 75 to 80 and from 80 to 85 per dollar. **It is the second quickest fall since Taper Tantrum.**
- The current slide appears to be primarily driven by FPI outflows, chiefly equities (after two years of robust inflows) and uncertainty regarding US-India trade deal.
- Since 02 Apr'25, when US announced sweeping tariff hikes across economies, Indian rupee (INR) has deprecated by 5.5% against USD (most amongst the major economies), notwithstanding sporadic phases of appreciation owing to optimism over US-India trade deal. While INR is the most depreciated currency, it is not the most volatile. Analysis of Coefficient of variation indicate that INR is one of the least volatile currencies since 02 Apr'25 (~1.7%).
- This clearly indicate that the 50% tariff imposed on India [which is also higher than those of other Asian countries such as China (30%), Vietnam (20%), Indonesia (19%), and Japan (15%)] is one of the major factors behind current phase of rupee depreciation. Despite diversification by Indian exporters, ~$45 billion worth of major Indian exports are expected to be impacted by US tariff.

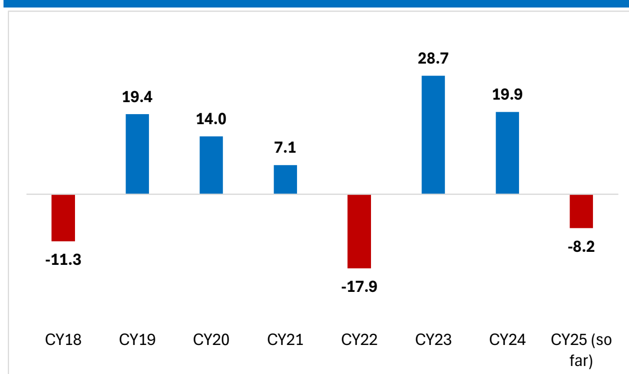
REER ENTERS LONGEST UNDERVALUATION STRECH

- If we look at the REER data of 40-currency basket with base 2015-16, the index was above 100 until May 2025. But the onset of the trade war has pulled it below the 100 level, as rupee lost more ground compared with other EM currencies. The lowest level in recent times was in April 2023, when in recorded REER of 98.98.
- Since April 2023, INR has declined ~10% and the REER reached the lowest level 97.40 in September 2025, which is 7-years low since Nov'2018, when it was at 99.60. Further, the latest RBI REER data as on Oct'2025 indicates INR is undervalued for 3rd straight month, which reflects softer currency and lower inflation.
- Generally, India's REER remains in the range of 102-105, with average of 103.47 during Dec'2018 to July'2025. There were few months, when REER declined below 100 marks but recovered quickly in 3-4 months.
- The NEER has also weakened dramatically, to 84.6 in Oct'2025 from 92.1 in June 2024. It indicates depreciation rupee; however, we have a view that both REER and NEER will increase during the next couple of months.

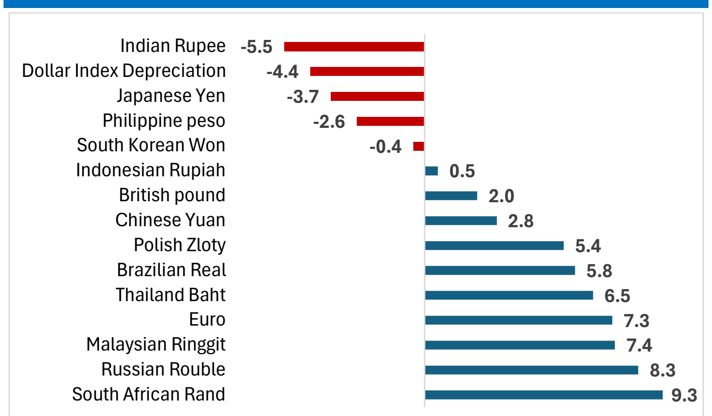
Number of Days for Rs 5-per USD fall



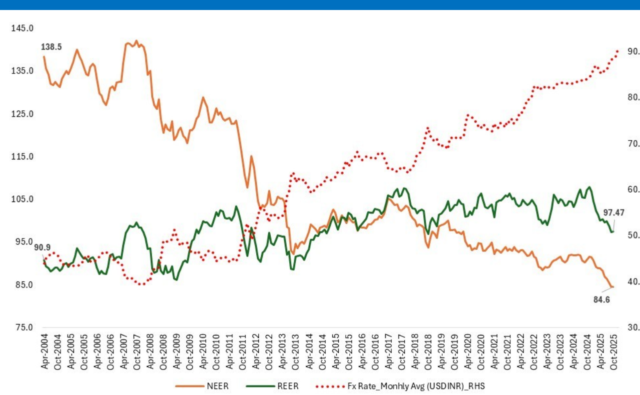
Total FII Flows (in $ Bn)



Movement of Major Currencies against USD since 2 Apr'25



REER Reached 7-Year Low



Source: RBI, Bloomberg, SBI Research

TURNOVER IN FX MARKET, MARKET INTERVENTION & FOREX RESERVE

- Since July 2025 the spot excess demand in merchant category is continuously increasing and cumulative at $32.9 billion till Oct. The same is valid for forward merchant market, where the excess demand was $69.6 billion between Jul-Oct'25. The combined excess demand in merchant market was thus $102.5 billion, which was unprecedented and sought timely intervention.
- In a recent meeting, RBI Governor has told that India holds very good buffer of foreign exchange, and the central bank doesn't target any level of rupee, but it's priority is to ensure financial stability in the system. Earlier, RBI, in its annual report for 2023-24, also mentioned that the central bank has plans to enhance intervention toolkit to undertake focused foreign exchange operations to curb undue volatility in the USD/INR exchange rate.
- However, forex reserves play a cushion to volatility in the exchange rate and build resilience to external sector shocks which are increasing with recurrent geopolitical and economic shocks.
- **India's forex reserve reached $703 bn in June 2025 but declined to $688 billion for the week ended 21 Nov'2025, which is primarily due to capital outflows and possibly intervention by RBI in the forex market to curb the volatility in the exchange rate. As per the latest available data, RBI has intervened around $18 billion in the forex market during June-Sept, and we have estimated (by looking at the forward market data) another ~$10 billion in Oct'25. So, the total amount stands at around ~$30 billion, while forex reserves declined by $15 billion during the same period.**
- By plotting the change in forex reserve with RBI's intervention in the forex market during Jan'2023 to till now, it indicate a high positive correlation coefficient of 0.80.

WAY FORWARD

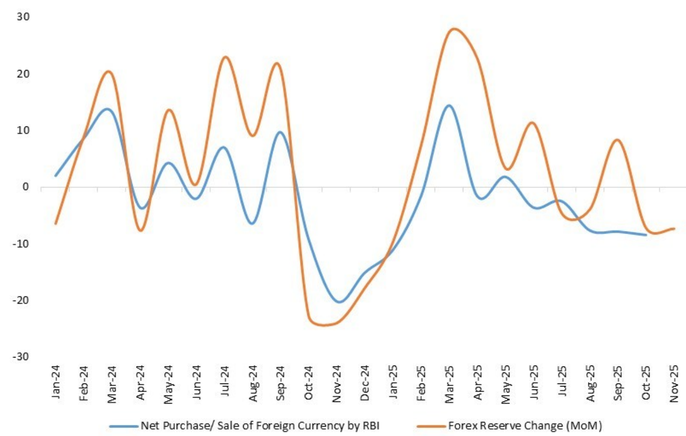
- Russian President Vladimir Putin will visit India this week for a summit with Indian Prime Minister aimed at boosting energy, defence and economic ties, as Moscow seeks to secure oil sales amid tightening Western sanctions.
- However, India's crude imports are set to hit low as USA tightened sanctions and India's imports of Russian oil appear to taper.
- Lingering uncertainty over the Indo-US trade deal is keeping sentiments fragile. However, we expect trade deal likely to be completed before March 2026. The bouts of uncertainty, fueled by hiccups in trade talks, could exert pressure on INR with frequent pull backs.

Turnover in Foreign Exchange Market ($ mn)_Excess demand(sale -purchase)

Month	Merchant			Interbank			Grand Total	IB SWAP Excess Demand
	Forward Excess Demand	Spot Excess Demand	Total Excess Demand	Forward Excess Demand	Spot Excess Demand	Total Excess Demand		
Oct-25	23,711	11,134	34,845	-9,232	-17,193	-26,425	8,420	-19,858
Sep-25	21,599	11,635	33,234	-6,109	-17,621	-23,730	9,504	-42,543
Aug-25	16,546	5,251	21,797	-6,990	-6,194	-13,184	8,614	-56,337
Jul-25	7,724	4,907	12,631	5,940	-11,378	-5,438	7,193	-93,381
Jun-25	14,909	-3,625	11,284	3,471	-9,213	-5,742	5,542	-64,931
May-25	17,282	-2,078	15,204	-5,696	-3,718	-9,414	5,790	-55,835
Apr-25	20,446	1,918	22,364	-1,416	-4,233	-5,649	16,715	-46,339
Mar-25	35,125	-12,296	22,829	21,995	-22,121	-126	22,703	-94,706
Feb-25	26,253	1,068	27,321	-964	-39,400	-40,364	-13,043	-45,392
Jan-25	26,256	4,410	30,666	-5,172	-46,154	-51,326	-20,660	-29,805

Source: RBI, SBI Research

RBI Forex Intervention & Change in Forex Reserve ($ Billion)



Source: SBI Research

- INR depreciation should have a central place and focus of current ongoing MPC meeting and we don't think MPC would reduce the policy rate now. Rather, we expect RBI would give further clarity on liquidity measures.
- As further reduction in deposits rate is also not possible for banks in an environment where alternative assets are gaining credence.

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