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The Rupee at 96: Opportunity, Bane, or Simply a Bill That Will Come Due?

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The Rupee at 96: Opportunity, Bane, or Simply a Bill That Will Come Due?

The rupee touched ₹96.96 against the dollar on May 20, 2026, its worst level in history. It has since recovered partially to around ₹95–96, but remains Asia's worst-performing major currency in 2026, down approximately 7% year-to-date from ₹89.86 in January. The RBI has sold over \$60 billion of reserves since the West Asia conflict broke out, burning through a war chest that peaked at \$728 billion in February to the current \$675 billion. It has launched the most aggressive capital account intervention since 2013 - the FCNR(B) bazooka, dusted off from Raghuram Rajan's crisis playbook. Yet as of today, only \$9 billion of an estimated \$35–60 billion target has actually arrived.

Is a weaker rupee structurally beneficial for India the way yen depreciation was for Japan in 2013? If not, why? And does the FCNR(B) scheme buy India structural relief or does it simply kick a very large debt obligation three to five years down the road?

Macro Snapshot (as of 17 July 2026)

Indicator	Reading	Read-through
USDINR	~96.0 (record low ₹96.97 on 20 May)	Down ~7% YTD; Asia's worst-performing major currency
RBI forex reserves	\$675B (week ended 10 July)	Down \$53B from Feb 2026 peak of \$728.5B
Brent crude	~\$85–86/bbl (re-escalating)	Every \$10/bbl = \$17–18B added to annual import bill
FPI equity outflows	~\$20B+ in first 4 months of 2026	14-year low in foreign ownership of Indian equities (14.7%)
Current account deficit FY26	~0.6% of GDP	Better than feared; services exports + remittances cushioned
FCNR(B) inflows so far	~\$9B raised vs \$35–60B target	Window open until 30 Sep 2026; leveraged trade pipeline slow
RBI repo rate	5.25%	Cut to support growth; narrows rate differential vs US (3.50–3.75%)
India's crude import dependence	~88%	Pure price-taker; \$1 rupee depreciation = ₹8,000–10,000cr to oil bill

1. The Japan Myth — Why Depreciation Doesn't Work the Same Way Here

The standard textbook argument for currency depreciation is seductive: a weaker currency makes exports cheaper, boosts export volumes, improves the trade balance, and lifts GDP. Japan's Abenomics era, when the yen was deliberately weakened from below ¥80 to ~¥100 per dollar between December 2012 and April 2013, is cited as the archetypal success story.

However, it is the wrong template for India, for three fundamental reasons.

Japan was a deflation-fighting, export-surplus economy. India is neither. Abenomics worked to the extent it did, because Japan was running a massive trade surplus, had chronic deflation, and needed yen weakness to import inflation and make exports more competitive. The yen's depreciation boosted corporate profitability for auto and industrial exporters, who priced their goods in yen globally.

Japan, despite also importing most of its energy, ran a large trade surplus, so yen weakness did not feed the self-reinforcing import-inflation spiral it does for deficit-running India. For India, a weaker rupee does not make exports meaningfully cheaper (most Indian exports like IT services, pharmaceuticals, gems, are either service-based or relatively price-inelastic). But it makes the energy import bill dramatically more expensive. Every ₹1 fall in the rupee adds ₹8,000–10,000 crore to the annual crude oil import bill alone.

India's depreciation channel runs through inflation, not exports. Every ₹1 depreciation in the rupee adds approximately 0.2–0.3% to India's CPI. The rupee has fallen roughly ₹7 in 2026, implying 140–210 basis points of imported inflationary pressure. For an RBI already trying to cut rates to support a slowing economy, this creates an inescapable bind: ease to support growth, or hold to defend the currency and contain imported inflation. The central bank cannot do both. Japan's Bank of Japan wanted more inflation. The RBI emphatically does not.

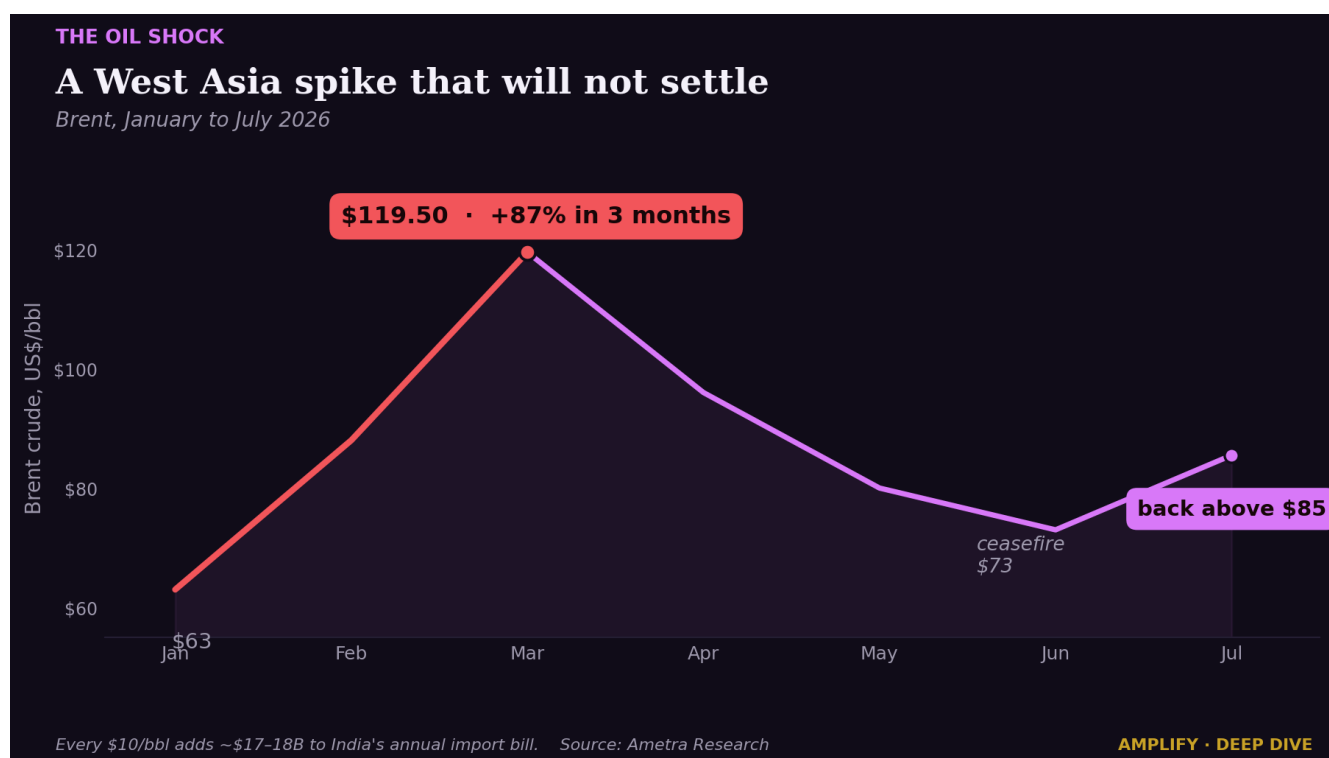
The export structure is different. India's two largest export categories - IT services (~\$200 billion annually) and pharmaceuticals, do benefit from rupee weakness, as dollar revenues convert to more rupees. But these are not labour-intensive, volume-sensitive export industries. IT exports don't grow faster because the rupee is weaker; they grow faster because demand for software services grows. The rupee tailwind is a margin benefit, not a demand driver. It does not solve the structural problem: India runs a persistent merchandise trade deficit, overwhelmingly driven by oil and gold imports. A weaker rupee makes the deficit wider in rupee terms, not narrower.

Honest framing: for India, currency depreciation is a tax on every consumer, every fuel buyer, and every importer, redistributed as a windfall to IT exporters and pharmaceutical firms. It is not an economic stimulus. It is an economic transfer.

2. The Three Pipes Leaking — Why ₹96 Happened

The rupee's decline in 2026 is the result of three simultaneous pressures converging in a narrow window.

The oil shock: The West Asia conflict pushed Brent from ~\$62–64/bbl in January to a peak of ~\$119.50 in March - an 87% spike in three months. India's oil and gas import bill surged 75% year-on-year in May alone to \$17.5 billion, even as import volumes barely changed. A \$10/bbl sustained increase above plan adds \$17–18 billion to India's annual import bill and widens the current account deficit by approximately 0.4–0.5% of GDP. The oil shock is both a direct drain on reserves (more dollars flowing out for oil) and an indirect one (RBI selling reserves to slow the rupee's fall).

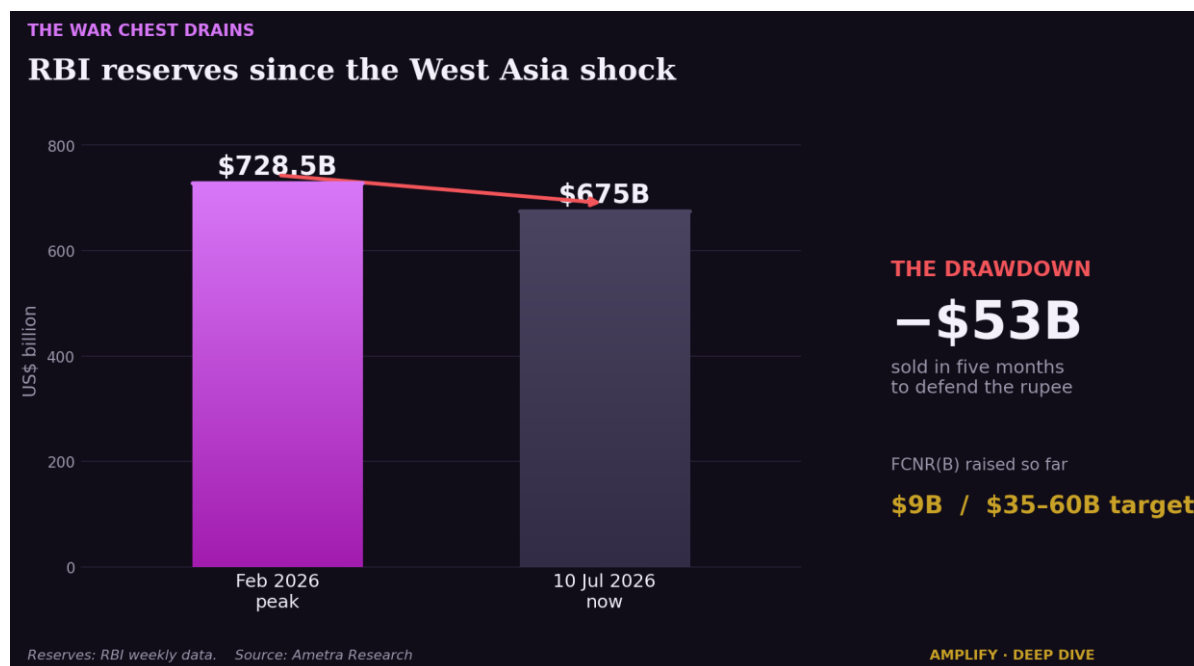


FPI outflows: Foreign Portfolio Investors have pulled over \$20 billion from Indian equities in the first four months of 2026, exceeding all of FY25's outflows in less than five months. Foreign ownership of Indian equities fell to 14.7%, a 14-year low. When FPIs sell Indian stocks or bonds, they convert rupees to dollars to repatriate, creating direct dollar demand and exacerbating the rupee's decline. The FPI exit did not begin with the West Asia war. It was already underway from October 2024 as US yields stayed high and Indian equity valuations remained stretched, but the conflict accelerated a trend that was already in motion.

The reserve drawdown feedback loop: The RBI's intervention of selling over \$60 billion of reserves to defend the rupee, creates its own narrative problem. Forex reserves at \$675 billion are not inadequate in absolute terms (they cover approximately 10 months of imports). But markets watch the rate of depletion, not the absolute level. A \$53 billion decline in five months signals a central bank that is fighting a large, sustained outflow rather than smoothing normal volatility. The more reserves the RBI deploys, the more the market questions whether intervention is sustainable.

2. The Three Pipes Leaking (cont'd)

The backstop: what prevented a complete rupee collapse was the external account's hidden cushion. Services exports, led by IT, remained resilient, and remittances from the Indian diaspora hit record highs (India is consistently the world's largest remittance recipient). The current account deficit for FY26 came in at just ~0.6% of GDP, far better than the 2013 taper tantrum year (~4.9% of GDP). India also posted a current account surplus in the March 2026 quarter. These are genuine structural improvements that the headline USDINR rate obscures.



3. The FCNR(B) Bazooka — The Mechanics, the Promise, and the Problem

On June 8, 2026, the RBI fired its biggest available non-rate policy weapon: a special FCNR(B) swap facility, modelled almost exactly on the Raghuram Rajan playbook from September 2013. The mechanics are precise and worth understanding in full.

What the RBI actually did: Three regulatory changes, each of which matters:

First, it removed the hedging burden from banks. Under the special window, banks sell their FCNR dollar deposits to the RBI at today's spot rate. When the deposits mature (3–5 years from now), the RBI returns the same dollar amount at the same exchange rate, regardless of where the rupee is at that point. The entire currency risk on the principal migrates from the bank's balance sheet to the RBI's. Historically, this hedging cost ran at 3–3.5% per year, consuming most of the return. With the RBI absorbing it, that cost disappears entirely from the bank's calculation.

Second, it exempted these fresh deposits from CRR and SLR requirements, meaning banks can lend out nearly every dollar they raise as high-yielding commercial loans, rather than keeping a statutory fraction idle.

Third, it removed the interest rate ceiling, letting each bank price competitively. The result: AU Small Finance Bank is offering 7.1%, HDFC Bank and ICICI Bank are at 6.0%, SBI at 5.75% on 4-year dollar deposits - up from the 3–4% pre-intervention range.

The leverage dimension: The real engine is not the deposit rate, it is the fact that the RBI explicitly permitted banks to lend to NRIs against these deposits as collateral. A simplified numerical illustration helps explain the mechanics.

Suppose an NRI brings \$1 million. An overseas branch of an Indian bank lends them \$9 million against it. The combined \$10 million is deposited. At 6%, the deposit generates \$600,000. After paying 5.5% on the \$9 million loan (\$495,000), the NRI nets \$105,000 - a 10.5% return on their actual \$1 million. India books a \$10 million inflow even though only \$1 million of original NRI wealth entered the system. This leverage effect is what underpins analyst estimates of \$35–60 billion in total inflows.

Different banks have extended different leverage, some as outsized as **19x being offered by HSBC Bank.**

Why then only \$9 billion has come in vs. \$35–60 billion projected: The leveraged trade takes time. Complex legal documentation, credit approvals, offshore funding lines, tax structuring - for a 10:1 leveraged FCNR position, assembling the structure takes weeks. The window remains open until September 30, 2026, and the natural incentive is to negotiate rates and finalise allocation closer to the deadline. The \$9 billion raised so far is real progress, but the large institutional and HNWI flows that constitute the bulk of the target have not yet moved.

4. 2013 vs. 2026 — Why the Same Playbook May Deliver a Different Score

The 2013 FCNR(B) intervention mobilised \$34 billion (\$26 billion through FCNR specifically) within months. It is the template. But four structural differences make 2026 a harder problem to solve with the same tool.

US interest rates then vs. now: In September 2013, US Fed Funds rates were near zero. US 10-year Treasury yields were around 2.5–3%. An FCNR deposit paying even 3.5–4% offered NRIs a material premium over any available US dollar instrument. FCNR deposits were at 6% those days providing a leverage arbitrage opportunity on a spread of 300–400 bps. In 2026, US Treasuries yield 4.5%. The gap between holding dollars in a US money market fund (4–5%) and an Indian FCNR at 6–7% is real but narrow, ~150–200 basis points, compared to the 300–400 basis point advantage in 2013. For NRIs with complex tax compliance requirements and legal documentation overhead, the narrower spread raises the threshold for engagement.

The cause of the crisis is different and harder to resolve: The 2013 taper tantrum was a US monetary policy signal, frightening in the moment, but with a defined resolution path. Once the Fed clarified its tapering timeline and markets stabilised, the environment for FCNR maturity repayments (which fell due in 2016) was benign. The 2026-rupee pressure comes from a geopolitical rupture whose resolution timeline is genuinely uncertain. The ceasefire that drove Brent back to \$73 collapsed within weeks. Brent is back above \$85 as of this writing. The structural problem that triggered the intervention has not been resolved.

The maturity cliff is now a known risk: When the 2026 FCNR deposits mature in 2029–2031, India will face a scheduled outflow of potentially \$35–60 billion at a time when the rupee may be weaker (not stronger), when global conditions are unknown, and when the geopolitical environment in West Asia may be unchanged. In 2016, when the 2013 FCNR deposits matured, Rajan had pre-covered 80% of the repayments in forward markets and held \$365 billion in reserves, conditions he himself called "very far from the taper-tantrum period." The 2029–2031 maturity will require similar pre-positioning, but in a less certain environment.

The leveraged structure adds opacity. The 10:1 leverage structure is not NRI savings flows. It is credit creation amplified through Indian banks. The \$9 billion that arrives first is almost certainly genuine NRI wealth. The \$40–50 billion that may follow is largely leveraged capital that moves in response to arbitrage, not long-term commitment to India. These dollars are not being earned organically by the Indian economy. They will likely flow back out once the deposits mature in three to five years. The best case: India buys time and uses it to structurally reduce oil dependence, deepen local capital markets, and broaden export diversity. The worst case: it simply defers reckoning.

5. Ametra's Read

The rupee's fall to ₹96 is neither purely a bane nor an opportunity. It is a structural signal being managed with borrowed time.

The depreciation is not Abenomics. Japan had deflation to fight, a trade surplus, and domestic production it could make more competitive globally. India has inflation to contain, an energy import dependency that makes every rupee of weakness self-reinforcing, and export sectors that benefit from the weaker currency only at the margin. The rupee weakening from ₹84 to ₹96 in 18 months has generated approximately 140–200 basis points of imported inflation, constrained the RBI's ability to cut rates as aggressively as growth requires, and widened the fiscal burden on oil subsidies. These are not the dynamics of a managed, beneficial depreciation. They are the dynamics of a currency under external shock.

The FCNR(B) scheme is the right tool for the immediate crisis but it is a financial bridge, not a structural fix. The RBI has essentially taken onto its own balance sheet the currency risk of potentially \$35–60 billion in dollar deposits. If India builds its reserves, reduces oil import dependence, and diversifies its export base over the next 3–5 years, the scheme will look like 2013, i.e., the "least bad option" that worked. If the geopolitical environment remains volatile, oil stays elevated, and India's structural current account position doesn't improve, the 2029–2031 FCNR maturity cycle becomes the next crisis, and may be larger in scale, with less policy ammunition to manage it.

Sector Positioning Map

Stance	Where	Why
Beneficiary — direct	IT services (TCS, Infosys, Wipro, HCL)	USD revenues; every ₹1 of depreciation adds ~150–200bps to INR margins
Beneficiary — direct	Pharma (Sun, Dr Reddy's, Cipla)	~50% revenues USD-denominated; natural rupee hedge
Beneficiary — store of value	Gold / Gold ETFs	Rupee-denominated hard currency; structurally supported while reserves depleted
Beneficiary — policy play	Indian G-Secs	FPI capital gains tax scrapped; RBI rate cut cycle intact if rupee stabilises
Squeezed — direct	Oil marketing companies (HPCL, BPCL)	Under-recovery risk; government ATF stabilisation scheme defers not resolves
Squeezed — input costs	Aviation, paints, tyres, petrochemicals	Crude-linked inputs; margin compression from both oil price and rupee weakness
Squeezed — pass-through	Logistics, packaging-heavy FMCG	Freight and packaging costs feed directly into margins
Macro watch	RBI policy path	Rate cuts constrained by imported inflation; resolution depends on oil and FCNR inflows

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INP000008905

support@ametra.in

+91 90194 69258

www.ametra.in