Currency Updates

Why the rupee is sinking — concise summary

- The rupee crossing 91 per US dollar has raised concerns, but the main driver is heavy foreign portfolio investor (FPI) outflows.
- In 2025 so far, the rupee has depreciated about 6%, which is higher than the long-term average (~3% annually) but not unprecedented (e.g., 11.3% in 2022, 9.2% in 2018, 24% in 2008).
- FPIs have pulled out heavily from equities (₹17,242 crore in December alone) and have also net sold ₹8,977 crore in debt, reversing earlier debt inflows.
- RBI has allowed a gradual depreciation, intervening only in a limited manner using forwards and derivatives, rather than aggressively defending a level.
- This limited intervention has encouraged forex speculators to take short positions in offshore markets, accelerating the fall once key levels (like 90) were breached.

➢ Other contributing factors:

- Global uncertainty and US trade tensions.
- India's exporters benefiting from a weaker rupee.
- Supportive factors still exist: a softer dollar, higher Indian bond yields, resilient exports, and strong India Inc performance — meaning the slide could reverse if a trigger emerges.

➢ Bottom line:

- The rupee's fall is primarily due to FPI selling, amplified by cautious RBI intervention and speculative pressure, rather than a collapse in India's economic fundamentals.

Currency Outlook

Indian currency in a bear grip

- The rupee hit a record low of 91.08/$ and remains under pressure despite a weakening dollar.
- Capital outflows are the key driver: FPIs pulled out about $1.3 billion in the past week, taking December outflows to $2.8 billion.
- Continued selling in Indian equities has outweighed supportive factors like falling crude prices and a better trade balance in November.

➢ Technical picture is bearish:

- Rupee has broken key support at 90.25, signalling further weakness.
- Near-term downside seen toward 91.50, with a possibility of extending to 92.
- Any bounce is likely to be limited to 90.50–90.25.
- Dollar index, though weakening (around 98.20), still has room to fall, but bears retain control unless it decisively breaks below 100.

➢ Outlook:

- The rupee may see brief recovery, but the broader trend remains weak, with risks skewed toward 91.50 in the near term.

➢ Bottom line:

- Persistent FPI outflows and a bearish market structure are keeping the rupee under sustained pressure, overpowering otherwise supportive macro factors.

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