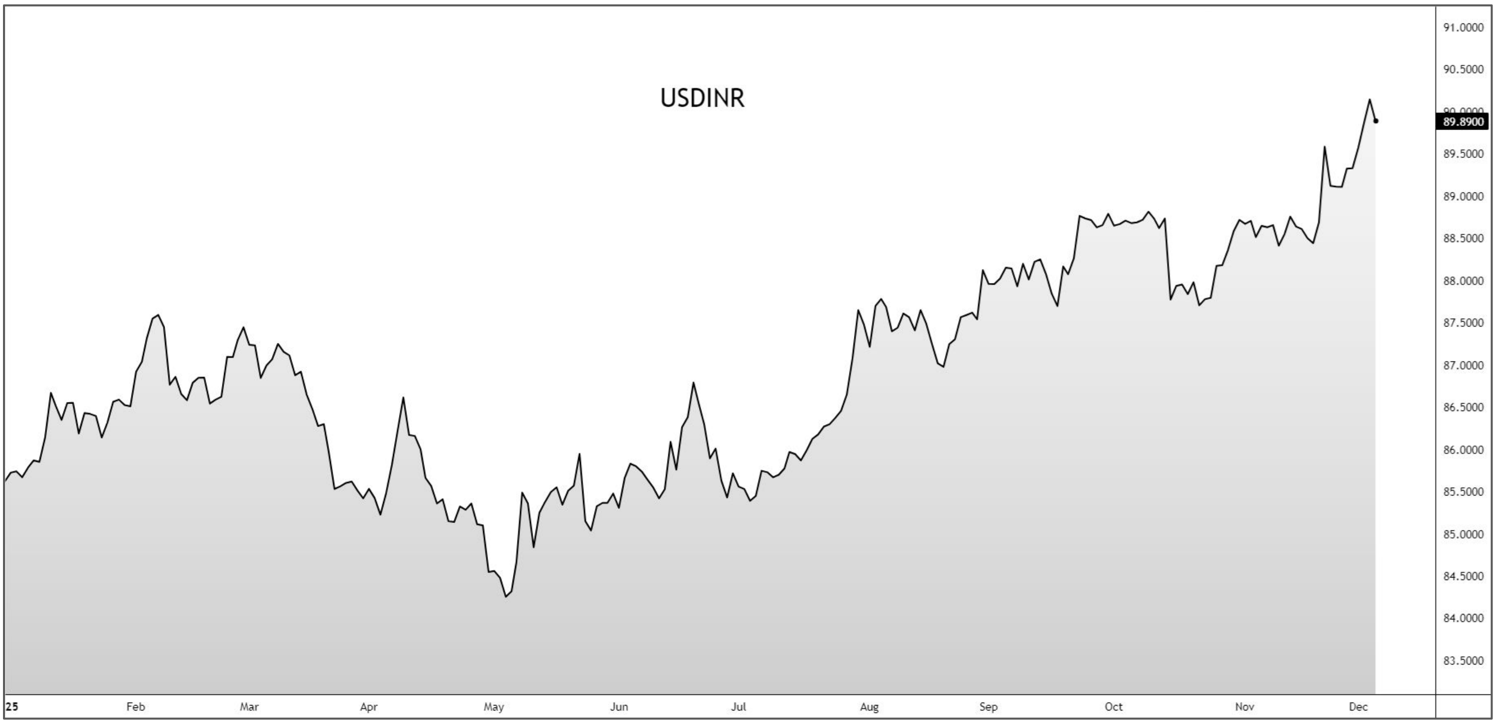
RUPEE REPORT

Thursday - 04 December, 2025

Currency	Price	Period (% Change)					
		1 Week	1 Month	3 Month	6 Month	1 Year	Ytd
USDINR	89.89	0.63	1.33	1.97	4.84	6.16	5.09



Rupee Clocks 90: What's Driving India's Biggest Currency Shock in Years?

The Indian Rupee has breached the ₹90 per US Dollar mark for the first time in history, signalling one of the sharpest depreciation phases in modern India. This fall comes despite India maintaining strong domestic fundamentals—robust 8.2% GDP growth, healthy banking stability, and resilient consumption demand.

The paradox is clear:
Why is India's economy strong but its currency weak?
The answer lies in external vulnerabilities, not domestic weakness.
Rising trade deficits, falling foreign investment, tariff disadvantages, and global monetary pressures have pushed the rupee into a structural depreciation cycle. A powerful rounding-bottom breakout on the USDINR chart now targets 91.50, with a potential extension higher if global risks persist.

Key Highlights

- Rupee breaches 90 as global uncertainty drives sharp foreign investor withdrawals.
- Trade deficit hits record levels, reflecting India's deep structural import dependence.
- High US tariffs and missing trade deal weaken India's export competitiveness severely.
- FDI slowdown intensifies external pressure despite strong domestic economic performance.
- USDINR weekly breakout projects upside toward 91.50 in coming months.

Rupee Depreciation: The Bigger Picture

Monthly Fall (1.2%): The rupee declined 1.2% last month driven by FPIs exiting India, rising importer hedging costs, and renewed geopolitical tensions. This marks the early stage of a deeper depreciation phase.
Yearly Fall (5.8%): A 5.8% annual decline reflects pressure from widening trade gaps, elevated import costs, and strong global dollar demand—showing external factors overpower domestic resilience.
Five-Year Fall (23%): Over five years, the rupee has dropped 23%, highlighting India's structural issues: high oil dependency, tariff disadvantages, and limited export diversification.
Ten-Year Fall (40%): The decade-long 40% depreciation illustrates chronic vulnerabilities—high deficits, volatile capital flows, and repeated global dollar rallies—demonstrating long-term systemic weakness.

Core Drivers Behind the Rupee's Decline

Trade Flow Imbalances: India's import-heavy economy—dominated by crude oil, electronics, gold, and machinery—creates persistent and rising dollar demand. When imports consistently exceed exports, the rupee faces long-term depreciation pressure.
Capital Flow Weakness (FPI + FDI): Foreign Portfolio Investors are withdrawing due to global risk-off sentiment. Meanwhile, net FDI is at its lowest since 1990. Reduced foreign investment weakens dollar supply and hurts currency stability.
Global Interest Rate Pressures: Higher US interest rates create a strong pull for global capital into US bonds, strengthening the dollar and weakening emerging market currencies like the rupee.
External Imbalances (CAD + BoP): India's Current Account Deficit is expected to widen from $23B to $55B by FY26. Persistent deficits increase dollar demand, deepening rupee pressure regardless of domestic growth.

WHY the Rupee Is Falling

Record Trade Deficit: India's trade deficit hit an unprecedented $41 billion in October.

Key contributors:

- Higher crude oil and gold imports
- Heavy electronics demand
- Weak global exports

Higher deficit → More dollars needed → Weaker rupee.

Foreign Investor Exodus

FPI selling intensified as global yields rose, causing rupee outflows.
When investors sell Indian assets, they convert rupees into dollars—directly weakening the INR.

FDI Collapse
Net FDI into India has fallen dramatically.
Reasons include rising global borrowing costs, policy uncertainty abroad, and greater incentives in ASEAN markets. Lower FDI weakens long-term currency stability.

RBI's Controlled Non-Intervention
The RBI has chosen a calibrated depreciation path, limiting heavy dollar selling to save reserves. This approach prevents panic but allows the rupee to weaken naturally with market forces.

Strong Global Dollar (DXY)
The US Dollar Index remains elevated due to high US yields and risk aversion. A strong global dollar makes all EM currencies—including the rupee—lose value.

Rising Hedging Costs
Higher volatility has driven importers to hedge aggressively, raising USD demand in the forward market and adding momentum to the USDINR rise.

Missing US–India Trade Deal
The absence of a US–India trade agreement has become a major structural drag. Indian exports face 34% average US tariffs, compared to 16% for ASEAN competitors.
This sharply reduces competitiveness in textiles, engineering, chemicals, and auto components.
With no preferential access, export growth stagnates while imports rise, widening the trade deficit beyond $40B monthly, and increasing structural dollar demand that weakens the rupee.

WHO Is Affected by the Rupee's Fall?

Consumers: Imported essentials—fuel, cooking oil, electronics—become costlier. India imports 85% of its crude, so depreciation immediately raises transport and household inflation.
Import-Dependent Industries: Oil refiners, automobile companies, pharma manufacturers, and electronics firms face rising input costs, reducing margins and increasing product prices.
Exporters: Software, textiles, engineering, and pharma exporters benefit from better rupee realisations as their goods become cheaper globally.
NRIs: Remittances become more valuable as every dollar sent fetches more rupees.
Equity Investors: A weaker rupee reduces dollar-adjusted FPI returns, prompting further selling and increasing equity market volatility.

WHERE Is the Pressure Coming From?

Domestic Pressures

- Weak FDI inflows
- Rising Current Account Deficit
- Heavy dependence on imports
- High US tariffs on Indian exports
- Increased hedging demand

Global Pressures

- Strong US Dollar Index
- High US treasury yields
- Japan bond yield spike
- Middle East & Russia-Ukraine tensions

These global pressures push investors toward safer US dollar assets.

WHEN Did the Decline Accelerate? – Timeline

November 20: RBI Governor's comment that the RBI does not target a specific rupee level triggered heavy speculation.

December 1–3: FPI selling intensified while India announced its highest-ever $41B trade deficit, causing a sharp spike in USD demand.

December 3–4: USDINR broke the 89.64 resistance and the psychological 90.00 level, triggering algorithmic buying and stop-loss levels, leading to a steep intraday rally.

HOW the RBI Is Responding

Short-Term Response

- Mild forex market interventions
- OMO liquidity management
- Forward market smoothing to reduce hedging spikes

Long-Term Structural Response

- Boosting domestic manufacturing through PLI schemes
- Promoting import substitution in electronics, defence, solar equipment
- Expanding export base
- Negotiating FTAs to reduce tariff disadvantages
- Improving India's FDI environment

The RBI prefers calibrated depreciation, not level targeting.

India's External Sector — A Deep Dive

- CAD rising from $23B to $55B
- BoP deficit for 18+ consecutive months
- US tariff disadvantage (34% vs 16% ASEAN)
- High import dependence

These factors collectively push the rupee into structural weakness.

Global Macro Pressures Driving INR Lower

- Strong US Dollar Index
- High US yields attracting capital
- Japan's tightening cycle
- Middle East tensions increasing risk-off sentiment
- Russia–Ukraine disruptions pushing energy prices up.

Technical Outlook: USDINR Targeting 91.50

A decisive multi-year breakout has occurred:

- Rounding-bottom / cup-and-handle breakout
- 161.8% Fibonacci extension (90.02) broken
- Next target: 91.50 (200% extension)
- Strong Ichimoku cloud support
- Uptrend with higher highs and higher lows

Momentum and structure support continued upside.

2–3 Month Forecast: Where the Rupee Is Headed

Primary Target → 91.50

Extended Range → 92.20 – 93.00

Possible if:

- US yields remain elevated
- FPI/FDI flows stay weak
- Trade deficit remains above historical levels

Support Levels → 89.64 / 88.73

Only strong RBI intervention can reverse the trend.

Final Conclusion

India's currency weakness past ₹90 is not a result of domestic collapse—it reflects external vulnerabilities, global pressures, tariff disadvantages, and weakening capital flows.

Unless India strengthens its manufacturing base, improves export competitiveness, secures trade agreements, and attracts long-term capital, depreciation cycles will persist.

The technical structure confirms the medium-term trajectory:

USDINR is aiming for 91.50, with risks tilted to the upside.

The rupee will remain a shock absorber, but long-term stability requires structural reforms.

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