

This Is The Time To Buy Rupee Assets, Not Bet Against Them

1. The Real Effective Exchange Rate (REER) Advantage

The Rupee's REER at the end of April 2026 was at 89.7 as per BIS data. It is estimated to have slipped below 88 when USDINR breached 96.9 on 20th May'26.

To put this in perspective, this is the most competitive the currency has been outside of two major structural crises: the 2013 twin deficit crisis (driven by crude oil sustaining above \$100 for three consecutive years) and the 2008 Global Financial Crisis.

On a trade-weighted basis, the currency is fundamentally undervalued, creating a strong margin of safety.

2. Decades-Low Inflation Differentials

India's inflation differential with the US is at one of its narrowest levels in modern history. Historically, this spread averaged around 3.5% to 4%. Today, comparing India's core CPI with US core PCE, a highly stable comparative metric, shows this gap has compressed drastically to the 1% to 2% range.

Over the last 12 months, US CPI has averaged 2.8% while India's CPI has averaged 2.3%, a gap favouring India by 50bps. Mathematically, a structurally narrower inflation differential implies the long-term depreciation rate of the Rupee against the US Dollar will decelerate, not quicken.

3. Balance of Payments (BOP) Resilience

Current anxieties surrounding India's BoP are driven less by actual realized external stress and more by expectations of a permanent crude oil reset above \$120 per barrel. Unless oil permanently anchors at those elevated levels, the BoP might face pressure, but it should avoid the severe distress seen from 2011 to 2013.

India's structural buffers are massively underappreciated. Services exports are now running at over \$418 billion annually, with the latest monthly run-rate closer to \$447 billion annualized. More importantly, India's services surplus is now about \$214 billion, and inward remittances are above \$135 billion. That creates a net invisible shield of roughly \$349 billion. This alone is enough to neutralize India's FY26 merchandise trade deficit of about \$333 billion, before primary income outflows and other current account items.

The only scenario that changes this meaningfully is oil staying above \$120 for more than 12 months. India imported about 245 million tonnes of crude in FY26. At \$120 crude, that implies a gross crude import bill of roughly \$215 to \$220 billion, before allowing for petroleum product exports. In that scenario, India's current account deficit can move toward 2.5% to 3% of GDP. But that remains a stress case, not the base case. The latest market price is still materially below that level. Brent is around \$106 per barrel. Brent has touched the \$120 zone only briefly during the March panic, it has not stayed there. For this scenario, the Rupee has already adjusted more than 5% out of a likely 10% stress adjustment.

The currency has done part of the work before the macro damage has fully arrived. That is why the right question is no longer only whether oil is high. The right question is whether oil stays high long enough to overwhelm India's services and remittance shield. So far, that has not happened.

Gold has historically been a massive detractor for the Rupee. However, record-high prices have triggered severe demand destruction, with domestic jewellery volumes contracting by nearly 25%. Coupled with shifting tax and duty structures on precious metal imports, the overall stress on the current account from bullion is likely to be significantly contained in the coming quarters.

4. Valuation Comfort in Large-Caps

Foreign Portfolio Investment (FPI) and Foreign Direct Investment (FDI) flows have been muted, largely a consequence of perceived high aggregate valuations in Indian equities. But beneath the headline indices, the large-cap segment, which traditionally absorbs over two-thirds of net FPI purchases, has quietly de-rated. Several heavyweights are now trading below their long-term average multiples. Select equity segments are available below 15x forward earnings, with some valuations dipping to COVID or GFC lows. This valuation comfort is highly likely to place a floor under FPI selling, especially since underlying business quality remains pristine. Generating Return on Equity (ROE) upwards of 18% to 20% is a rarity in emerging markets, yet top-tier Indian businesses continue to deliver it. When valuations for India equities were sky high, we highlighted how fragile the system had become to foreign investment outflows. Today's we are at the other end.

5. The Cyclical Nature of FX Reserves

The RBI's headline FX reserves have declined by \$29 billion this year. Accompanying this is apprehension regarding the outstanding USD forward book, which stands at roughly 13% of total reserves, potentially reducing usable liquidity. While this warrants observation, it is not an anomaly. The forward book was at 14% in March 2025 and 11% in March 2013. The RBI actively manages this tool across cycles, even holding a net forward purchase position of 11% back in March 2022.

FPI's have been net seller of Indian equities in FY25 and FY26 to the tune of \$34 Bn. This is the first time that FPIs have been net sellers of Indian equities for two consecutive years since the data recording began in FY99.

Currencies, interest rates, and flows are inherently cyclical. Betting against the Rupee at these depressed REER levels and tight inflation differentials is a low-probability trade. Conversely, the data suggests it is time to allocate toward Rupee-denominated assets across both equities and bonds.

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