

The rupee has slide to fresh record lows while the crack towards \$88-89 zone was aligned with fundamentals, in our view. The backdrop is threefold: Trade still carries a tariff overhang (talks are supportive but not base case yet); Flows remain fragile after large YTD FPI outflows (~16.24bn) despite a tentative weekly turn; and sentiment stays defensive on trade policy uncertainty like timing of U.S.-India final trade deal amid concerns over the H-1B fee hike, 100% tariff on pharma, keeping “buy-USD-on-dips” behaviour intact.

Structurally, our bias is for gradual INR depreciation. As per our analysis, over a three-year window, the rupee tends to adjust ~3-4% annual average depreciation in line with the India-US inflation/interest rate differential. Academically speaking this is consistent with the Balassa-Samuelson effect, which suggests that countries experiencing higher productivity growth in tradable sectors, will see a real appreciation/depreciation of their currency over time. **Near-term price action may be choppy, but the medium-term slope for INR remains lower unless there is relief from persistent twin deficit (current account and fiscal deficit) even as reversal in flows may hid the fair value temporarily.**

1. Why does the rupee's movement in recent trading session appear unusually steep?

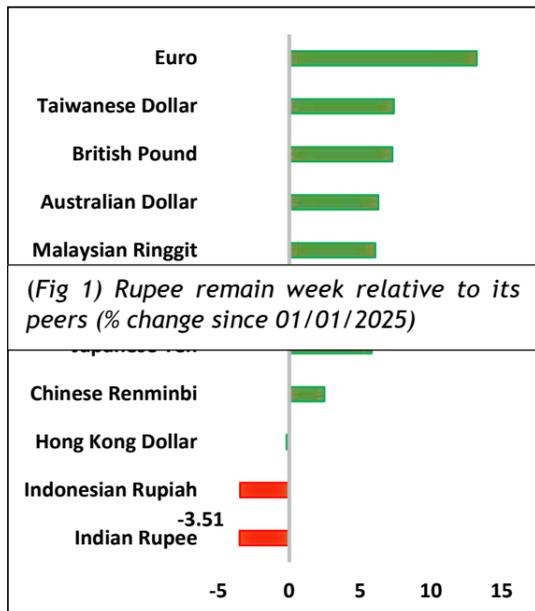
Since last week, the rupee has declined by ~0.7%, plunging to a fresh record low and raising concerns in some quarters that the scale and speed of the move may be excessive relative to underlying fundamentals. In our view, a **gradual drift in rupee was expected amid persistent FPI outflows, risk aversion sentiment posts the US-India trade stalemate**, but the abrupt breach of key psychological levels (₹88.50/\$) and the slide to ₹88.80 low signal disorderly price action. On balance while 88-89 level on the rupee did not surprise us and remains aligned with fundamental, probably the pace of depreciation is somewhat higher than the historical vol. of the currency. **The rupee is down about 3.5% this year despite the dollar index losing ~10% during same period**, underscoring how local flow dynamics, not just dollar moves, have driven this currency pair lower. Technical triggers and crowded speculative positioning likely accelerated the downside, while **hedging by importers and delayed conversions by exporters amplified dollar demand, stoking volatility.**

2. What factors contributed to the rupee's move to record low?

Here are the **top 3 drivers** behind the rupee's plunge:

- **Trade:** The fundamental drag stems from still-elevated tariff risk, a weak goods-export pulse, and CAD overhang that nudges INR fair value weaker. While the offset is that the India-U.S. trade stalemate ends in the coming week in line with CEA comments and post visit by senior government official to the U.S. These are supportive if delivered, they would lower the rupee's risk premium and stabilize expectations but until a signed outcome lands, markets treat them as optionality, not baseline. **The trade fundamentals remain a key headwind for the rupee with a medium-term upside kicker contingent on policy resolution.**
- **Flows:** **The balance of payments picture is still INR-negative on the year**, even as the near-term tone improved. FPIs have withdrawn \$16.24bn YTD (to 24 Sep '25), but last week they flipped to equity buyers (+\$322mn; +\$168mn WoW), while debt swung to +\$983mn versus -\$64mn a week earlier; FAR flows total \$5.83bn YTD, including \$1.092bn MTD. FX reserve adjusted for valuation effect (a good BoP proxy) have shifted from a surplus in Q1 to a net deficit ~\$9bn in Q2. That mix helps slow depreciation pressure and soften intraday volatility, but it doesn't yet erase the earlier cumulative outflows; sustainability over the next few weeks is the key differentiator between stabilization and mere respite.

Sentiment: Positioning remains defensive on policy uncertainty. The H-1B fee hike to \$100k for new applications is a clear negative for IT/services pipeline and remittance expectations, keeping dealers inclined to fade INR rallies. Tariff-relief chatter improves the tone but lacks timelines, so “buy-USD-on-dips” behaviour persists.



Source: Bloomberg

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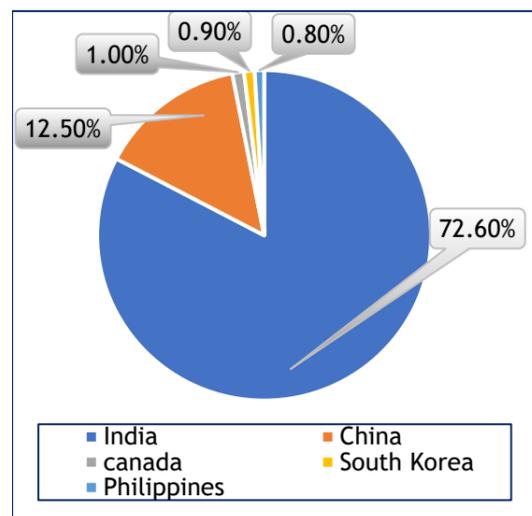
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Fig 2: H-1B Visa holders' country-wise



Source: Boundless, UBI research

US Imports of Pharmaceutical Products by Country (fig 3)		
Country	Value (\$ Mio) - 2023	Value (\$ Mio) - 2024 (Partial)
Ireland	31,600	65,700
Switzerland	17,900	19,300
Germany	21,500	17,400
Singapore	7,392	16,000
India	3,566	13,000
Belgium	14,200	12,000
Italy	8,430	12,000
China (Mainland)	1,744	10,000
United Kingdom	8,020	8,000
Total US Pharmaceutical Imports	~170,000 - 212,660	~234,000

Source: Exaputra & UBI Research

That said the RBI is constantly working towards limiting FX vulnerability by building strong reserve buffers (Spot reserve at \$702.57bn as on 19 Sept'25 with short \$ FX position also lower to \$57.85bn in July from a peak of ~\$88.7bn as of Feb'25).

3. Is the FX level a surprise for us?

No—the current ₹88-89/\$ zone isn't a surprise to us. Our analysis shows that rupee moves by an average 3-4% annually on a 3-year rolling basis to adjust for long-term India-US inflation/rate differential. [RBI papers](#) refer to this as “Balassa Samuelson effect”. For instance, during March 2020 to March 2023, Rupee moved by 11% while 3-year annual average was ~3-4% (Mar-20: 75.5, Mar-21: 73.1, Mar-22: 75.8, Mar-23: 82.2). In practice, INR slipped ~1.5% in 2023 and ~3% in 2024; by FY24 it moved ~1.5% (Mar'24: 83.4), by FY25 ~3%. In the current cycle, Rupee moved by 1.5% in FY24 (Mar-24: 83.4) and 3% in FY25 (Mar-25: 85.5). Hence, a ~4% move in FY26 implies that Rupee is likely to move towards 89/90 threshold in FY26.

History supports this cadence: between Mar'20 and Mar'23, INR weakened about 11% in total (Mar'20: 75.5 → Mar'21: 73.1 → Mar'22: 75.8 → Mar'23: 82.2), averaging roughly 3-4% per year.

Risk on Watch for rupee:

Oil prices (import bill/CAD risk). For a net crude importer like India, a sustained upswing in oil quickly feeds through to a wider current-account deficit, stickier inflation expectations, and tighter domestic financial conditions an unhelpful mix for INR. Any rebound driven by supply disruptions, an OPEC+ policy pivot, or geopolitics would re-inflate the import bill and revive depreciation pressure. **Traders should watch oil closely; shifts there often front-run moves in USD/INR.**

Strong U.S. dollar (policy/data risk). The other key headwind is the dollar impulse. If incoming U.S. data (inflation, jobs) come in hot or Fed rhetoric leans less dovish, front-end U.S. yields can reprice higher, widening the rate differential with India and putting global liquidity back on the defensive conditions under which INR tends to underperform regional peers. A softer U.S. tape would help, but until there's clear evidence of disinflation and a durable easing path, the default risk skew remains toward a firmer USD and a heavier rupee.

Conclusion (INR - ₹ view):

We see INR remaining under pressure with a mild weakening bias as global uncertainty persists. The near-term impulse will hinge on U.S. data and the Fed's rate-cut path, which will likely drive U.S. dollar moves. At home, brisk IPO calendars can intermittently support INR via equity-related inflows, but the unresolved U.S.-India trade negotiations and the drag from higher U.S. visa fees on services exports keep sentiment fragile. The RBI's ample FX reserves should still help smooth intraday swings and contain disorderly moves rather than change the underlying drift.

Tactically, the market is trading defined levels: immediate support sits near ₹88.50/\$; a clean break below opens room toward ₹87.80/\$. On the topside, resistance is clustered around ₹89.20/\$, and a push through could test fresh highs near ₹89.50/\$. With risk aversion elevated, INR may underperform regional peers until trade headlines turn more constructive; progress on India-U.S. talks would be the key upside catalyst for sentiment.

(Fig4) INR tends to adjust by ~3-4% per year on a 3-year rolling basis to reflect the India-US inflation/interest differential consistent with RBI research invoking the Balassa-Samuelson channel

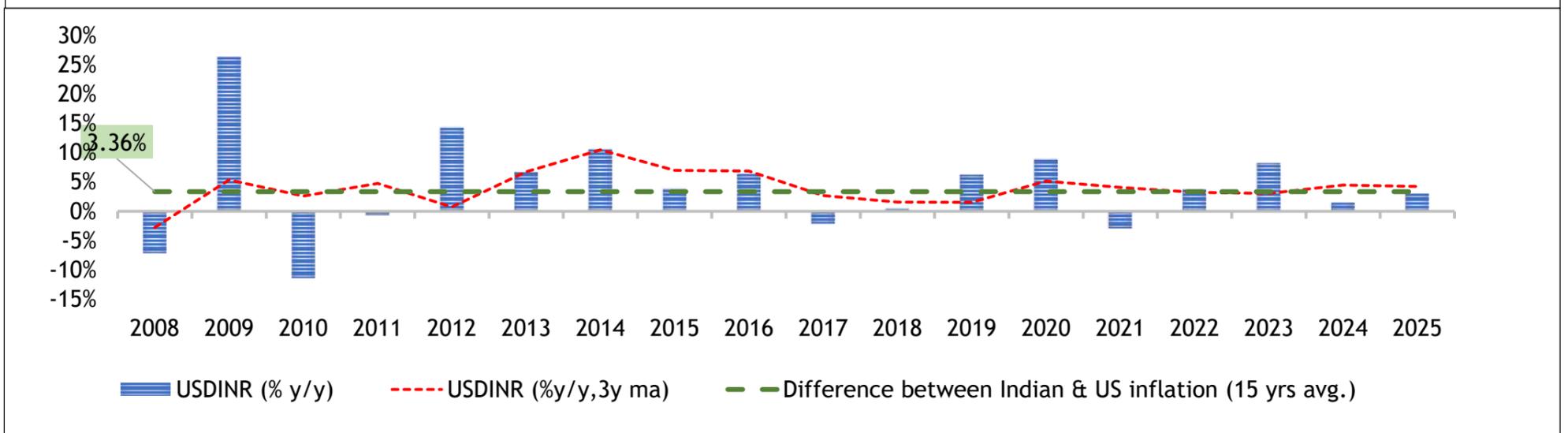
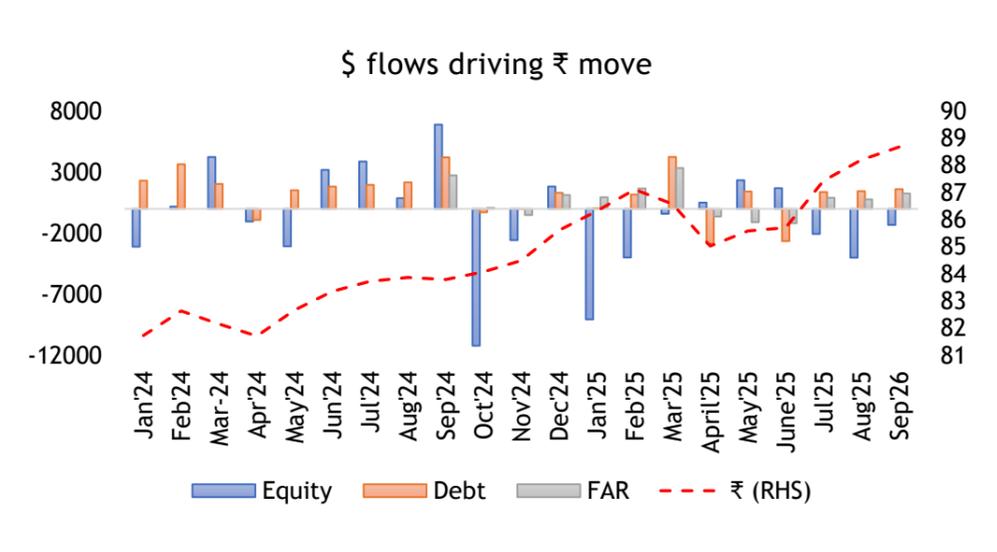


Fig 5: Rupee move aligned to FPI flows



Source: CEIC, RBI & UBI research

Fig 6: FX Reserves close to all-time highs

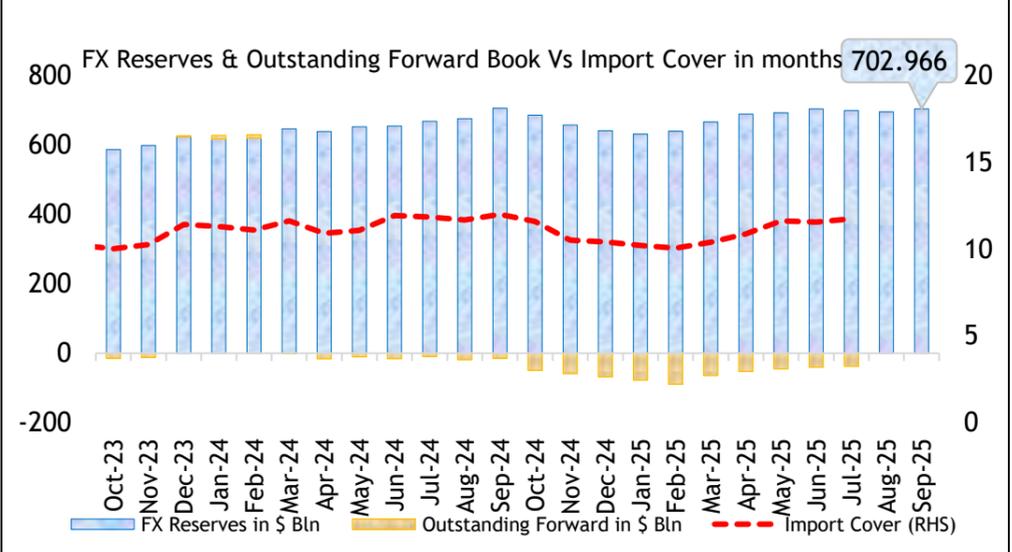
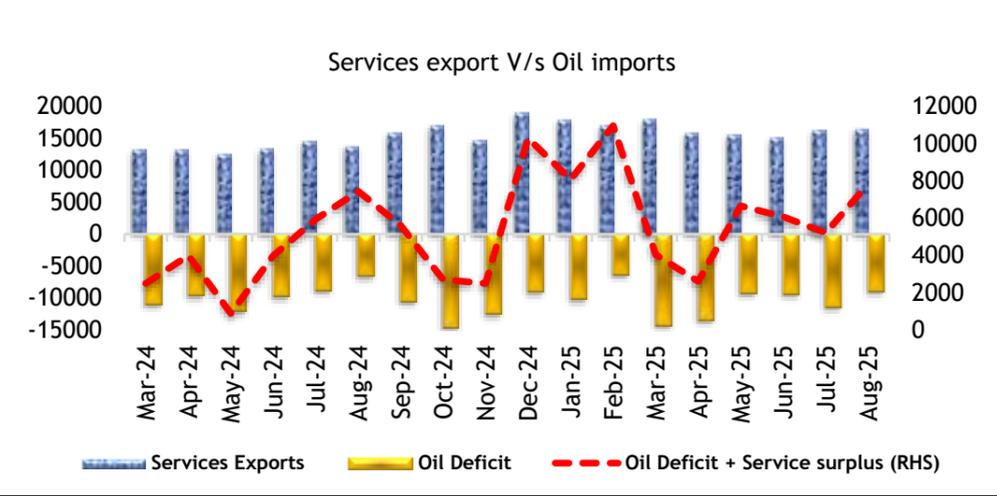
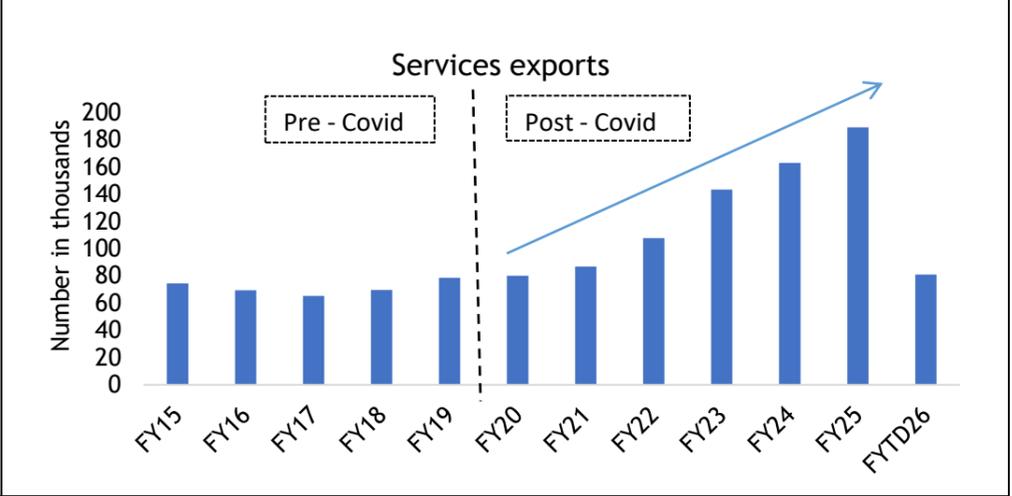


Fig 7: Services trade surplus substantially cover the oil deficit



Source: CEIC, RBI & UBI research

Fig 8: Services exports have almost doubled post covid era



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