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INR movement in Jul’26

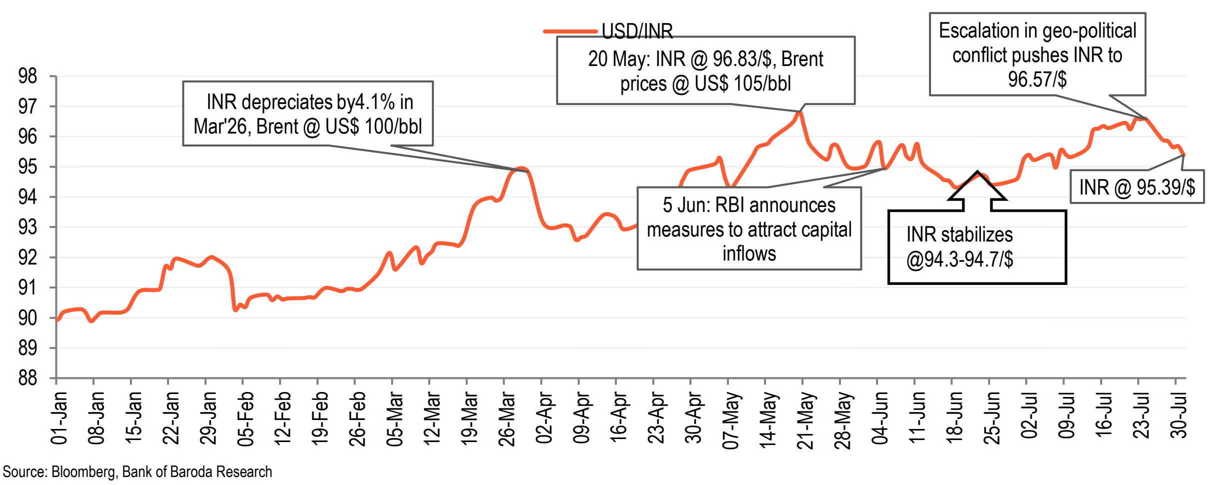
INR traded cautiously in Jul’26 amidst an escalation in geo-political conflict. It depreciated by only 0.8% in the month even as oil prices increased by over 20% in the month. INR found support from a weaker dollar and buoyancy in dollar inflows. FPI inflows rose to a 22-month high, driven by a pickup in equity inflows. On the other hand, RBI’s measures also led to inflows of US$ 40.8bn. Reports also indicated that RBI stepped up the defense of the currency by intervening in the forex market. Uncertainty regarding the war in West Asia is likely to prevail for some time, which will keep oil prices elevated. While this makes a case for a weaker rupee, the extent of the decline will be limited by dollar inflows and RBI intervention. Overall, we expect INR to trade in the range of 95.25-95.75/$ in the near-term.

1. What happened in CY 2026 and Jul’26

INR has experienced significant swings in 2026. While the currency started the year strong, external headwinds due to the war in West Asia, impinged on INR’s trajectory since Feb’2026. After appreciating by 1.1% in Feb’26, INR witnessed considerable volatility in Mar’26 on account of the US-Iran-Israel war. However, proactive management by the RBI and the government, along with reports of a peace deal between US and Iran helped keep INR steady.

In Jun’26, RBI and the government announced several measures to attract foreign inflows, in order to manage the risk of an increasing current account deficit. This not only helped in attracting inflows, but was also beneficial in assuaging market sentiments, which benefitted the rupee. In Jul’26, INR once again face pressure due to a worsening in geo-political tensions. After days of ceasefire, and the possibility of an impending peace deal, tensions in West Asia flared once again, with both US and Iran launching fresh attacks. This once again dented investors sentiments and pushed up global oil prices. As a result, INR too witnessed some pressure, falling to a low of 96.57/$ on 22 Jul 2026. This marked a 2% decline in the value of the currency since end Jun’26. However, in the period thereafter, INR has appreciated/remained steady, likely due to RBI’s intervention and an improvement in global risk sentiments. In fact, between 22 Jul 2026 to 31 Jul 2026, INR appreciated by 1.3%.

Fig 1: Movement in INR



Source: Bloomberg, Bank of Baroda Research

2. **Factors affecting INR:** There were a host of conflicting factors affecting the movement in INR in Jul'26.

   - Oil prices: Rising oil prices have a dampening impact on the domestic currency due to trade linkages. Higher oil prices imply an increase in imports, which in turn expands the trade deficit. In Jul'26, global oil prices increased by ~20%. This followed a decline of about the same magnitude last month. This weighed on the domestic currency.
   - DXY: DXY declined by 1.3% in Jul'26. This offered some support to the domestic currency. The dip in the dollar index was in turn driven by comments from the Fed Chair, which casted some doubt on the possibility of rate hikes in the future.
   - FPI inflows: Another factor which helped INR from a much sharper fall was a resumption in FPI inflows. In Jul'26, FPI inflows surged to US$ 4.2bn, driven by equity inflows. Debt inflows too picked up, even as inflows into the FAR securities moderated.

3. **Domestic fundamentals:** In the long-term, the movement of INR is likely to be driven by a host of macroeconomic factors.

   - Trade deficit and CAD: India's merchandise trade deficit has increased to US$ 86.9bn in Apr-Jun'26 compared with US$ 68.7bn in the same period last year. However, an important thing to note here is that the oil deficit has increased by only US$ 5bn, despite a significant 50% increase in oil prices. At the same time, non-oil deficit has increased by US$ 12.8bn, which could be due to elevated global prices of other commodities as well as due to strong domestic demand. It must be noted that despite these challenges, India's CAD recorded a surplus in the period Apr-May'26, as remittances have so far not been impacted. In fact, transfer payments rose to US$ 29.6bn in Apr-May'26 vs. US$ 20bn last year. Services surplus too has been higher. Trade deficit is expected to inch up further as even though oil prices can ease once war related uncertainty eases, the correction in prices of other global commodity prices will be much more gradual. Remittances and services surplus will offer limited protection. Overall, CAD is likely to expand, which can weigh on the rupee.
   - Capital inflows: The other aspect to consider here is that on the funding side, RBI and the government have taken proactive measures to keep the external position stable. Dollar inflows through FCNR (B) and ECB/OFCBs route have been mobilised to strengthen the capital account. As per latest available data, RBI has successfully mobilised US$ 40.8bn through these measures. Foreign exchange reserves stand at US$ 682.4bn as of 24 Jul 2026, which can cover about 10 months of imports. This suggests that India's external position remains comfortable and has been adequately covered against any further external shocks. This should offer some support to the INR at the margin.

4. **Outlook**

In the short-term, INR movement is likely to be influenced by global developments. War related uncertainty is likely to persist in the near-term which will likely keep volatility high. DXY is likely to be influenced by Fed speak, with investors still pricing in a rate hike, however, the timing will be crucial. RBI has proactively managed the crisis so far by bolstering its external position through capital inflows. News reports also signal a possible shift in RBI's strategy in the forex market in recent days, which suggests a preference towards preventing a sharp decline in INR. Overall, we expect INR to trade in the range of 95.25-95.75/$ in the near-term.

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