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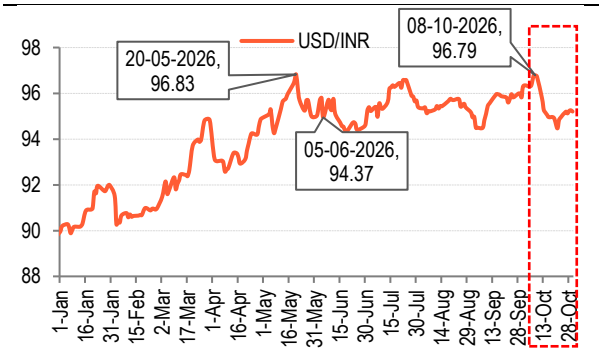
INR movement in Oct'26

Rupee faced increasing external headwinds in Oct'26 in the form of higher global oil prices, rising global yields, and continued FPI outflows. Against this backdrop, INR depreciated sharply at the start of the month to hover around a lifetime low. To arrest the steep fall in the currency, RBI announced measures aimed at supporting the rupee in the spot market (by announcing a sperate dollar window for OMCs) and also curbing speculative trading activity. As a result of these measures, INR made a smart recovery, rising by over 2% after the announcement was made. However, elevated oil prices, volatility in global financial conditions, higher dollar and persistent FPI outflows weighed put renewed pressure on INR. INR depreciated once again but helped by RBI measures, ended Oct'26 with a 0.9% gain. While conditions remain counterproductive, INR has shown remarkable resilience largely due to support from the RBI. Higher oil prices are a major factor which will determine the trajectory of INR going forward. Overall, we expect INR to trade in the range of 94.75-95.75/$ in the near-term.

1. INR movement in Oct'26

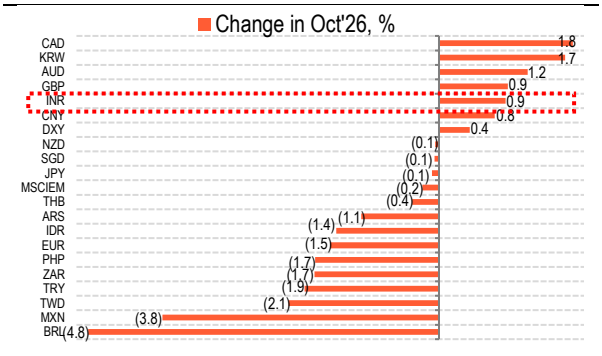
INR started the month on a sombre note, trading precariously close to its lifetime low. In fact, INR traded in the range of 96.32-96.74/$ in the first ten days of the month, just a little shy of its record low of 96.83/$ in May 2026. INR faced pressures from elevated oil prices as well as persistent FPI outflows. Global financial conditions too remained volatile amidst the ongoing conflict in the Middle East, with a spillover effect on global bond yields. Given the fact that the pressure on rupee stemmed largely from exogenous factors, and to prevent further volatility in the exchange rate, RBI announced several measures to stabilise the exchange rate. As a result, INR strengthened significantly in the period preceding this announcement, appreciating by more than 2% in the next few days. INR appreciated from 96.74/$ on 9 Oct 2026, to 94.43/$ on 21 Oct 2026, gaining about 2.4% in a span of 8 days. However, some of these gains had to be given up due to worsening tensions in Middle East and a spike in global oil prices. Overall, INR ended the month higher by 0.9%. This is significant, since INR was amongst a select few currencies which ended with gains in the month, specially since DXY also rose in the month. Other major EM currencies such as BRL, MXN and TWD depreciated against the dollar in the month. Even some AE currencies such as EUR and JPY declined.

Figure 1: Movement in USD/INR



Source: Bloomberg, Bank of Baroda Research

Figure 2: Movement in global currencies

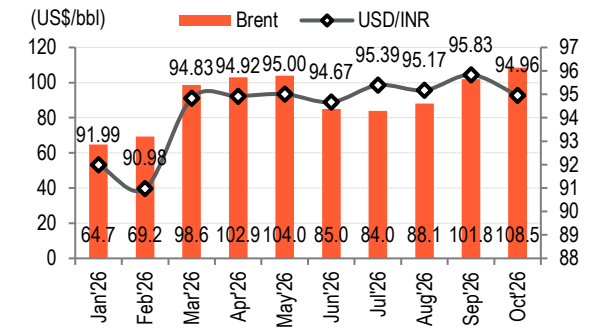


Source: Bloomberg, Bank of Baroda Research

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

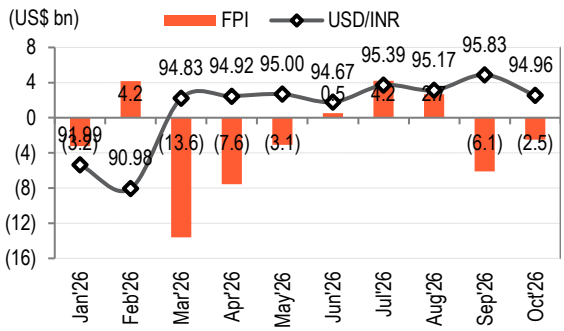
- RBI measures: Apart from its regular intervention in the spot and forward market, RBI also stepped in to announce some special measures to support the domestic currency. These measures aimed at supporting the spot exchange rate through a separate window for OMCs to meet their dollar requirement. At the same time, other measures were aimed at limiting the speculative activity in INR trading, which also kept the rupee under pressure. As a result of these measures, INR gained over 2% in a short span of time, which ultimately helped INR to close the month with a smart gain of 0.9% despite several headwinds.
- Oil prices: Oil prices remained elevated during the month amidst worsening geo-political situation in the Middle East, with significant escalation in hostilities between Saudi Arabia and Houthis. In Oct'26, oil prices increased by over 6% to average about US$ 108/bbl. At US$ 116/bbl, oil prices are currently hovering at a 6-month high.
- FPI inflows: Another factor which worked in favour of the rupee was a moderation in FPI outflows. FPI outflows in Oct'26 stood at US$ 2.5bn, lower than outflows of US$ 6.1bn in Sep'26. This was largely driven by debt inflows, even though equity outflows remained almost stable.

Figure 3: Oil prices and INR



Source: Bloomberg, Bank of Baroda Research

Figure 4: FPI flows and INR



Source: Bloomberg, Bank of Baroda Research

- DXY: In Oct'26, DXY strengthened by 0.4% even as the Fed kept policy rates on hold. However, expectations of an imminent rate hike in Dec'26 and elevated treasury yields pushed the dollar higher. This weighed on the INR, but was offset by RBI support measures.

3. **Domestic fundamentals:** Apart from these factors, which largely account for day-to-day volatility in the domestic exchange rate, macro-economic fundamentals also play a role in determining the long-term trajectory of INR.

- Trade deficit and CAD: India's merchandise trade deficit continues to trail higher than last year. In FYTD27 (Apr-Sep'26), trade deficit stands at US$ 177.6bn, higher than US$ 156.9bn in the same period last year. Importantly, while exports growth has been much stronger than last year, imports too have been increased led by oil and non-oil-non-gold imports. The surge in imports reflects both higher prices as well as strong domestic demand. With oil prices remaining above US$ 100/bbl, and continued uncertainty over the resolution of the war, trade deficit is likely to remain high. This is likely to be offset to some degree by buoyancy in merchandise and services exports, as well as resilience in

remittances. Overall, CAD is likely to be higher than last year but it still remains within the comfortable range of 0.8-1% of GDP.

- Foreign inflows, forex reserves and capital account: A large part of the pressure on INR is stemming from the capital account side. Persistent FPI outflows and increased repatriation by FDIs are a few factors which can weigh on the capital account surplus going forward. At the same time, there would only be limited inflows under the banking capital window since the FCNR (B) swap window is now closed. RBI would also be using some part of the dollars received through these measures for supporting the rupee as oil prices continue to stay elevated. Incidentally, after hitting a record high of US$ 785.7bn on 4 Sep 2026, India's forex reserves have since declined to US$ 719.7bn as of 23 Oct 2026.

4. Outlook

In the short-term, the movement in INR is likely to driven by sentiments rather than fundamentals. Volatility in global financial conditions, narrowing yield differential, risk-aversion, FPI outflows and higher oil prices are likely to weigh on INR. RBI measures have been successful in providing a marginal boost, but risks remain heavily tilted towards further depreciation pressure on the rupee. RBI measures provided a timely boost to the INR, while also signalling to the markets that the central bank is committed towards ensuring that the movement in exchange rate remail orderly and range bound. This is likely to continue to work in favour of the INR, barring any fresh external shocks. Overall, we expect INR to trade in the range of 94.75-95.75/$ in the near-term.

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