

35th

ANNUAL FOREX ASSEMBLY

at

Phuket, Thailand

2nd October to 5th October, 2026



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THEME OF THE
35th ANNUAL FOREX ASSEMBLY
OF THE
FOREX ASSOCIATION OF INDIA
**Navigating Global Volatility :
Resilience and Growth
in India's FX Market**



FAI 35th Annual Forex Assembly

Organising Team



Mr. Viresh Kumar Suryawanshi



Mr. Debajyoti S. Mahopatra



Mr. Sumant Kumar



Mr. Arvind Khusape



Mr. Rahul Shah



Mr. Aryn Mecklai



Mr. M. Naresh Kumar



Mr. Amisha Mehta



Mr. Shailesh Ashra

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Welcome Note by Chairman



“Navigating Global Volatility : Resilience and Growth in India’s Forex Market”

Respected Delegates, Distinguished Guests, Central Bank Colleagues, and Friends. It is an honour to welcome you to the 35th Annual Forex Assembly of the Forex Association of India. We gather here in the beautiful and vibrant setting of Phuket, a historic crossroad of maritime commerce, international trade and a melting pot of cultures. Facing the Andaman Sea, this city reminds us that trade and finance have always relied on connectivity, trust, and clear navigation across uncertain waters. That same imperative brings us together today.

Our theme this year, *“Navigating Global Volatility: Resilience and Growth in India’s Forex Market”*, captures both the current realities of global trade and capital flows and the resilience shown by India and India’s forex market through these years of turbulence.

We meet at a juncture where market volatility is no longer a temporary disruption; it seems to have become a structural feature of the global financial ecosystem. Central banks globally continue to balance inflation control with growth objectives amidst shifting inflation trajectories, often instigated by events outside their control. Simultaneously, increased sovereign debt levels in advanced economies are exerting sustained pressure on global yields and currency valuations.

Within the real economy, developments such as supply-chain re-shoring, evolving tariff structures, and shifting trade relationships are compelling treasuries to reassess their strategies for liquidity management and approaches to currency hedging. In addition to these broader economic factors, the rapid pace of price discovery fuelled by algorithmic trading, artificial intelligence, and digital settlement channels is constantly challenging our risk management systems.

Against this backdrop, India has entered this period of global re-alignment from a position of relative macroeconomic stability. Our real GDP growth momentum remains strong, with GDP expanding by 7.8% in the first quarter of FY27, and an average growth of 8% in the last four quarters. This solid performance is underpinned by a reinvigorated manufacturing sector, robust services exports, and growing domestic consumption.

We have seen some interesting developments in the global FX markets in recent months, with US Treasury joining the BOJ in intervening in the Yen FX market. We have seen multiple central banks dip into their FX reserves to curb one way moves in their currencies. Former RBI Governor Shaktikanta Das captured the spirit of this strategy when he famously noted that foreign exchange reserves are built for times of global uncertainty, stating, *“You buy an umbrella to use it when it rains.”* Recently, with the measures to shore up forex reserves and bring in foreign capital into India, RBI and the Government have managed to buy a really strong umbrella.

At the same time, in the foreign exchange management, our approach has matured significantly. A mature foreign exchange market does not imply a fixed exchange rate. True maturity lies in allowing market-clearing forces to operate smoothly while deploying calibrated policy interventions to prevent disorderly volatility, market asymmetry, or unhedged systemic risk. As RBI Governor Sanjay Malhotra recently reiterated, central bank intervention in the foreign exchange market is aimed solely at smoothing excessive and disruptive volatility, rather than targeting any specific level or band for the exchange rate. The \$136.377 bn collected through the above-mentioned measures, has given significant room for the RBI to follow this strategy.

However, resilience alone cannot be our final destination. This increased resilience allows us to absorb short term shocks, but growth enables us to capture opportunities. As Indian enterprises expand globally and integrate deeper into international supply chains, market participants must deliver more dynamic and sophisticated FX solutions.

Our focus across the industry must centre on a few key operational priorities: We need deeper liquidity across the curve in onshore spot, forward, and derivative markets to reduce friction for end-users. We must expand access to sophisticated hedging options for corporates, MSMEs, and institutional investors while upholding rigorous market conduct standards. Furthermore, we must extend India's digital public infrastructure framework into market settlement, straight-through processing, and automated reporting systems, ensuring that AI and electronic trading platforms enhance price discovery and market transparency without introducing systemic fragility.

This brings me to the role of the Forex Association of India. For 46 years, the Forex Association of India has provided a vital platform for market practitioners to exchange perspectives, develop standards, and foster dialogue across the forex community. Looking ahead, the Association must continue to serve as a practical bridge connecting market practitioners, regulators, technology partners, and corporate treasuries. Our responsibility is to offer grounded market insights that inform policy discussions and advance best practices across trading desks.

I extend my sincere appreciation to the Reserve Bank of India for its policy stewardship, to our member institutions and market participants for maintaining high professional standards, and to the organizers and sponsors who made this 35th Assembly in Phuket possible.

The sea is rarely still. It features changing winds, shifting currents, and periodic storms. As Paul Volcker once observed, *"A central bank's job, and indeed the market's role, is to maintain financial discipline precisely when the surface appears calm, so that when the storm arrives, the vessel holds."* Skilled navigators do not wait for the waters to flatten before setting sail, they read the ocean, adjust the helm, and maintain their course with confidence and foresight.

Let us use this 35th Assembly to sharpen our strategies, strengthen our infrastructure, and ensure India's foreign exchange market remains a resilient engine for sustainable economic growth.

Thank you, and welcome to the 35th Annual Forex Assembly.

With warm regards,

Viresh Kumar Suryawanshi

Chairman, Forex Association of India &

DGM Global Markets

State Bank of India

Message from Secretary FAI



Respected Dignitaries, Guests and Delegates,

Heartiest welcome to the 35th Annual Assembly of the Forex Association of India (FAI).

The foreign exchange market has always been a reflection of the world around us. Today, more than ever, it stands at the intersection of global monetary policy, geopolitics, trade, capital flows, technology and changing economic relationships. The speed at which these forces influence currencies has made the FX market both more challenging and more fascinating for all of us who participate in it.

The global FX landscape is undergoing a significant transformation. Divergent monetary policies, shifting expectations around interest rates, geopolitical realignments, changing trade patterns and evolving capital flows continue to create periods of heightened volatility. At the same time, technology, electronic trading and greater market connectivity are changing the way currencies are traded and risk is managed.

India's FX market has travelled a remarkable distance. From a predominantly regulated market, it has evolved into a deeper, more sophisticated and increasingly globally integrated marketplace. The Indian rupee today reflects a much broader set of global and domestic forces, while India's growing economic footprint continues to enhance the importance of the rupee in the global financial ecosystem. The journey ahead will require a fine balance between market development, stability, transparency and effective risk management.

It is in this evolving environment that the Forex Association of India (FAI) has an important role to play. FAI is not merely an association; it is a platform that brings together the people who make the market work. Our objective is to encourage dialogue, promote knowledge, strengthen professional relationships and contribute towards the orderly and progressive development of India's foreign exchange market.

Over the past year, we have continued to strengthen this role through initiatives that bring the market community together. The FAI Mid-Year Conference provides an opportunity for market participants to step back from the trading screens and collectively assess the forces shaping the global and domestic markets. It encourages meaningful conversations around monetary policy, geopolitics, liquidity, market structure, technology and the future direction of the FX ecosystem.

Our FAI Educational Seminar is another important pillar of our engagement. Markets evolve every day, and continuous learning has become indispensable for every market professional. Through education and knowledge-sharing, we aim to create a stronger generation of dealers and treasury professionals who are equipped not only to navigate volatility, but also to contribute to the future development of the market.

The FAI Calendar represents yet another dimension of our engagement with the community. It is a simple but meaningful reminder of the connection that FAI seeks to maintain with its members and the wider FX fraternity throughout the year.

But while markets, technology and regulations may continue to change, one thing will always remain constant—the importance of the people behind the market.

To every FX dealer and treasury professional, I would like to say: respect the market, respect the risk and never stop learning. There will be days when the market validates your conviction and days when it challenges everything you believed. Both are equally valuable. Success in our profession is not about being right every day; it is about having the discipline to manage uncertainty, the humility to learn from mistakes and the courage to take informed decisions when the outcome is uncertain.

Volatility is not our enemy—it is the environment in which great market professionals are made.

Let us continue to challenge ourselves, share knowledge, support one another and build a market that is deeper, more transparent, more resilient and globally respected.

As FAI moves forward, our commitment remains clear: to connect the market, cultivate knowledge and create a stronger future for India's FX community.

I sincerely thank all our members, market participants, speakers, regulators, institutions and the entire FAI fraternity for their continued support and contribution.

The market never stands still. Neither should we.

Let us keep learning.

Let us keep adapting.

Let us keep the market moving.

Warm Regards

Debajyoti S. Mohapatra

Hon. Secretary – FAI

Asst. General Manager & Chief Dealer

Bank of India

FAI Managing Committee



Mr. Viresh Kumar Suryawanshi
(State Bank of India)
Chairman



Mr. Debajyoti S. Mohapatra
(Bank of India)
Hon. Secretary



Mr. Sumant Kumar
(Bank of Baroda)
Vice Chairman



Mr. M. Naresh Kumar
(Canara Bank)
Treasurer



Mr. Arvind Khusape
(Axis Bank)
Jt. Secretary



Mr. Rahul Shah
(Sunidhi Securities & Fin. Ltd.)
Jt. Treasurer



Mr. Ramchandra Reddy
(Karur Vysya Bank)
President [Chennai Chapter]



Mr. Rajesh Lakhotia
(Raychand Lakhotia & Sons)
President [Kolkata Chapter]



Mr. Amit Singh
(ICICI Bank)
Member



Mr. Awadh Kishor Yadav
(Central Bank of India)
Member



Mr. Ram Kumar
(Punjab National Bank)
Member



Mr. Utsav Kumar Das
(Indian Bank)
Member

FAI Managing Committee



Mr. Rupesh Kumar Singh
(IDBI Bank)
Member



Mr. Kunal Sodhani
(Shinhan Bank)
Member



Ms. Preeti Hanspal
(Bank of Maharashtra)
Member



Mr. Shreekanth I. V.
(Federal Bank)
Member



Mr. Shivam Shukla
(UCO Bank)
Member



Mr. Vivek Sharma
(HDFC Bank)
Member



Mr. Saurabh Jain
(ANZ Bank)
Member



Mr. Triloochand Sahoo
(Union Bank of India)
Member



Ms. Amisha Mehta
(Vrajlal Thakker & Co.)
Member



Mr. Aryn Mecklai
(Mecklai & Mecklai)
Member



Mr. Shailesh Ashra
(SAK Forex Market Pvt. Ltd.)
Member

Programme

Welcoming Dignataries

Welcome address by Chairman, FAI

Address to Assembly by Secretary, FAI

Keynote address by Chief Guest

Smt. Monisha Chakraborty – Executive Director – RBI

Panel Discussion :

FX Markets in Transition : Navigating Global Uncertainty & Opportunities

Distinguished Panel Members :

Ms. Dimple Bhandia – Chief General Manager FMRD – Reserve Bank of India

Mr. Subrat Kumar – Executive Director – Bank of India

Mr. Srinivasa Panigrahi – Chief General Manager – State Bank of India

Mr. Ravindranath Gandrakota – Chief Executive Officer – FIMMDA

Moderator :

Mr. Vivek Wahi – Chief Executive Officer – FEDAI

Short speech by sponsor / partners

Vote of Thanks

Disperse for Gala Dinner

Chief Guest

Name

Bank / Institution

Smt. Monisha Chakraborty

Chief Guest
Executive Director
Reserve Bank of India

Panel Members

Ms. Dimple Bhandia

Panelist

Chief General Manager
FMRD – Reserve Bank of India

Mr. Subrat Kumar

Panelist

Executive Director
Bank of India

Mr. Srinivasa Panigrahi

Panelist

Chief General Manager
State Bank of India

Mr. Ravindranath G.

Panelist

Chief Executive Officer
FIMMDA

Moderator

Mr. Vivek Wahi

Moderator

Chief Executive Officer
FEDAI

Esteemed Dignitaries

Mr. Shamsher Singh

Deputy Managing Director
Global Markets,
State Bank of India

Mr. Nand Kishore

Managing Director
Clearing Corporation of India Ltd.

Chief Guest



Smt. Monisha Chakraborty

Executive Director

Reserve Bank of India

Smt. Monisha Chakraborty is Executive Director in charge of Foreign Exchange Department and Financial Markets Regulation Departments of RBI. As a career central banker, Smt. Monisha Chakraborty has experience of over three decades in the Reserve Bank, having worked in the areas of Supervision, Foreign Exchange and RBI Balance sheet accounting / Government and Bank Accounts. In Department of Government and Bank Accounts, she was looking after RBI's Balance Sheet and was closely associated with a Technical Committee, headed by renowned CA, Shri Y H Malegam, for review of the format of the RBI's Balance Sheet and Profit and Loss Account. The recommendations of the Technical Committee formed the basis for comprehensive revision of the format of the RBI's Balance Sheet and Profit and Loss Account.

Smt. Chakraborty has also served as Banking Ombudsman and had opportunity to deal with a variety of customer grievances and their redressal. During her tenure in Department of Supervision, she handled varied areas including supervision of Banks and NBFCs, specialized KYC AML supervision of Banks and Audit Regulations. Smt. Monisha Chakraborty has a degree in Economics and a Master's degree in Business Economics.

Distinguished Panel Member



Ms. Dimple Bhandia

Chief General Manager FMRD
Reserve Bank of India

Ms. Dimple Bhandia is a career central banker with over 25 years of central banking experience covering the areas of financial markets, reserves management, financial stability, payment systems and banking supervision.

She has also worked as Member of the Secretariat of the Financial Stability Board.

Currently, she is heading the Financial Markets Regulation Department in the Reserve Bank of India.

Distinguished Panel Member



Mr. Subrat Kumar

Executive Director
Bank of India

Shri Subrat Kumar has been appointed as Executive Director of Bank of India and assumed charge on 21.11.2022. Shri Kumar is a B.Sc., MBA (Finance) & CAIIB qualified Banker. He has over 30 years of experience in Commercial Banks / Asset Management Co.

During his long stint in the Banking Industry, he gained varied exposures in all important spheres of operational and strategic Banking with expertise in Treasury, Risk Management, Credit Monitoring & Corporate Credit. He successfully handled the responsibilities such as Regional Head, Patna, Head of Treasury, Audit & Inspection, Credit Monitoring & Corporate Credit. He held the position of Chief Risk Officer and Chief Financial Officer (CFO) of Bank of Baroda as well.

He was also on the Boards of FIMMDA and BoB Capital Markets Ltd.

As an Executive Director, he is currently handling the following portfolios in Bank of India viz. – Corporate Credit, International & International Subsidiaries, Foreign Business, Domestic Subsidiaries, Treasury, Government Business, Credit Monitoring, Risk Management, Fraud Risk Management, Premises & Estate, Resources & Customer Excellence Branch Banking.

Distinguished Panel Member



Mr. Srinivasa Panigrahi

Chief General Manager
State Bank of India

Shri Srinivasa Panigrahi is a career banker with 30 years of banking experience, having started his career as a Probationary Officer in 1995. He has held various positions across a wide range of domains in Retail Banking, Branch Banking, Treasury Operations & International Banking. He has recently been elevated to the post of Chief General Manager and is currently working in Global Markets, State Bank of India.

In his present role, he oversees the Forex and Treasury Marketing Division of Bank.

He earlier worked as Deputy General Manager (Global Trade Dept.) and handled the trade finance portfolio of all the foreign offices of Bank. He also worked as Vice President Trade Finance at SBI Sydney Australia, looking after Trade Finance Portfolio during his tenure.

Distinguished Panel Member



Mr. Ravindranath Gandrakota

Chief Executive Officer
FIMMDA

He is a career banker worked at the State Bank of India for about 35 years. Joined SBI as a Direct Officer in 1985 and retired as Chief General Manager in July 2020. Worked in various capacities in Commercial Banking in areas of Retail, Trade Finance, Foreign Exchange, Credit and Treasury Operations both in India and abroad.

Experienced both in Forex and Rupee markets covering sales and investments, he was in-charge of Rupee investments of SBI and was actively involved in PE and Strategic investment areas of the SBI. While at SBI, he was active in FEDAI management Committee, was part of FBIL Oversight Committee and also Chairman of FIMMDA Board.

Since September 2020 he is the CEO of FIMMDA, a self-regulatory organization in India's Fixed Income and Derivatives markets. He is also on the Boards of FBIL, and CDMDF Trustee Ltd. He is also a member of key committees such as CoBoSAC of SEBI, Pension Advisory Committee of PFRDA and Financial Markets Committee of CII.

He is a postgraduate in Geology and holds a PG Diploma in Computer Applications. He is also a Certified Associate of Indian Institute of Bankers.

Moderator



Mr. Vivek Wahi

Chief Executive Officer
FEDAI

Mr. Vivek Wahi is the Chief Executive Officer (CEO) of Foreign Exchange Dealers' Association of India (FEDAI) since 23rd October 2025.

He is a B. Tech. Graduate from NIT, Kurukshetra, with 35 years of experience in banking and financial markets.

He had been the Executive Director at the Central Bank of India and also a career banker at Bank of India. At Bank of India, he has worked in critical areas like Head of Treasury as well as Field General Manager.

He has over 15 years of specialized Treasury experience, including a role as General Manager and 10 years as an active dealer in Forex, Fixed Income, Equities and Derivatives.

Shri Wahi spent 3 years plus in Paris managing Forex and Money Market operations and overseeing ALCO management. In credit, he has 15 years of experience in Large Corporate Credit leadership and has represented Bank of India in various industry committees (FEDAI, IFXC, FIMMDA) and various seminars.

He has substantial board-level experience, having served as a Nominee Director for multiple financial institutions, including Indo Zambia Bank, and as a Whole Time Director at Central Bank of India, appointed by the Government of India. Presently, he is on the Board of FBIL and IFXC.

Esteemed Dignitaries



Mr. Shamsheer Singh

Deputy Managing Director

Global Markets, State Bank of India

Mr. Shamsheer Singh is currently heading Global Markets of SBI as Deputy Managing Director, looking after the entire investment portfolio of SBI. Prior to his current assignment, Mr. Singh headed Transaction Banking & New Initiatives vertical of SBI as Deputy Managing Director.

Mr. Singh holds a bachelor's degree in commerce from Delhi University. He has over 36 years of banking experience, having started as a Probationary Officer at SBI in 1990. He has held various positions both in India and overseas, across multiple functions including MD&CEO of SBI Mutual Funds AMC, Chief General Manager of Gujarat Circle, Regional Head of SBI Middle East, West Asia, North Africa, Male, South Africa (2018-19) and as Country Head & CEO of SBI Operations in Bahrain from 2014-2017. He has also worked as dealer at SBI New York from 1998-2002.

He has also served as a director on the boards of NPCI, NIPL, NBBL, SBI Cards & Payment Services Ltd., SBI Foundation, SBI Funds Management, SBI Funds International (IFSC) Ltd. He currently serves on the Board of CWC, FIMMDA, SBI Pension Funds Pvt.Ltd., Oman India Joint Investment Fund (OIJIF), CCIL.

Esteemed Dignitaries



Mr. Nand Kishore

Managing Director

Clearing Corporation of India Ltd.

Mr. Nand Kishore is the Managing Director of The Clearing Corporation of India Limited (CCIL), a critical financial market infrastructure institution in India. Under his leadership, CCIL plays a pivotal role in ensuring robust clearing and settlement mechanisms for transactions across India's financial markets including government securities, money markets, foreign exchange, and derivatives. CCIL also functions as India's Trade Repository for OTC derivatives, in line with global regulatory reforms aimed at enhancing transparency, reducing counterparty risk, and strengthening systemic risk.

CCIL's subsidiaries include **Clearcorp Dealing Systems (India) Ltd.**, offering electronic trading platforms across multiple asset classes *viz.* government securities, forex, money markets, and derivatives, with recent expansion into retail segments; **Legal Entity Identifier India Ltd. (LEIL)**, an accredited Local Operating Unit (LOU) for issuing **Legal Entity Identifiers (LEIs)** in India, under the **Global LEI System**; and **CCIL IFSC Ltd.**, a recently set-up subsidiary in GIFT City, to provide clearing and settlement services to banks operating within the International Financial Services Centre (IFSC).

Before joining CCIL, Mr. Nand Kishore served as a Managing Director & CEO of SBI Funds Management Limited (SBIFML), India's largest Asset Manager by AUM and retired as Deputy Managing Director of SBI. He has varied experience of over 36-years with **State Bank of India (SBI)**, India's largest commercial bank, where he held numerous senior leadership roles in major banking verticals such as Global Markets, Investment Banking, Corporate Banking and Retail Operations of the Bank. He is known for leading systems restructuring, large scale process transformation and technology-driven solutions for enhanced efficiency and profitability.

He holds a Bachelor's degree in Arts, has done CAIIB and has completed Executive Leadership Development (Stanford University Graduate School of Business).

The Great Repricing : End of the Beginning



By Dr. Soumya Kanti Ghosh
*Member of the 16th Finance Commission,
Member PMEAC & Group Chief Economic Advisor
State Bank of India*

The World, and India amidst scarcer, pricey capital

Record borrowing, elevated yields and currency risk are reshaping global capital allocation and cost of financing as markets reprice governments, businesses, equities and currencies at the same time that can change the economic equilibrium and market structure in place since the 2010s

The age of effortless capital is justly ending

For much of the post-global-financial-crisis era, borrowers operated on an assumption of abundance: central banks were structural bond buyers, inflation was (mostly) subdued and market stress was expected to summon easier liquidity. That framework is breaking fast. The defining feature of the next capital cycle is not the disappearance of savings, but a shortage of stable, duration-bearing savings relative to the claims being placed on them (The Dearth).

Governments must refinance pandemic-era debt and fund ageing, welfare, defense and industrial policy. Companies are financing energy transition, value/supply-chain relocation and an extraordinary AI build-out. Households are discovering that even when policy rates stabilise, mortgage, education and consumer durable costs need not return to the old normal. Capital is becoming more expensive and discriminating. For India, growth alone will not secure foreign money; returns must survive taxes, liquidity risk and the currency.

From savings glut to a dearth of patient duration

The OECD estimates that governments and companies would borrow about US\$29 trillion from bond markets in 2026 - 17% more than in 2024 and twice the amount of a decade ago. This wave arrives as central banks look at reducing bond holdings and markets rely more on price-sensitive investors such as hedge funds, households and foreign funds. Savings still exist, but fewer investors will lock them away for 20 or 30 years without materially higher compensation.

Long yields can therefore remain elevated even if inflation falls and central banks ease short rates through a raft of measures. Markets are pricing fiscal supply, uncertainty and duration risk, not merely the next policy meeting. Governments may issue shorter maturities to contain today's coupon, but that inter-alia converts interest-rate risk into refinancing risk and exposes fiscal plans more frequently to changes in confidence.

Bond vigilantes return through the price mechanism

Record refinancing, not only new deficits, is driving sovereign supply (Global Debt Report 2026). OECD sovereign borrowing reached a record US\$17 trillion in 2025 and is projected near US\$18 trillion in 2026. Roughly US\$14 trillion will be refinancing, while outstanding OECD sovereign bond debt stood at US\$61 trillion in 2025. Interest expenditure is already about 3.3% of aggregate OECD GDP. In the US (YTD 2026), the official 10-year Treasury yield rose from 4.19% to ~5.00+% and the 30-year yield vaulted from 4.86% to 5.36%.

The landscape has been ripe for the return of Bond vigilantes, and their yearning for policy offered commensurate/credible returns, and higher term premium. As higher yields enlarge interest bills, worsen debt arithmetic and force more issuances, countries with credible fiscal frameworks, deep domestic savings and stronger growth can absorb the pressure longer; while persistent deficits and political resistance to adjustment bring the reckoning forward.

The trade-off is increasingly getting visible: more revenue goes to debt service, shortening maturity raises rollover risk, and fiscal tightening weakens near-term demand. Sovereign supply also competes for the investor balance sheets required by banks, companies and emerging markets. The 2026 tacit repricing has lifted both front-end and long-dated US borrowing costs across the curve, with short end more volatile but long end signaling more entrenched worries.

The refinancing shock cascades to Firms and households

Global corporate borrowing through bonds and syndicated loans reached a record US\$13.7 trillion in 2025, with outstanding debt of US\$59.5 trillion. The delayed pass-through of higher rates is accelerating: 24% of investment-grade and 31% of non-investment-grade debt falls due over 2026-28, and much of it carries coupons below prevailing refinancing costs. That is precarious as it converts a rate shock not so silently into a cash-flow shock.

Large, cash-rich firms can pre-fund or accept lower buybacks. Weaker borrowers, conversely, face postponed capital expenditure, asset sales, covenant pressure or costly private credit. The projected US\$4.1 trillion capital spending of nine major AI players estimated during 2026-30 adds another serious claimant on global savings. Productive projects must clear a higher hurdle; leveraged acquisitions and financial engineering become less attractive.

Households feel the transmission most through mortgages / housing finance, auto / education loans and unsecured credit pile up, while indirect pass-through of costs can be less visible. Where lending is linked to long sovereign yields, central-bank easing may provide less relief than initially expected (Transmission frictions add another layer. Housing turnover slows, debt service rises and discretionary consumption is squeezed eventually. This is the point where elevated yields begin reshaping the real economy, not merely bond prices. CAPM

Currencies: the return investors actually keep

In a globalized, and polarized, world order, currency largely transitions into the balance sheet on which relative growth, inflation, energy dependence and policy credibility are continuously marked to market. The dollar index has largely been rangebound in CY2026, but gets impetus from Fed's first raise and indicative pathway that unfurl a higher for longer regime to fight beleaguered price prints. However, currencies have see-sawed during the intermittent period and EM currencies have largely been on a receiving end viz. USD/INR pair moving from ~90 to roughly 96, its métier dented of late despite a brief course correct anchored by unprecedented funds flows and ample regulatory intervention. The divergence matters as the currency pressure cannot be explained by a broad dollar move, or even trade dynamics alone.

India's oil dependence, elevated crude prices, foreign portfolio led selling, corporate hedging and higher US yields have all weighed on yields and currency trajectories. Mid-September,

India's benchmark 10Y G-sec yield has been firmly above 7% while corresponding US TRY was trading along 5%. The carry is meaningful, but an unhedged foreign investor earns in dollars. Depreciation can absorb that carry since hedging preserves principal but reduces the yield advantage. There is solace on tax and capital gains front through policy measures, but the door through local return plus price change minus currency depreciation and hedging cost is still ajar as investors reassess long term commitments through the lens of short termism.

The objective thus moves away from a cosmetically strong rupee or a rigid line drawn in the sand, buoyed by resilience of exports on both merchandise and services front till August. It should be a credible, liquid and hedgeable currency with adequate reserves and two-way movement. Intervention can smooth disorderly markets; durable confidence comes from a manageable current account, competitive exports, reliable inflation control and predictable policy. A lower external risk premium eventually reduces borrowing costs for the sovereign, companies and households.

Why can the equity become pricier while bolstering Bonds

Equities can offer compensation in a high-yield world, but they must earn the privilege. When a risk-free 10Y benchmark approaches some threshold thought unattainable henceforth, distant cash flows are discounted more heavily and valuations require stronger earnings. Corporate credit spreads remain close to historical lows despite geopolitical uncertainty, while the AI-led equity momentum has shown signs of wobbling under concerns about valuation and overinvestment (BIS).

Two important things to watch would be BEER ratio and CAPM; how much elevated bond yields offer over stocks earnings yield. For S&P, it is ~3.90% as of now, a tad lower than its historical long-term average of 4.02% while Bond yield is ~5%, implying ratio hovering above 1.0 i.e. overvalued stocks. If stocks, in general, are considered overvalued (with, or without AI cabal), there could be exodus of some funds to bonds, counter balancing yields further. Second, how the changing contours of risk-free rate of return shapes the cost of equity and affects firm's and investor's plans and preferences for the allocation and resource raising.

This is not a mechanical crash call. The implications imply narrower leadership, sharper rotations and less tolerance for disappointment. Firms with pricing power, low leverage and visible free cash flow can still compound; but long-duration stories dependent on repeated capital raising become more vulnerable. The old equity party was powered by falling discount rates. The next phase must be powered by productivity and profits. A sovereign-yield repricing will ultimately reset equity multiples, credit spreads and private-market valuations.

India: attractive, but no longer judged on growth alone

India enters this chapter with high growth, a deep domestic investor base, improving financial-sector balance sheets, a young consumer market and digital public infrastructure that lowers the cost of payments and formalisation. Gross FDI reached a record US\$94.5 billion in FY2025-26, while net FDI too improved to US\$7.7 billion from US\$1.0 billion. Yet portfolio flows show how finely global capital is differentiating: during April-July 2026, foreign investors withdrew US\$11.6 billion from equities but invested US\$7.3 billion in debt, led by tax and cap gains incentives.

The split is instructive. Investors are likely to buy Indian carry and macro credibility, but equity valuations, earnings quality and currency protection still matter. Expansion of the Fully Accessible Route (FAR) should broaden the sovereign investor base. The next gains require deeper hedging markets, predictable capital-gains treatment, faster dispute resolution, stable regulation and credible fiscal and inflation paths.

For Indian businesses expanding abroad, patient foreign capital is often more valuable as a partner than as a passive shareholder. Pension funds, insurers and sovereign wealth funds can supply duration; while Indian firms bring execution, digital rails, engineering talent and access to demand. The most durable inflows will finance productive capacity, energy security, logistics, technology and global market access rather than short-term asset inflation.

The next allocation cycle

Global investors will no longer ask blindly where growth is highest. They would assess where growth remains investable after sovereign supply, refinancing risk, currency movement and policy uncertainty are near accurately priced. In a world of competing fiscal claims and fewer price-insensitive buyers, capital will favour borrowers combining productivity with institutional credibility.

India can still be a major beneficiary. But the proposition must be more sophisticated than 'fast growth and a large market': it is strongly sustainable growth, disciplined external and fiscal management, a flexible currency, investable market infrastructure and partnerships that convert foreign savings into domestic capacity and global scale. As the world moves from cheap capital to contested capital, credibility itself becomes a productive asset.

To sum up, the risks before Central Banks are layered and multivariate, with no straight jacketed solution in sight. While divergent approaches by major Central Banks like the Fed, ECB, BoE and BoJ will be keenly watched (along quantum of hike and timing axis), the markets will also remain attuned to the Higher for Longer conundrum that exacerbates the pricing problem, with a dash for volatility that makes many institutional investors, Pension to Insurance to SWFs and Hedge funds recalibrate and hit refresh. That would be the litmus test for policy makers and regulators globally to safeguard the economies from unsolicited risks, bordering moral hazards. A predictive-prescriptive policy, creating resilience and moats of competitive advantage, can be the best antidote to such caprices.

Indian rupee in the midst of global volatility



By Madan Sabnavis
Chief Economist
Bank of Baroda

Stock markets are known for volatility and the raison d'être for being in this arena is to take advantage of the same. This is so as all decisions taken by traders are moved by the news that can be at the company level or have even industry or economy overtures. The other markets, i.e. Bonds and currency were considered to be more stable, and hence, predictable. There are fixed number of credit policies which can influence bond yields. Currencies tend to move along a rather narrow corridor, and past trends often are mirrored for future months. In fact, anyone talking of returns on assets would see that the best returns came from the stock markets, with the fixed income and currency being low down in the pecking order. However, things have changed.

No longer can we sit back and say that the rupee will decline by 3-4% a year, which was some kind of a trend rate which could be assumed to be true for most times. There have been intermittent periods of upheaval which have caused sharp changes, but since economic reforms, when we went in for a market determined exchange rate, the trend continued. But things have changed of late.

The trigger in contemporary history has been post-covid when the global economy has been turned upside down bringing in more uncertainty than ever. There was the Ukraine war which began the turmoil in markets, which shows no sign of ending with periodic threats being imposed on importing oil from Russia. There was brief respite on the price front, but other events have made the price extremely volatile. This was followed by the US tariffs being raised for all countries which caused them to review their trading patterns with the USA. And more recently the Iran war where USA has reached a tough situation where pride will not permit both sides to terminate the war while Iran hangs on with resilience distorting all trading in the region.

All this has meant a few things. First, crude oil price has spiked which has pushed up the import bill with only partial compensation from higher value of oil-based exports for India. Second, there has been a change in the flow of foreign investment as various countries started entering into agreements with one another. Third, the holding of dollars by various countries started to slow down as countries have been gradually using gold to shore up forex reserves. Fourth, the China factor has come in with the yuan being used by some countries especially those who are in the pro-Russian pro-Iran bloc. This has made global trade opaquer when it comes to payments and settlement. Last, inhibitive policies of the USA on immigration as well as work for non-Americans have made companies reconsider their options when executing contracts at the global level. All this has added to the volatility in the currency markets.

Against this context, it would be worth examining how the rupee has performed. There are basically three sets of factors which drive the rupee. The first is fundamentals. Here the balance of

payments matters where all the inflows and outflows of dollars get encapsulated. On the current account, the trade balance has been under pressure due to the higher prices of oil which has pushed up imports.

Also, it has been observed that whenever there is global political turmoil and crude oil price goes up, there is also a tendency for price of gold to increase. Hence it has been observed that after the Iran-US war began in March, the price of gold became volatile. While overall quantum of gold increased only marginally the value was up due to higher price of gold. There was compensation, however, from higher exports of electronic goods which steadied the boat. But the major comfort came from services exports, which ensured that the current account deficit was under control at 0.7%. In fact, for the current year it should be even lower in the range of 1-1.25%. Here there has been some resilience shown by the IT exports.

The challenge has been on the capital account. For long, our capital account drew a lot of strength from the foreign investment flows which ensured that the ultimate balance of payments was at a surplus, leading to accrual of reserves. However, in the last couple of years, things have changed.

First FPI has been volatile and there can be two reasons for this. First, the Indian equity market is considered by investors to be overvalued in general. This means that given the state of India Inc, the upside in many sectors is limited. This is why equity flows were in the negative region. Further, the quantum of investible funds had come down with liquidity tightening taking place in other countries. Also, the lower pool of funds was being invested in other emerging markets as the claimants for the same had increased. Therefore, this component has been unsteady.

On the debt side, the inclusion of Indian bonds in global indices like JP Morgan did bring in dollars to begin with. However, there have been some issues on taxation which were addressed by the government in June which caused an about turn in flows. Hence this component was weak until the government changed the policy.

The FDI picture has been interesting as the gross number has been very buoyant. However, the net number has tended to come down to a low single digit in FY26. The fact that the gross FDI has increased reflects well on how foreign investors view India. In FY26 gross inflows were \$ 94 bn. However, the repatriations were high at \$ 54 bn which was mainly due to these investors selling their stake and exiting the market. This was seen by some of the big companies which went in for IPOs. The PE funds too were in similar mood sensing good returns. Some companies have sold out to service their investors in their homeland. Any which way this caused the net flows to come down. On the other side, Indian companies have been investing in overseas markets, either in the subsidiaries or for takeovers. This has made outward FDI increase to \$ 34 bn. The future flows would need to be monitored closely.

The second factor influencing the rupee has been the movement in the dollar. There is an inverse relation between the strength of the dollar and the rupee. This holds for all currencies, and this has been the joker in the pack. There is little control over this factor. The dollar has been extremely volatile since 2025 when the regime in USA announced prohibitive tariffs. The issue was how inflation would be affected in the USA. Intuitively higher tariffs mean higher cost of all imports which should logically translate to higher headline inflation. This will mean more stringent action from the Fed which will raise interest rates. Higher interest rates are good for the dollar which will strengthen. But with the regime turning back once too often the dollar became volatile.

The war with Iran has meant higher oil prices and while USA is self-reliant on crude, the cost of gasoline has increased raising inflation again. This added to the uncertainty with the dollar index vacillating a lot. Any time the dollar index crossed 100, the rupee would depreciate while any decline into the late 90s would cause appreciation.

The third factor has been RBI action. The RBI maintains that it has no level of currency in mind but is against too much volatility. This has kept the market guessing which has added to the volatility in the rupee. Every time the rupee crossed a benchmark level of Rs 94 or Rs 95 or Rs 96/\$ there were expectations of RBI intervention. Absence of intervention meant that the RBI was happy with the decline and automatically the rupee will decline further. On the other hand, RBI intervention at this stage would bring about correction.

The RBI has been intervening in a big way in the spot market as well as the forwards market. In FY26 RBI sold \$ 53 bn in spot market and built up a short position in the forwards market of \$ 103 bn. The fact that dollar-rupee swaps have been used as part of the liquidity framework to induce liquidity by buying dollars has added to the forwards position. RBI selling in forwards market has a similar effect on the market compared with spot sales but does not necessarily materialize into outflows at the later date.

Therefore, the rupee has been subjected to all these three forces and the exact contribution of each of them would be hard to conjecture as all have been in action on a real time basis.

It is against this setting that the measures taken by the government and RBI to attract foreign flows to stabilize the rupee need to be looked at. The withdrawal of withholding tax for interest and capital gain for foreign investors provided the boost to these flows. The RBI FCNR scheme which swaps the dollars earned with the RBI with the latter bearing the cost has brought in deposits in abundance which will address the issue of fundamentals. As of August 31st, the RBI has announced that \$ 136.4bn has come in through all these three channels of FCNR, OFCB and ECBs. However, the impact of the dollar movement will still be something that the market has to bear. But with the deposits flows adding to the reserves of the country, the RBI is better equipped to intervene when required, which can be comfort to the market.

However, there will still be guesswork of what would be the ideal depreciation rate that the RBI would be okay with. From March end till date in early September the rupee has moved from Rs 92-93/\$ in March to Rs 95 in early September, which is nearly 3%. At 4% depreciation, can it move towards Rs 96 mark? The present inflows indicate more the need to appreciate than depreciate. But with these dollars adding to the forex reserves, there will be no concomitant increase in supply of dollars in the market. Therefore, one never can tell.

Rupee : Navigating Global Shocks



By Ms. Sakshi Gupta
Principal Economist
Vice President - HDFC Bank

Recent months of sharp rupee weakness and volatility have raised worries around the trajectory of the rupee ahead. But before one dives deep into the fundamentals that could influence its path ahead, it is worthwhile to look back at the history of rupee movements over the last two decades and what it teaches us.

Over the past two decades, the USD/INR pair has seen both periods of heightened volatility, almost always followed by extended time periods of sideways movements/stability. On average, a large depreciation episode has occurred roughly once every 3.5-4 years, and average annual depreciation over the past two decades has run close to 3%. The Global Financial Crisis (2008), the “Fragile Five” and taper-tantrum period (2013), Trump 1.0’s US-China trade war (2018), the pandemic (2020), and Fed tightening alongside the Ukraine-Russia war (2022) each pushed the rupee to a new plateau. Interestingly, barring brief reactionary periods of appreciation led by policy changes (like in 2013), the rupee has never retraced its weakness completely post a shock.

The History of Rupee Movements



Source : Reuters, HDFC Bank

Mapping the recent rupee shock

The first phase of the latest depreciation episode began in late 2024. Despite the start of the Fed's rate-cut cycle in September 2024, higher US yields and broad dollar strength weighed on the USD/INR pair. Trump's re-election and tariff risks led to depreciation pressures in the rupee in late 2024.

However, following the US "Liberation Day" tariff announcement on 2 April 2025, the rupee initially outperformed several Asian currencies. India faced a relatively lower reciprocal tariff than key regional exporters and was perceived as favourably placed to secure an early trade agreement with the US.

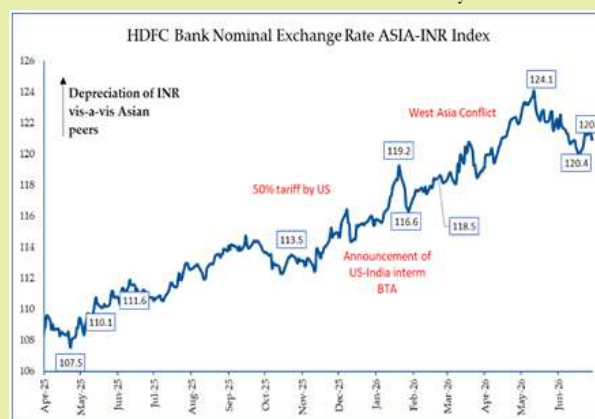
However, India-Pakistan tensions in May, the subsequent escalation of US tariffs on Indian goods to 50% in August, and the prolonged trade negotiations reversed this support. The rupee came under further pressure in H2 as foreign investors reallocated capital towards AI- and semiconductor-heavy markets such as the US, Taiwan and South Korea, contributing to sustained FPI outflows from India.

As India entered 2026, favourable developments around US tariffs with a bilateral trade agreement between US and India, propped up hopes of stability in the rupee. However, this optimism turned out to be short-lived as currency market volatility returned with the US-Iran conflict and the Strait of Hormuz getting blocked. Brent crude initially jumped from nearly \$73 pbl, briefly crossing \$119 as disruption through the Strait of Hormuz intensified. For India, every sustained \$10 pbl rise in crude was estimated to widen the current account deficit by around 0.3-0.4% of GDP (keeping everything else constant), while elevated oil prices, importer hedging and capital outflows were expected to increase demand for dollars. Amid this, USD/INR crossed ¹ 96 levels, depreciating by 6.5% this year till first week of June (before RBI's measures were announced).

INR depreciation against USD was much sharper than other EM currencies since early 2025



Although, INR depreciation against Asian currencies has moderated in the recent days



Source: Reuters, HDFC Bank

The FCNR Stop: RBI measures bring in stability

Against the backdrop of geopolitical tensions, elevated oil prices and sizeable foreign portfolio outflows, the RBI in June this year announced a package aimed at attracting more durable foreign-currency flows.

- It expanded the universe of g-sec available under the Fully Accessible Route to include new 15-, 30- and 40-year issuances; removed short-term, concentration and security-wise restrictions on FPI investment under the General Route; increased investment limits for NRIs and OCIs in listed equities; and proposed restoring the period for realisation of export proceeds to nine months from 15 months earlier.
- The focal point was a concessional US dollar–rupee swap facility covering fresh FCNR(B) deposits, eligible external commercial borrowings by public-sector entities and overseas foreign-currency borrowings by authorised dealer banks. By reducing the cost of converting these foreign-currency resources into rupees, and in the case of eligible FCNR(B) deposits bearing the hedging cost, the facility encouraged banks and public-sector borrowers to mobilise longer-tenor overseas funding.
- These measures saw stellar performance, a reflection of foreign investor confidence in Indian economy. By August 31, 2026, a total of USD 136 bn was mobilised under these facilities. This comprised USD127 bn of FCNR(B) deposits, USD5.3 bn of overseas foreign-currency borrowings and USD3.9 billion of external commercial borrowings. **The amount was roughly four times that mobilised under the comparable special facilities introduced during the 2013 episode.**

This scale speaks to India's capacity to tap its large non-resident depositor base and overseas lender relationships when it needs to. Combined with RBI intervention across spot, forwards, futures and NDF markets, these inflows helped settle USD/INR around 95–96. More recently, the rupee has in fact appreciated in September by almost 0.7% against the US dollar. This stability has come in despite elevated oil prices, rising inflationary concerns and expectations of global central bank hiking rates, global yield pressures and lingering trade uncertainties.

Rupee fundamentals: The current account has held up better than expected

Despite the unusually challenging global economic environment, India has improved its external resilience, which is most visible in its current account position. The CAD/GDP remained contained at 0.7% in fiscal year 2026, while in Q1 of fiscal year 2027, it stood at 0.5% of GDP.

This stability has been supported by a number of factors.

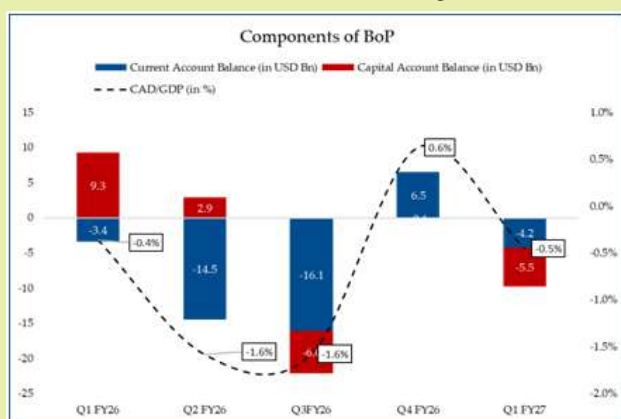
First in India's diversification of both its export and import baskets. Moreover, government reform measures like PLI combined with trade agreements with major trading partners have helped India record healthy growth in its exports.

- Despite the high tariffs by US in 2025 (India's largest trading partner and export destination), India's merchandise exports growth remained positive. Particularly, non-petroleum exports expanded by 3.6% in FY2026 as engineering goods, electronics (majorly smartphones), pharmaceuticals and other higher-value segments have provided greater diversification to the export basket. India was also quick to expand its exports into non-US markets to counter impact of tariffs.

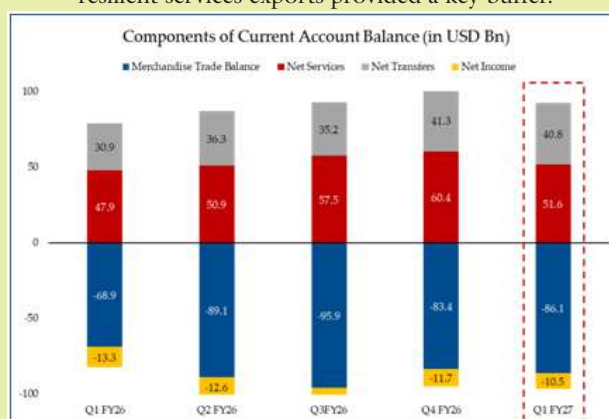
- At the same time, even as oil prices rose in 2026, India has been able to navigate supply shortages and manage imports by diversifying oil imports sources (increasingly purchasing more crude from countries like Venezuela, Oman and Brazil). Furthermore, rise in net oil imports bill has also been cushioned by a rise in refined petroleum product exports.

Second, India's services exports have remained strong and relatively stable through successive episodes of global stress. Services exports, crossed a record USD 420 bn in last year, led by software, business and professional services. Together with inward remittances, the services surplus has helped offset a large part of the increase in the merchandise trade deficit.

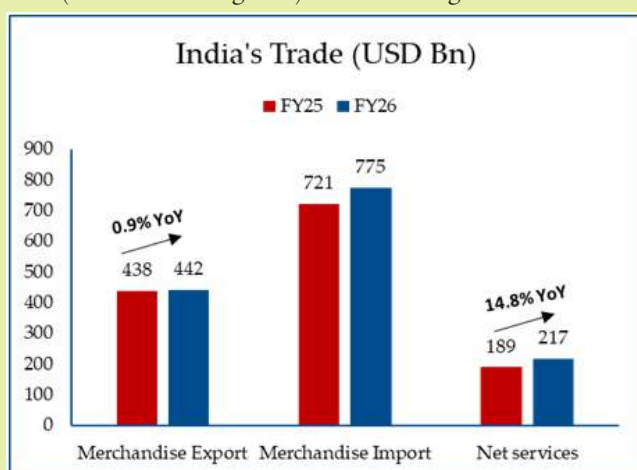
India's current account balance remained contained at -0.5% of GDP in Q1 FY27



A wider merchandise trade deficit remained the key drag on the current account, but strong remittance inflows and resilient services exports provided a key buffer.



Despite global headwinds India's exports (merchandise & goods) continued to grow in FY26

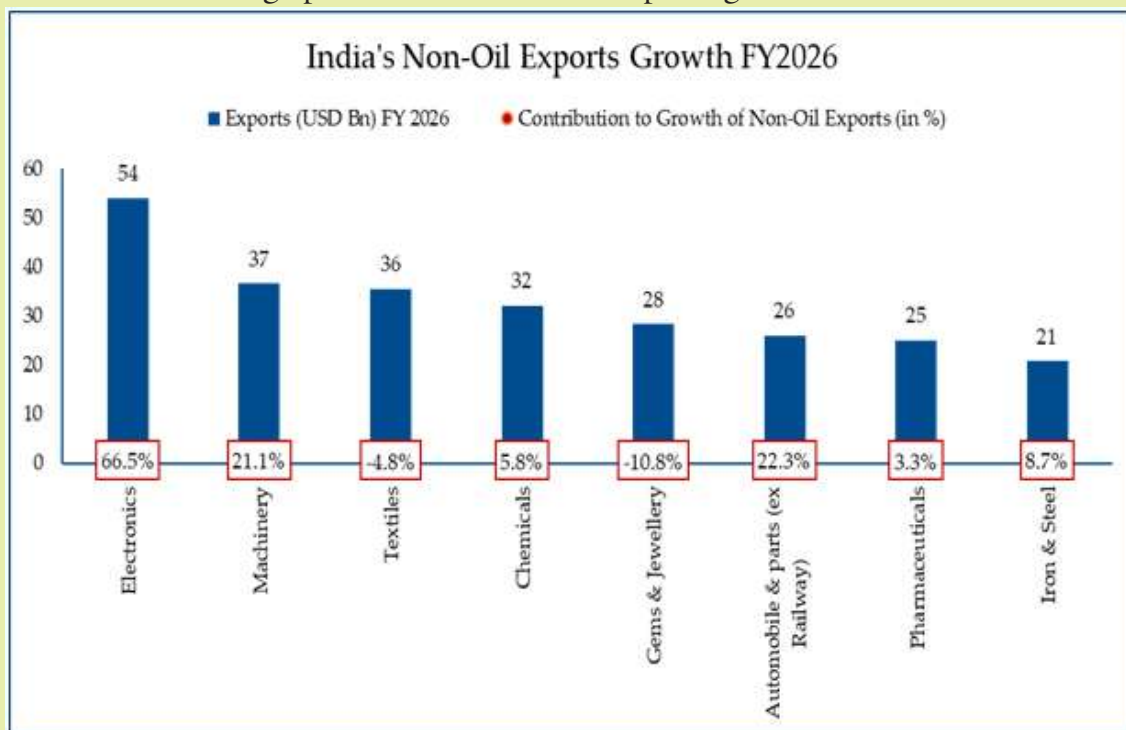


Growth in merchandise exports has been driven by non-oil exports



Source : RBI, HDFC Bank

Electronics and Machinery together accounted for a large part of India's non-oil exports growth in FY26



Source : Ministry of Commerce, HDFC Bank

Diversification of crude oil import sources has prevented supply shortage risks :
 India has increased its crude imports from countries like Venezuela, Oman and Brazil

% share in total crude oil imports (volume)		
Country	FY26TD	FY27TD
Russia	33.7	40.9
UAE	9.6	14.5
Saudi Arabia	11.9	9.9
Venezuela	0.9	5.3
Oman	0.7	4.5
Brazil	1.1	4.4
Nigeria	2.9	4.1
Angola	2.5	3.5
USA	8.7	3.4
Colombia	0.6	1.7

Source : Ministry of Commerce, HDFC Bank

Third, in spite of the disruption in shipment at the Strait of Hormuz, the current oil shock has not led to a very steep increase in oil prices (oil prices remained below \$120 pbl), unlike previous instances of oil price shocks. Pre-war, oil markets were already in excess supply. In addition, increase in supply by non-OPEC countries such as Venezuela, Russia, Brazil etc. have helped keep the prices in check. Moreover, strategic reserve drawdowns by the likes of China, gulf bypass via pipelines and shadow tanker movements via the strait have also helped.

Beyond the geopolitical tensions or tariff risks, there is additional optimism around India's export growth. India's expanding network of free trade agreements offers an additional medium-term opportunity. Recent agreements with the UK, EU New Zealand, alongside existing arrangements with Australia, the UAE and EFTA, can diversify export markets and reduce India's dependence on a limited set of destinations. The gains could be particularly important for labour-intensive sectors such as textiles, apparel, leather, footwear and food processing, where tariffs have constrained India's competitiveness. The India-EU agreement, for example, is expected to provide duty-free access for more than 90% of India's exports by value once it comes into force, while also expanding market access for services.

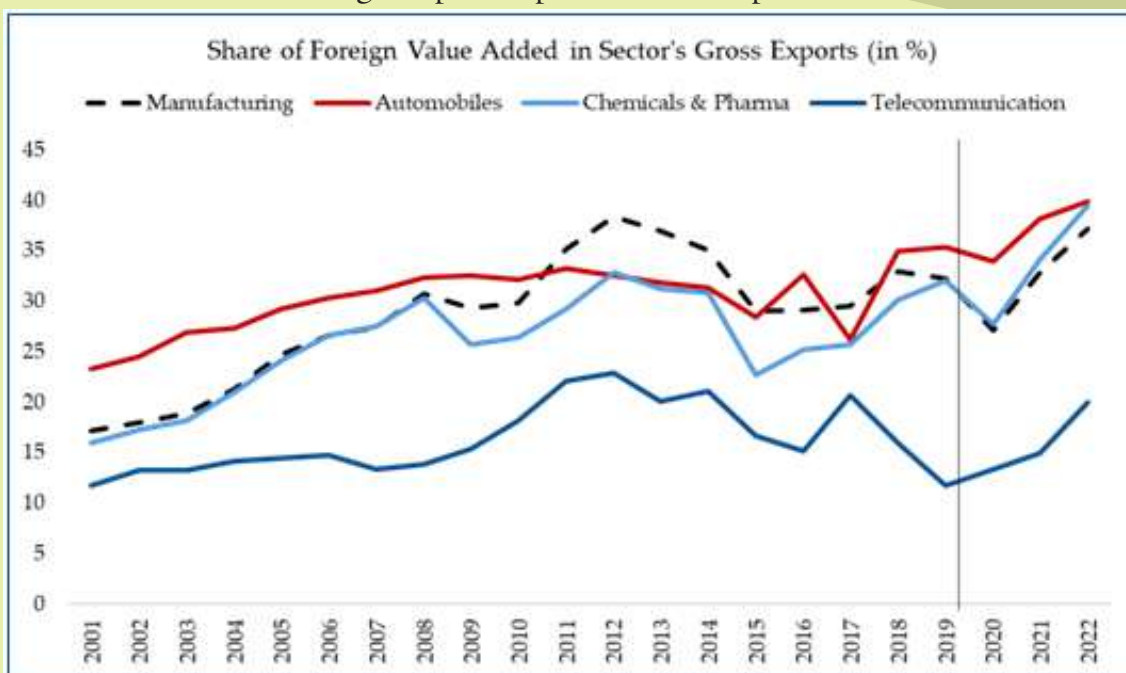
India has signed various trade agreements which augur well for its export outlook

Agreement	Signed	In Force	FY26 Goods Exports (USD)	Status
Mauritius CECPA	Feb 2021	1 Apr 2021	\$0.5bn	Operational (5th year)
UAE CEPA	Feb 2022	1 May 2022	\$37.4bn	Operational, top 5 trading partner
Australia ECTA	Apr 2022	29 Dec 2022	\$7.3bn	Operational, steady utilization
EFTA TEPA	Mar 2024	1 Oct 2025	\$1.8bn	Operational (\$100bn investment ramp-up phase)
UK CETA	Jul 2025	15 Jul 2026	\$13.5bn	Recently implemented. 85% of steel imports remain duty-free
Oman CEPA	Dec 2025	1 Jun 2026	\$4.0bn	Recently implemented
India-New Zealand FTA	Apr 2026	Pending ratification	\$0.6bn	Signed, fastest-ever concluded FTA
India-EU FTA	Jan 2026	Pending ratification	\$72.6bn	Signed the "mother of all deals"
US BTA	Not signed	N/A	\$87.3bn	Framework only (Feb 2026), legal basis voided by SCOTUS; BTA still under negotiation

Source: Government Documents, HDFC Bank

For India, there are, nevertheless, important vulnerabilities that also must be highlighted. Several of India's fastest-growing export categories remain import-intensive. Electronics exports, for example, depend significantly on imported components, as a result, strong gross export growth does not always translate into a proportionate improvement in net foreign-exchange earnings.

High import dependence for exports

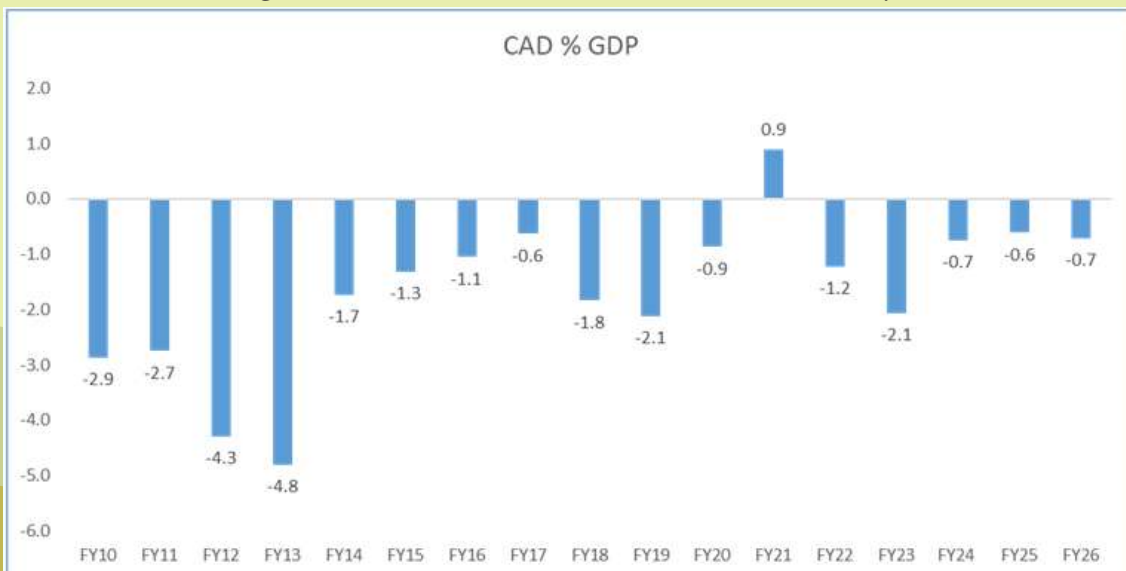


Source: OECD, HDFC Bank

Looking Ahead the Current Account could remain stable

We expect the CAD to widen to around 1.2% of GDP in FY27 from 0.7% in FY26, assuming oil prices to average between USD 85-90 pbl for the full year. Beyond the current fiscal, given India's continued efforts towards diversification of its export and import basket, benefit from FTAs, focus on alternatives in terms of energy import reliance and continued strength in the service sector export performance, India's current account deficit could normalise close to an average of 0.5-1% of GDP over the next 3-5 years with goods and services exports crossing the USD 1 trillion mark by 2030. This bodes well for rupee stability from a structural perspective, suggesting a more gradual pace of depreciation barring any further global shocks.

India's Current Account deficit has reduced towards a range of 0.5-1% of GDP over the last three fiscal years



Source: RBI, HDFC Bank

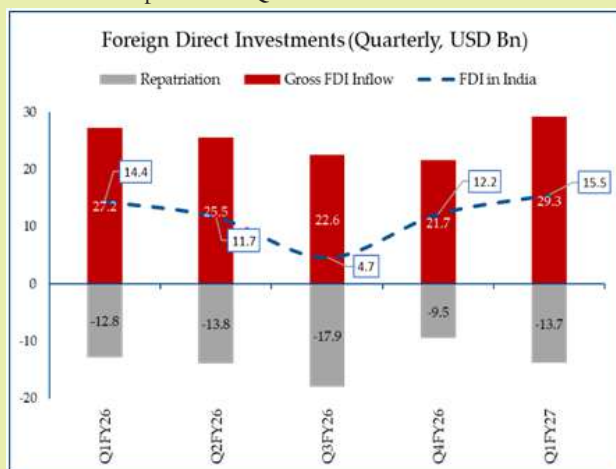
Balance of Payment Surplus expected in FY27, but risks over the medium term remain

On the capital accounts front, the external-financing position is expected to improve materially from Q2 FY26. The large inflows mobilised under the RBI's FCNR(B) deposit and overseas borrowing measures are likely to more than compensate for the weak capital flows recorded in Q1 and support an overall BoP surplus in FY27.

That said, while the balance of payment situation has turned favourable for this fiscal, the question remains over the improvement in flows beyond FY27 on a sustainable basis.

- **In this regard, it is encouraging to see an improvement in Net FDI flows since last year.** Despite a rise in Gross FDI, net flows have appeared weak in recent years, partly because of higher repatriation by foreign investors and rising outward investment by Indian companies. Gross FDI inflows rose to USD 29.3bn in April-June 2026, from USD 27.2 bn a year earlier. Encouragingly, Net FDI also improved to USD 6.1 bn in Q1 from USD 5.2 billion same time last year, as gross inflows strengthened, and the pace of outward investment stabilised. **A sustained improvement in net FDI inflows remains critical in the years ahead from a rupee stability perspective.**

FDI in India rose as Gross FDI inflows improved in Q1FY27 to USD 29.3 bn



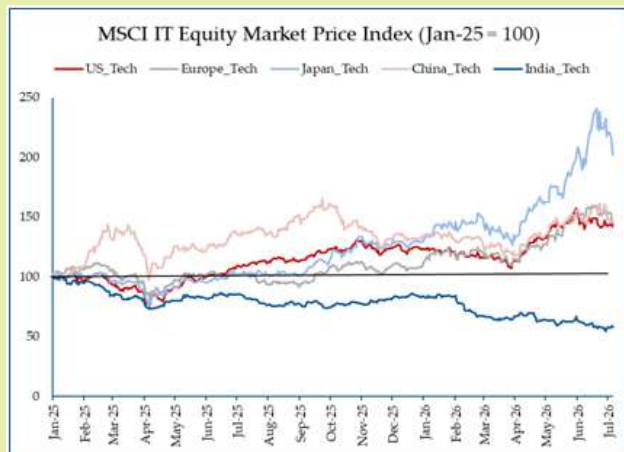
Net FDI improved in Q1 FY27 as inward FDI rose to USD 15.5 bn



Source: RBI, HDFC Bank

- **Foreign Portfolio investors have been net seller over the last few years.** Unlike several North Asian markets, India has not been a direct beneficiary of the global equity-market reallocation towards artificial intelligence and semiconductor-related companies. Portfolio flows have been volatile also due to the global risk environment and elevated domestic valuations. Moreover, the interest-rate differential between India and the US has narrowed relative to its historical average, encouraging capital to remain in dollar-denominated securities. Going forward, as domestic growth continues to gain momentum, equity flows could return once again. Moreover, any correction in global AI stocks – as seen in July 2026 – could also increase allocations towards markets like India. However, lingering geopolitical tensions, elevated domestic valuations, a turn in global interest rate cycle and signs of rotation of capital towards markets like China all cast a shadow over the sustainability and extent of portfolio flows that could come in over the next few years. This presents a source of risk to rupee performance, especially if more durable flows like FDI remain moderate.

Global equity market performance has diverged, with broadly tech related plays doing well.



India 1Y-US 1Y interest rate differential has fundamentally reduced over the last few years



Source: Reuters, HDFC Bank

Conclusion

The rupee seems to be now entering a phase of relative stability after a period of shock over the last few months. Proactive government and RBI measures along with strong dollar flows under the FCNR scheme has helped reduce the depreciation pressures on the rupee. This trend also follows the historical pattern of rupee movement observed over the last two decades. Strong domestic fundamentals with a relatively stable current account and nascent improvement in portfolio and FDI flows are encouraging signs for the rupee's outlook ahead. That said, stability of the rupee over the medium-term hinges on India's ability to attract both FDI and FII flows on a more durable basis while increasing its role in the global trade supply chain.

FCNR(B) : From Dollar Inflows to a New Paradigm in India's FX Management



By Kunal Sodhani
Head of Treasury
Shinhan Bank India

How India's \$127 billion FCNR(B) mobilisation is reshaping the RBI's reserves, forward book, liquidity management, banking system and the rupee

Executive Summary

The Foreign Currency Non-Resident (Bank) — FCNR(B) — deposit mobilisation of 2026 has emerged as a defining development for India's foreign-exchange and liquidity landscape. With FCNR(B) mobilisation reaching approximately **\$127.2 billion by August 31, 2026** and total special foreign-currency mobilisation through FCNR(B), overseas foreign-currency bonds and external commercial borrowings reaching around **\$136.4 billion**, the programme has acquired significance far beyond its traditional role as a source of foreign-currency funding for banks.

The scale of the mobilisation is particularly striking when compared with the approximately \$26 billion raised under the 2013 FCNR(B) swap programme. This time, the inflows have arrived against a very different macro-financial backdrop—one characterised by a large RBI forward short position, elevated global uncertainty, substantial crude-oil sensitivity and a renewed focus on rebuilding India's external buffers.

The most important implication is that FCNR(B) has potentially altered the RBI's policy asymmetry. During the earlier phase of rupee weakness, the central bank relied substantially on spot and forward intervention to contain disorderly depreciation. The arrival of substantial foreign-currency inflows provides an opportunity to gradually reduce this forward overhang, while simultaneously strengthening the central bank's ability to rebuild and preserve foreign-exchange reserves.

India's reserves subsequently reached a record **high in September, 2026**. However, the \$127 billion FCNR(B) mobilisation should not be equated with a \$127 billion addition to reserves. Reserve movements reflect a combination of spot and forward intervention, valuation changes, gold prices, SDR movements and other balance-of-payments factors. The more meaningful conclusion is that FCNR(B) has substantially improved the availability of foreign currency with which the RBI can manage its balance sheet and external vulnerabilities.

The programme's principal domestic side effect, however, is the creation of rupee liquidity. The central bank must now manage a delicate balance: preserve the external benefits of the dollar inflows while preventing excessive domestic liquidity from pushing money-market rates below the desired policy corridor or weakening monetary transmission.

For banks, the FCNR(B) inflows provide an important source of relatively stable foreign-currency funding, easing the pressure to compete aggressively for domestic deposits and potentially supporting margins. Yet the benefits are accompanied by risks. Future maturity obligations remain a structural liability, while unhedged interest-payment exposures could generate additional dollar demand if the rupee depreciates sharply.

For the rupee, FCNR(B) should therefore be viewed not as an automatic appreciation trigger, but as a **stronger policy backstop**. It gives the RBI greater freedom to allow two-way movement in USD/INR while intervening against disorderly volatility. Global factors—particularly crude oil prices, US Treasury yields, the Dollar Index, foreign portfolio flows and geopolitical risks—will continue to determine the direction of the currency.

The broader transformation can be summed up simply: **India is moving from a phase of dollar scarcity and rupee defence towards a phase of dollar management, reserve rebuilding and liquidity sterilisation.**

1. FCNR (B) : More Than a Deposit Mobilisation Programme

The special FCNR(B) window has emerged as one of the most consequential developments for India's external and domestic financial markets in 2026. By August 31, foreign-currency mobilisation through FCNR(B) deposits had reached approximately \$127.2 billion, while combined mobilisation through FCNR(B), overseas foreign-currency bonds and ECBs stood at around \$136.4 billion.

The scale is significant. The 2026 mobilisation is several times larger than the approximately \$26 billion raised through the 2013 FCNR(B) swap programme. More importantly, the inflows have arrived at a time when the RBI has been actively managing the rupee and carrying a substantial net short forward position.

FCNR(B) therefore needs to be viewed through a wider macro-financial lens. Its transmission extends across four interconnected markets:

FX market: greater dollar availability and stronger RBI intervention capacity.

Money market: conversion of foreign-currency inflows into rupee liquidity.

Bond market: potential impact from RBI sterilisation operations.

Banking system: longer-duration funding, improved liquidity and implications for margins and credit deployment.

The programme has effectively evolved from being a banking funding initiative into a broader policy instrument influencing India's external balance sheet and domestic financial conditions.

2. Strengthening the RBI's Dollar Availability

The immediate benefit of FCNR(B) is a substantial improvement in foreign-currency availability.

During periods of rupee stress, the RBI has to balance three objectives: limiting disorderly depreciation, maintaining orderly market conditions and protecting reserve adequacy. Large FCNR(B) inflows strengthen all three objectives by providing banks with longer-duration dollar liabilities and increasing the pool of foreign currency available to the financial system.

This is particularly relevant given the RBI's earlier reliance on forward intervention. The new dollar inflows provide an opportunity to gradually repair this position.

3. FCNR(B) and the RBI's Short Forward Position

The interaction between FCNR(B) inflows and the RBI's forward book could prove to be one of the most important aspects of the programme.

If fresh dollar inflows are used to meet or offset existing forward obligations, the RBI can reduce its net short forward exposure without necessarily drawing an equivalent amount from its spot reserve stock.

This creates an important balance-sheet advantage.

A large short forward position provides intervention ammunition, but it simultaneously represents future dollar delivery obligations. As FCNR(B) increases the availability of foreign currency, the RBI has greater flexibility to reduce these obligations and improve the structure of its FX balance sheet.

This could mark a gradual transition from:

Rupee defence – Forward accumulation – Dollar management – Reserve rebuilding.

A reduction in the forward overhang would also improve the transparency of India's external liquidity position, since a larger proportion of the intervention buffer would effectively sit in outright reserves rather than through future forward receivables.

4. Reserves: Rebuilding the External Buffer

The rise in reserves is clearly encouraging from an external-sector perspective. It strengthens India's ability to absorb external shocks, provides confidence against sudden capital-flow reversals and gives the RBI greater flexibility in managing the rupee.

However, one distinction is critical: **\$127 billion of FCNR(B) mobilisation does not mean \$127 billion was added to reserves.**

Reserve movements reflect multiple factors, including:

- RBI spot intervention
- Forward intervention and settlements
- Currency valuation changes
- Gold-price movements
- SDR movements
- Other balance-of-payments flows

The correct interpretation is that FCNR(B) has materially increased the availability of foreign currency and therefore improved the RBI's capacity to preserve and rebuild reserves.

That distinction will be important when assessing the programme's long-term impact.

5. The Liquidity Challenge: The Other Side of the Dollar Inflow

Every foreign-currency inflow has a domestic counterpart.

When dollars are absorbed through the RBI's swap mechanism, rupee liquidity enters the banking system. This has now become the biggest domestic challenge associated with FCNR(B).

System liquidity surplus has moved into the region of **INR 10 lakh crore to above INR 11 lakh crore** in early September.

Such a large surplus can have several consequences:

1. Overnight rates can gravitate towards the lower end of the RBI's corridor.
2. Monetary-policy transmission can weaken.
3. Banks may deploy excess liquidity into government securities.
4. Money-market spreads can compress.
5. Credit growth may receive an additional funding impulse.
6. The RBI's sterilisation requirement can increase materially.

This creates a policy paradox.

The same inflow that strengthens India's external balance sheet can simultaneously loosen domestic monetary conditions.

The RBI therefore has to manage both sides of the balance sheet carefully.

6. The RBI's Sterilisation Toolkit

The RBI has several instruments available to manage the liquidity surplus.

VRRR

Variable Rate Reverse Repo operations offer flexibility and can be scaled depending on the persistence of the surplus.

FX Sell/Buy Swaps

FX sell/buy swaps could become particularly attractive because they can simultaneously absorb rupee liquidity and help manage foreign-currency and forward exposures.

MSS

The Market Stabilisation Scheme can provide another avenue for absorbing durable liquidity.

CRR

A change in the Cash Reserve Ratio remains a powerful structural liquidity instrument, although its use would need to be calibrated carefully.

OMO

Open-market operations can also influence durable liquidity conditions, although aggressive bond sales could have implications for government-security yields.

The optimal strategy is therefore unlikely to rely on a single instrument. A combination of short-term liquidity operations and longer-duration sterilisation would allow the RBI to maintain monetary control without unnecessarily disturbing bond-market pricing.

7. Impact on Banks: Funding Relief and Strategic Opportunity

For Indian banks, FCNR(B) provides a valuable source of relatively stable foreign-currency funding.

It can:

- reduce dependence on expensive domestic deposits;
- ease competition for term deposits;
- improve liquidity management;
- support asset-liability management;
- provide longer-duration funding;
- potentially support margins.

The benefit, however, is unlikely to be evenly distributed.

Banks that successfully mobilised significant FCNR(B) balances could enjoy a meaningful funding advantage. At the same time, excessive system liquidity could make incremental deployment more challenging.

If loan demand does not keep pace with available funding, banks could increasingly deploy liquidity into government securities and other market instruments. This may limit the improvement in returns despite lower funding costs.

The ultimate benefit will therefore depend not merely on the amount raised, but on how effectively banks deploy the funds.

8. The Underappreciated Risk: Future FX Interest Payments

One of the more important risks lies beyond the initial inflow.

FCNR(B) deposits are foreign-currency liabilities. While the RBI swap mechanism provides substantial protection around the principal funding structure, banks still have to manage future interest-payment obligations.

If these exposures are left partially unhedged, a significant depreciation in USD/INR could increase the rupee cost of servicing the interest.

For example, if USD/INR were to move sharply towards 97.00, banks could face additional dollar demand when servicing interest liabilities.

This creates an interesting dynamic:

FCNR(B) reduces immediate dollar scarcity but can create a predictable future source of dollar demand.

This risk becomes particularly important during periods of market stress, when several banks could potentially seek dollars simultaneously.

9. Impact on the Rupee

The FCNR(B) programme is fundamentally positive for the rupee's external resilience, but it should not be interpreted as a guaranteed appreciation trigger.

The rupee continues to be influenced by:

- Brent crude oil prices;
- US Treasury yields;
- Dollar Index movements;
- foreign portfolio flows;
- geopolitical developments;
- importer demand;
- India's trade balance.

The recent market environment demonstrates the point. USD/INR has remained around the mid-94 region despite substantial foreign-currency mobilisation, while Brent has moved higher in interims amid geopolitical concerns.

This suggests that the FCNR(B) inflows are functioning more as a **shock absorber** than as an independent driver of appreciation.

The RBI now has greater capacity to allow two-way movement in USD/INR while intervening when market conditions become disorderly.

10. From Rupee Defence to Dollar Management

India's FX strategy can increasingly be viewed through three phases.

Phase I — Rupee Defence

The RBI used spot and forward intervention to manage depreciation pressure, resulting in a substantial short forward position.

Phase II — Balance-Sheet Repair

FCNR(B) and other foreign-currency mobilisation provide fresh dollars. The RBI can use these inflows to reduce forward obligations, preserve reserves and manage domestic liquidity.

Phase III — Strategic Reserve Accumulation

If global conditions become favourable, the RBI could potentially use periods of dollar inflows to rebuild reserves more aggressively, reduce the forward overhang and allow greater two-way flexibility in the rupee.

This represents a fundamental change in the policy reaction function.

When dollars were scarce, intervention could mean reserve depletion or greater forward liabilities.

When dollars are abundant, intervention can become an opportunity to strengthen the external balance sheet—provided the resulting rupee liquidity is sterilised effectively.

11. Key Risks

Maturity and rollover risk

FCNR(B) deposits are liabilities. The foreign currency must ultimately be repaid.

Liquidity risk

Large rupee creation can keep domestic liquidity excessively loose.

Sterilisation cost

Absorbing surplus liquidity may involve financial or quasi-fiscal costs.

Interest-payment FX risk

Unhedged future interest payments can create additional dollar demand during periods of rupee weakness.

Asset-deployment risk

Banks may struggle to deploy incremental funding at attractive risk-adjusted returns.

Concentration risk

Large inflows concentrated among a smaller group of banks could create uneven funding advantages.

External shock risk

A combination of high crude prices, stronger global dollar conditions and capital outflows could still put pressure on the rupee.

12. What This Means for USD/INR

The strongest conclusion is not that FCNR(B) guarantees a stronger rupee. Rather, **it raises the RBI's capacity to manage a weaker rupee without exhausting its external buffers.**

In the base case, USD/INR is likely to remain highly sensitive to global dollar strength, crude oil and capital flows. However, the probability of disorderly one-way depreciation is reduced because the RBI now has greater intervention capacity. The stress scenario would involve Brent moving decisively and sustaining above \$125/bbl, US yields rising, the Dollar Index strengthening and portfolio outflows accelerating.

FCNR(B) would not eliminate that pressure.

It would, however, give the RBI a considerably stronger buffer with which to smooth the adjustment.

Conversely, if crude moderates and global dollar pressure eases, the same inflows could allow the RBI to rebuild reserves more aggressively and reduce its forward overhang.

13. Strategic Conclusion

The FCNR(B) programme has changed the nature of India's FX challenge.

The immediate challenge is no longer simply how to attract dollars.

It is increasingly about **how to manage the dollars once they arrive.**

The programme provides a powerful combination of benefits: stronger foreign-currency availability, improved reserve resilience, the potential to reduce the RBI's forward overhang, lower funding pressure for banks and greater flexibility in managing the rupee.

But these benefits come with a new set of challenges. The RBI must sterilise substantial rupee liquidity, maintain monetary-policy transmission and manage the balance between reserve accumulation and exchange-rate flexibility. Banks, meanwhile, must manage maturity, rollover and interest-payment FX risks created by the very deposits that have strengthened their funding profiles.

For the rupee, FCNR(B) should therefore be viewed as a **policy backstop rather than an appreciation trigger.**

The broader strategic transition is clear:

From dollar scarcity to dollar management.

From rupee defence to balance-sheet repair.

From reserve protection to potentially greater reserve accumulation.

The first phase was about attracting dollars. The second phase is about managing those dollars. The third phase will be about managing the liabilities created by them.

FCNR, Liquidity, Inflation and Policy Rates



By Sameer Narang
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ICICI Bank

- With gross FCNR (B) inflows of USD 127 bn, liquidity should be in much larger surplus now than anticipated earlier after adjusting for currency and reserve balances in the remaining part of the year
- System liquidity in March should be in excess surplus of more than 1.5% of NDTL, higher than historical average seen during neutral stance even after adjusting for forward positions in the year
- These levels are around 1% more than neutral stance levels seen since October 2024 and hence should require modulation
- Today's liquidity can drive 'future' inflation higher as seen historically. Liquidity and headline and core inflation show a strong relationship with a 12-month lag
- With inflation estimated at around 4.5% in FY28, real policy rate turns out to be 0.8% at current repo rate which is lower than the neutral rate band of 1.4-1.9%. Hence, a repo rate increase of 50-75bps (depending upon inflation) should drive real rates into neutral territory
- Liquidity absorption to align with neutral stance could be done via mix of temporary and permanent measures depending upon the objective. One of the measures could be long-term VRRR which gives flexibility to release liquidity as and when needed next year

Liquidity scenario has changed : The success of FCNR deposits would have a large impact on liquidity in the coming months. Prior to the scheme, average system and durable liquidity in May 2026 was INR 1.6tn (0.6% of NDTL) and INR 3.8tn (1.4% of NDTL) respectively. As we speak, average system liquidity for August 2026 has increased to INR 3.7tn (1.3% of NDTL). However, current liquidity is now as high as INR 10.5tn (3.9% of NDTL) and is expected to remain elevated in coming months. The increase in liquidity is driven by higher than anticipated FCNR (B) inflows and durable liquidity is even higher given build-up of government cash balances.

The impact of such high levels of liquidity is already visible in the certificate of deposit (CD) market where interest rates have been coming down. For instance, the interest paid on 3-month CD is down by more than 100bps from the peak seen this year. Similarly, interest rate of 6-month and 1-year CDs are down by ~100bps and ~90bps respectively from the peak seen earlier in the year. The impact of liquidity infusion on account of FCNR inflows is felt more in the short-term tenors than long-end as seen in money market rates which are now well below policy repo rate.

Given the higher than anticipated inflows, the trajectory of liquidity over the entire financial year has changed. This is because endogenous demand for liquidity which is driven by currency and build-up of reserves should be far more stable and doesn't change even as supply of liquidity has seen a large increase. What can change is the mix of liability mix for financial institutions which would substitute wholesale deposits with FCNR inflows and hence the downward pressure on the same. But demand for currency between October and March in the last financial year was INR 3.7tn and should be only slightly higher this year. Similarly, demand for liquidity emanating from reserve balances (CRR) is determined by deposits accrued (INR 31tn last year). While deposit inflows will be higher this year, given that there is no requirement of CRR on FCNR inflows under the swap scheme, the liquidity impounded on account of deposits should not be commensurate with overall inflows. Given the drain on liquidity from the above two instruments, surplus liquidity should be around 2.5% of NDTL by the end of the financial year.

But an additional instrument which can come into play is pruning of short forward positions. If RBI actually delivers Dollars against the short position, the surplus liquidity comes down to that extent and thus should neutralize some of the surplus. Even then, overall surplus should be higher than 1.5% of NDTL which is significantly higher than 1% of NDTL seen in March 2026.

Chart 1: System liquidity is expected to remain well above 1% of NDTL

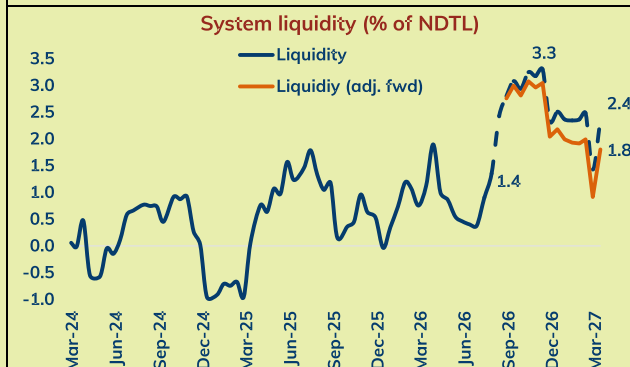


Chart 2: CD ratio and wholesale deposits have eased due to higher liquidity

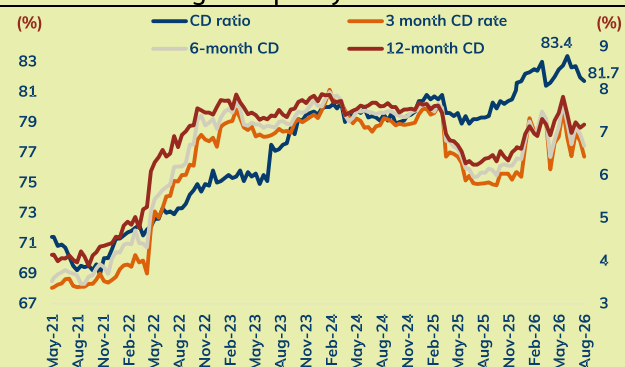


Chart 3: Given overwhelmingly large FCNR inflows

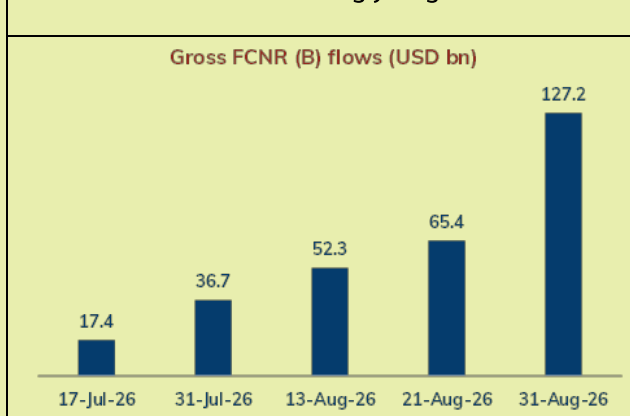
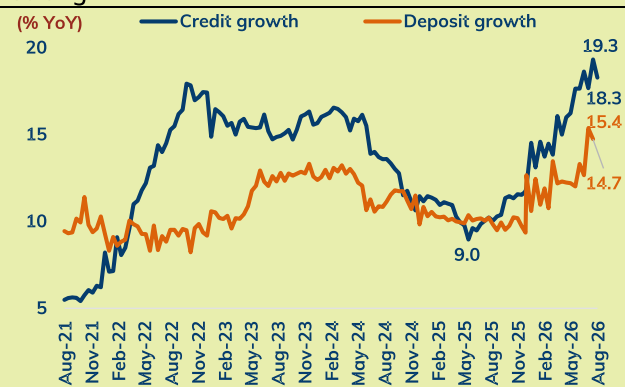


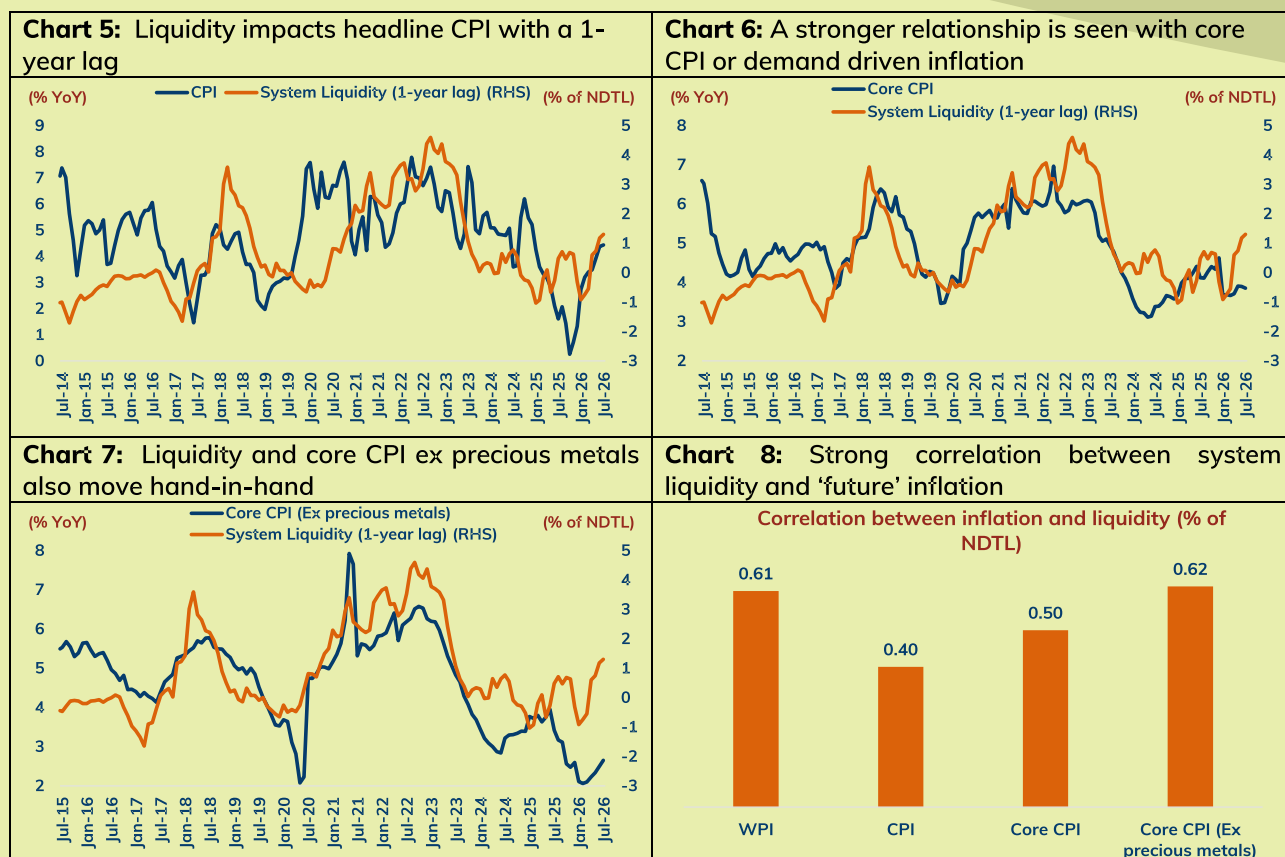
Chart 4: Deposit and credit growth should remain strong



Source: CEIC, RBI, ICICI Bank Research

What does it mean for inflation ? There is a clear relationship between liquidity and inflation. With a 12-month lag, the correlation between system liquidity and WPI is 0.61. While WPI is also driven by supply side dynamics as is being seen recently, the more important relationship which holds significance is that between liquidity and core CPI. Here too, with a 12-month lag, the correlation is as high as 0.5. While the relationship between 'current' liquidity and 'current' core CPI is not that high, it starts to be meaningful with a lag implying 'today's' liquidity has an impact on 'future' inflation. More importantly, the relationship between core (ex-precious metals) inflation and liquidity (12-month lag) is also equally strong with a correlation of 0.62. When inflation is seemingly increasing led by a below normal monsoon and higher international oil prices, the pass-through into core inflation should be anyways visible. Hence, when current liquidity is rising which could drive 'future' inflation upwards as against the current trajectory.

As per the current trajectory, forecasts do build an increase in both headline and core inflation in coming months. While headline inflation peaks in coming months, core (ex-precious metals) inflation is seen to be settling at a higher level in coming months. For instance, as against a low of 2.6% in H1FY27, core (ex-precious metals) is estimated to average 4.1% in H2FY27 and settle at 4% in FY28. Overall headline inflation is estimated at 4.5% in FY28 as against 4.8% in FY27. These baseline estimates are based on oil prices gradually coming down over a period of time. If oil prices remain around current levels, one could see inflation at a slightly higher level when monsoon is running 14% below normal.



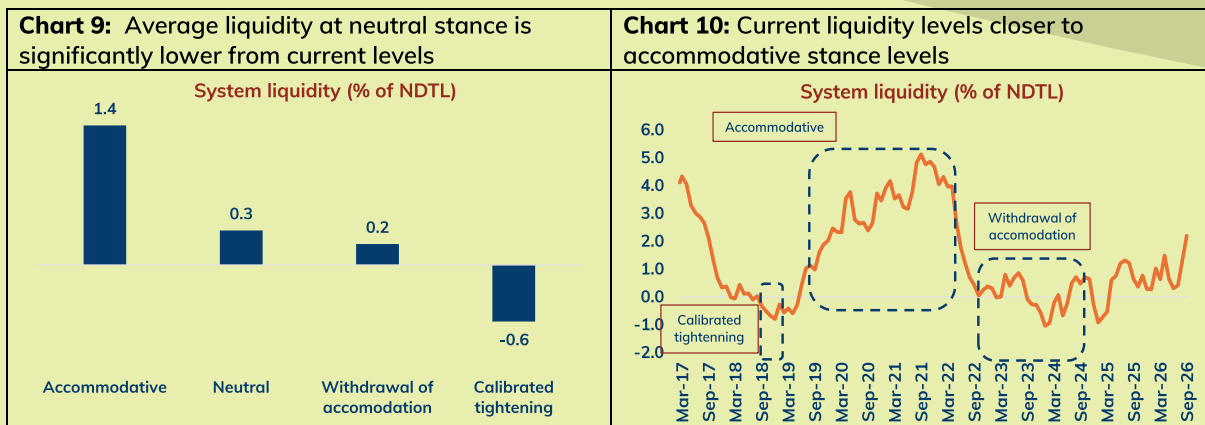
Source: CEIC, ICICI Bank Research

Note: Liquidity used in above charts is with a 12-month lag

Stance and liquidity : RBI's policy stance is most visible in liquidity operations. Periods of accommodative stance have seen much higher liquidity than otherwise. For instance, during October 2016 and January 2017, system liquidity was around 1.3% of NDTL. Even during Jan 2019 and Feb 2020 when stance was accommodative, average liquidity surplus was around 1.4% of NDTL. We have not included the pandemic period since it was an extraordinary event when liquidity averaged 3.7% of NDTL. In a neutral stance, between October 2024 and March 2025 and then June 2025 and September 2026, average liquidity is 0.6% of NDTL. Liquidity of course is tighter when stance is 'withdrawal of accommodation' or 'calibrated tightening'. In case of former, average liquidity surplus is at 0.2% of NDTL while in case of latter, it is in a deficit of 0.6% of NDTL which goes with the stance.

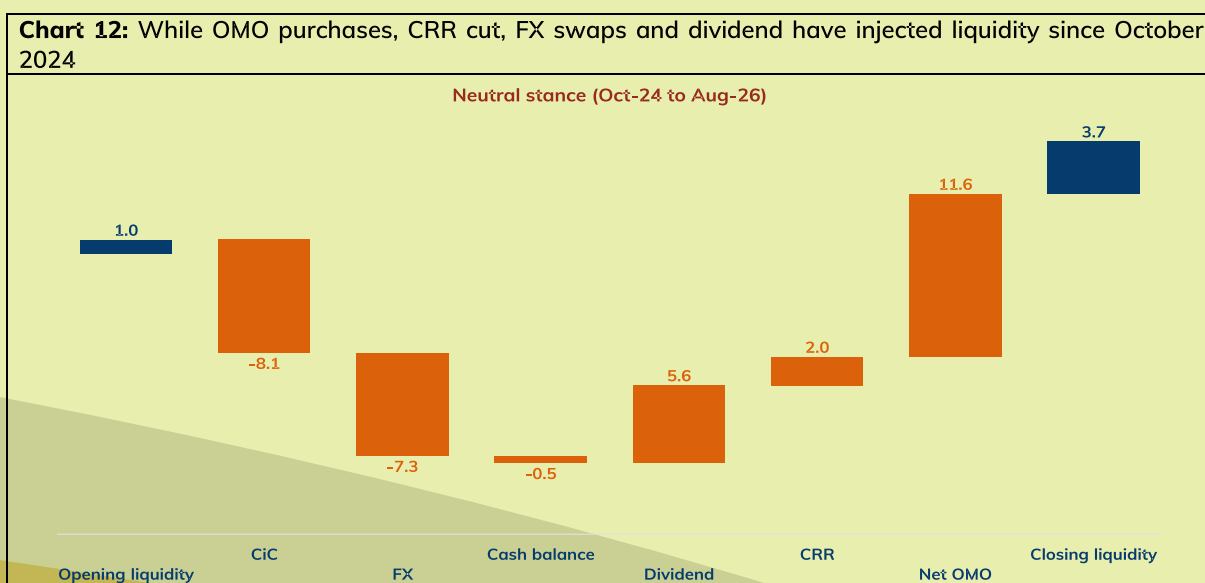
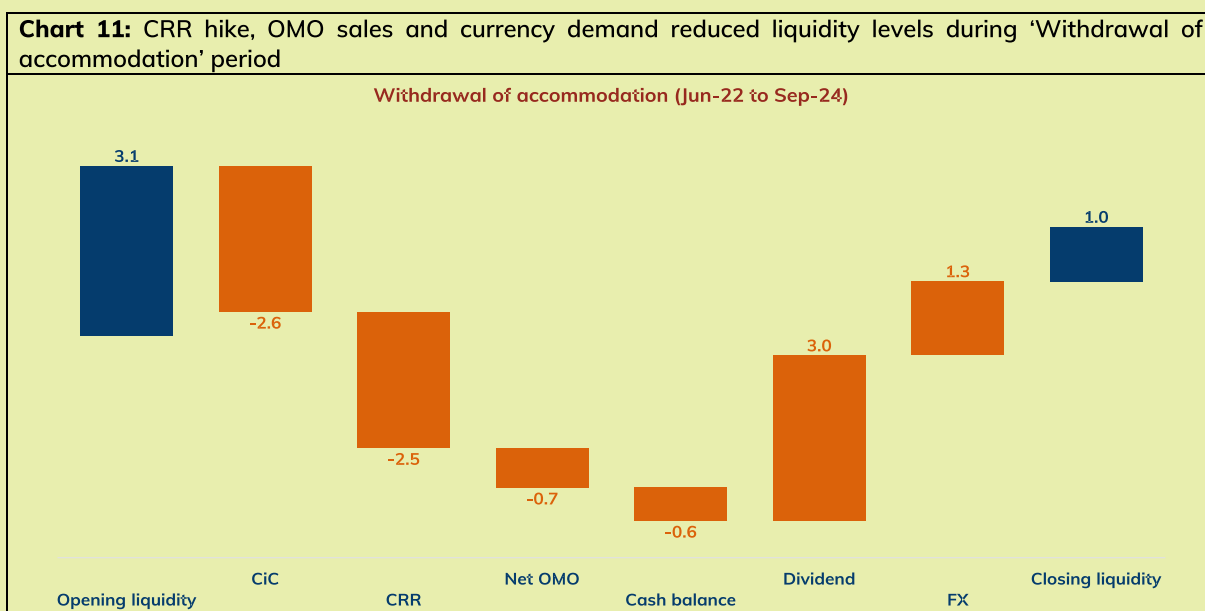
RBI uses a variety of operations to modulate liquidity. Between June 2022 and September 2024, when stance was 'withdrawal of accommodation', the predominant exogenous tool used was CRR along with open market operations. With liquidity at a much more manageable level, it didn't need to use any exogenous tool to withdraw liquidity in the neutral phase. In fact, given the foreign outflows and endogenous demand for currency, it had to conduct open market buy operations along with reduction in CRR to balance out the liquidity requirement of the economy.

But the current context is different. Liquidity has surged on the back of FCNR inflows of USD 127bn. Given the endogenous demand for liquidity in coming months, banking system surplus is likely to be closer to 2.5% of NDTL in March. This brings to the fore the underlying question that what RBI should do with so much surplus given a neutral stance and when inflation is steadily inching up. Any tool deployed would have to take into account seasonality since a large part of currency demand is visible in H2. Next year's currency demand and reserve balances should total around INR 5.5tn (1.8% of NDTL). This still leaves a large surplus to be managed in March. The tool to be used would depend upon the objective function. But some level of permanent liquidity absorption would be required along with temporary measures wherein liquidity is parked and then withdrawable at a later date or as and when required (temporary CRR and long-term VRRRs with option to dip into liquidity).



Source: CEIC, ICICI Bank Research

Note: The accommodative period excludes FY21 and FY22 impacted by COVID-19



Source: CEIC, RBI, ICICI Bank Research

Note: Negative change in cash balance implies cash balance build-up

What does it mean for policy rates ? What is the right neutral rate for India. In ex-post terms, neutral rate or real rate as measured by difference between policy rate and CPI inflation over the past decade (2017 to 2026) excluding pandemic period is 1.6% which is the mid-point of current range of 1.4-1.9%. However, the real rate during accommodative stance is 0.7% as against 2.3% during a neutral stance. Real rate over the last one year has been high because of large decline in headline inflation driven both by low food inflation which tends to mean revert and because of reduction in GST rates which pushed core inflation lower. In addition, the limited pass-through of higher international energy prices too has helped in ensuring in keeping the real rates on the higher side.

When the real rate is measured using core inflation or the difference between policy rate and core inflation, the difference between real rate observed between accommodative and neutral period is not large. Both seem to be around the lower end of the real rate band of 1.4-1.9%. At present, the real rate measured with respect to headline inflation is closer to accommodative stance and as measured using core inflation is closer to lower end of the real rate band. But what matters for policy is what the forward looking rate is? Here a decline in real rate is visible with respect to both headline and core inflation. With core inflation estimated to settle around 4-4.5% next year and headline inflation around 4.5%, the real rates on both would be lower than 1.4%. A below normal monsoon and high energy prices imply the odds of downward momentum in inflation are unlikely as of now. At the current forecast of headline and core inflation, real rates are likely to average 0.8% and 1%. A 50bps increase in policy rate should allow convergence in both towards real rate towards lower end of the band. If inflation does surprise positively as has been the case lately, a 50bps increase in policy rates implies the overshoot on real rates is unlikely to be very high and thus should have limited cost for the economy. However, if inflation is higher than trajectory, then a 75bps rate hike would be enough to bring real rates in alignment with neutral rate band.

Chart 13: A shallow rate hike cycle to keep real rates at the appropriate level

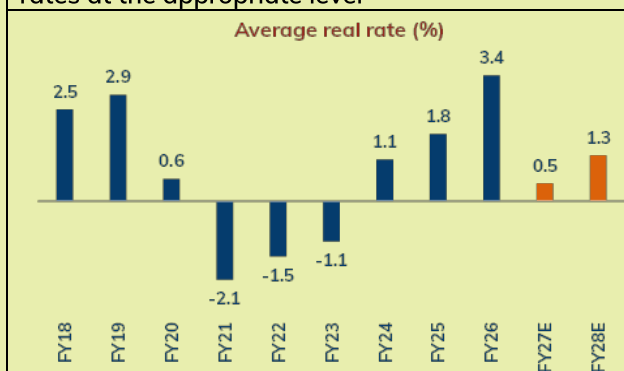
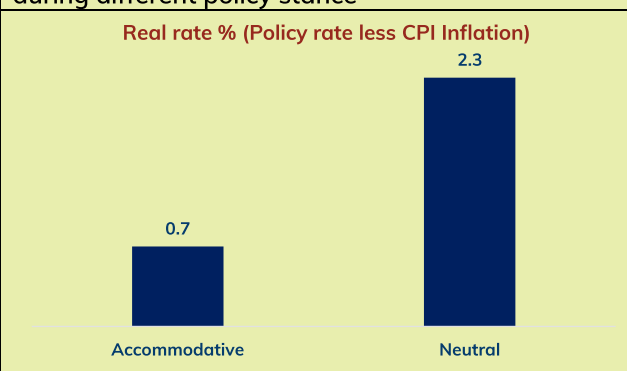


Chart 14: Ex-post real policy rates observed in India during different policy stance



Source: CEIC, ICICI Bank Research

Average real rate = Average repo rate – Average CPI for the year

FY28E assumes average policy rate at 5.75%

US Yield Shock Implications for India's Rupee, G-Secs and Equity Markets



By Yugant Sharma
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Summary

The rise in the US 10-year Treasury yield to 5% marks a significant shift in global financial conditions. When accompanied by Brent crude near \$107 per barrel, a stronger dollar and geopolitical uncertainty, the development presents a multi-dimensional challenge for India through capital flows, currency stability, inflation and domestic borrowing costs. The critical issue is not the 5% threshold in isolation, but whether elevated US yields become persistent and trigger a broader repricing of global risk assets.

1. Foreign Portfolio Flows and Equity Valuations

Higher US Treasury yields increase the return hurdle for emerging-market investments. As the relative attractiveness of dollar-denominated assets improves, foreign investors may reassess Indian equities and debt, particularly where valuations are elevated or currency risk is unhedged.

The resulting FPI selling could affect NIFTY, large-cap equities and the rupee. However, domestic SIP flows, earnings growth and institutional demand may provide a counterbalance. The impact will depend on the relative strength of these flows rather than the US yield level alone.

2. Rupee Depreciation and Imported Inflation

The combination of higher US yields, dollar strength and elevated crude prices create a direct risk for the rupee. Depreciation increases the rupee cost of dollar-denominated imports, while higher crude prices widen the import bill and can add to domestic inflation. A sustained oil and currency shock could raise transport and production costs, weaken purchasing power and complicate the RBI's inflation-growth trade-off.

3. India 10-Year G-Sec: Risk of Yield Repricing Above 7%

The possibility of the benchmark India 10-year G-Sec yield moving above 7% is a key market risk, but not an automatic consequence of US yields crossing 5%.

Domestic yields will be influenced by:

- US Treasury yields and the India-US yield differential.
- Government borrowing supply and auction demand.
- Inflation expectations and crude oil prices.
- FPI debt flows and domestic institutional demand.
- RBI liquidity conditions and policy expectations.

A sustained rise in global yields, combined with domestic inflation and currency pressure, could increase the risk premium demanded by investors and place upward pressure on Indian bond yields. Long-duration portfolios would remain particularly sensitive to mark-to-market losses.

4. RBI Policy and Liquidity Management

The RBI may face a difficult balance between containing imported inflation, maintaining orderly currency-market conditions and supporting economic growth. The policy response need not be limited to a repo-rate change. Foreign exchange operations, liquidity management and communication may also play important roles. The key question ahead of the October policy meeting is whether the shock remains temporary or becomes embedded in inflation expectations and domestic funding costs.

5. Borrowing Costs and Corporate Profitability

Higher G-Sec yields can transmit into corporate bond yields, bank lending rates and refinancing costs. Companies with external commercial borrowings face an additional risk from higher dollar funding costs and rupee depreciation. The combined impact could affect investment decisions, interest coverage and profitability, particularly for leveraged and capital-intensive sectors.

6. Equity Market Risk: Discount Rates and Earnings

Higher global yields increase the discount rate applied to future corporate cash flows, reducing valuation support, particularly for long-duration growth stocks. The impact on NIFTY will depend on the interaction of valuations, earnings growth, domestic liquidity, FPI flows and crude-related economic pressures. A fixed percentage decline cannot be inferred from the US 10-year yield alone.

Most Critical Risk Configuration

US 10Y at 5% + Brent above \$100 + USD/INR depreciation + India 10Y approaching 7%.

This combination would indicate simultaneous global rate, currency and imported-inflation pressure, increasing the risk of:

- Higher domestic borrowing and refinancing costs.
- Mark-to-market losses in long-duration bond portfolios.
- Pressure on the rupee and imported inflation.
- Foreign portfolio outflows and equity-market volatility.
- Greater uncertainty around RBI policy and liquidity management.

Conclusion

The US 10-year Treasury yield at 5% represents a material headwind for Indian financial markets, particularly when combined with elevated crude prices and rupee depreciation. The principal risk is a **persistent global yield shock** transmitting into India's cost of capital, inflation expectations and domestic bond yields.

India's domestic investor base, foreign exchange reserves and macroeconomic buffers provide resilience. However, these buffers do not eliminate the possibility of repricing across equities, G-Secs and corporate credit.

For Treasury, the priority is to monitor the interaction between US yields, crude oil, USD/INR and India 10Y rather than react to any single market level. The persistence of the shock, its impact on capital flows and the resulting RBI response will determine the direction of domestic financial conditions.

Rupee's Real Fault Lines

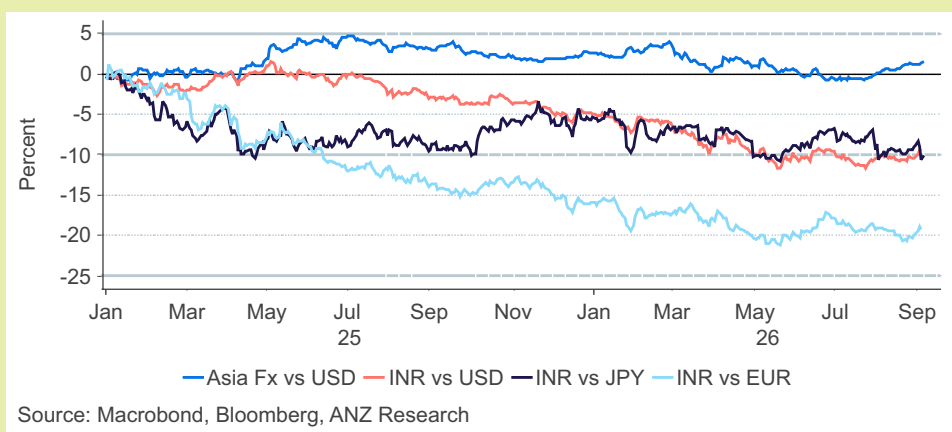


By Dhiraj Nim
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ANZ Research

Every episode of rupee weakness revives the same questions. Is India running out of dollars? Is the current account deficit becoming unsustainable? Should the Reserve Bank of India defend the currency more aggressively? Attention inevitably turns to foreign exchange reserves, trade deficits and the daily movement in USD/INR. Yet these indicators increasingly describe the symptoms of pressure rather than its source.

The more important question is whether today's pressures resemble those that defined earlier periods of rupee stress. The answer is largely no. In 2013, when India was among the "Fragile Five", external turbulence exposed significant domestic weaknesses, including high inflation, a large current account deficit and doubts about macroeconomic stability. Today, growth remains robust, inflation is relatively contained and the economy entered this period of uncertainty from a much stronger position.

Figure : INR's performance



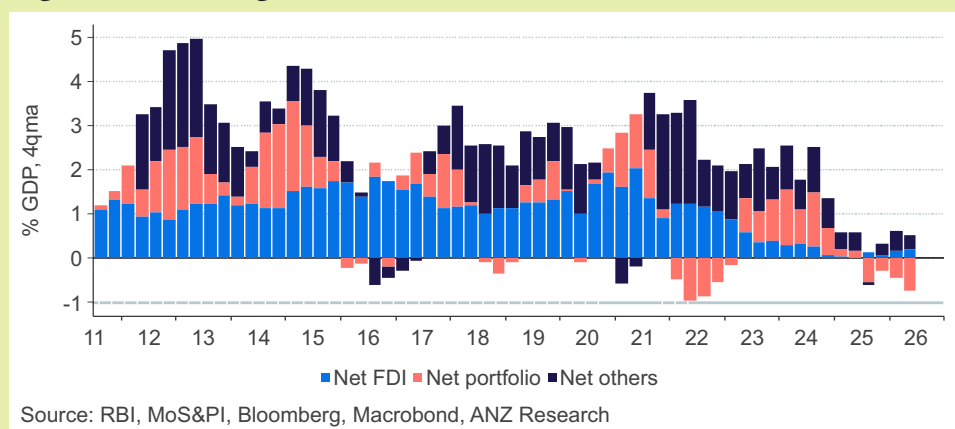
The rupee's challenge is less about domestic fragility and more about a changing global financial environment. Capital is scarcer, more selective and increasingly concentrated in a small number of markets and sectors. This shift helps explain why traditional policy responses are proving less powerful than they were a decade ago. The forces testing the rupee today are fundamentally different from the ones policymakers confronted in 2013.

Capital, not trade

The instinctive explanation for rupee weakness is India's trade deficit, particularly during periods of elevated oil prices. The logic is straightforward: India imports more goods than it exports, remains heavily dependent on imported energy and therefore requires a steady inflow of foreign capital to finance the gap. While this diagnosis is not wrong, it misses the more important development.

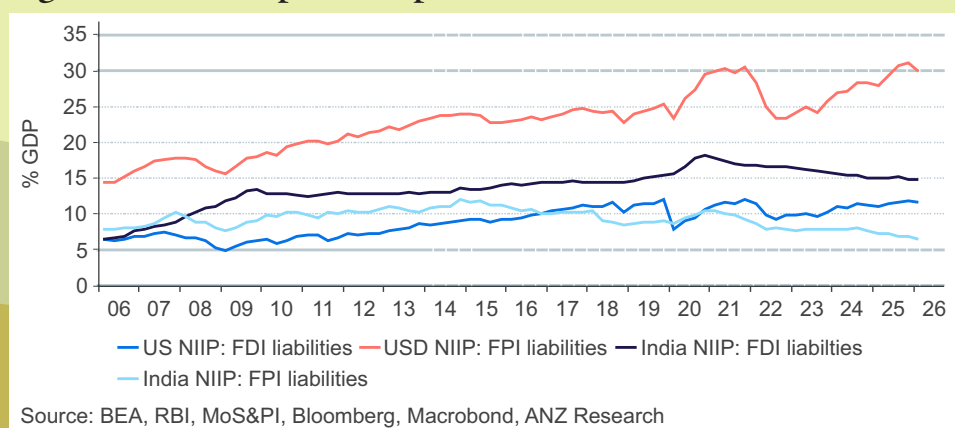
The defining feature of the current episode is not the trade deficit itself, but the changing nature of the capital flows required to fund it. Pressure on the rupee has coincided with a broad weakening in foreign capital across multiple categories, including portfolio investment, direct investment and banking-related inflows (before the RBI swap schemes), a trend that predated the rise in oil prices due to the Middle East conflict.

Figure : Declining financial account balance



The global investment landscape is far more competitive now. Capital is no longer chasing emerging-market growth opportunities. Instead, it is increasingly concentrated in a narrower set of themes linked to artificial intelligence, semiconductors, digital infrastructure and technology-led productivity gains. Global investors are not merely choosing between India and other emerging markets. India is competing with American technology firms, Taiwanese semiconductor manufacturers and Korean AI-linked exporters for the same pool of global savings. This shift has raised the hurdle rate for attracting foreign capital. India's growth story remains compelling, but global capital has become more selective, more expensive and less responsive to traditional sources of return.

Figure : Intense capital competition



Oil remains central to this story, though not simply because it increases the import bill. Higher crude prices undoubtedly widen the current account deficit and increase demand for dollars. More importantly, they shape expectations. Sustained increases in oil prices revive concerns about inflation, fiscal pressures and future currency weakness, influencing investor behaviour and hedging decisions. As a result, relatively modest deterioration in external balances can generate disproportionately large reactions in financial markets.

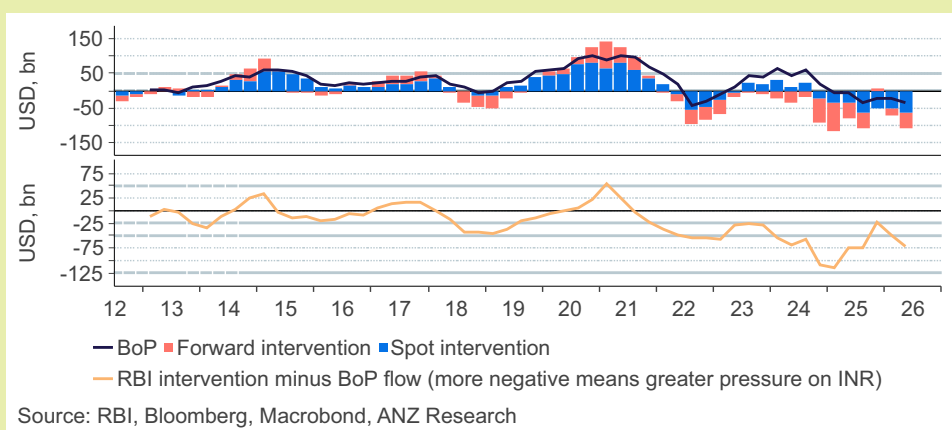
This dynamic has become particularly relevant because India's external position was already under pressure before the latest rise in crude prices. Persistent equity outflows and a collapse in net FDI over FY26 had already made it difficult to fund even a small current account gap. Higher oil prices have not created a new problem so much as amplified an existing one. The rupee now faces a dual challenge: a larger requirement for external financing at a time when global capital has become increasingly difficult to attract.

The hidden fault line: Expectations

Perhaps the most underappreciated feature of the recent INR stress episode is that market pressure appears larger than what balance of payments flows alone would suggest. Despite substantial inflows through RBI-sponsored schemes and some improvement in portfolio flows, intervention requirements remained significant and exchange-rate expectations have remained difficult to anchor.

This suggests that an important share of dollar demand is emerging below the balance-of-payments line through hedging activity, precautionary positioning and expectations of future rupee weakness. The exchange rate is being influenced as much by anticipated future flows as by actual current flows.

Figure : RBI intervention has exceeded BoP implications



This distinction is critical. If importers expect further depreciation, they hedge earlier and more aggressively. If exporters believe the rupee will weaken further, they delay conversion of export proceeds. Foreign investors become reluctant to add exposure when expected currency losses threaten to overwhelm prospective investment returns. These actions create additional demand for dollars and reinforce the very expectations that caused them.

For the RBI, the challenge is to manage those expectations as much as managing the exchange rate.

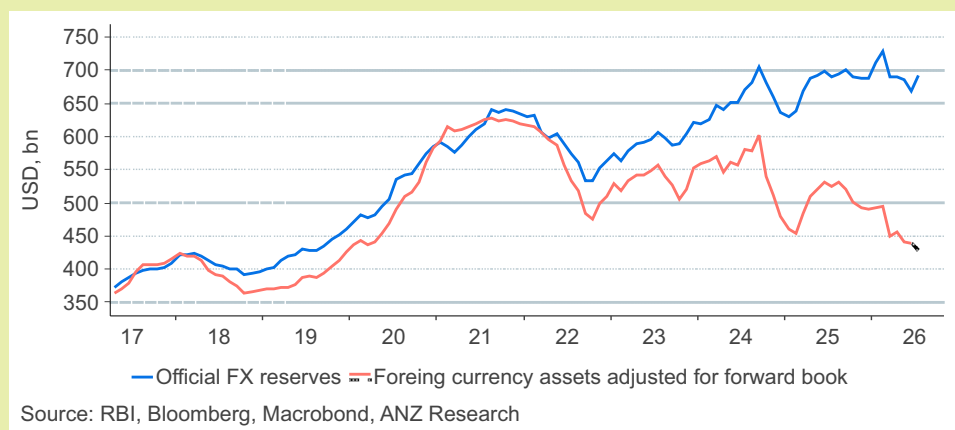
FCNR: buying time, not solving the problem

The FCNR scheme illustrates both the strengths and limitations of policy intervention in such a tricky scenario.

By conventional measures, the programme has been successful, attracting USD127bn in banking capital inflows. It has strengthened FX reserve buffers and eased concerns regarding India's near-term external financing needs. The scheme demonstrated that policymakers retain powerful tools for mobilising foreign exchange when needed.

Yet the limited appreciation of the rupee despite these large inflows offers an equally important lesson. FCNR schemes do not eliminate external vulnerabilities; they merely transform them. Every dollar mobilised today creates a reserve asset for the RBI but also a future liability that will eventually need to be repaid. The improvement in headline reserves is matched by a larger forward obligation on the central bank's balance sheet.

Figure : RBI's forward book is swelling, impacting perception of high spot FX reserves



Thus, FCNR schemes should be viewed as instruments of stability rather than strength. They are effective at reducing immediate funding stress and improving market confidence, but ineffective at offsetting persistent global forces such as high oil prices, elevated US interest rates or intense competition for capital. The rupee's continued vulnerability despite strong inflows highlights this limitation.

What can policymakers do?

The policy challenge is to distinguish between adjustment and instability. If the source of pressure lies in tighter global liquidity and a more competitive market for capital, some rupee depreciation is both natural and desirable. Attempting to resist every move in the exchange rate would consume policy resources without addressing the underlying drivers of weakness.

That said, allowing the currency to adjust unchecked also carries its own risks. Exchange rates influence behaviour as much as they reflect fundamentals. Sharp and disorderly moves can amplify hedging demand, unsettle investor sentiment and reinforce depreciation expectations. In such circumstances, the exchange rate can become a source of instability rather than an absorber of shocks.

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This is why the RBI's long-standing approach of leaning against disorderly movements remains broadly appropriate. However, the objective should not be to defend a particular level of the rupee, but to ensure that adjustment occurs in an orderly manner. Beyond intervention, the more durable response lies in improving the structural attractiveness of Indian assets through deeper capital markets, broader foreign investor participation, continued financial-market liberalisation and improving FDI appeal.

The rupee's vulnerabilities are no longer primarily macroeconomic. They lie at the intersection of tighter global financial conditions, elevated oil prices and an increasingly intense competition for global capital. That reality limits what short-term policy measures can achieve.

India's FX Market in 2030 : From Trader to Architect of Liquidity



By Jijo Sam
Research Analyst
Global Markets
State Bank of India

A strategic perspective on the evolution of the FX dealer

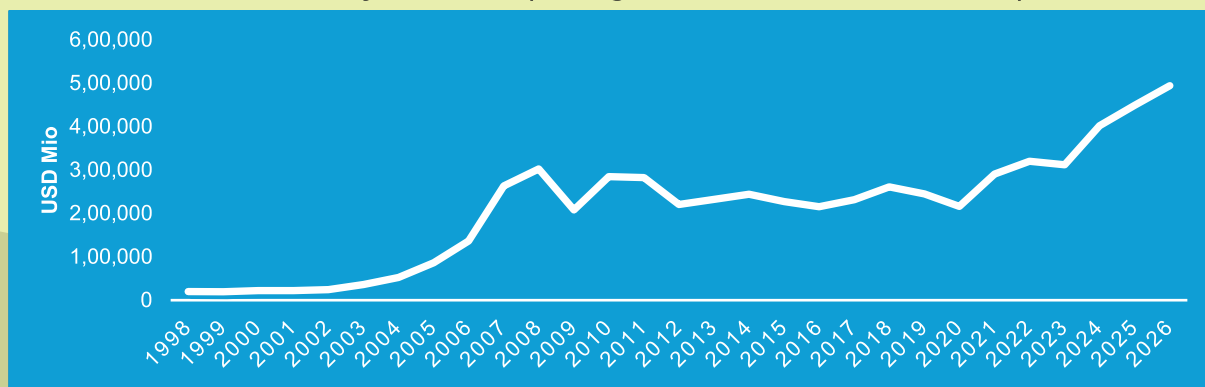
India's foreign-exchange market is entering a structural transition in which the traditional value of the dealer—information, pricing and transaction execution—is gradually giving way to a more sophisticated franchise built around liquidity, balance sheet, technology, customer flow and risk management. The central question for 2030 is therefore not whether technology will replace the dealer, but whether the economics of the dealer franchise will remain recognisable. The dealer will remain important, but the role will shift from quoting prices and managing individual transactions towards designing and managing liquidity across clients, markets, technology and balance sheet.

Turnover by Currency in % (net-net basis, April daily averages)

	1998	2001	2004	2007	2010	2013	2016	2019	2022	2025
USD	86.8	89.9	88.0	85.6	84.9	87.0	87.6	88.3	88.4	89.1
EUR		37.9	37.4	37.0	39.0	33.4	31.4	32.3	30.6	28.5
JPY	21.7	23.5	20.8	17.2	19.0	23.0	21.6	16.8	16.7	16.9
GBP	11.0	13.0	16.5	14.9	12.9	11.8	12.8	12.8	12.9	10.2
CNY	0.0	0.0	0.1	0.5	0.9	2.2	4.0	4.3	7.0	8.6
CHF	7.1	6.0	6.0	6.8	6.3	5.2	4.8	4.9	5.2	6.3
SGD	1.1	1.1	0.9	1.2	1.4	1.4	1.8	1.8	2.4	2.4
INR	0.1	0.2	0.3	0.7	0.9	1.0	1.1	1.7	1.6	1.9

Source: BIS Triennial Survey

Forex turnover has steadily increased (average Merchant turnover* (USD Mio))



Source: RBI - Foreign Exchange Turnover Data & 2026 up to July

*Including FCY/INR & FCY/FCY purchases and sales of spot, forward, and forward cancellation

This is a continuation of a long Indian evolution. The post-1991 reform period moved the market from administrative allocation towards price discovery; the 1993 transition to a unified market-determined exchange rate materially strengthened the market's role. Subsequent developments in current-account convertibility, FEMA, derivatives and global capital-flow integration expanded the dealer's responsibilities from transaction processing to market making, inventory management and customer hedging. The next stage is increasingly electronic, with platforms, API connectivity, algorithmic execution and central clearing changing how liquidity is accessed and distributed.

The most important insight is that greater electronic efficiency does not make liquidity irrelevant. It makes dependable liquidity more valuable. In normal markets, pricing becomes more transparent and execution more automated. Under stress, however, visible liquidity may evaporate, market impact may intensify, and dealers may be less willing to absorb risk. Institutions that can continue intermediating customer flows through such periods will retain a lasting competitive advantage.

1. The Dealer's economics are being rewritten

Electronic trading is steadily reducing the scarcity value of information. Clients can compare prices, automate execution and measure transaction costs with increasing precision. Consequently, the narrowest quoted price is no longer sufficient as a measure of dealer quality. For a large corporate order, execution quality depends on market depth, timing, information, market impact and the dealer's ability to absorb and hedge risk.

This is pushing the franchise from market making towards liquidity management. A bank receiving a large dollar purchase need not automatically send the entire exposure into the interbank market. If its customer ecosystem contains an offsetting dollar seller, internalisation can reduce market impact, external hedging requirements and transaction costs while improving balance-sheet efficiency. The strategic value therefore shifts towards a diversified customer-flow ecosystem capable of generating natural two-way liquidity.

This creates an important commercial paradox: a more efficient FX market can produce lower spreads and lower revenue per transaction even as underlying customer activity grows. FX desks will consequently need to focus on customer profitability, internalisation, inventory turnover, hedging costs, adverse-selection losses and return on regulatory capital rather than headline trading volumes alone.

A distinctive feature of India's transformation is the policy framework within which it is unfolding. The RBI's responsibilities span monetary policy, reserve management, liquidity operations and regulation, making its policy reaction function a critical consideration for market participants. As electronic markets become faster, expectations around policy responses can influence options pricing, forward positioning, stop-loss levels, speculative positioning and corporate hedging. The likely path for the Rupee is greater international use without a move to unrestricted convertibility: more trade invoicing and settlement, broader non-resident access and deeper domestic and offshore liquidity within the established framework.

2. Retail, MSME and Corporate Treasury: The Next Flow Opportunity

FX-Retail represents a potentially important structural opportunity because it brings smaller foreign-exchange transactions closer to digital market infrastructure. FX-Retail platform introduced in 2019 to improve transparency and competition for individuals and MSMEs through anonymous, order-driven FX transactions. The opportunity is not necessarily to create a speculative retail market; it is to digitise and aggregate existing flows and small-business trade.

The economic logic is powerful. Individual transactions may be too small to justify high-touch processing, but millions of transactions can collectively become a meaningful source of natural FX liquidity. Digital distribution, API connectivity and transparent pricing can standardise these transactions and create opportunities for banks to aggregate opposing exposures. FX-Retail also made available through Bharat Connect as a step towards wider digital access. The direction is therefore greater convenience and transparency inside the regulated ecosystem rather than unrestricted leveraged offshore FX trading.

The larger commercial battleground, however, may be corporate treasury. Indian corporates are becoming more international through overseas borrowing, foreign assets, commodity imports, service exports, overseas subsidiaries and multi-currency cash flows. Treasury functions are consequently moving towards consolidated exposure management across subsidiaries, currencies and maturities. The bank's proposition can evolve from simply supplying a USD/INR forward to advising on the optimal management of the client's total currency exposure.

That shift materially increases the value of the relationship. Currency, interest-rate and funding exposures increasingly overlap, particularly where a corporate has foreign-currency borrowing. A sophisticated treasury proposition can therefore combine forwards, swaps, options and interest-rate derivatives into a coherent risk-management solution. The winning institution will increasingly be the one capable of integrating these tools rather than selling them as isolated products.

3. AI Changes the Dealer—but liquidity still requires judgement

Artificial intelligence is likely to transform the FX desk first through information synthesis, pattern recognition and decision support. Systems can monitor central-bank communication, economic releases, geopolitical developments, commodities, rates and customer behaviour simultaneously, helping dealers identify changes in market conditions and assess whether positions remain consistent with risk appetite. However, it can come with some limitation: models trained on different conditions can fail during an extreme oil shock, geopolitical crisis or abrupt monetary-policy transition.

The implication is not a simple human-versus-machine contest. Machines are well suited to repetitive, data-intensive and rules-based tasks; human professionals remain essential for judgement, context and accountability. The future dealer will therefore need a hybrid skill set spanning macroeconomics, market intuition, data science, algorithmic execution, AI, liquidity management and regulatory expertise.

Balance sheet may ultimately prove more durable than technology as a competitive advantage. Trading platforms can be acquired, data can be purchased and algorithms can increasingly be replicated. Stable funding, capital, customer relationships and distribution are much harder to reproduce. Technology can improve normal-market execution but cannot manufacture liquidity when markets become disorderly.

A severe oil shock accompanied by dollar scarcity, an equity sell-off and sharply higher global yields illustrates this distinction. Automated liquidity can withdraw, bid-offer spreads can widen, and corporate hedging demand can surge precisely when risk capacity is most valuable. Banks combining capital strength, diversified customer flow, robust risk systems and experienced judgement are therefore likely to have the strongest franchises. As regulatory capital makes directional risk more expensive, the economics of FX dealing should continue shifting from proprietary views towards profitable intermediation of customer flow.

4. What the 2030 FX Desk could Look Like

By 2030, the FX desk is likely to have fewer conventional dealers but a broader range of specialised roles. Liquidity managers will oversee inventory and internalisation; quantitative specialists will develop pricing and execution



models; client strategists will translate market conditions into hedging advice; technology specialists will manage connectivity and algorithmic execution; and senior dealers will remain responsible for judgement when market behaviour moves beyond model assumptions.

The boundary between front office and technology will become increasingly blurred. Technology will be embedded in pricing, execution, risk and client interaction rather than treated as a separate support function. Competitive advantage can be viewed as a progression from information, to execution, and ultimately to liquidity and intelligence. A bank that combines customer flow, balance sheet, data, technology and judgement will be better positioned to deliver reliable liquidity and sophisticated risk-management solutions.

For Indian banking, this has a direct strategic implication: the largest FX franchise need not be the institution with the largest trading volume. It may instead be the institution with the deepest ecosystem of corporate, institutional and financial-market relationships. The quality and diversity of customer flows can become as important as the scale of the trading book because internalisation can convert that network into a source of natural liquidity.

Conclusion: From Trader to Liquidity Architect

The future of India's FX market is better understood as a transition from manual intermediation to intelligent intermediation. Machines will increasingly execute repetitive, data-intensive and rules-based activities, while humans concentrate on judgement, context, relationships, risk and accountability. The dealer will spend less time simply asking where the market is and more time understanding why it is behaving as it is; less time quoting prices and more time managing liquidity; and less time taking directional positions and more time designing integrated hedging solutions.

India's FX market is unlikely—and need not—to mirror London or New York. Instead, a distinctly Indian model is likely to emerge, with greater international use of the Rupee, stronger links between domestic and offshore markets, electronic execution dominating standard transactions, AI integrated into pricing and risk management, and increasingly sophisticated corporate demand for FX services—all within India's established policy and regulatory framework.

The defining competitive advantage by 2030 is therefore unlikely to be the ability merely to quote a currency. It will be the ability to manufacture reliable liquidity, manage risk across changing regimes and convert customer relationships and balance sheet into a superior risk-management franchise. The best FX professional may consequently be neither a pure trader nor a pure technologist, but an architect—designing the flow of liquidity between clients, markets, technology and balance sheet.

"Resilience First, Rates Later : India's Playbook for Orderly Policy Normalisation"

By Siddharth Kothari
Economist
Sunidhi Securities & Finance Ltd.

India has weathered a rough two years of external shocks and come out with its foreign exchange position stronger: Tariff-driven headwinds, an oil price spike, and a hawkish Federal Reserve could each have destabilised the rupee on their own. Instead, a nuanced FX and liquidity toolkit has transformed extreme market into an opportunity for precise, calibrated monetary and economic policy without giving up on growth.

A run of external shocks

The last two years tested India's external account on multiple fronts. Tariff-related headwinds slowed economic activity as global trade conditions turned less certain. Then came an oil shock: Indian crude oil import costs rose more than 1.5x, averaging USD 106/barrel in the first four months of FY27 against USD 70/barrel in FY26. That alone widened the current account deficit outlook to an estimated USD 65 billion for FY27 or more than double at 1.6% of GDP from 0.64% in FY26 exerting real pressure on the rupee as the country had to fund a larger import bill.

Layered on top of this, the US Federal Reserve raised rates by 25bps with guidance for another 25bps hike this calendar year — a reminder that global monetary tightening adds its own pull on emerging-market currencies, even though each central bank ultimately sets policy for its own economy.

The FX toolkit that absorbed the shock

RBI's response was to widen the channels for foreign capital rather than let the rupee absorb the shock on its own. It institutionalised a concessional window for FCNR(B) deposits and External Commercial Borrowings, among other measures, drawing in capital flows of roughly USD 140 billion. Combined with USD-INR buy-sell swaps (₹2.26 trillion) run earlier as part of the broader liquidity programme, this let reserves rebuild through the volatility rather than a run down.

India's foreign exchange reserves rose from USD 691bln (end-March 2026) to USD 785bln led by USD 140bln in foreign capital flows attracted through FCNR(B), ECB OFCB's. This buffer gives RBI the necessary ammos to normalise policy on its own calibrated timeline, rather than being forced into a reactive, defensive rate hike to protect the currency.

Growth wasn't sacrificed for stability

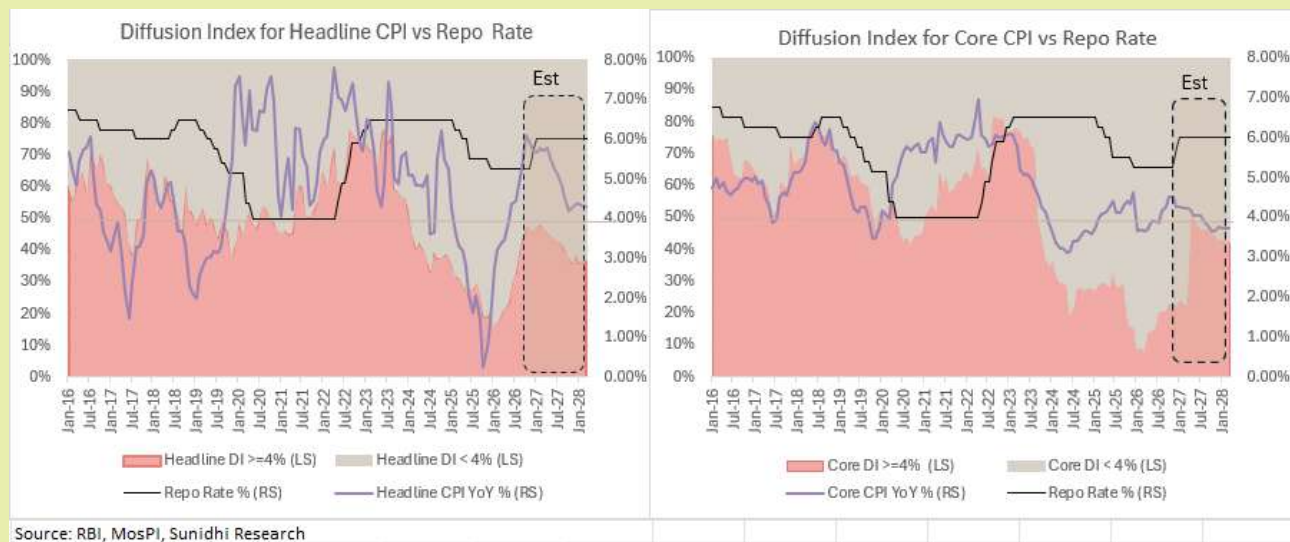
Alongside the FX and liquidity response, RBI stepped up an aggressive domestic liquidity injection/release through 2025-26 — releasing a combined ₹13.23 trillion via OMO purchases (₹8.73tln), swaps (₹2.26tln), and a CRR cut (₹2.23tln). The Central Government added its own growth support, foregoing ₹1.13 trillion in revenue through GST rate rationalisation. Together, these measures cushioned economic activity through the tariff and oil shocks without RBI having to choose between price stability and growth.

From resilience to calibrated normalisation

With external stability restored, attention now turns to unwinding the exceptional support — carefully, and in a specific order. The surplus liquidity in the banking system as a result of the FX inflows (a high of ₹10.80tln, since narrowed to ₹4.9tln, roughly 1.8% of NDTL) has kept the overnight call rate (WACR) in a volatile mode with a low of 4.4% to 5.02% lower than the operational target of the repo rate at 5.25%. A rate hike into that surplus wouldn't transmit properly, so liquidity has to normalise first.

WACR > Repo Rate will be first sign of a move towards policy normalisation

The marker to watch is WACR moving consistently above the repo rate — a sign that sterilisation (OMO sales and swaps) has drained enough surplus for the market to price in tighter conditions ahead of any formal move. On inflation, there's no urgency forcing the pace: headline CPI (4.82% YoY in August) and core CPI (4.17%) sit comfortably within the Flexible Inflation Target band, and the CPI Diffusion Index — the share of the basket seeing above-4% inflation — is at 41%, still below the 50% mark that has historically signalled broad-based pressure in past cycles.



Our recommendation for October policy:

Firstly, an October MPC, that holds the repo rate shall support consumption into 2H FY27 which is mired by a weakest monsoon since 2019 and a high base in 2H FY26 when growth witnessed an upshot from GST rate rationalisation besides looming concerns over imported oil from Russia and fresh tariff related uncertainty should augur well for the economy.

Secondly, a shift in policy stance from "neutral" to "withdrawal of accommodation," or a "calibrated tightening" would enable policy makers to signal the course of monetary policy action ahead.

Thirdly, a 50-bps increase in CRR to 3.50% as a first concrete step on withdrawal of accommodation.

Final Thoughts

We hold a view for a shallow rate hike cycle of 50-75bps increase in Repo rate beginning from December with our average CPI Inflation estimates for FY28 set to moderate to 4.70%-4.80% from 5.10%-5.20% in FY27.

India's FX markets have absorbed two years of global volatility well enough that the coming policy normalisation can be calibrated and orderly rather than forced. Reserves have been rebuilt, growth measures remained in place, and inflation remains anchored enough that RBI can move on its own terms where the timing be it Oct or Dec remains a tactical now. That's resilience translating into room to grow.



**THE CLEARING CORPORATION
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The Clearing Corporation of India (CCIL) acts as a Central Counterparty (CCP) in the Indian G-Sec, Money (Repo and TREPS) Market, Forex and OTC Derivative markets. Set up in 2001, at the initiative of RBI to act as the CCP for OTC markets in India, CCIL has been a pioneer, launching new products and services aimed at enhancing efficiency and resilience in the financial market infrastructure. In recognition of its robust risk management and compliance framework, CCIL was designated as a Qualified CCP (QCCP) by RBI in January 2014.

CCIL is among the few CCPs globally that guarantees trades (outright and repos) in G-Sec, Derivatives and Forex markets. As a Triparty Repo Agent for Government Securities, CCIL facilitates CCP settlement of all Triparty Repo trades executed on the Triparty Repo Dealing System (TREPS). The PVP (Payment versus Payment) mode of settlement in the Forex settlement segment, has been instrumental in eliminating the residual credit risk and reduction of counterparty exposure limits. The existing Forex settlement segment shall be expanded to provide Clearing and settlement services for trades in other Foreign Currencies (non-USD) against the Indian Rupee and Non-Deliverable Forward instruments. CCIL has also initiated CCP clearing services in Rupee denominated derivatives benchmarked to MIBOR and Modified MIFOR, and CCP clearing services for USD/INR FX Option trades for tenors upto 1 year along with guaranteed settlement of Option premiums. The facilitation of guaranteed settlement by CCIL has resulted in the elimination of counterparty and operational risks and uncertainties. The resultant availability of liquidity with the banks due to multilateral netting provided by CCIL has aided growth in these markets.

CCIL, through its wholly-owned subsidiary, Clearcorp Dealing Systems India Limited (Clearcorp), provides a range of dealing systems/platforms across Government Securities, Money Market, Forex and Derivatives markets. The CROMS trading system, an anonymous order matching platform for Repos, TREPS- an electronic trading platform for the Triparty Repo market, FX-CLEAR- the forex trading platform, ASTROID platform for trading in the IRS market and OPTIX platform for trading USD/INR FX Options are the trading platforms developed by Clearcorp. It has also developed NDS-OM, an anonymous trading platform for the Government Securities market and the NDS-CALL platform for transactions in the Call, Notice and Term money on behalf of the Reserve Bank of India. In 2019, Clearcorp launched FX-Retail platform, a web-based platform for Customers to execute their forex transactions in the USD/INR pair. In October 2025, FX-Retail was integrated with Bharat Connect to enable Individual Customers to buy US dollars through the Banking and Third-party applications enabled by Bharat Connect. As an extension to the current offering, FX-Retail shall support trading in additional currencies (EUR, GBP, CAD, CHF & AED) against the Indian Rupee shortly. Simultaneously, these additional currencies shall also be made available to the Interbank market participants on the FX-Clear Platform.

In the OTC derivatives market, CCIL through its products, platforms and services has played a pivotal role in mitigating inherent risks of the market and helped expand market access to new products and market participants. The Trade Repository services for this market commenced in 2007, and CCIL has gradually expanded its gamut of activities to facilitate CCP services for MIBOR and Modified MIFOR linked swaps, and CCP services for USDINR FX Option trades for tenors upto 1 year along with guaranteed settlement of Option premiums, provide Margining and Collateral Management services for non-centrally cleared derivative (NCCDs) transactions through the 'SARVAM' platform and periodic portfolio compression services to reduce outstanding positions of market participants. In September 2025, Clearcorp launched OPTIX trading platform, a web-based platform for anonymous trading of USDINR FX options, wherein the order matching happens based on Implied Vols, resulting into generation of Option trades with automatic calculation of Strike Price and Premium, along with generation of Delta Hedge Forward trade.

The Trade Repository services have brought greater transparency to these markets and the completeness of the information being made available now has helped the Regulator and market participants to gauge the level and depth of these markets at any point of time. CCIL has one more trade repository reporting platform (F-TRAC) that captures the primary and secondary market activity in the Commercial Paper and Certificate of Deposit market and also secondary market Repo activity in Corporate Bonds.

Moving beyond its role as a pioneer in the wholesale segment of the financial markets, CCIL now supports the regulatory objective to expand the presence of smaller and retail participants in the Government Securities, Forex and OTC derivatives market. The Clearing Member structure launched in various settlement segments in 2020 has helped to extend facility of clearing services to both retail and non-retail customers. Giving a push to the RBI initiative to expand the retail investor's footprint in the G-Sec market, CCIL manages the RBI Retail Direct Scheme launched in November 2021, on behalf of RBI, which facilitates individual investors to directly invest in Government Securities (G-Secs) such as Central Government Securities, State Government Securities, Treasury Bills, Sovereign Gold Bonds and Floating Rate Saving Bonds. Under the RBI Retail Direct Scheme, CCIL acts as an aggregator/receiving office for the primary issuance of G-Secs, FRSB and SGBs.

Legal Entity Identifier India Limited (LEIL) a wholly-owned subsidiary of CCIL has been accredited by the Global Legal Entity Identifier Foundation (GLEIF) as a Local Operating Unit (LOU) for issuance and management of Legal Entity Identifiers (LEIs). LEIL is the only issuer authorized by RBI in India, providing cost effective LEI issuance and renewal services to Indian legal entities via a web application which facilitates quick application submission and processing journey. LEIL also extends its services through a network of three Validation Agents (VAs) in India.

CCIL IFSC Limited ("CCIL IFSC"), incorporated on May 29, 2024, as a subsidiary of The Clearing Corporation of India Ltd. (CCIL), is a financial market infrastructure institution established to facilitate, promote, and support the clearing and settlement of foreign currency transactions within GIFT IFSC. This company aims to contribute to the evolving needs of businesses within GIFT IFSC by offering a diverse range of products and services to entities such as banks, insurance companies, depositories, stock exchanges, clearing corporations, and mutual funds in permitted foreign currencies.



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Our network connects more than 3,000 buy-side clients in over 80 countries with more than 200 liquidity providers. Through our global presence and suite of web-based trading solutions, 360T helps market participants improve price transparency, automate workflows, and reduce operational and regulatory risk.

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360T's Execution Management System (EMS) provides a configurable environment for order management, execution, market data, analytics and reporting. It supports both high-touch and fully automated workflows while giving traders transparency and control throughout the trade lifecycle.

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The browser-based HTML platform requires no local installation. This simplifies deployment and maintenance and gives users consistent access across offices and operating environments.

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Participants can access the venue through CCPs, prime brokers, prime-of-primes and direct bank lines, with low-latency connectivity in NY4, LD4 and TY3. Trade via high-speed APIs or the SuperSonic Trader GUI.

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360T's global liquidity management team actively optimizes each client's liquidity pool, segmenting flow, minimizing market impact and information leakage, and ensuring sustainable, high-quality execution for makers and takers alike.

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360T SUN, the Swaps User Network, is a fully automated FX Swaps limit order book. It also combines a real-time bilateral credit model and mid-rate matching powered by 360T's Swaps Data Feed, and operates within 360T's regulated multilateral trading facility.

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Users can exchange risk at an indicative mid-market rate in a dark mid book or place resting bids and offers in a traditional limit order book with access to firm liquidity.

HTML GUI and API access

Traders can access SUN through the 360T HTML GUI, while e-FX desks can connect through FIX API for streaming prices, mid orders, market data, credit checks and execution STP.

Automated credit and processing

Pre-trade risk limits or API connectivity automate real-time bilateral credit checks, removing a manual step and providing greater certainty before execution.

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Eight key currency pairs

Streaming liquidity is available in USD/INR, USD/KRW, USD/TWD, USD/IDR, USD/PHP, USD/BRL, USD/CLP and USD/COP across a range of short tenors and IMM dates.

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Aggregated streams from bank and non-bank providers help expand the available liquidity pool and connect onshore market expertise with 360T's global client network.

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Clients can trade bilaterally, through a prime broker or via the SCB credit hub/CCP. Intermediate trading is anonymous, while bilateral trading can include post-trade name give-up.

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