

Will the Indian Rupee Stabilize Below ₹97/\$ or Breach ₹97 by December 31, 2026?

A Macroeconomic Analysis of Oil Prices, Capital Flows, RBI Intervention and U.S. Monetary Policy.

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Macroeconomic Research Paper, August 2026



Figure 1: USD/INR exchange rate, January–August 2026. Source: Google Finance

Key observation: As shown in the graph the Indian rupee has depreciated substantially during 2026, moving from approximately ₹90/\$ at the beginning of the year to around ₹95/\$ by August. USD/INR also reached approximately ₹96.50/\$ on July 23, bringing the exchange rate close to the ₹97/\$ threshold. This sharp depreciation raises the question of whether the rupee can stabilize around current levels or experience further depreciation by the end of 2026.

1. Executive Summary:

This paper forecasts that the Indian rupee will stabilize below ₹97/1\$ by December 31, 2026, most likely settling in the ₹95.50–96.50 range. Bearish pressures like elevated crude oil prices, United States monetary policy uncertainty, and capital-flow volatility remain the main threats to this outlook, having pushed USD/INR as high as ₹96.50 in July 2026. However, these are outweighed by RBI intervention, record foreign-exchange reserves (\$740.8 billion as of late August), and renewed foreign equity inflows (\$3.1 billion in August alone). Cumulative outflows earlier in 2026 remain a lingering risk. On balance, this paper concludes that a sustained breach of ₹97 is less likely than stabilization below it.

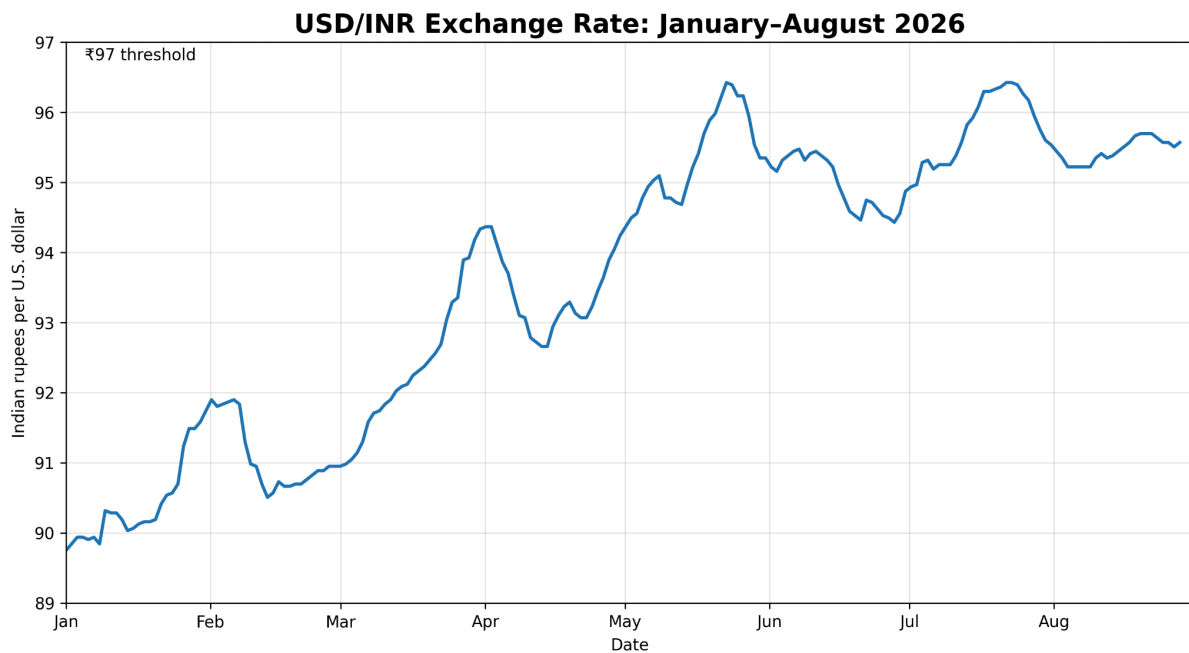
2. Background and Context:

The Indian rupee (INR) has been in an extended downtrend against the US dollar (USD) in 2026. Having started the year at around ₹90 per USD, the currency then gave up ground sharply as external factors weighed on the currency before testing a peak near ₹96.50 per USD in late July 2026. A recovery started in late-August and the currency closed at ₹95.16 per USD on August 31, 2026, on inflows of foreign capital into the market and steps taken by the Reserve Bank of India (RBI) to shore up the currency. The movement from around ₹90 to a peak of nearly ₹96.5 illustrates the magnitude by which the rupee moved against the dollar and the impact that both external and internal factors can have on the currency pair.

This is an especially important question as the direction of the rupee will be determined by a combination of external and internal factors in the coming months. A sharper rise in crude oil prices and changes in monetary policy by the Federal Reserve (Fed) can weigh on the currency, while inflows of foreign capital and steps by the RBI can prop up the currency. The ability of the RBI to stabilize the currency has also improved, with the foreign exchange (forex) reserves hitting a record \$740.80 billion as of August 28, 2026, providing the central bank with the firepower to stabilize the currency. At the same time, the resilience of the rupee has been illustrated by its recovery to ₹94.95 per USD on September 1, 2026. The question for the remainder of 2026 is whether these factors will be enough to keep USD/INR below the critical level of ₹97 or if the fall will continue to a new record low.

3. Data(Key Observations):

Figure 2: USD/INR Exchange Rate, January–August 2026

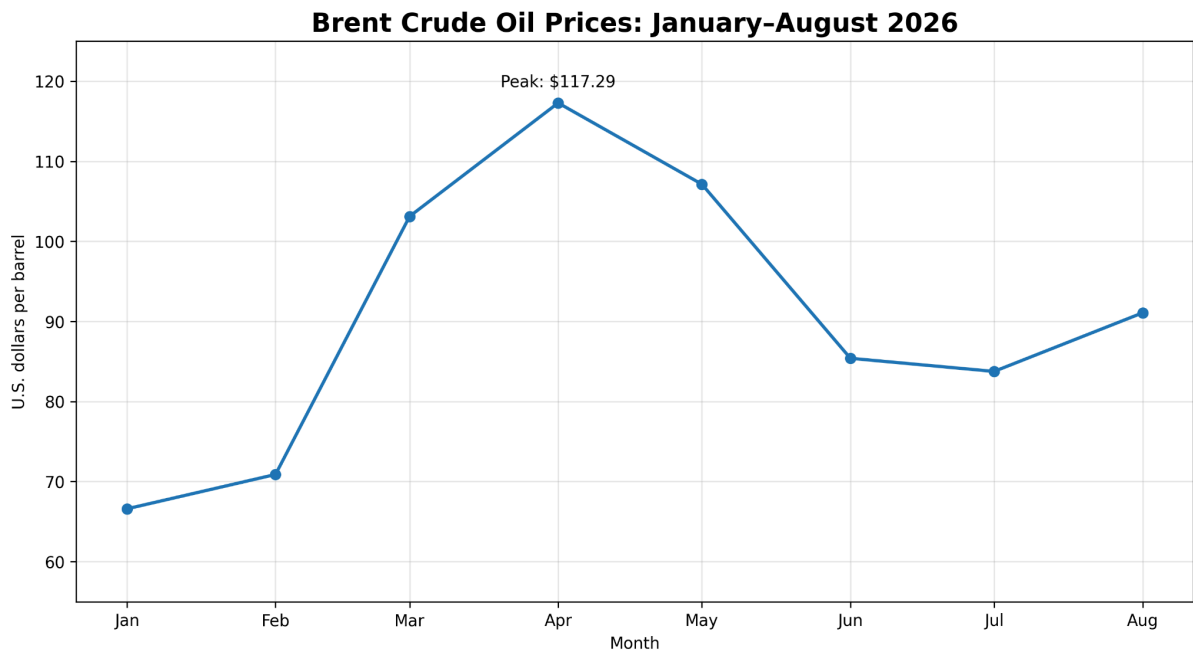


Source: Board of Governors of the Federal Reserve System (US), via FRED, DEXINUS daily series.
Chart reconstructed from the daily FRED graph supplied in this conversation; values are approximate visual extractions.

Key Observation:

Rather than falling in a straight line, the rupee's 2026 slide has come in two distinct phases. Between January and April, it weakened almost continuously, sliding from around ₹90 toward ₹94-95. From May onward, though, the trend flattens into a volatile back-and-forth, bouncing between roughly ₹94.5 and ₹96.5 without ever settling into a clear direction. There are two separate peaks, one around May-June and another in July, and each time the rupee pulls back toward ₹95 before pushing higher again. Both peaks came close to ₹97, but neither actually broke through it. This says something useful about what to expect next. Whether the rupee keeps testing ₹97 or finally breaks free of this range probably comes down to whether oil shocks (see Figure 2) keep arriving in waves, or whether the RBI's growing reserve stockpile is finally enough to anchor the currency below ₹96 for good.

Figure 2: Brent Crude Oil Prices, January–August 2026.



Source: U.S. Energy Information Administration (EIA), Europe Brent Spot Price FOB. Monthly averages.

Key Observation:

Brent crude oil prices experienced significant fluctuations during the first eight months of 2026. They increased considerably from only \$67 per barrel in January to a peak of \$117.29 in April. It is obvious that there was a three month increase in prices within a short span of time. Nevertheless, they started to decline just after reaching the highest level in April and dropped to \$84 per barrel by July. A modest recovery followed in August, when prices rose to approximately \$91 per barrel. Therefore, it is possible to say that there was a sudden growth of Brent crude oil prices and an equally impressive drop and a rebound.

4. Analysis- Bear Case (weakens past 97):

1-Oil Prices

India imports 85-89% of its crude oil, a burden representing \$10/barrel rise adds an estimated \$17-18 billion to the annual import bill and a widening of the CAD by 0.4-0.5% of GDP. Brent has already spiked to \$117.29/barrel in April amid the US-Iran conflict, and renewed strikes in early September pushed it back near \$95-96. A fresh escalation or Hormuz disruption could see the price of oil jump higher again, causing USD/INR to head towards ₹97.

2-Capital Flows (FPI/FDI)

FPIs are heading for record annual net outflows from Indian equities for 2026 (\$24.6 billion YTD), driven by a structural rotation toward AI-linked markets like Taiwan and South Korea. August's \$3.1 billion inflow could well be temporary if that global rotation kicks in again. A return to net outflows would strip the rupee of one of its recent supports.

3- RBI Intervention

A lot of the RBI's \$740.80 billion reserve build came down to one thing: the FCNR(B)/ECB swap facility, which pulled in over \$136 billion before closing on August 31. Now that it's shut, reserve growth could slow down fast. Systematix brokerage isn't convinced this fixes anything long-term either, calling it more of a delay tactic and pointing to a possible 6.5% annual depreciation path ahead.

4- US Monetary Policy / Fed Rates

Fed Chair Kevin Warsh didn't help matters with his hawkish speech at Jackson Hole in late August, which sent the 10-year Treasury yield up to 4.80%, its highest point since late 2023, as markets started pricing in the chance of rate hikes again. That matters because a genuinely more hawkish Fed tends to pull money back into dollar assets, strengthening the dollar broadly against emerging-market currencies. If that trend holds, it could easily undo the rupee's recent stabilization, and it wouldn't have anything to do with how India itself is doing.

5- Trade Deal Status

Even with the February tariff-cut framework in place, the full US-India Bilateral Trade Agreement still isn't done as of September 2026. That's worth watching closely, because the U.S. buys around 22% of India's exports so any stall or breakdown in these talks wouldn't just be a diplomatic setback, it would bring back the tariff risk premium that was already weighing on the rupee earlier this year.

5. Analysis- Bull Case (Stabilizes/Recovers):

1- RBI Defense Levels

The RBI has significant scope to defend the rupee if selling pressure increases. Its foreign-exchange reserves hit a record \$740.80 billion in the week ending August 28, giving the central bank a large buffer to intervene in the currency market. The RBI has already been actively managing the rupee through dollar sales and other foreign-exchange operations. More than \$136 billion of foreign-currency inflows from special schemes also bolstered the reserve position at the start of this year. While some of this came on a temporary basis, the overall reserve position provides the RBI with significant firepower to prevent a disorderly rupee move.

2- Trade Deal Progress

The improvement in U.S.-India trade relations is another factor providing some support to the rupee. In February the U.S. lowered its reciprocal tariff on Indian goods to 18% and scrapped an additional 25% levy that applied to India's Russian oil purchases. In turn, India agreed to buy \$500+ billion in U.S. energy, technology and other products in the next five years while cutting tariffs on a range of U.S goods. While overall talks to finalize a Bilateral Trade Agreement are still ongoing, the February framework eased some of the concerns that had been weighing on Indian markets at the start of this year. Further progress would likely be positive for markets and add to the tailwinds for the rupee.

3- Export Strength (IT/Pharma)

India's large export services sector is another key support to the rupee. Services exports totaled a record \$421.3 billion in FY26, while telecommunications, computer and information services generated \$206.6 billion. Pharmaceutical exports also came in at \$28.29 billion during April-February FY26, supported by resilient global demand for Indian medicines and vaccines. The services and pharma sectors represent important sources of foreign-currency earnings and act as a counterweight to the dollar demand represented by India's large merchandise import bill. Unlike short-term portfolio flows they represent a more consistent tailwind for the rupee.

4- Oil Price Relief

Oil prices continue to be a key variable in the case of the rupee. Brent crude had climbed to \$117.29 a barrel in April but then came down sharply in the subsequent months, partly easing the burden on India's import bill. Prices have since started rising again on geopolitical worries, and hence, oil remains a factor but not as critical as in April. With prices stabilising rather than rising sharply and the RBI continuing to monetise its reserves as well as strong exports, the prospect of the rupee staying within the 95-96 range through December is distinctly possible.

6. Synthesis:

Weighing the two cases against each other, the bull case is stronger — not because the bear-case risks are weak, but because they're mostly conditional on something new going wrong, while the bull-case supports are already in place and measurable today.

Take oil, the single biggest bearish threat. The April spike to \$117.29 was real, but it required a specific shock (the US-Iran conflict) to happen, and even with tensions flaring again in early September, Brent has settled back near \$95-96, well below its peak. For oil to be the thing that pushes USD/INR past ₹97, it would need a fresh, larger escalation, not just a continuation of what's already priced in. That's a possibility, not a probability.

Capital flows tell a similar story. Yes, FPIs are on track for record annual outflows, but that outflow pattern is largely a function of a global rotation toward AI-linked markets rather than an India-specific loss of confidence, and August's reversal (\$3.1 billion in inflows, the strongest month in almost two years) shows that reversal is entirely possible when domestic fundamentals look decent. The latest data point toward a possible shift back toward inflows, rather than a continuation of the earlier outflow trend.

By contrast, the RBI's defense is not conditional on anything else going right; it already exists. \$740.80 billion in reserves, over 10 months of import cover, and a demonstrated willingness to intervene continuously rather than only on big swings are all facts on the ground today, not projections. Even accounting for the risk that the FCNR(B)/ECB facility's closure slows future reserve growth, the RBI is starting from a stronger position than at any other point in 2026. Add to that the steady, largely oil-and-Fed-independent dollar inflows from IT and pharma exports, and the rupee has more structural support underneath it than the bear case's risks would need to overcome.

The Fed remains the genuine wildcard here, and it's the one risk in the bear case that isn't really about India at all. A sustained hawkish turn, if it actually materializes, could offset everything else on this list. But the signal as of early September, Governor Waller pushing back against Chair Warsh's hawkish tone, suggests the Fed itself hasn't settled on a direction either, which makes it hard to weight this as more likely than not.

On balance, the rupee's floor looks firmer than its ceiling looks fragile. The bear case describes real risks that would need to intensify from where they stand today; the bull case describes support that is already largely in place. That asymmetry is why this paper's forecast leans toward stabilization below ₹97 rather than a breach.

7. Forecast, Risks & Trade Implication:

Base Case Forecast: ₹95.50–96.50/\$ by December 31, 2026

Given the information at hand up to August 31, 2026, the base-case forecast of mine regarding the future performance of the Indian rupee in the coming months is that it will remain stable below ₹97/\$ and be traded in a range of ₹95.50–96.50/\$ till the end of 2026. The forecasts were made on the basis of the large RBI foreign-exchange reserves amounting to \$740.80 billion, the ability of the central bank to control currency volatility, the return of foreign portfolio inflows in August, and the expectation of oil price drop.

What Would Prove This Forecast to Be Wrong?

The forecast will prove to be wrong if USD/INR reaches above ₹97 and stays at this level at the end of 2026. The key drivers will be a new oil price increase, the resumption of huge FPI outflows, and the stronger than expected U.S. dollar due to more hawkish Federal Reserve policy stance.

Trade Implication-

However, if the rupee manages to stay below ₹97, as expected in this research paper, then there are positive implications for importers and firms that make their payments in dollars, thus making currency costs easier to predict and reducing the risk of foreign currency costs. IT and pharmaceutical exporters continue to benefit from favorable conditions as well, because the majority of their income is received in dollars, although the level of benefits will not be so high as it would have been if the rupee was weaker.

If the rupee crosses the threshold of ₹97, then the picture reverses. IT and pharmaceutical exporters benefit in such a case, because each dollar earned gives more rupees. Oil importers and firms with dollar-denominated debts and costs suffer from higher costs and more expensive imports.

8. Conclusion:

In general, according to the available data up to August 31, 2026, there is a higher probability for the rupee to stabilize under ₹97/\$ until December 31, 2026, compared to breaking the level. High foreign exchange reserves and intervention readiness from the side of RBI form a kind of protective layer against possible devaluation, while inflow of FPI in August and strong exports of services and pharmaceuticals from India add some strength to rupee. Still, the rupee will be highly dependent on oil prices, international capital flows and US monetary policy. Sharp growth in prices of crude oil or renewed outflow of foreign capitals may very quickly affect the currency of India. Under such conditions, the base scenario of the exchange rate between ₹95.50 and 96.50 per one dollar up to December 31, 2026, is still considered the most probable one.

9. Sources:

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