Asia Alert

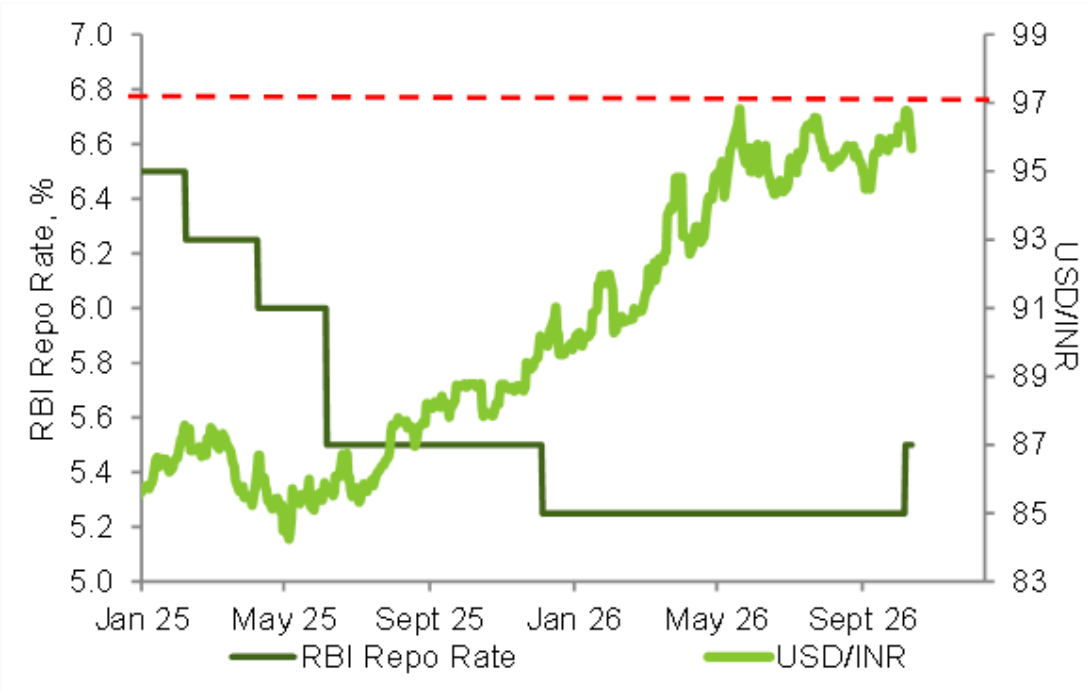
12 October 2026

India's Central Bank Plays For Time

The Reserve Bank of India (RBI) is once again defending its USD/INR line in the sand at 97. Plunging reserves and heavy forward liabilities leave RBI little room to maneuver. Its weekend package builds friction to stem losses without draining reserves. Though not its first creative rescue, earlier policy reversals keep investors wary. Regulatory creativity can buy time. We keep our year-end USD/INR target at 96, trusting tinkering holds the dam until cheaper crude returns.

Reserve Bank of India (RBI) stepped up its rupee defense with a fresh package of measures. When the central bank delivered its first 25 bps hike in nearly four years on 7th October, the promise of "calibrated" tightening did not impress traders. The market promptly sold the rupee past 96.8 against the greenback, prompting the central bank to once again defend its line in the sand at 97 per dollar (Chart 1).

Chart 1: RBI is still defending rupee at 97 per dollar level

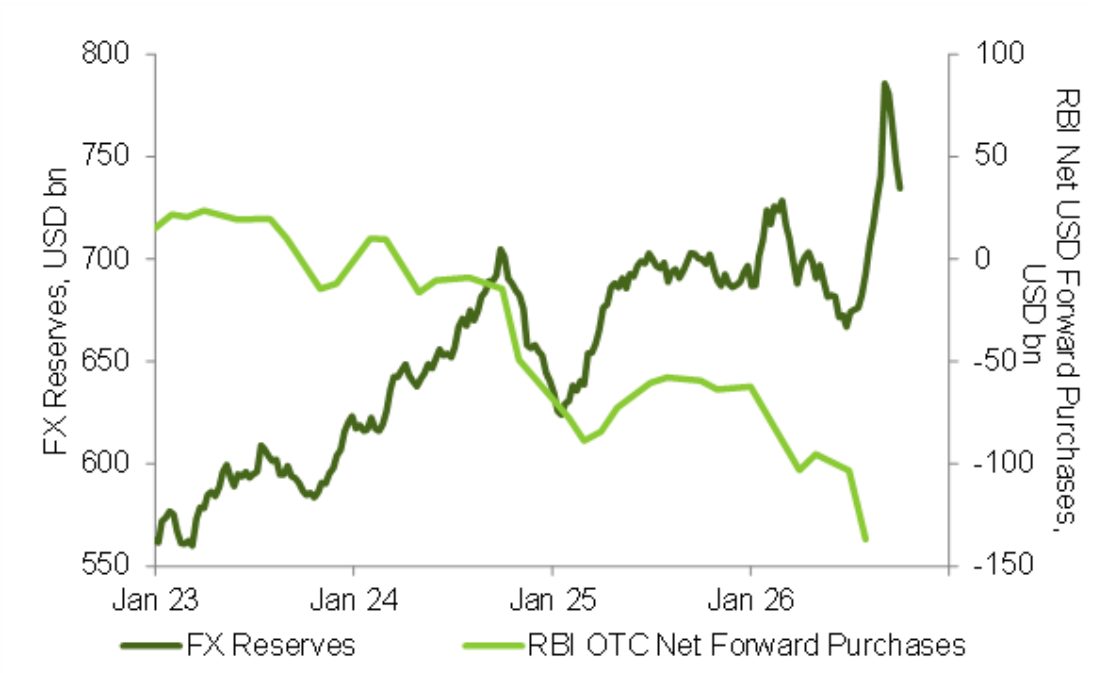


Source: Bloomberg, SEB

India's FX reserves have been on wild ride this year, reflecting RBI's efforts to prop up its currency. After peaking at USD 711 billion in January 2026, the war in Iran and subsequent spike in oil prices prompted the RBI to burn through USD 37 billion in March to prop up the rupee. The FCNR(B) deposit scheme fueled a summer recovery, pushing reserves to a new record of USD 785.7 billion by early September. Yet, shuttering the program just as crude oil prices surged again wiped out USD 51 billion in a month (Chart 2). The RBI's net dollar forward book further magnifies the extent of currency intervention.

The net short dollar forward position has expanded substantially, reaching a record USD 136.8 billion by July. **The large contingent liability leaves the RBI with far less room to maneuver in the future.**

Chart 2: FX reserves have been on a wild ride with forward positions magnifying the FX intervention



Source: Bloomberg, SEB

Thus, the RBI rolled out yet another patchwork defense for the rupee over the weekend 10-11 October. In the hope to spare its yet again declining reserves, state-run oil companies were shunted to a special dollar window, off the spot market. To stifle speculative activity, the central bank borrowed a trick from Beijing with the introduction of the Foreign Exchange Risk Reserve for FX derivatives. Lenders are now required to set aside 20% reserves of the notional value of each derivative transaction above USD 2 million. Meanwhile, the RBI is also prohibiting the immediate rebooking of cancelled FX contracts. The RBI has also aggressively slashed limits for derivatives trading without underlying exposure to USD 5 million from USD 100 million. Overall, **the new package has built a wall of friction against further rupee weakness while limiting the decline in FX reserves.**

This is not the first time the RBI got creative in its support of the rupee with a package of measures to attract foreign currency in June. As foreign reserves had been declining since March, the RBI launched a special swap window that encouraged banks to offer 3-5 year foreign currency deposits. The hedging costs of the foreign currency non-resident FCNR(B) deposits program were absorbed by the central bank, lowering the overall cost of funds for banks. Tax breaks were also introduced for foreign bond investors. Market access for foreign investors in bonds and equities was likewise eased. The package hauled in USD 56.85 billion, with FCNR(B) deposits accounting for more than USD 52 billion. This allowed the RBI to rebuild its official reserves. Yet, faced with an estimate USD 9-12 billion bill over five years if deposits continued to soar, the central bank unexpectedly pulled the plug by end-August. **The decision to close the program early gave investors a fresh dose of policy confusion and the impression that policymakers are sensitive to the price tag.**

The RBI can still pull more levers to keep the rupee from falling past 97 in the near term. The initial bounce towards 95.6 looks fleeting. The rise in NDF points reveals that 3-month market expectations remain firmly above 97. RBI's latest wall of friction buys time, but it cures no ills. High oil prices, robust dollar and declining capital flows will resume sapping the rupee's recovery. **For now, we keep our yearend USD/INR forecast at 96, trusting that the regulatory creativity can keep the dam intact until cheaper crude oil returns.**

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