HSBC Mutual Fund

The Macro Sphere



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Here we go, again...RBI steps-up FX defense

The RBI has intensified its defense of the rupee through a targeted USD window for state-owned oil marketing companies (OMCs) and tighter controls on INR-linked FX derivatives. The OMC facility should immediately reduce spot-market dollar demand, potentially rerouting around USD 11–12bn of monthly demand, and may support a knee-jerk INR recovery following the announcement. However, it is primarily a short-term liquidity and market-functioning measure; It does not remove or reduce India's underlying dollar requirement.

The RBI is moving decisively from tolerating large, unverified FX positions towards stricter exposure-based discipline. The package should provide near-term INR support and improve market transparency, but as observed for CY13 it may just buy time rather than deliver a structural solution. A sustained recovery will depend on easing global and oil-market pressures, stronger capital inflows and progress on India's external-sector fundamentals.

Key market implications:

- **INR:** Likely to strengthen initially as OMCs reduce their participation in the interbank FX market and speculative activity is curtailed. The impact may fade if high oil prices, external shocks or weak capital flows persist.
- **Rates and liquidity:** The measures are likely to weigh on rates-market sentiment. Foreign Exchange Risk Reserve (FERR) is likely to increase funding and hedging costs, encourage shorter-tenor hedges closer to payment dates and drain system liquidity. Further liquidity absorption through higher daily CRR maintenance, OMO sales and VRRR operations could add pressure.
- **Corporates:** Larger hedges expected to become more expensive and operationally demanding. Treasury teams may need stronger exposure records, consolidated reporting across banks and sufficient liquidity to absorb FERR-related costs.

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- **Banks/ADs:** Compliance requirements will increase, including exposure verification, duplicate-hedging checks, document retention, aggregation across counterparties and daily FERR reporting.

- **Policy outlook:** If pressure on the rupee continues, the RBI may need a broader toolkit, potentially including greater exchange-rate flexibility, further liquidity tightening, a rate hike, fuel-price increases to curb oil demand & keep fiscal pressures contained; importantly, may need more medium-term measures to promote exports, reduce import intensity and attract FDI.

Our view: Rupee's incessant fall in the past few weeks, despite RBI's likely intervention in the FX market, has possibly led the RBI to tighten the screws elsewhere and step-up regulatory measures as well as resort to past playbook of opening up a special swap window for Oil Marketing Companies (OMCs) - to meet their dollar demand. The RBI's FX measures and governments' duty hikes etc on precious metals are temporary/strategic fixes to stem the INR's fall, but not structural solutions to address the dollar demand/external sector needs. Hence, a broader policy toolkit may become the need of the hour, including enhanced tolerance to exchange rate flexibility, possibly raising domestic fuel prices to axe demand for oil & also reduce fiscal pressure. At the same time, draining excess surplus liquidity from the banking system (recent measures: such as 99% daily CRR maintenance vs 90% earlier, and OMO Sales of INR 250bn along with VRRRs), additional Rate hike (possibly in Dec'26 itself, to keep expectations anchored), and importantly, focusing on medium-term steps such export promotion, reduced import intensity and boosting FDI inflows, etc remain crucial from external sector management.

All-in-all, following these measures on liquidity and FX & rates market have reacted accordingly, with the INR adding gains and USDINR pair steadying at 95-odd levels. RBI's likely intervention in the market as well as RBI Governors' comment that, the RBI is determined to do whatever is necessary to ensure orderly movement in the FX market have pulled up currency pair to ~95/US$, at the time of writing the note. However, if external pressures and the oil shock persist, the respite for currency may prove to be temporary (as observed in CY13). This time, the RBI has clearly stepped up on regulatory front esp. to curb speculative and unsupported INR positions.

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Table 1: INR vis-à-vis peers; RBI stepping up to ease INR pressures

EMs (vs USD)	5 Day	1 Mon	Since Iran War
Mexican Peso	-1.9	-7.9	-6.5
Chilean Peso	-0.5	-3.6	-10.8
Russian Ruble	-0.5	-1.1	-9.6
Indian Rupee	**-0.5**	**-1.2**	**-6.0**
Turkish Lira	-0.4	-1.6	-10.9
Taiwanese Dollar	-0.4	-0.8	-2.1
Peruvian Sol	-0.3	-2.4	-2.6
Polish Zloty	-0.3	-4.8	-8.7
Philippine Peso	-0.3	-0.2	-8.2
Romanian Leu	-0.2	-5.0	-9.5
Czech Koruna	-0.1	-4.1	-5.7
South Korean Won	0.0	0.0	7.2
Malaysian Ringgit	0.0	-0.4	-4.7
Brazilian Real	0.1	2.7	2.8
Indonesian Rupiah	**0.1**	**-1.6**	**-6.2**
Chinese Renminbi	0.2	0.2	2.5
Argentine Peso	0.2	-0.5	-7.8
Colombian Peso	0.3	-3.3	17.6
Hungarian Forint	0.4	-3.9	-2.1
Thai Baht	**0.4**	**-1.5**	**-7.3**
South African Rand	**0.7**	**-2.3**	**-3.5**

Source: Bloomberg (as on 12-Oct)

The Oil Window: The RBI's targeted USD facility for three state-owned oil marketing companies should reduce their participation in the interbank FX market and thereby moderate near-term USD/INR demand and volatility. The measure is supportive of orderly rupee trading and ensures continuity of essential oil-import payments. However, it does not eliminate the underlying dollar requirement and may entail a drawdown of RBI FX reserves if used extensively. We therefore view it primarily as a market-functioning and liquidity-management measure, rather than a standalone solution to India's external-balance pressures.

In short, the facility is immediately INR-supportive through lower market-based USD demand, but its longer-term effect depends on usage, oil prices, capital flows and the impact on RBI reserves, if history is any indication, global shocks have to ease as these are mere short-term shock absorbers.

A tool from its past playbook: The dedicated OMC dollar window - RBI began supplying dollars directly to oil marketing companies removing a large, recurring source of daily dollar demand (~$400–500mn/day) from the spot market.

In 2013: The RBI announced the dedicated dollar window for oil marketing companies on **28 August 2013** (the news broke on the evening of 28 August, with markets reacting on 29 August). Bloomberg reported on 29 August that the RBI "will provide foreign currency to state-owned Indian Oil Corp., Bharat Petroleum Corp. and Hindustan Petroleum Corp., which the authority will repurchase after a specified period" — structured as a forex swap arrangement. The rupee surged ~3.3% on 29 August in direct response to the announcement. It closed early-December 2013, the same year. **But the INR gains frizzled out and on 4-September RBI announced the FCNR(B) window when the INR again gained ~2.3%. However, in 2013, these measures were used as a stop-gap but eventually, the pressure on INR eased following the calm in the global financial markets and certain reforms back home (fiscal consolidation, etc.)**

As per street expectations, with monthly oil imports averaging ~US$20bn FY27 YTD **and OMCs accounting for an estimated 58-60% based on refinery throughput, ~US$11–12bn of monthly dollar demand could be rerouted from the spot market to the RBI.**

From rates market perspective, one of the policy tools that could impact system liquidity is the FERR policy measure (details of it at the end of note) – the FERR – which is likely to increase hedging costs for importers and in fact may keep it shorter-tenor, closer to payment dates. The FERR requisite of maintaining **20% of the INR equivalent of qualifying derivative contracts above USD 2 million** until termination implies liquidity drains as 'reserve requirement'.

Episode / tool	Main objective	Similarity to current OMC window	Key difference / lesson
Earlier targeted support for oil companies during periods of rupee stress	Ensure oil importers could obtain USD without intensifying open-market pressure	Directly comparable: both address concentrated, essential-import USD demand	Effectiveness depends on duration, transparency and whether broader external pressures ease
2013 rupee stress episode	Address capital outflows, high oil-import demand, current-account pressure and disorderly rupee trading	Demonstrates the use of targeted FX and liquidity measures during acute stress	Targeted measures bought time but needed support from capital inflows, macro adjustment and confidence restoration
Asian crisis period, 1998–99	Preserve orderly FX markets and access to foreign currency for essential payments	Similar focus on external-payment continuity and market stability	Highlights the importance of reserves and confidence when market liquidity deteriorates

Source: RBI, HSBC AMC, Fixed Income

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Table 3: RBI steps up its FX Defense: Policy steps/tools deployed and likely market implications

FX Steps	Policy step / tool	Method or mechanism	Implications
1	**Special Dollar Window for OMCs**	RBI will sell USD to the OMCs through designated banks	Reduces their direct demand in the interbank FX market; Lower immediate upward pressure on USD/INR. RBI's FX reserves may decline; rupee liquidity initially increases.
2	**Restriction on rebooking cancelled INR-linked derivatives**	Authorised Dealers (ADs) may not allow a user to rebook an INR-involving foreign-exchange derivative-deliverable or non-deliverable-if it was cancelled with any AD after the directions were issued.	Limits repeated cancellation and re-entry into derivative positions, reducing scope for speculative trading or regulatory arbitrage. Users retain the ability to roll over contracts at maturity, subject to existing rules.
3	**Reduction in unverified-position threshold**	The threshold for taking FX derivative positions without establishing the existence of an underlying exposure stands **reduced to USD 5 million** from **USD 100 million**	Requires substantially more users to demonstrate a genuine underlying exposure. This should improve transparency and reduce large unsupported positions, but may increase compliance time and documentation costs.
	Reduction in exchange-traded currency-derivative threshold	The threshold for INR-linked positions on recognised stock exchanges, without proving an underlying exposure, was also reduced from **USD 100 million** to **USD 5 million** equivalent, aggregated across all recognised exchanges and currency pairs involving INR.	Brings exchange-traded and over-the-counter activity under a tighter control framework and reduces the ability to distribute large positions across venues.
4	**Additional undertaking on underlying exposure**	Before offering an INR-linked derivative to hedge a contracted exposure, the AD must obtain and retain an undertaking confirming that the same exposure has not been hedged with another AD. **Partial hedging with multiple ADs must be disclosed.**	Strengthens controls against duplicate hedging and multiple counting of the same exposure. It places greater verification responsibility on ADs and requires users to provide accurate, consolidated information.

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5	**Foreign Exchange Risk Reserve (FERR)**	For INR-involving derivatives exceeding **USD 2 million** notional, used to hedge current-account exposures where the user buys foreign currency against INR, the AD must maintain a cash reserve with RBI equal to **20% of the INR equivalent of the notional amount.** The reserve is maintained daily until contract termination.	**Raises the liquidity and funding cost of larger derivative transactions** and creates a financial buffer against FX risk. It may discourage unnecessary or oversized hedging, while increasing the cost of legitimate large hedges.

Overall policy direction – Taken together, the measures tighten the framework in four ways:

1. **Less speculative flexibility** through the rebooking restriction.
2. **Lower tolerance for unsupported positions** through the reduction of thresholds.
3. **Better visibility of exposures** through undertakings, records and daily reporting.
4. **A direct financial control** through the 20% FERR requirement for larger qualifying contracts.

In short, RBI is moving from a relatively high tolerance for large unverified positions towards stronger exposure-based discipline. The policy does not prohibit legitimate hedging; instead, it requires users to demonstrate that the hedge corresponds to a real exposure and has not been duplicated.

Likely implications

- For **corporates,** larger or more complex hedges may become more expensive and operationally demanding. They'll need stronger treasury records, consolidated reporting across banking relationships and adequate liquidity to absorb the cost of the FERR indirectly.
- For **Banks/Ads,** the compliance burden increases. ADs must verify exposures, collect undertakings, retain documents, monitor aggregation across counterparties and report FERR daily. This may require enhancements to client onboarding, transaction-monitoring and reporting systems.
- For the **market,** the measures should reduce regulatory arbitrage and improve transparency. They may also reduce short-term speculative activity and limit the rapid build-up of unsupported INR positions. However, tighter controls could reduce flexibility for users with genuine but difficult-to-document exposures and may increase transaction costs.

Conclusion:

In CY26/27: Whether RBI would resort to steep rate hikes akin to the past, keeps market participants nervous . For now, RBI's package is a targeted tightening of FX derivative controls rather than a ban on hedging. The combination of a USD 5 million verification threshold, restrictions on rebooking, duplicate-hedging declarations and a 20% cash FERR above USD 2 million is designed to make large INR-linked derivative positions more traceable, more costly to structure purely for speculation and less capable of bypassing oversight. The effectiveness of the measures will depend on consistent aggregation across ADs, reliable user disclosures and robust daily reporting.

Table 4: Past crisis episodes and the Govt./RBI's Measures to cushion from external shocks;

Episode	Date (as reported)	RBI/Govt.	Measure	Detail
1998 Asian Crisis	16-Jan-98	RBI	Emergency rate hike + CRR increase	RBI raised key lending rate by 200bps to 11%; raised CRR by 50bps to 10.5% to prevent rupee from falling to new lows
2013 Taper Tantrum	21-Jan-13	Government	Gold import duty hike (1st)	Government raised import duty on gold and platinum to 6% from 4% to curb gold imports and reduce pressure on the current account deficit
	5-Jun-13	Government	Gold import duty hike (2nd)	Government raised import duty on gold to 8% from 6% - second increase in six months - explicitly to curb "spiraling" gold imports putting "huge pressures" on the current account deficit
	13-Aug-13	Government	Gold & silver import duty hike (3rd) + non-essential import compression	Government raised duty on gold and platinum to 10% from 8%, and on silver to 10% from 6% - third increase in 2013. Finance Minister Chidambaram simultaneously announced intent to compress imports of gold, silver, and non-essential items to bridge the trade gap
	14–15 Aug 2013	RBI / Government	Capital outflow restrictions	**RBI cut the amount local companies can invest overseas without approval to 100% of net worth from 400%; residents' annual remittance limit cut to $75,000; described as India's biggest crisis since 1991**

Episode	Date (as reported)	RBI/Govt.	Measure	Detail
2013 Taper Tantrum	28-Aug-13	RBI	Special OMC dollar window - announced	RBI announced dedicated dollar supply window for IOC, BPCL, HPCL; structured as a forex swap to be repurchased after a specified period; removed ~$400–500mn/day of daily spot demand
	29-Aug-13	Market reaction	INR single-day surge	INR surged 3.4% on 29 August 2013 - its biggest single-day gain since 1986 - in direct response to the OMC window announcement
	4-Sep-13	RBI	FCNR(B) concessional swap window - announced	RBI offered banks a discounted swap rate to attract FCNR(B) deposits and overseas borrowings; window ran until 30 Nov 2013 and raised $34bn in total
	Sep-13	RBI	MSF rate emergency tightening + OMO sales	RBI raised Marginal Standing Facility rate sharply to 10.25% (+200bps) to squeeze rupee shorts and reduce liquidity available for speculation; also conducted open market sales of government securities to drain liquidity
	17-Sep-13	Government	Gold jewelry import duty hike (4th)	Government raised import duty on gold jewelry to 15% from 10% - fourth gold-related duty increase in 2013 - to stem rupee slide and curb the record current account deficit
	8-Oct-13	RBI	MSF rate cut - partial unwind	RBI cut MSF rate by 50bps to 9% as currency stabilized, beginning normalization of emergency tightening
	30-Nov-13	RBI	FCNR(B) window - closed	RBI did not extend the deadline; $34bn raised in combined FCNR(B) + overseas borrowing window
	~2 Dec 2013	RBI	OMC window - closed	RBI confirmed oil companies were sourcing entire dollar demand from open market; window effectively closed

Episode	Date (as reported)	RBI/Govt.	Measure	Detail
2022 Russia/Ukraine Shock	21–22 May 2022	Government	Fuel excise duty cuts + fertilizer & cooking gas subsidy boost	Government slashed excise levies on gasoline and diesel pump prices, waived import tax on coking coal, and increased subsidies on fertilizers and cooking gas for the poor - a fiscal package estimated at $26bn - to tackle inflation and ease pressure on households and manufacturers
	May-22	RBI	Spot + NDF intervention	RBI intervened in all FX markets - onshore spot and offshore NDF - signalling readiness to use $600bn reserves against speculators
	Jun-22	RBI	Rate hike (50bps)	RBI raised repo rate by 50bps to 4.90% for second consecutive month, pledging withdrawal of pandemic-era accommodation. **Followed the US Fed hike**
	30-Jun-22	Government	Gold import duty hike	Government raised import duty on gold to 12.5% from 7.5% - a surprise move - after the ballooning trade gap pushed the rupee to a record low
	1-Jul-22	Government	Windfall tax on domestic crude + fuel exports	Government imposed windfall taxes on domestic crude oil production and exports of petrol, diesel, and aviation fuel; expected to generate ~₹1 trillion ($12.7bn) in revenues, largely offsetting the May excise duty cut
	Jul-22	Government	Gasoline/diesel export levies + gold import duty	Government raised import taxes on gold and increased levies on gasoline and diesel exports to control widening current account deficit and stem rupee pressure
	Mar–Oct 2022	RBI	Spot FX intervention (dollar sales)	RBI sold $54.4bn of FX reserves to meet import demand and finance BoP shortfalls; helped curb rupee volatility and keep REER stable

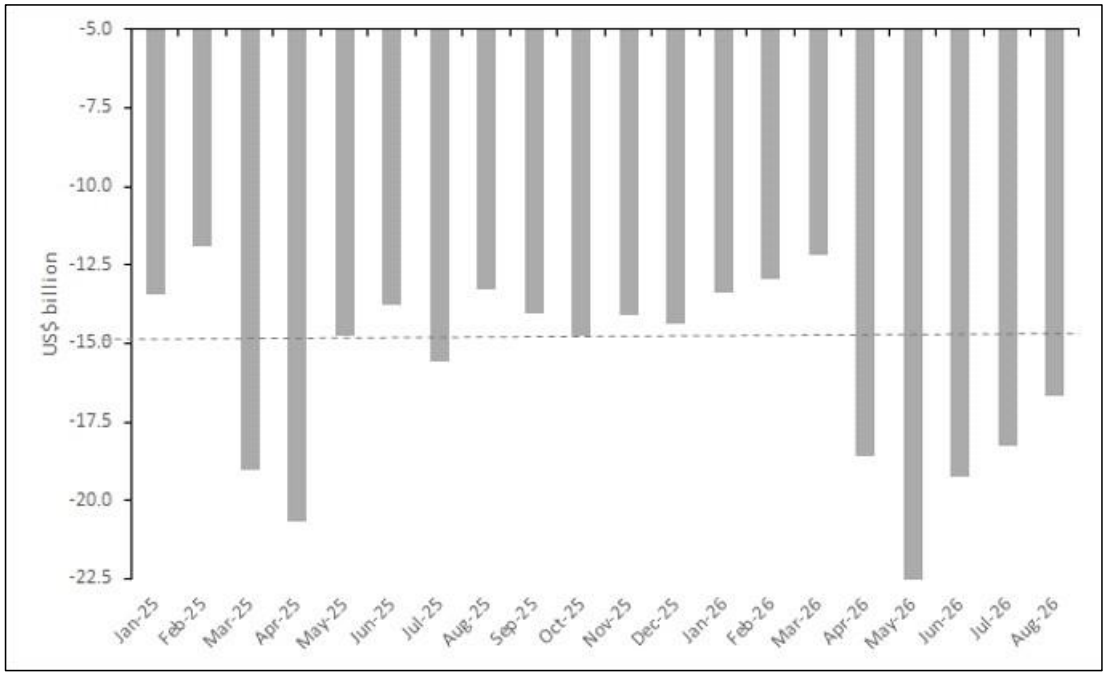
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Episode	Date (as reported)	RBI/Govt.	Measure	Detail
2024–25 Dollar Strength Episode	Oct 2024 onwards	RBI	Spot dollar sales + USDINR buy-sell swaps	RBI net sold dollars since Oct 2024, draining banking system liquidity and FX reserves; also conducted USDINR buy-sell swaps to mitigate the drain on banking system liquidity
	7 Oct–13 Dec 2024	RBI	Spot FX intervention (dollar sales)	RBI sold approximately $37.2bn of FX assets to support the rupee amid downward pressure from a record November trade deficit and revised expectations for Fed rate cuts in 2025
2026 Iran War / Oil Shock	May-26	Government	Silver import restrictions	Government reclassified silver bars as "restricted" - only DGFT-licensed shipments permitted - to preserve FX reserves
	May-26	Government	Emergency FX measures under consideration	Officials in the Prime Minister's Office and Finance Ministry reportedly held discussions with RBI on several measures to limit damage from soaring oil prices, including hiking fuel prices and curbing non-essential imports such as gold and electronic goods, according to people familiar with the matter
	5-Jun-26	Government	High-ethanol fuel blend pilot launched	Oil Minister launched a new high-ethanol fuel blend (above E20) at Indian Oil Corp. outlets - India's latest effort to diversify energy supplies and reduce reliance on imported oil, with initial rollout across 50 fuel stations
	Early Jun 2026	RBI	Special deposit scheme + bond market liberalization	RBI introduced a special deposit scheme and steps to attract foreign bond investors; raised $136bn in total capital inflows - far exceeding expectations - pushing reserves to a record $729.33bn
	7-Oct-26	RBI	Rate hike (25bps)	RBI raised benchmark repo rate by 25bps - first hike in four years; following the US Fed hike in Sept; and India inflation worries linger
	7–9 Oct 2026	RBI	Spot + NDF dollar sales	RBI sold dollars in both onshore and offshore NDF markets as rupee traded near record low of 96.9650

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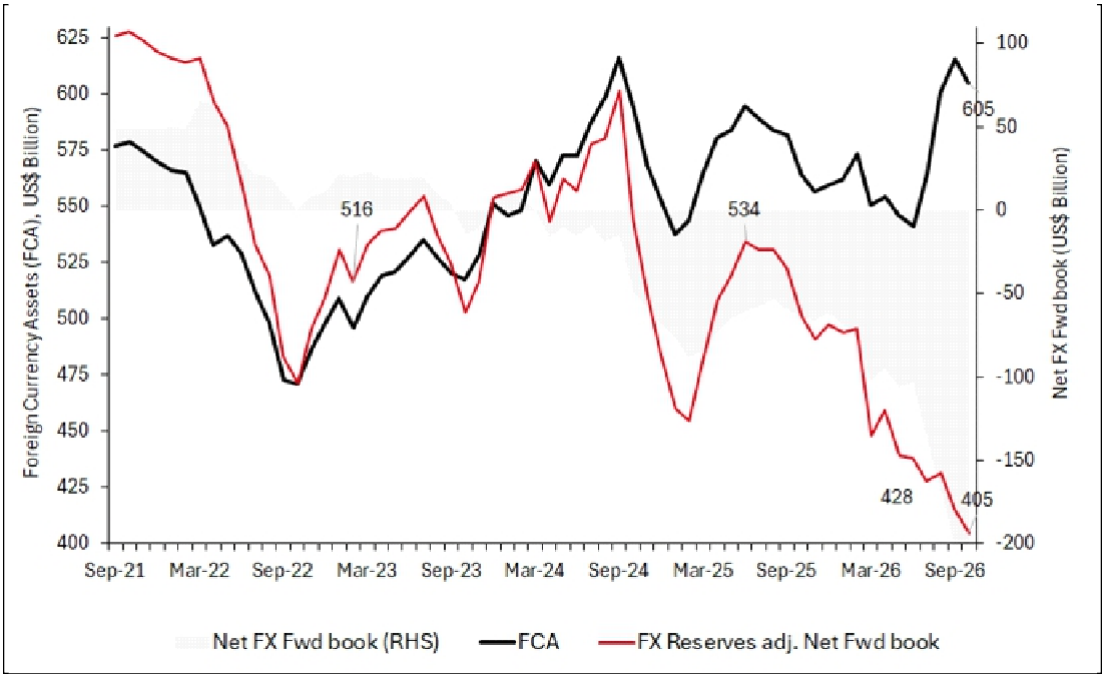
Episode	Date (as reported)	RBI/Govt.	Measure	Detail
2026 Iran War / Oil Shock	7-Oct-26	RBI	FX sell-buy swaps	RBI conducted currency sell-buy swaps to drain excess banking system liquidity alongside spot intervention and reverse repos
	9-Oct-26	Government	Gold import tax reimposed	India withdrew IGST exemption on gold, silver, and platinum imported by banks, subjecting shipments to a 3% levy
	11 Oct 2026 (announced); effective 12 Oct 2026	RBI	OMC dollar window reopened + FX derivative restrictions + additional reserve requirements	RBI reopened special dollar window for (effective 12 Oct 2026); tightened restrictions on FX derivatives; imposed additional reserve requirements on banks - described as strongest measures since 2013

Monthly Oil import bill: Average run-rate > US$ 15bn, post the Iran war



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Chart: India FCA adjusted for net short forward dollar book, falls to fresh low (dwarfing the FCA accumulation of ~US$ 105bn in its FX Reserves Kitty post 5-Jun measures)



Chart/Table sources: Bloomberg, RBI Press Release, CMIE, HSBC AMIN, HSBC PS AI

Source: Bloomberg & HSBC MF Research estimates as on October 12, 2026 or as latest available.

Note: Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial, tax and other advisors before taking any investment decision(s).

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