

### The Indian Rupee: Testing Historical Lows

The global financial landscape underwent a seismic shift this week as a perfect storm of geopolitical conflict, unprecedented energy supply disruptions, and recalibrated monetary expectations took hold. The defining narrative was the dramatic surge in crude oil prices, which breached the \$100 per barrel threshold, sending ripples through both developed and emerging markets. As risk appetite deteriorated, the US Dollar reasserted its status as the world's primary safe haven, leaving energy-dependent currencies and equity markets struggling to find a floor.

For India, the surge in oil is particularly damaging. The Indian Rupee (INR) endured a turbulent week, testing its lifetime low as the country's heavy reliance on energy imports came into sharp focus. Higher oil costs are a "double whammy" for the Indian economy: they widen the current account deficit and fuel domestic inflationary pressures.



The domestic data already shows a concerning trend; Consumer Price Inflation (CPI) surged to 3.21% in February, up from 2.74% in January. Since this data predates the current war-driven oil spike, analysts expect a much sharper rise in the March readings. This complicates the Reserve Bank of India's (RBI) monetary stance. While the RBI intervened intermittently to smoothen

volatility, it refrained from aggressive defense, allowing the currency to adjust to global realities.

The war will have serious impact on India's economy if it persists. India faces significant exposure due to its heavy dependence on imported oil: About 50% of India's crude imports (2.6 mb/d) pass through the Strait of Hormuz. A sustained 25% rise in oil prices could: increase India's import bill by about \$15 billion, widen its current account deficit by around 0.3% of GDP, increase inflation by roughly 0.7% and reduce GDP growth by approximately 0.2%. Higher oil prices would also weaken the rupee, increase fiscal pressures, and potentially delay monetary easing by the RBI. Remittances from the Gulf, worth \$40–50 billion annually, and the large Indian diaspora in the region also face indirect risks.

Sentiment in India remains cautious. Domestic equity markets tanked more than 5% on the week, while the rupee depreciated roughly 0.8%. Foreign investors pulled back from both Indian equities and debt, seeking the safety of the USD. With no immediate end to the war in sight, the rupee is expected to remain under significant downward pressure in the coming sessions.

### WEEK AHEAD FOR INDIAN MARKETS

The rupee is expected to remain weak in the coming days as there are no signs to the Middle east war emerging. Intermittent intervention by the RBI should be used to hedge near term imports.

### HEDGING STRATEGY

**Imports:** Hedge one-month payables near or below 91.75

**For Expots :-** Hedge partial exposures near or above 92.60 levels.

LAST WEEK OHLC					Clsng As On 06 Mar	Forecast Range	Sentiment
	Open	High	Low	Close			
DXY	99.33	100.54	98.49	100.36	98.99	85.00 – 107.50	Positive
USD/INR	92.21	92.48	91.74	92.46	91.75	90.50– 93.5	Positive
EUR/USD	1.156	1.1667	1.1411	1.1417	1.1618	1.1075 – 1.1900	Negative
GBP/USD	1.3349	1.3483	1.3219	1.323	1.3413	1.2850-1.3450	Negative
USD/JPY	158	159.75	157.28	159.73	157.78	153.50-161.50	Positive

## INTERNATIONAL MARKETS

### US

The US Dollar Index climbed steadily last, reflecting its dual role as a safe-haven asset and a beneficiary of shifting interest rate expectations. The spike in energy prices has forced traders to reassess the timing of Federal Reserve rate cuts. The prevailing market view is that the Fed will now delay monetary easing to prevent energy-driven inflation from spilling into the broader economy.

US economic data reinforced this strength, showing resilient consumer sentiment and persistent price pressures. Unlike its peers in Europe and Asia, the US economy continues to display relative resilience. This combination of geopolitical risk and a hawkish repricing of Fed policy created a "perfect backdrop" for dollar appreciation, pushing emerging market currencies to record lows.

### EUR

The European theater showed a stark contrast between the Pound and the Euro. The GBP emerged as a relative outperformer, recording its largest weekly advance since April 2025. This strength was fuelled by upside surprises in UK industrial production and GDP figures, suggesting the domestic economy is weathering global headwinds better than expected. Investors

subsequently reduced bets on imminent BoE rate cuts, providing a hawkish tailwind for the currency.

Conversely, the Euro struggled on rising energy costs placed the European Central Bank in a precarious position, balancing inflation control against the risk of stifling fragile growth. Energy-dependent economies like Germany and Italy are particularly vulnerable to \$100+ oil. Coupled with weak industrial output data from France and Germany, the Euro remained vulnerable, as the ECB maintained a more cautious tone compared to the BoE and the Fed.

### JPY

The Japanese Yen weakened sharply, breaching the 159.50 level. Traditionally a safe-haven asset during times of war, the Yen failed to capture significant inflows this week. Instead, the "carry trade" dynamics and Japan's status as a major energy importer weighed heavily on the currency.

The Yen's underperformance highlights Japan's unique economic challenges, including sluggish growth and the BOJ's limited room for aggressive tightening. While rumors of ceasefire talks provided brief mid-week stability, the relentless climb in oil prices and relentless demand for the Dollar ensured the Yen remained under pressure.

### CRUDE OIL

Crude oil was the undisputed focal point of the week. WTI futures rallied sharply, while Brent

crude briefly touched levels above \$119 per barrel. This surge was driven by what the International Energy Agency (IEA) described as the largest supply disruption in history. Geopolitical tensions in the Middle East led to a collapse in flows through the Strait of Hormuz, cutting Gulf production by nearly 10 million barrels per day.

This supply shock has profound implications for global inflation. The breach of \$100 is psychologically and economically significant, forcing central banks to move away from talks of immediate rate cuts. With US Energy Information Administration (EIA) data confirming tight inventories and a lack of supply buffers, the market remains braced for prolonged inflationary pressure that could destabilize global growth if the conflict persists.

## WEEK AHEAD

The war in the Middle East and its impact on energy supply will continue to dictate global markets and will play a key part in a series of rate decisions from major monetary authorities. The Federal Reserve will headline such decisions in Chair Powell's second-to-last meeting in his term. Policy setting is also featured for G10 monetary authorities in the ECB, BoJ, BoE, SNB, RBA, BoC, and the Swedish Riksbank, in addition to central banks in China, Brazil and Russia.

Regarding economic data, key releases include the US PPI and industrial production, the Eurozone trade balance, the UK and Australian unemployment rate, and the Canadian inflation

rate. Additionally, China will release its industrial production, retail sales, unemployment rate, housing prices, and fixed-asset investment.

Market Last Week			
	Closing as on		Change
	13-03-26	06-03-26	
MIBOR 3M	5.45	5.43	0.02
MIBOR 6M	5.52	5.41	0.11
SWAP 1Y	5.8	5.56	0.24
Gsec 1Y YIELD	5.663	5.62	0.04
Gsec 10Y YIELD	6.679	6.688	-0.01
US 2Y YIELD	3.734	3.559	0.18
US 10Y YIELD	4.284	4.139	0.15
Ger 10Y YIELD	2.977	2.865	0.11
JAP 2Y YIELD	2.24	2.179	0.06
GOLD	5061.7	5171.74	-110.04
SILVER	81.34	84.5426	-3.20
BRENT CRUDE	103.14	92.69	10.45
WTI	98.71	90.9	7.81
NIFTY 50	23151.1	24450.45	-1299.35
BSE SENSEX	74563.92	78918.9	-4354.98
DXY	100.36	98.99	1.37

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