



Rupee: Stronger or Weaker?

Report number: LI-2025-004

June, 2025

Abstract: The Indian rupee's stability against the US dollar in early 2025 masks significant underlying weakness. While global currencies surged 5-10% during unprecedented dollar weakness (DXY fell 8% to 99.1), the rupee gained only 0.2%. More concerning, it depreciated 11% against the euro, requiring 10 additional rupees per euro. India's widening trade deficit hit \$26.4 billion in April—a five-month high—driven by declining exports and rising imports. The rupee's resilience reflected fortunate dollar weakness rather than fundamental strength. If dollar dynamics reverse, underlying vulnerabilities could trigger sharp rupee depreciation beyond current levels.

Leap Insights director@leap-insights.org

<https://leap-insights.org/>

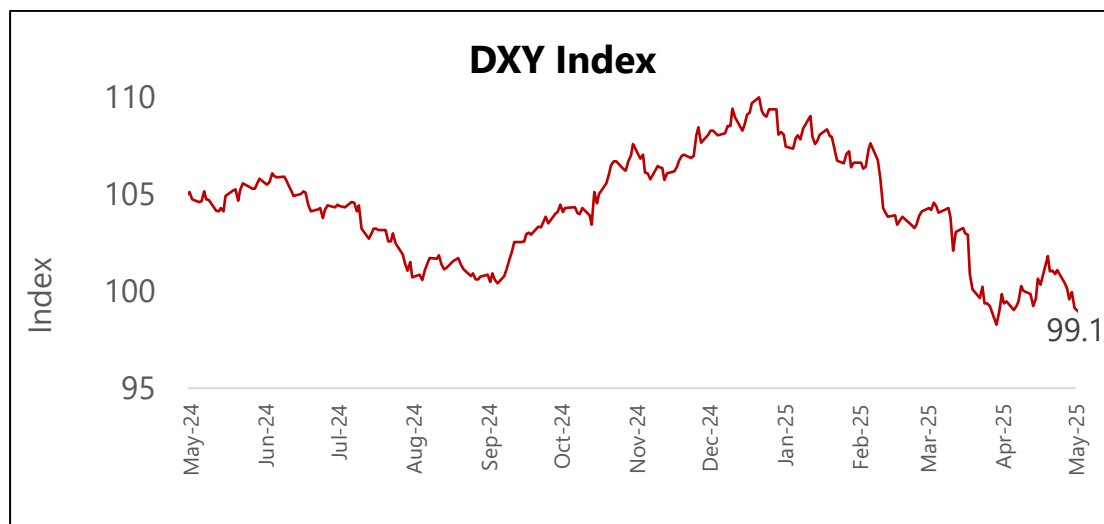
Rupee: Stronger or Weaker?

The Global Currency Landscape in 2025

The first half of 2025 has been characterized by a dramatic shift in global currency dynamics, with the US dollar experiencing its most significant broad-based weakness in recent years. Once viewed as a reliable safe haven, the dollar is now facing substantial macro headwinds that have fundamentally altered international exchange rate patterns.

The US Dollar Index (DXY), which measures the dollar's value against a basket of major global currencies including the euro, yen, and pound, has declined by over 8% since the start of the year, falling from elevated levels to around 99.1 by late May. This represents a significant reversal from the dollar's previous strength and has created a new paradigm for emerging market currencies.

Chart 1: DXY Index Decline



Source: FRED

The dramatic nature of this dollar weakness is clearly visible in the DXY's steep descent from peaks above 107 in late 2024 to current levels around 99. This represents one of the most significant periods of sustained dollar weakness in recent years, creating a favorable environment for most currencies to appreciate against the greenback.

Broad-Based Dollar Weakness: The Numbers

The scale of dollar weakness becomes evident when examining its performance against major currencies since early April 2025. The Swiss Franc has appreciated 9.6% against the dollar, followed by the British Pound (7.3%), Korean Won (6.7%), and Japanese Yen (5.8%). Other

significant gainers include the Russian Ruble, South African Rand, and Euro, all strengthening between 5-6% against the greenback.

This widespread dollar depreciation reflects shifting global economic conditions, policy divergences among major central banks, and changing investor sentiment toward US assets. The synchronization of this weakness across multiple currency pairs suggests structural rather than temporary factors at play.

The Rupee Anomaly: Standing Still While Others Surge

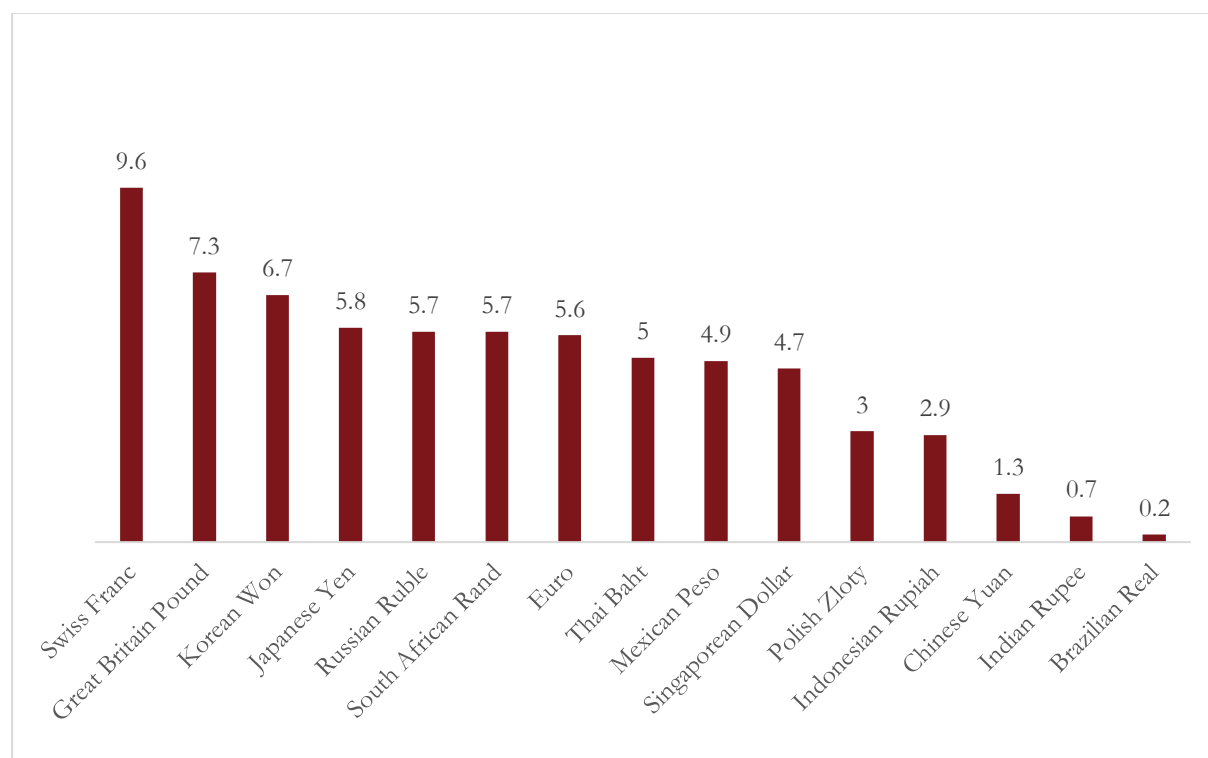
Against this backdrop of universal dollar weakness, the Indian rupee presents a striking anomaly. While the Swiss Franc gained 9.6%, the British Pound rose 7.3%, and even emerging market currencies like the Korean Won and Thai Baht strengthened 6.7% and 5% respectively against the dollar, the rupee has remained virtually unchanged.

The rupee's movement from ₹85.79 to ₹85.87 per dollar represents a mere 0.09% change during a period when global currencies experienced their most significant realignment in years.

What the Cross-Currency Analysis Reveals

The rupee's failure to benefit from dollar weakness becomes even more troubling when examining its performance against other major currencies, particularly the euro. While other currencies rode the wave of dollar weakness to substantial gains, the rupee's fundamental vulnerabilities prevented it from participating in this global currency strength.

Chart 2: Major Currency Movement against Dollar Since 2nd Apr'25 (%)



Source: FRED

This chart starkly illustrates the rupee's underperformance during the period of broad dollar weakness. While the Swiss Franc gained 9.6%, British Pound rose 7.3%, and even emerging market currencies like the Korean Won (6.7%) and Thai Baht (5%) posted significant gains, the Indian Rupee managed only a marginal 0.2% appreciation.

The Story so far

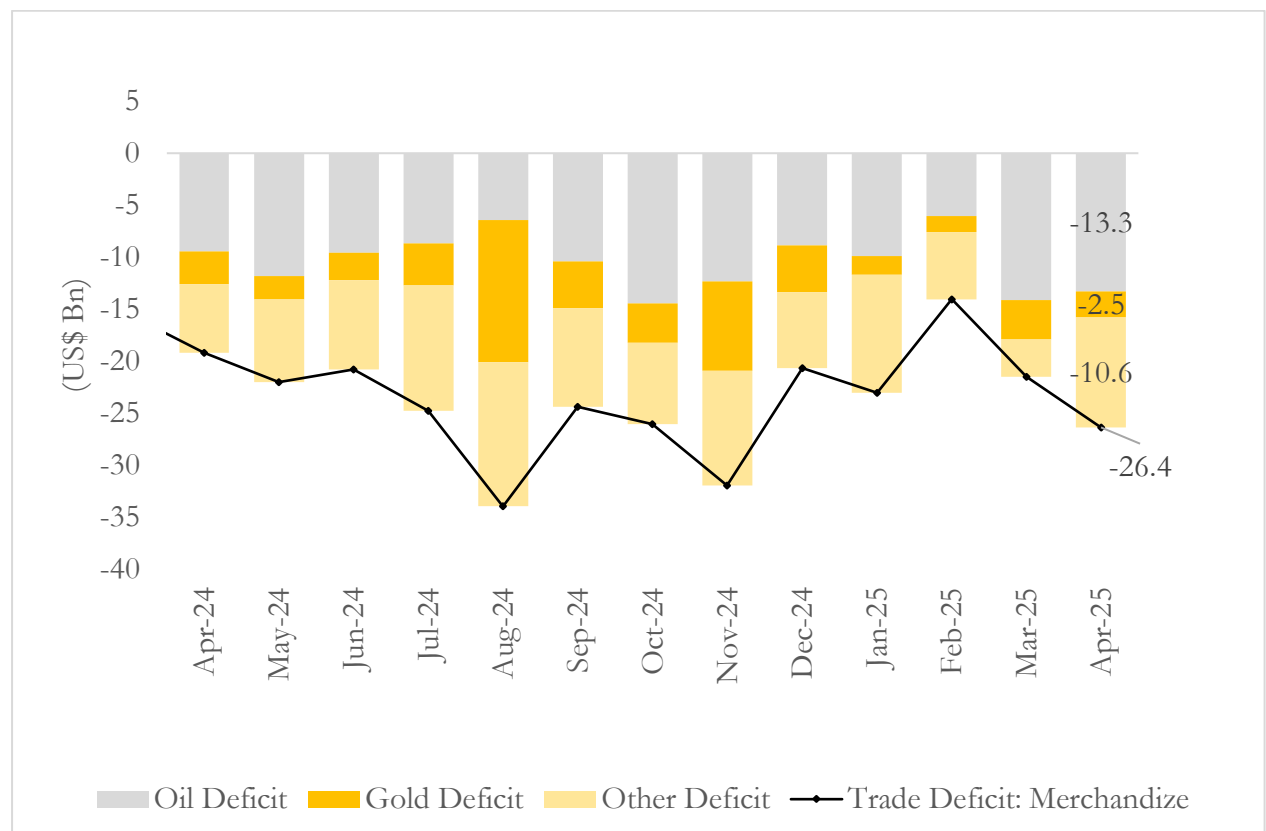
Let us take the period: January 1 - June 4, 2025

- **EUR/USD:** 1.04 → 1.14 (+9.6% euro strengthening)
- **INR/EUR:** ₹88.49 → ₹98.12 (+10.9% rupee weakening)
- **INR/USD:** ₹85.79 → ₹85.87 (+0.09% minimal change)

Over this period, the rupee depreciated by nearly 11% against the euro, requiring almost 10 additional rupees to purchase one euro. This significant depreciation suggests underlying pressures on the Indian currency, likely stemming from factors such as current account dynamics, or capital flow patterns.

The rupee's poor performance relative to other currencies during this period of dollar weakness can be attributed to deteriorating fundamental indicators that created headwinds specific to the Indian currency.

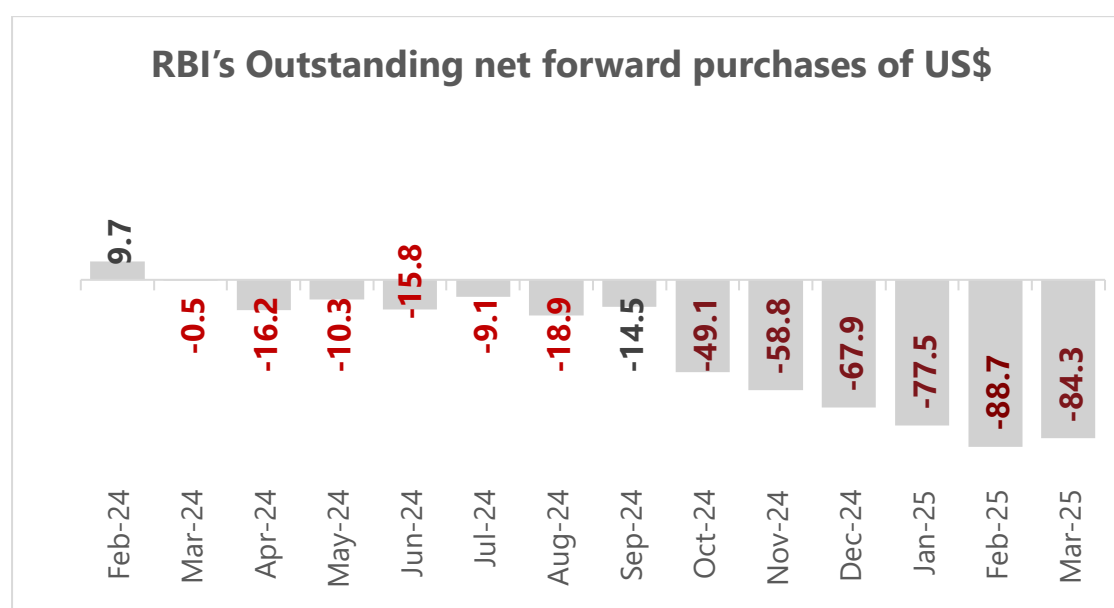
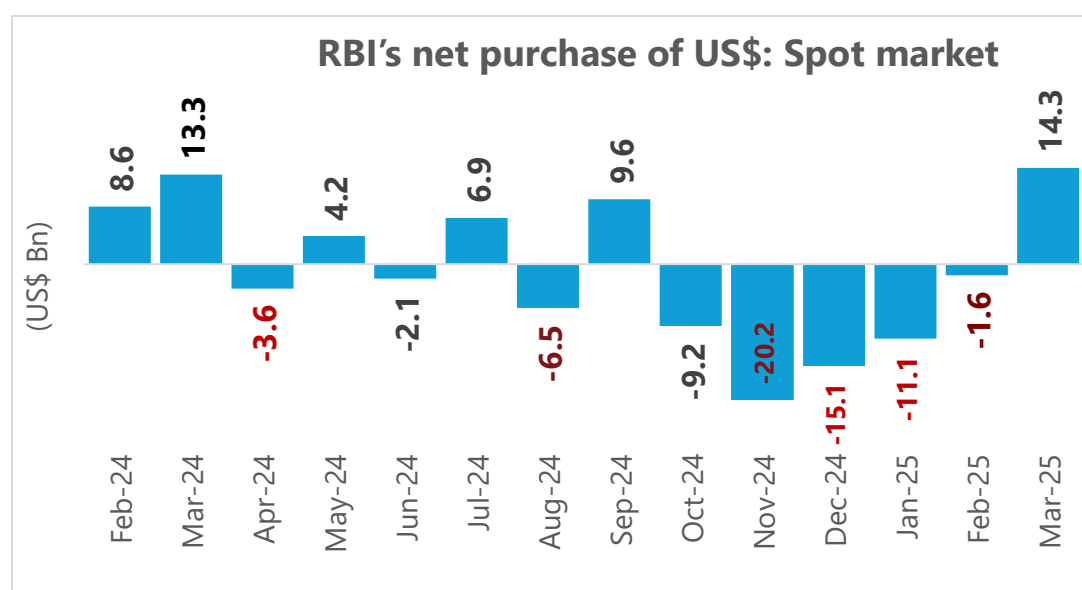
Chart 3: India Trade Deficit



Source: RBI

India's merchandise trade deficit widened significantly to \$26.4 billion in April 2025, representing a five-month high and a substantial increase from \$21.5 billion in March. This deterioration was driven by a reversal in export momentum, with non-oil exports declining by \$6 billion month-on-month after a strong March performance. Simultaneously, imports increased by \$1.4 billion, led by higher oil imports and non-oil, non-gold imports. This widening trade deficit places structural pressure on the rupee and helps explain why it failed to benefit from the global dollar weakness that supported most other currencies.

While the services surplus remained robust at \$17.8 billion, it was insufficient to offset the merchandise trade deterioration, contributing to the underlying weakness that prevented the rupee from participating in the broad-based appreciation against the dollar.



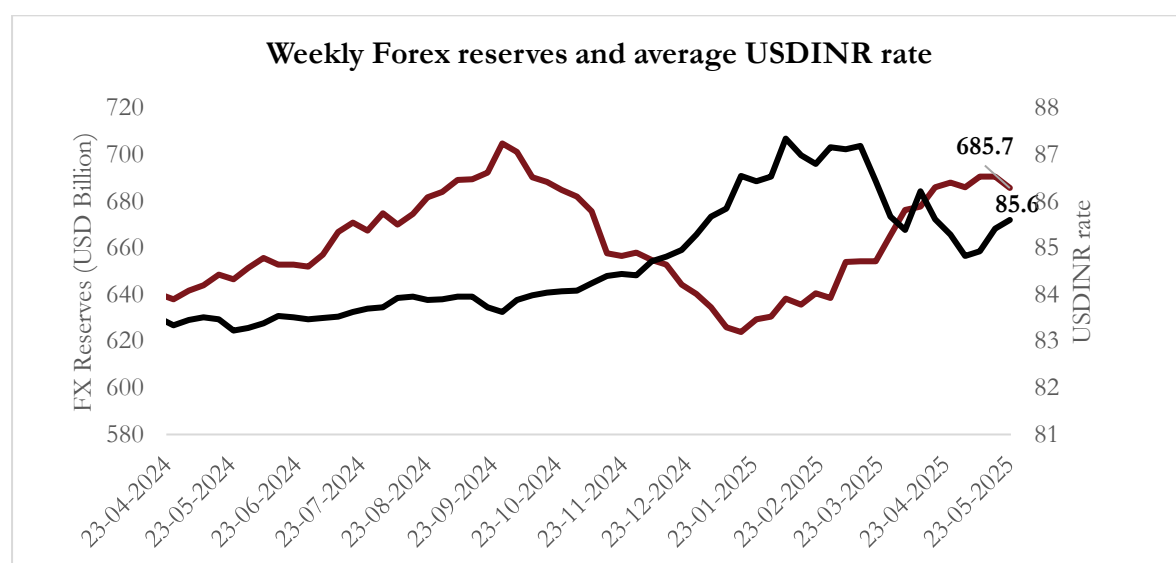
Source: RBI

Continued Dollar Weakness Scenario: If the dollar continues its weakening trend against major currencies, the rupee could potentially strengthen against the dollar.

Reversal Risk: However, this scenario faces significant downside risk if the dollar were to start strengthening again. Should dollar weakness reverse, the rupee's underlying fundamental weaknesses—demonstrated by its poor performance against the euro—would likely reassert themselves. In such a scenario, the rupee could face sharp depreciation against the dollar, potentially moving well beyond current levels as the dual pressures of dollar strength and rupee weakness compound.

The Reserve Bank of India's active intervention in currency markets has played a crucial role in maintaining rupee stability during this period of global currency volatility.

Chart 4: Weekly Forex Reserves and Average USDINR Rate



The RBI has sharply lost reserves until April 2025. This intervention strategy, while successful in maintaining stability, was not sustainable indefinitely if underlying fundamentals continued to deteriorate or if global dollar dynamics shifted significantly. After “Liberation day” when the dollar started weakening, the RBI accumulated approximately \$20 billion in forex reserves during FY26 (likely due to both revaluation and intervention) bringing total reserves to around \$685.7 billion.

Conclusion

The rupee's resilience against the dollar in early 2025 was not a story of Indian currency strength but rather a fortunate consequence of synchronized dollar weakness across major currency pairs. While continued dollar weakness could provide further support, the underlying vulnerabilities revealed through cross-currency analysis suggest significant downside risks if global dollar dynamics reverse.