

Shorting the Indian Rupee

A Structural AI Trade on India's External Accounts

A financial research paper

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Research note. This paper develops a bearish investment thesis on the Indian rupee against the U.S. dollar. It is written as an academic and analytical exercise. It is not investment advice, trading advice, tax advice, legal advice, or a recommendation suitable for any particular investor. Currency derivatives and short-currency positions can create losses larger than initial capital when leverage is used.

Abstract

The Indian rupee is usually discussed through the familiar variables of oil, the dollar, interest-rate differentials, portfolio flows, and central-bank intervention. This paper argues that the more important variable is becoming artificial intelligence. The thesis is not that India is weak in a general economic sense. India remains a fast-growing economy with deep domestic demand, rising infrastructure spending, and an increasingly large financial market. The thesis is narrower: India's external account has become unusually dependent on dollar-denominated services exports, and a large part of those services exports rests on the labor arbitrage that frontier AI systems are beginning to compress.

The argument starts from a market observation in a social media thread supplied by the requester: investors have already crowded into shorts on SaaS, IT consulting, and individual outsourcing equities, but the larger and less crowded expression may be the currency of the country whose balance of payments relies most directly on scalable offshore knowledge work. The thread's key claim is that roughly US\$240 billion to US\$280 billion of Indian export earnings are exposed to AI-driven repricing across IT services, software maintenance, business process outsourcing, and global capability centers. This paper tests that claim against public data. India recorded services exports of roughly US\$387.5 billion in FY2024-25 and an estimated US\$418.3 billion in FY2025-26, while its merchandise deficit widened to an estimated US\$333.2 billion in FY2025-26. Services exports and remittances are therefore not side stories. They are the balancing items that keep the current account from moving into obvious stress.

The base case developed here assumes about US\$80 billion of annual export-revenue compression by year five across the exposed IT and IT-enabled services base. At India's current nominal GDP scale, an US\$80 billion services shock is roughly two percentage points of GDP. Added to an already negative current account, that shock can move the external deficit toward the historical stress zone near 2.5 percent to 3.0 percent of GDP, before second-order effects from foreign direct investment, equity outflows, risk premia, and reserve use. The bear case, in which enterprise buyers move more aggressively from labor-hour contracts to AI-enabled outcome contracts, could remove US\$140 billion to US\$170 billion of annual services-export earnings. In that scenario, the rupee is not merely a cyclical short. It becomes the cleanest macro instrument for expressing a structural AI shock to the offshore-services model.

The conclusion is deliberately conditional. A short-INR thesis is strongest when expressed as a medium-term, risk-defined position rather than as a high-leverage spot bet after a sharp fall. The rupee has already weakened meaningfully, touching a record low above 95 per U.S. dollar in March 2026 and trading near 94.5 in late April 2026. That reduces the

margin of safety. But if the next phase of AI adoption changes enterprise procurement from “more offshore people” to “fewer people plus models,” the foreign-exchange market is still underpricing the duration and size of the adjustment. Under that assumption, shorting INR is one of the best liquid ways to own the AI disruption of global labor arbitrage.

Keywords: Indian rupee, USD/INR, artificial intelligence, IT services, current account deficit, services exports, global capability centers, foreign portfolio flows, balance of payments, emerging-market currency risk.

1. Executive Summary

This paper argues that shorting the Indian rupee is the most direct liquid macro trade on a coming repricing of offshore knowledge labor. The short thesis is not based on a collapse of India. It is based on a mismatch between what India's external account needs and what the next wave of AI adoption may do to the export earnings that fund that external account.

The market has already understood a simpler version of the AI trade. Investors have shorted software-as-a-service companies, IT consulting companies, and individual outsourcing equities. That trade has become crowded. Valuation multiples in global software and Indian IT services have compressed, and many public equities now discount lower growth. The less obvious expression is the Indian rupee itself. A currency trade does not require the investor to choose the single outsourcing company with the weakest execution. It expresses the aggregate macro consequence of lower services-export growth, lower growth in offshore centers, and a foreign-investor exit from Indian equities.

The numbers are large enough to matter. In FY2025-26, India's estimated services exports were US\$418.31 billion, while services imports were US\$204.42 billion, creating a services surplus of US\$213.89 billion. That surplus offset much of a US\$333.19 billion merchandise trade deficit. Without the services surplus, India's external account would look much more fragile. The services sector is therefore not only a growth story. It is the main dollar plug in the balance-of-payments story.

The AI exposure is concentrated. Official data show that software services account for more than 40 percent of India's services exports, and Indian IT/ITeS industry export revenue was near US\$200 billion in FY2024. The global capability center ecosystem, with over 1,700 centers and nearly 1.9 million professionals as of FY2024, extends the same model from third-party vendors into the captive offices of multinational companies. Once these layers are combined, a US\$240 billion to US\$280 billion externally oriented IT and IT-enabled services base is a reasonable modeling range.

The thread that motivated this paper argues that about 29 percent of that exposed base could be compressed by year five, with a more severe bear case closer to 50 percent to 60 percent. This paper treats the 29 percent case as the base case, not because it is certain, but because it is enough. A US\$80 billion annual services-export loss is almost two percent of India's projected nominal GDP. If the current account is already near a one percent deficit, the system can move toward a three percent deficit without requiring any extreme assumptions. At that level, the rupee historically becomes less a managed depreciation story and more a balance-of-payments risk story.

The currency is a better expression than individual IT equities for four reasons. First, it captures the whole external-account shock, including vendor exports, captive-center invest-

ment, services-import offset, and portfolio outflows. Second, it benefits from the feedback loop between equity losses and currency weakness. Third, it avoids company-specific risks such as buybacks, margin defense, cost cutting, and contract timing. Fourth, it attacks the national funding mechanism rather than one part of the outsourcing value chain.

There are real counterarguments. The rupee is already weak, the Reserve Bank of India holds large foreign-exchange reserves, India's services exporters may use AI to defend margins, GCCs may move up the value chain, and India's remittance base is large and diversified. Those counterarguments do not break the thesis. They change the implementation. The clean version of the trade is not an all-in spot short. It is a medium-term position with defined risk, ideally through options or staggered exposure, built around the 2027-2029 period when enterprise AI procurement, vendor renegotiations, and headcount rationalization should become visible.

The central claim is simple: if AI reduces the need for offshore human hours faster than India builds replacement dollar-earning industries, the rupee has to absorb the adjustment. That makes INR the macro transmission vehicle for AI's attack on labor arbitrage. In a world where many AI equity shorts are already crowded, short INR remains a larger, cleaner, and less company-specific trade.

2. The Origin of the Thesis

The argument begins with a market-structure observation. The first-order AI trade was to short obvious software incumbents and obvious IT-services vendors. The logic was straightforward: if models write code, answer support tickets, summarize documents, and automate repetitive enterprise workflows, then companies selling human hours for software maintenance, testing, documentation, migration, and support face pricing pressure. The problem is that the obvious trade quickly became obvious to everyone. By the time the market is openly discussing Salesforce, Atlassian, Infosys, and the broad consulting complex, alpha has often migrated elsewhere.

The supplied X thread reframes the trade as a macro trade. It argues that a US\$3.7 trillion to US\$4.2 trillion economy has become structurally short the same labor arbitrage that frontier AI is dismantling. The thread states that India has run persistent current account deficits after liberalization, and that the deficit is funded by remittances, foreign investment, and critically, services exports. It then claims that Indian services exports, with a large IT and back-office component, are the single largest plug in India's external accounts. The conclusion is blunt: if AI compresses the services-export base, the Indian rupee becomes the better short than individual outsourcing companies.

The important part of the thread is not the rhetoric. The important part is the trade

selection. A crowded short in public outsourcing equities focuses on margins and multiples. A currency short focuses on the national flow-of-funds problem. If the services surplus weakens, the current account deteriorates. If the current account deteriorates, the rupee adjusts unless capital inflows rise enough to fill the gap. If capital inflows also weaken because the same AI shock reduces confidence in Indian IT equities and slows global capability center expansion, the currency faces pressure from both the current account and the capital account.

This is why the paper treats the rupee as the core asset. The currency is where multiple channels meet: trade flows, remittances, FDI, portfolio flows, oil imports, interest-rate expectations, reserve intervention, and investor psychology. Individual IT companies may cushion the shock through cost control or AI-driven margin expansion. The country cannot cut costs as easily if a dollar export stream falls. It must either replace the dollar stream, attract more capital, use reserves, or accept a weaker exchange rate.

The thesis therefore has three layers. The first layer is sectoral: AI compresses the labor-hours model in software services and structured business process work. The second layer is macroeconomic: the services surplus shrinks and the current account deficit widens. The third layer is reflexive: equity outflows, slower FDI, and importer hedging amplify the currency move. The short-INR trade works only if all three layers interact. If AI simply improves productivity while Indian exporters keep the same revenue and move up the value chain, the thesis fails. If services exports slow but FDI and portfolio inflows surge enough to fund the gap, the thesis weakens. But if the labor arbitrage model reprices at the same time that India faces oil pressure and foreign investor caution, the rupee becomes the pressure valve.

3. India's External Account: Why the Services Surplus Matters

India is a large domestic-demand economy, but its currency is priced at the margin by external flows. The country imports energy, gold, electronics, capital goods, chemicals, and other goods at a scale that produces a large merchandise deficit. That deficit is not new. What has changed is the degree to which modern services exports now offset it. In FY2025-26, the Ministry of Commerce estimated merchandise exports at US\$441.78 billion and merchandise imports at US\$774.98 billion. The merchandise trade deficit was therefore US\$333.19 billion. Services exports, however, were estimated at US\$418.31 billion, with services imports at US\$204.42 billion, leaving a services surplus of US\$213.89 billion [2].

Those numbers show the architecture of the external account. Goods trade is deeply negative. Services trade is deeply positive. The total trade balance remains negative, but it is manageable because services exports are large, rising, and dollar-denominated. India's current account deficit narrowed to US\$23.3 billion, or 0.6 percent of GDP, for FY2024-25,

partly because services exports and remittances were strong [5]. In Q3 FY2025-26, the current account deficit widened to US\$13.2 billion, or 1.3 percent of GDP, as the merchandise gap expanded, even though services receipts remained strong [6]. This pattern is exactly what a short-INR thesis should focus on: the external account is resilient while services are strong, but it becomes fragile quickly if the services buffer weakens.

Exhibit 1. India's external trade structure

| Item | FY2024-25 | FY2025-26 est. | Change |
|---------------------|---------------|----------------|--------------|
| Merchandise exports | US\$437.70bn | US\$441.78bn | +US\$4.08bn |
| Merchandise imports | US\$721.20bn | US\$774.98bn | +US\$53.78bn |
| Merchandise balance | -US\$283.50bn | -US\$333.19bn | -US\$49.69bn |
| Services exports | US\$387.55bn | US\$418.31bn | +US\$30.76bn |
| Services imports | US\$198.72bn | US\$204.42bn | +US\$5.70bn |
| Services balance | US\$188.84bn | US\$213.89bn | +US\$25.05bn |
| Total trade balance | -US\$94.66bn | -US\$119.30bn | -US\$24.64bn |

Source: Ministry of Commerce and Industry, Government of India, FY2025-26 trade release [2].

The trade structure creates an asymmetry. If merchandise imports rise because oil rises, the rupee weakens through a conventional terms-of-trade channel. That is the normal emerging-market currency story. The AI thesis adds a second channel: if the services surplus stops growing, or compresses outright, India loses the very buffer that allowed it to absorb the goods deficit. A country can run a current-account deficit for a long time if the deficit is funded by stable capital inflows. But if the funding source is itself tied to a sector undergoing structural repricing, the market begins to price the problem before official balance-of-payments data fully confirm it.

This is why services exports deserve more attention than headline GDP growth. A fast-growing domestic economy can still have a weakening currency if external payments deteriorate. India can grow at 6 percent to 7 percent and still see INR depreciation if the marginal dollar balance worsens. The market does not need to believe India is in crisis. It only needs to believe the current exchange rate does not clear future dollar demand and dollar supply.

The current account is a flow variable, not a reputation variable. India can have strong banks, good public infrastructure momentum, a deepening equity market, and a rising middle class, yet still face rupee pressure if the external flow picture moves against it. That distinction matters because many bullish India narratives are true but incomplete. The short-INR thesis does not reject India's domestic growth story. It argues that domestic growth is not the same thing as external dollar sufficiency.

4. The AI Exposure in India's Dollar Earnings

The official category “services exports” includes software services, professional and management consulting, travel, transport, finance, and other business services. The AI exposure is not evenly distributed across all of these categories. It is concentrated in work where enterprises historically paid for offshore human time: application development, maintenance, testing, data processing, customer operations, claims handling, documentation, finance operations, compliance support, and structured analytics.

The Economic Survey highlights that software services account for over 40 percent of India's total services exports and remain the primary growth driver. The same official summary reports that services exports averaged 14 percent growth during FY2023-FY2025, compared with 7.6 percent in the pre-pandemic period, and that services exports rose to roughly 10 percent of GDP in H1 FY2025-26 [3]. A separate Economic Survey summary reported Indian IT/ITeS revenue of US\$254 billion in FY2024, with technology exports near US\$200 billion [4]. These data points are consistent with the thread's core premise: a very large dollar export base is tied to IT and related knowledge work.

Global capability centers make the exposure larger and more complex. GCCs are captive offshore operations built by multinational companies in India. They are not always counted the same way as third-party vendor exports, but economically they reflect the same labor-market logic: global enterprises moved work to India because skilled labor was abundant, English-speaking, scalable, and cheaper than in the United States or Europe. India's GCC count rose from about 1,430 in FY2019 to over 1,700 in FY2024, and the sector employed nearly 1.9 million professionals by FY2024 [4]. Reuters reported that the Indian GCC market was projected by Nasscom and Zinnov to grow from US\$64.6 billion in FY2024 to roughly US\$99 billion to US\$105 billion by 2030 [14].

The bullish interpretation is that GCCs are moving from cost arbitrage to capability arbitrage. That is true in many cases. Indian centers now perform advanced cloud, cybersecurity, data science, R&D, product engineering, and AI work. But the bearish currency interpretation is different. Even if the highest-value layer grows, the total labor-hour base may still be exposed. AI can shift the mix upward while reducing the number of human hours needed for legacy work. A GCC can become more strategic while employing fewer people per unit of enterprise output. For the currency, the question is not whether India remains relevant. The question is whether net dollar earnings keep growing fast enough to fund the external deficit.

Exhibit 2. Modeling the exposed export base

| Component | Estimated annual export exposure | Reason for inclusion |
|--|---|--|
| Third-party IT services and software exports | US\$190bn to US\$210bn | Official summaries place technology exports near US\$200bn in FY2024. This includes application development, maintenance, infrastructure, cloud, testing, and digital transformation work. |
| Business process and structured operations exports | US\$30bn to US\$45bn | Customer operations, finance operations, document processing, claims, compliance support, and data operations are particularly exposed to language models and workflow agents. |
| GCC-linked export and transfer-pricing exposure | US\$20bn to US\$35bn | Captive centers are not identical to vendor exports, but they represent dollar-funded offshore labor demand and cross-border corporate allocation. |
| Modeled exposed base | US\$240bn to US\$280bn | Range used in this paper. The base includes third-party IT exports plus adjacent IT-enabled services and a conservative slice of GCC exposure. |

Source: Author's synthesis from official Indian services, IT/ITeS, and GCC data [3, 4, 14].

The model deliberately separates “export exposure” from “employment exposure.” The currency cares about revenue, not only jobs. A vendor could reduce headcount and still maintain revenue if AI allows it to sell higher-value services. Conversely, a vendor could maintain headcount but lose revenue if clients use AI to renegotiate pricing. The thread’s insight is that the historical billing model was tied to labor hours. When the billable hour loses scarcity, revenue per task can fall even when productivity rises.

This is why AI is more dangerous to the external account than normal automation. Prior waves of automation often allowed Indian vendors to absorb more work from global clients. A tool improved productivity, but the enterprise still needed offshore teams to implement, customize, monitor, and support systems. Frontier AI threatens to let the enterprise bypass part of the labor stack. A U.S. bank does not need to outsource a 40-person maintenance team if a 10-person internal team with AI agents can deliver similar output. Even if the bank still buys consulting services, the contract structure moves from time-and-materials to outcome-based pricing. That changes revenue capture.

5. Why This Is an AI Trade, Not Just an IT Slowdown

A normal IT-services slowdown is cyclical. Clients delay discretionary projects, vendor growth slows, headcount stabilizes, and the cycle improves when budgets reopen. The AI thesis is structural because it attacks the unit economics of work. If a model turns a week of code migration, test generation, ticket triage, or document review into a few hours of supervised work, the old offshore staffing model becomes harder to defend.

Evidence from AI productivity research supports the idea that this is not only hype. McKinsey estimated that generative AI use cases could create US\$2.6 trillion to US\$4.4 trillion in annual economic value and that four functions, including customer operations and software engineering, could account for about 75 percent of generative AI's use-case value [18]. The NBER working paper "Generative AI at Work" found that customer-support agents using an AI assistant increased productivity by nearly 14 percent on average, with larger gains for less-experienced workers [19]. The Stanford AI Index reported rapid improvement in AI coding benchmarks, including a jump in SWE-bench problem-solving performance from 4.4 percent in 2023 to 71.7 percent in 2024 [20]. None of these sources proves a collapse in Indian services exports. But they show that the relevant categories of work are exactly where AI capability is improving fastest.

The distinction between productivity and revenue is critical. Bulls argue that Indian IT companies will use AI to do more with fewer people, protect margins, and sell new AI services. That is partly correct. The question is who captures the productivity surplus. If vendors use AI internally while maintaining pricing, shareholders win and the rupee is protected. If clients demand lower prices because AI lowers the cost of delivery, export revenue falls. In enterprise technology procurement, buyers usually try to capture productivity gains through renegotiated contracts. That is why the thesis focuses on the 2027-2029 window. Multi-year contracts do not reset overnight. They reprice when renewals, vendor consolidations, and budget cycles force the issue.

The first signs of a change are already visible in sector commentary. Reuters reported in April 2026 that revenue growth for India's top IT firms was expected to remain muted, with AI risks mounting, the Nifty IT index losing about US\$26 billion in market value in one week after disappointing earnings, and top-five Indian IT firms expected to grow only about 3 percent to 4 percent in the near term [12]. TCS reported FY2026 revenue of US\$30.017 billion, down 0.5 percent year-on-year and down 2.4 percent in constant currency, while also reporting annualized AI revenue above US\$2.3 billion and a headcount of 584,519 [13]. This is exactly the transition zone the short-INR thesis needs: AI revenue is rising, but the legacy growth engine is no longer reliably compounding.

The strongest bullish counterpoint is that AI can generate new service categories. Indian

vendors may become the implementation layer for global AI adoption. They may integrate models into old systems, run compliance layers, monitor agents, perform cybersecurity, and create custom enterprise workflows. This paper does not deny that. It argues that new AI services may not fully replace the old revenue base quickly enough. A US\$10 billion AI-services opportunity is positive for a vendor. It is not enough to offset a US\$80 billion compression in external service earnings if the old labor-arbitrage base reprices at scale.

6. The Compression Model

The thread supplied by the requester estimates that about US\$80 billion of annualized revenue compression by year five is a floor case, with a bear case of US\$140 billion to US\$170 billion. This paper formalizes that intuition into a simple scenario model. The model is not a forecast in the sense of a sell-side earnings model. It is a stress test for the external account.

The model divides the exposed base into three pools. The first pool is routine software work: application development, maintenance, testing, migration support, documentation, and low-complexity data engineering. The second pool is structured business process work: call centers, claims processing, document review, finance operations, support operations, and compliance triage. The third pool is higher-value enterprise work: architecture, regulated systems integration, cybersecurity, industry-specific consulting, and complex transformation programs.

Routine software work is not fully replaceable, but its pricing power is declining. AI coding assistants, test-generation tools, code-review agents, migration agents, and documentation tools reduce the number of people needed per project. Structured business process work is, in some ways, even more exposed because the tasks are repetitive, language-heavy, and often measured by throughput. Higher-value enterprise work is more defensible, but not immune. AI does not need to replace architects to reduce the size of delivery teams around them.

Exhibit 3. Five-year compression model

| Work pool | Share | Revenue base | Loss | Rationale |
|---------------------------|-------|--------------|----------|--|
| Routine software delivery | 50% | US\$140bn | US\$42bn | Assumes 30% revenue compression through lower staffing intensity, contract repricing, and automation of testing, maintenance, documentation, and migration work. |

| | | | | |
|-------------------------------|------|-----------|----------|--|
| Structured BPO and operations | 25% | US\$70bn | US\$35bn | Assumes 50% compression in the most automatable customer, claims, finance, compliance, and document workflows. |
| Higher-value enterprise work | 25% | US\$70bn | US\$7bn | Assumes only 10% compression because architecture, regulated delivery, and transformation work remain more defensible. |
| Total modeled exposure | 100% | US\$280bn | US\$84bn | Rounds to an US\$80bn base-case services-export shock by year five. |

Source: Author's scenario model based on the supplied X thread and public data on Indian services and IT exports.

The base case is intentionally moderate in one respect and aggressive in another. It is moderate because it does not assume AI destroys the entire offshore-services sector. Most enterprise systems are messy, regulated, legacy-heavy, and politically difficult to automate. Large companies will still need vendors. The model is aggressive because it assumes clients capture enough of the productivity gains to reduce vendor revenue, not merely vendor headcount. That is the key assumption.

The bear case is a procurement revolution. Enterprise buyers move from “staff augmentation plus managed services” to “agentic workflow outcomes.” In that world, a bank does not buy 2,000 offshore people to handle technology and operations. It buys output commitments from smaller AI-enabled teams. It asks vendors to guarantee lower cost per ticket, lower cost per migration, lower cost per claim, and lower cost per release. Vendor revenue falls because the client no longer pays for the input. The bear case can plausibly remove 50 percent to 60 percent of the exposed base by year five, especially if global enterprises learn to internalize more AI tooling.

The bull case is capability migration. Indian IT firms and GCCs turn AI into a new export engine, using their talent base to build, govern, and integrate enterprise AI systems. Routine work declines, but AI consulting, cybersecurity, data modernization, model operations, and regulated implementation expand. In that case, revenue compression might be limited to US\$20 billion to US\$40 billion, and the rupee thesis becomes much weaker. The bull case should not be dismissed. It is the main reason the position should be risk-defined rather than treated as certain.

Exhibit 4. Scenario summary

| Scenario | Year-five compression | GDP impact | Interpretation |
|----------|-----------------------|------------|----------------|
|----------|-----------------------|------------|----------------|

| | | | |
|----------------------|------------|--------------|---|
| Resilient transition | US\$25bn | 0.6% of GDP | AI helps exporters defend revenue. INR faces normal oil and capital-flow pressure but not an AI-specific balance-of-payments shock. |
| Base case | US\$80bn | 1.9% of GDP | Services surplus weakens enough to push the current account toward the historical stress zone if other flows do not offset the loss. |
| Bear case | US\$145bn | 3.5% of GDP | Labor-arbitrage revenue reprices sharply. CAD pressure, FDI slowdown, and equity outflows reinforce one another. |
| Crash case | US\$170bn+ | 4.1%+ of GDP | Enterprise buyers broadly replace offshore labor-hour contracts with AI-enabled outcome contracts. INR requires material depreciation unless reserves and capital inflows absorb the shock. |

Source: Author's calculations. GDP scale based on IMF April 2026 nominal GDP estimates for India near US\$4.15tn [21].

The model's purpose is to show that the threshold for currency stress is lower than the threshold for industrial collapse. India does not need to lose US\$170 billion of services exports for INR to weaken materially. A loss of US\$50 billion to US\$80 billion can be enough if it arrives alongside oil pressure, foreign equity outflows, and less FDI. This is the central reason the currency trade can work even if the most extreme AI-displacement forecasts are wrong.

7. Transmission Channel One: Current Account Deterioration

The first transmission channel is mechanical. Services exports bring in dollars. If services exports grow more slowly or decline, the services surplus shrinks. A smaller services surplus leaves more of the merchandise deficit uncovered. The current account deficit widens. A wider current account deficit requires more capital inflows, reserve use, or currency depreciation.

In the base case, an US\$80 billion export-revenue compression is equivalent to roughly 1.9 percent of a US\$4.15 trillion economy. If India begins from a current account deficit around 1.0 percent of GDP, and if no offsetting adjustment occurs, the deficit can move toward 2.9 percent of GDP. That is the stress zone identified in the supplied thread. It is also intuitively consistent with emerging-market currency behavior. A deficit near 1 percent is manageable. A deficit near 3 percent, especially for a net energy importer with volatile capital flows, changes investor psychology.

This does not mean every dollar of lost IT revenue becomes a dollar of current-account deterioration. Some imports may fall. Some service providers may reduce imported software

and cloud costs. Some employees may shift to other export sectors. The rupee itself may depreciate, making remaining exports more competitive. But those offsets take time. Currency markets move faster than labor markets.

The key issue is timing. The thread's 2027-2029 catalyst window is plausible because enterprise AI adoption takes time to move from pilots to procurement. A Fortune 500 firm may test AI coding tools in 2024 and 2025, but contract repricing appears when managed-services contracts renew. Headcount plans appear in 2026 and 2027. Vendor consolidation appears in 2027 and 2028. Balance-of-payments data then show the effect with a lag. FX markets do not wait for perfect data. They sell the currency when the forward path becomes visible.

Exhibit 5. Current-account sensitivity to services-export compression

| Case | Compression | Incremental CAD/GDP | CAD if starting at 1.0% |
|-----------------|-------------|---------------------|-------------------------|
| Low stress | US\$30bn | 0.7% | 1.7% |
| Moderate stress | US\$50bn | 1.2% | 2.2% |
| Base case | US\$80bn | 1.9% | 2.9% |
| Bear case | US\$145bn | 3.5% | 4.5% |
| Crash case | US\$170bn | 4.1% | 5.1% |

Source: Author's calculations using US\$4.15tn nominal GDP. The table isolates services-export compression and does not model offsetting import changes or capital-account responses.

The base case therefore does not need a dramatic collapse in Indian technology. It needs only a growth-to-compression turn in a sector large enough to have macro significance. That is the non-consensus part of the thesis. Equity investors can debate whether Infosys, TCS, HCLTech, or Wipro deserve a lower price-to-earnings multiple. The FX market must ask a larger question: what happens to the rupee if a sector that has been quietly funding the goods deficit stops compounding?

8. Transmission Channel Two: FDI and the GCC Feedback Loop

The second transmission channel is foreign direct investment. India's GCC story has been one of the strongest structural narratives in the economy. Multinational companies build centers in Bengaluru, Hyderabad, Pune, Gurugram, Chennai, and other cities because India offers scale, skills, English-language capability, and a dense technology labor ecosystem. This capital flow supports the rupee directly and indirectly. It brings in dollars, creates high-income jobs, supports real estate and consumption, and reinforces investor confidence.

The bearish AI thesis does not require GCCs to disappear. It requires their growth algorithm to change. If a multinational expected to hire 10,000 people in India over five years but AI allows it to hire 4,000 people while maintaining output, the FDI impulse is lower. If the multinational had planned a new campus but shifts to a smaller AI-supervised model, real estate, infrastructure, and local service multipliers weaken. If a center moves from rapid expansion to productivity rationalization, the market stops treating GCCs as a one-way dollar inflow.

This channel matters because it can turn a current-account problem into a capital-account problem. A country can run a wider current account deficit if FDI rises. But if the same technology shock that weakens services exports also slows FDI into offshore centers, the adjustment burden shifts to portfolio flows, debt flows, reserves, and the exchange rate. That is why the supplied thread describes reversing FDI as a risk that “throws gasoline on the fire.” The phrasing is informal, but the mechanism is serious.

There is also a signaling effect. GCCs are often viewed as proof that India is moving up the global value chain. If high-profile multinationals slow GCC hiring because AI reduces labor needs, foreign investors may revise their assumptions about urban employment, office absorption, premium consumption, and IT-sector earnings. The direct FDI effect may be gradual, but the market signal can be immediate.

The counterargument is strong. Many GCCs are becoming AI centers, not victims of AI. They are hiring for data, security, research, product engineering, and AI governance. Reuters reported continued expansion plans in some sectors, including Sanofi’s India GCC expansion, which targets AI, analytics, medical affairs, and R&D roles [15]. This evidence supports the bull case. But it does not eliminate the compression risk. A smaller number of higher-skilled AI roles can coexist with fewer routine roles and lower net labor intensity. For the rupee, the question is aggregate dollar flow, not whether some high-end roles expand.

9. Transmission Channel Three: Equity Outflows and Reflexivity

The third channel is portfolio flow reflexivity. Indian IT services is a meaningful component of the equity market, though its weight has declined from prior peaks. NSE’s March 2026 Nifty 50 factsheet showed Information Technology at 9.40 percent of the Nifty 50 by sector weight, with Infosys among the top constituents at 4.28 percent [16]. Foreign investors remain major holders of Indian equities. NSE’s India Ownership Tracker reported that FPI ownership of NSE-listed companies fell to 16.9 percent in September 2025, its lowest level in more than 15 years, while FPI ownership in the Nifty 50 stood at 24.1 percent [17].

When foreign investors sell Indian equities, they often create INR selling pressure. They sell the local stock, receive rupees, and convert proceeds into dollars or other foreign currency.

The link is not one-to-one because flows can be hedged and intermediated, but the direction is clear. Foreign equity outflows weaken the currency, and currency weakness reduces foreign investors' dollar returns, which can trigger more outflows.

This feedback loop is already visible in current market conditions. Reuters reported that foreign portfolio investors had offloaded US\$18.5 billion of Indian stocks in 2026 after selling US\$18.9 billion in the prior year, while HSBC downgraded Indian equities partly because of oil risk, rupee depreciation risk, and AI concerns related to Indian software services [11]. Reuters also reported that the rupee touched a record low of 95.21 per dollar on 30 March 2026 and declined 11 percent over FY2025-26, its steepest fiscal-year fall since 2011-12 [10]. By late April 2026, the rupee was trading near 94.54 per dollar as oil prices and importer hedging kept pressure on the currency [8].

Exhibit 6. Reflexive loop in the short-INR thesis

| Step | Mechanism | Currency implication |
|------------------------------|---|---|
| AI adoption matures | Enterprise clients use AI to reduce human-hour intensity in coding, support, testing, and back-office work. | Future services-export growth is revised lower. |
| Vendor revenue slows | IT services growth turns from labor-led expansion to price and volume pressure. | Equity valuations compress, especially where consensus expected 8 percent to 10 percent growth. |
| Services surplus weakens | Fewer dollar earnings offset the merchandise deficit. | Current account deficit widens. |
| GCC expansion slows | Captive offshore labor demand becomes more selective and more AI-intensive. | FDI support weakens or becomes less certain. |
| Foreign equity flows reverse | FPIs sell IT and broader India exposure. | INR selling pressure rises as equity proceeds are converted. |
| RBI manages volatility | Reserves are used to slow disorderly moves but not necessarily to defend a fixed level. | Depreciation can continue in a managed path. |

Source: Author's framework.

The reflexive nature of the trade explains why the currency can move before the macro data fully deteriorate. Investors do not wait for the services-export line to fall by US\$80 billion. They watch earnings guidance, campus hiring, contract pricing, Nifty IT performance,

FPI flows, GCC announcements, and RBI intervention patterns. When enough signals point in the same direction, the FX market adjusts the expected future dollar supply.

10. Why the Currency Is Cleaner Than Shorting IT Equities

The supplied thread asks why an investor should short the currency rather than the companies. The answer is that the currency bundles the full macro problem, while equities isolate only a part of it.

Shorting individual IT equities has obvious appeal. The companies are public, liquid, and directly exposed to AI-driven pricing pressure. If revenue growth turns negative and multiples fall from high-20s to mid-teens, equity downside can be large. But this trade has several problems. First, it is crowded. Second, the best companies may defend margins through AI, utilization, wage control, and mix shift. Third, equity markets can reward cost cutting even when revenue slows. Fourth, company-specific catalysts can hurt shorts: buybacks, dividend yield, large deal wins, management changes, or consolidation. Fifth, an investor can be directionally right on AI pressure and still lose if the selected company executes better than peers.

Shorting INR is a broader trade. It does not care which vendor loses share. It cares whether India's aggregate dollar earnings slow. It captures third-party vendors, GCCs, IT-enabled services, equity outflows, oil sensitivity, and RBI reaction. It also captures the macro narrative shift. If global investors move from "India is a services-export compounder" to "India's services buffer is at risk," the currency reprices even if individual companies show mixed results.

There is also a valuation reason. Equity shorts require the market to lower both earnings estimates and multiples. Currency shorts require a shift in flow balance. If the current account deteriorates by two percentage points of GDP, INR does not need equity analysts to agree on a target multiple. Importers, exporters, hedgers, central banks, and portfolio managers all respond to the flow change. FX is the clearing market.

That does not mean INR is safer. Currency positions have carry, intervention, gap risk, and leverage risk. The RBI can squeeze shorts by changing rules, using reserves, or guiding state-run banks to sell dollars. A stronger global dollar can help a short-INR position, but a weaker dollar can hurt it even if the India-specific thesis is intact. The currency is cleaner conceptually, not risk-free practically.

Exhibit 7. Equity short versus INR short

| Dimension | Short Indian IT equities | Short INR |
|------------------|---|--|
| Exposure | Company-specific revenue, margins, multiples. | Aggregate external-account stress from services, FDI, equity flows, oil, and reserves. |
| Crowding | High in obvious names and sector ETFs after visible multiple compression. | Less direct as an AI trade, though INR weakness itself is no longer hidden. |
| Main risk | Good execution, buybacks, AI-services upside, multiple support. | RBI intervention, carry, global dollar weakness, already weak REER. |
| Catalyst | Earnings misses, lower guidance, headcount declines. | CAD widening, FPI outflows, oil pressure, services-export slowdown, reserve drawdowns. |
| Best use | Targeted expression on weak companies. | Macro expression on India's dollar-funding model. |

Source: Author's analysis.

The phrase “best investment right now” should therefore be interpreted as a risk-reward claim among AI-disruption trades, not as a universal claim that every investor should short INR. The trade is attractive because it is liquid, macro, and tied to a structural flow. It is dangerous because the rupee has already weakened and because the central bank can slow the move. The correct expression depends on risk tolerance, time horizon, and instrument choice.

11. Reserve Bank of India: Defense, Not Immunity

The Reserve Bank of India is central to the thesis. India has large reserves. News On Air, citing RBI data, reported that foreign-exchange reserves rose by US\$2.3 billion to over US\$703 billion for the week ending 17 April 2026, with foreign-currency assets above US\$557 billion and gold reserves above US\$122 billion [7]. That reserve stock is a major strength. It reduces the probability of a sudden balance-of-payments crisis. It allows the RBI to supply dollars during disorderly market conditions. It can punish speculative shorts.

But reserves do not eliminate depreciation if the shock is structural. They change the path. A central bank can manage volatility, smooth gaps, discourage one-way speculation, and buy time. It cannot permanently fix an exchange rate that is inconsistent with external flows unless it is willing to burn reserves indefinitely or tighten domestic policy enough to crush demand. India's policy preference has generally been to manage the rate of change

rather than defend a single permanent level.

Recent market behavior supports that interpretation. Reuters reported that the rupee's losses in late April 2026 were contained by dollar sales from state-run banks, most likely on behalf of the RBI, while Brent crude above US\$110 and importer hedging pressured the currency [8]. In March 2026, Reuters reported that the rupee touched a record low of 95.21 per dollar and that central-bank measures gave only temporary relief, while analysts continued to see depreciation bias because underlying dynamics remained unfavorable [10].

For a short-INR thesis, RBI intervention is a cost, not a refutation. It can make the trade slower, choppier, and more painful. It can create sharp rallies in INR that stop out leveraged positions. It may make options more attractive than spot shorts because the investor can define downside while retaining exposure to a larger move. It also means the trade's best catalyst is not a one-day panic. It is a sustained deterioration in expected services flows and capital flows that the RBI chooses to smooth rather than fully offset.

There is a serious counterargument from valuation. Reuters reported that the rupee's real effective exchange rate had fallen to its lowest in more than a decade, with the 40-currency REER at 92.72 and the six-currency REER at a record low in the available series [9]. An undervalued REER can attract long-term capital and improve export competitiveness. A short-INR investor must take this seriously. The rupee is not obviously expensive after the move. The thesis is therefore not a valuation short. It is a flow short. The investor is betting that the future flow shock overwhelms the current valuation discount.

12. Catalyst Timeline: 2026 to 2029

The short-INR thesis is not only about direction. It is about timing. AI disruption can be obvious in demos long before it appears in external accounts. The relevant sequence is enterprise adoption, procurement change, vendor revenue pressure, external-account deterioration, and currency repricing.

In 2026, the market sees early signs: weak IT-sector growth, slower headcount expansion, client caution, AI pilots, and lower sector valuations. The rupee is already under pressure because of oil, foreign outflows, and global risk. This is the stage when the trade becomes visible but not fully proven.

In 2027, enterprise AI budgets should begin to mature. The question shifts from "Can AI help developers?" to "How many offshore people do we need per project?" Large clients may begin renewing contracts with explicit AI-productivity clauses. Vendors may defend margins but face lower revenue per unit of output. Campus hiring and lateral hiring become important leading indicators.

In 2028, the macro data should begin to show whether services-export growth has

structurally slowed. If services exports keep compounding near high-single-digit or low-double-digit rates, the short thesis weakens. If growth slows toward zero in exposed categories, or if net services receipts stop covering the goods deficit as effectively, the current account thesis strengthens.

In 2029, the full feedback loop can appear. Slower services exports, smaller GCC expansion, lower IT equity valuations, and foreign-investor outflows can combine with oil-price sensitivity and reserve management. This is the window in which the base-case US\$80 billion compression could be priced by FX markets even before it is completely visible in historical data.

Exhibit 8. Indicative catalyst path

| Period | What to watch | Why it matters |
|--------|--|---|
| 2026 | IT-sector revenue guidance, Nifty IT underperformance, FPI outflows, RBI intervention, USD/INR near record levels. | Confirms the trade is becoming visible, but also means entry risk is higher after a large INR move. |
| 2027 | Contract renewals, campus hiring, utilization, client AI-productivity clauses, GCC hiring plans. | Shows whether AI is affecting vendor economics and offshore labor demand. |
| 2028 | Services-export growth, net services receipts, CAD/GDP, FDI into services and GCCs. | Moves the thesis from equity narrative to balance-of-payments data. |
| 2029 | Reserve use, broader equity outflows, importer hedging, rating-agency commentary, capital-account stress. | Determines whether the rupee adjustment is gradual or disorderly. |

Source: Author's framework.

The timeline also explains why the trade should not be evaluated only by day-to-day USD/INR moves. A near-term INR rally caused by RBI action, a weaker U.S. dollar, lower oil, or temporary FPI inflows does not necessarily break the thesis. Conversely, a near-term INR selloff caused purely by oil does not prove the AI thesis. The correct test is whether India's services-export and offshore-labor model is repriced over multiple budget cycles.

13. The Role of Oil and Terms of Trade

Oil is not the core novelty of this paper, but it is an important amplifier. India is a large net energy importer. When crude prices rise, the merchandise import bill rises, inflation risk

increases, and the currency weakens. Reuters reported in April 2026 that Brent crude was above US\$110 per barrel, pressuring oil-sensitive Asian currencies including INR [8]. HSBC also cited the oil shock as a reason to downgrade Indian equities, noting that Brent had risen sharply since the Middle East war began and that higher energy prices threatened earnings recovery [11].

Oil matters because it reduces the margin of safety. If services exports are booming, India can absorb a higher oil bill more easily. If services exports are slowing, the same oil bill becomes more dangerous. The AI shock and oil shock are therefore multiplicative, not separate. AI threatens the dollar inflow. Oil increases the dollar outflow. The rupee is caught between the two.

This is why the short-INR thesis can work even if AI compression is gradual. A gradual decline in services-export growth may not be enough to create a currency event by itself. But when combined with oil volatility, foreign equity outflows, and global risk-off episodes, it can change the distribution of outcomes. The market does not price only the average path. It prices the tail.

The opposite is also true. A collapse in oil prices would be the cleanest macro counter-catalyst to the short. Lower oil would shrink the goods deficit, reduce inflation, improve sentiment, and give the RBI more room to support growth without currency pressure. A short-INR investor must monitor oil as closely as IT data. A correct AI thesis can still lose money if oil falls and global capital rushes back into India.

14. Why Consensus May Be Too Optimistic

Consensus often underestimates structural shifts because it extrapolates from the last cycle. Indian IT services has historically been resilient. When clients needed cost savings, they outsourced more. When global technology budgets rose, vendors grew. When the rupee weakened, exporters benefited through translation and margins. This history creates a reflexive bullishness: weakness in the rupee is often treated as positive for IT companies, and strength in IT exports is treated as positive for the rupee.

AI complicates that relationship. A weaker rupee helps exporters if revenue volume is stable. But if clients reduce the number of billable hours, a weaker rupee may not offset the revenue loss. Similarly, margin defense does not solve the external-account problem. A vendor can have stable margins on lower revenue, but the country still receives fewer dollars.

Consensus may also focus too much on “AI revenue” as a new category. TCS reporting annualized AI revenue above US\$2.3 billion is impressive [13]. But the number must be compared with the legacy revenue base. If AI revenue grows from a low base while traditional managed services, application maintenance, and labor-intensive delivery slow, the net impact

on export dollars can still be negative. Investors may celebrate the new category while missing the cannibalization of the old category.

Another source of optimism is India's domestic equity bid. Domestic mutual funds and retail systematic investment plans have become powerful stabilizers. NSE's ownership report showed domestic mutual fund ownership at record levels and rising individual participation [17]. This can cushion equity markets against foreign selling. But domestic buying of equities does not directly create dollars. It can support local asset prices, but if foreign investors sell and convert rupees into dollars, the currency still faces pressure.

The final source of optimism is the belief that India will simply move up the value chain. This is possible. But moving up the value chain is not automatic, and it may not preserve total export revenue if lower-value work compresses faster than higher-value work expands. A country can become more sophisticated and still lose a particular cash-flow stream.

15. Trade Expression and Risk Control

Because this is a research paper and not personalized advice, this section discusses instruments conceptually. A short-INR view is usually expressed as long USD/INR, because the quoted pair rises when the rupee weakens against the dollar. Institutional investors can express the view through onshore forwards, offshore non-deliverable forwards, options on USD/INR, currency baskets, or relative-value trades against other Asian currencies. The correct instrument depends on access, regulation, margin, carry, liquidity, and risk limits.

The most important implementation point is that the thesis is medium-term and structural, while the currency can be noisy day to day. Spot or forward shorts can be stopped out by RBI intervention, temporary oil relief, weaker U.S. dollar episodes, or sudden foreign inflows. Options can define loss and preserve exposure to a tail move, but option premia can be expensive when volatility is high. Staggered exposure can reduce timing risk but may dilute returns if the move happens quickly.

The second point is carry. Currency shorts are not only about direction. They also involve interest-rate differentials and forward points. If INR interest rates are higher than U.S. rates, the forward market may price depreciation in a way that affects the return profile. The investor must distinguish between spot depreciation and total return after carry. A thesis can be right on spot direction but less profitable if carry costs are high or if the forward curve already prices much of the move.

The third point is risk concentration. A short-INR trade is exposed to U.S. dollar dynamics. If the dollar weakens globally because the Federal Reserve cuts rates or global risk appetite rises, USD/INR can fall even if India-specific fundamentals worsen. One way to isolate the India view is through relative FX, such as short INR against a basket of less-exposed Asian

currencies. That introduces its own complexities, but it reduces pure dollar risk.

The fourth point is liquidity and regulation. RBI action can affect offshore and onshore markets differently. Position limits, reporting requirements, and intervention can change trade behavior quickly. This is another reason high leverage is dangerous. The thesis is about a structural depreciation path, not a guaranteed straight line.

Exhibit 9. Possible expressions of the thesis

| Instrument | Advantage | Main risk |
|------------------------------|--|--|
| Long USD/INR spot or forward | Direct exposure to INR depreciation. High liquidity for institutional users. | Intervention, carry, margin risk, and timing risk. |
| USD/INR call options | Defined downside and convexity to a larger depreciation. | Premium cost, volatility pricing, and time decay. |
| Call spreads | Lower premium than outright calls. | Caps upside if depreciation is extreme. |
| Relative Asian FX basket | Reduces broad U.S. dollar exposure and isolates India-specific weakness. | Adds complexity and basis risk because other currencies have their own shocks. |
| Equity plus FX basket | Combines short IT equities with short INR. | Higher correlation in stress, more moving parts, and more crowded equity leg. |

Source: Author's analysis.

The cleanest version of the thesis is risk-defined and patient. A high-conviction investor might prefer options around the 2027-2029 repricing window. A more tactical investor might wait for INR rallies caused by RBI intervention or global dollar weakness. The worst implementation is to chase USD/INR after a vertical move with excessive leverage, because the central bank has both the willingness and the capacity to create painful reversals.

16. Disconfirming Evidence

A serious short thesis needs clear disconfirming evidence. The first disconfirming signal would be continued high growth in services exports despite AI adoption. If India's services exports continue to grow at 8 percent to 12 percent annually through 2027 and 2028, the macro premise weakens. The market would conclude that AI is expanding the addressable market rather than compressing revenue.

The second disconfirming signal would be stable or rising revenue per employee across the IT-services sector without revenue compression. If vendors use AI to increase productivity while maintaining client pricing, then shareholders and the external account can both benefit. In that world, AI improves India's export engine.

The third signal would be accelerating GCC investment and hiring in high-value roles. If multinational companies expand Indian GCCs aggressively because India becomes the operating center for enterprise AI, then FDI can offset any vendor slowdown. The rupee would then receive support from a new version of the same offshore model.

The fourth signal would be a large improvement in the goods deficit. If oil falls, gold imports moderate, electronics exports rise, and manufacturing exports accelerate, India may not need the services surplus to do as much work. The external account would become less dependent on IT and BPO.

The fifth signal would be durable foreign capital inflows. If foreign investors return to Indian equities and debt at scale, they can fund a wider current account deficit. FPI ownership has already fallen, so a reversal is possible. A global risk-on cycle, U.S. rate cuts, index inflows, or improved trade relations could bring dollars back.

The sixth signal would be RBI success without reserve stress. If the RBI can maintain orderly currency conditions while reserves remain stable or rising, the market may conclude that depreciation risk is contained. In that case, the short-INR trade may become a poor use of capital even if the AI thesis is directionally right.

17. Risk Register

The following risk register summarizes the main ways the thesis can fail or become unprofitable. The risks are not afterthoughts. They are central to implementation.

Exhibit 10. Risk register for a short-INR thesis

| Risk | Probability | Impact on thesis | Monitoring indicator |
|--|--------------------|---|--|
| AI expands Indian exports rather than compressing them | Medium | Breaks the central assumption. Services exports keep growing and INR pressure remains cyclical. | Services-export growth, AI-services revenue, revenue per employee, client budget commentary. |

| Risk | Probability | Impact on thesis | Monitoring indicator |
|---|-------------|--|---|
| RBI intervention creates sharp INR rallies | High | Does not break the long-term thesis but can cause losses for leveraged shorts. | Reserve changes, state-bank dollar sales, position-limit changes, forward premia. |
| Oil prices fall sharply | Medium | Improves the goods deficit and reduces inflation, lowering external pressure. | Brent crude, import bill, oil trade balance, CPI pass-through. |
| Foreign inflows return | Medium | Funds the current account and supports INR despite services concerns. | FPI flows, debt index inflows, FDI data, IPO participation. |
| GCCs become AI growth centers | Medium | Offsets vendor weakness with captive investment and high-value job creation. | GCC announcements, hiring plans, office absorption, transfer-pricing receipts. |
| Global dollar weakens | Medium | USD/INR can fall even if INR is weak on a trade-weighted basis. | DXY, Fed policy, U.S. yields, Asian FX basket. |
| Services data lag delays repricing | High | Trade can be right but early, increasing carry and opportunity cost. | Contract renewals, hiring, vendor guidance, quarterly BoP data. |
| Regulatory restrictions on currency positioning | Medium | Can reduce liquidity or force position unwinds. | RBI circulars, offshore NDF reporting rules, broker margin terms. |

A risk register is especially important here because the thesis is emotionally tempting. It connects AI, a giant economy, a large currency, and a clean narrative. Clean narratives are dangerous when they encourage leverage. The correct conclusion is not that the trade cannot fail. The correct conclusion is that the trade has a powerful asymmetry if the AI shock hits services exports before India builds replacement dollar engines.

18. Counterargument: India Is Not Just Labor Arbitrage

The strongest objection is that India is no longer merely a cheap labor story. The country's technology ecosystem includes product engineering, cloud modernization, semiconductor design support, cybersecurity, AI research, digital public infrastructure, fintech, biotech, and high-end analytics. Many Indian engineers are not doing simple repetitive work. They

are building and managing complex systems. Indian IT firms also have deep enterprise relationships that cannot be replaced overnight by a model API.

This objection is correct. It is also not sufficient. A currency short does not require India to be only labor arbitrage. It requires the marginal dollar stream to be more exposed than the market believes. A diversified services sector can still suffer if one large component slows. A company can move up the value chain while lower-value revenue declines. A country can produce elite AI talent while losing export revenue from routine outsourcing.

The second objection is that AI adoption requires implementation, and Indian IT firms are natural implementers. This is also correct. Enterprises need integration, governance, security, compliance, model monitoring, workflow redesign, and change management. Indian firms can sell these services. The risk is that AI implementation revenue may not be as labor-intensive or as durable as the old managed-services base. A one-time modernization project may replace a ten-year staffing annuity.

The third objection is that global enterprises will not internalize everything. Legacy systems, regulatory risk, and organizational inertia are real. The bear case of 50 percent to 60 percent compression may be too severe. This paper accepts that possibility. The base case requires only 29 percent compression of the modeled exposed base. That can happen through a combination of slower growth, pricing pressure, and partial automation, without requiring full replacement.

The fourth objection is that a weaker rupee helps exports. A falling INR lowers dollar costs for Indian providers and can make them more competitive. This is true for cost competitiveness, but it does not solve demand substitution. If a client needs fewer hours, lower cost per hour does not fully restore the old revenue pool. Currency depreciation helps India compete against other human labor pools. It does not fully compete against software that reduces the need for labor.

19. Counterargument: The Rupee Is Already Cheap

The second major objection is valuation. By April 2026, the rupee had already weakened sharply. Reuters reported an 11 percent decline over FY2025-26 and a record low of 95.21 per dollar in March 2026 [10]. Reuters also reported that the REER was well below its long-run average, suggesting the rupee was already undervalued on a real trade-weighted basis [9]. A cheap currency is harder to short than an expensive one.

This objection changes the trade but not necessarily the thesis. The strongest version of the short-INR argument would have been before the rupee's large decline. After the decline, the trade must be more selective. The investor should demand better entry, more convexity, or clearer evidence of services-export deterioration. The expected return from a straight spot

short is lower when part of the move has already happened.

However, cheap can become cheaper if flows deteriorate. Emerging-market currencies often look undervalued before they fall further because valuation metrics adjust slowly and because flow stress overwhelms purchasing-power measures. A low REER can attract capital if investors believe the weakness is cyclical. It may not attract enough capital if investors believe the export model is being structurally impaired.

The best way to reconcile these points is to separate tactical and structural views. Tactically, the rupee may rally if oil falls, the dollar weakens, or the RBI squeezes shorts. Structurally, the rupee remains vulnerable if services-export growth is repriced. The trade should therefore be built to survive tactical rallies while retaining exposure to structural depreciation.

20. A Simple Balance-of-Payments Stress Test

To make the thesis concrete, consider a simplified balance-of-payments stress test. Start with the FY2025-26 estimated trade structure: a merchandise deficit of US\$333.19 billion and a services surplus of US\$213.89 billion. That leaves a total trade deficit of US\$119.30 billion before remittances, income flows, and capital flows [2]. Now assume the services surplus loses US\$80 billion by year five because exposed IT and IT-enabled exports compress.

The services surplus falls from US\$213.89 billion to about US\$133.89 billion. The total trade deficit widens from US\$119.30 billion to about US\$199.30 billion. If remittances and income flows remain unchanged, the current account deficit widens by the same US\$80 billion. If capital inflows do not rise, the exchange rate must adjust or reserves must fall.

This simplified stress test ignores many offsets, but it shows why the currency is the right instrument. The market does not need a full collapse. It needs a large enough shift in the services buffer. India's external account is robust when services are robust. It is much less robust when services are questioned.

Exhibit 11. Simplified trade-balance stress test

| Item | FY2025-26 estimate | Base AI-shock case |
|---------------------------|--------------------|--------------------|
| Merchandise balance | -US\$333.19bn | -US\$333.19bn |
| Services balance | US\$213.89bn | US\$133.89bn |
| Total trade balance | -US\$119.30bn | -US\$199.30bn |
| Incremental deterioration | 0 | -US\$80.00bn |

Source: Author's calculations using Government of India FY2025-26 trade estimates [2].

The stress test also explains why manufacturing policy is important but not immediate enough. India is trying to build electronics, semiconductors, defense, renewables, and other manufacturing capacity. If these efforts succeed, they can reduce external vulnerability. But the thread's timing point is that services repricing may arrive before manufacturing exports are large enough to compensate. The rupee trades the gap between those timelines.

21. What the Market Should Watch

A short-INR thesis should be monitored with a dashboard rather than a single variable. The first category is services data: monthly and quarterly services exports, net services receipts, software services growth, and business-services growth. The second category is company data: revenue growth, constant-currency growth, headcount, utilization, attrition, revenue per employee, AI revenue, and deal pricing. The third category is client behavior: outsourcing contract renewals, vendor consolidation, AI-productivity clauses, and enterprise budget commentary. The fourth category is capital flows: FPI equity flows, debt flows, FDI into services, and GCC announcements. The fifth category is macro: oil, gold imports, U.S. rates, the dollar, reserves, and RBI policy.

Exhibit 12. Short-INR dashboard

| Indicator | Bullish for short-INR thesis | Bearish for short-INR thesis |
|------------------------|--|---|
| Services-export growth | Slows sharply or turns negative in computer and business services. | Remains high despite AI adoption. |
| Net services receipts | Stop offsetting merchandise deficit effectively. | Continue rising faster than goods deficit. |
| IT headcount | Declines across top firms while revenue growth slows. | Productivity rises and revenue grows without broad compression. |
| Revenue per employee | Falls or rises only because of layoffs while revenue weakens. | Rises with stable or accelerating revenue. |
| GCC hiring | Slows, shifts to smaller AI-supervised teams, or sees project cancellations. | Accelerates in AI, R&D, data, and product roles. |
| FPI flows | Persistent equity outflows and lower foreign ownership. | Sustained return of foreign equity and debt inflows. |
| Oil | Stays high or rises, widening import bill. | Falls materially and improves terms of trade. |
| RBI reserves | Decline because of intervention and BoP pressure. | Remain stable or grow while INR stabilizes. |

Source: Author's framework.

This dashboard also reduces the risk of confirmation bias. A trader who wants to short INR may overinterpret every weak IT headline. The dashboard forces the thesis to prove itself across flows, earnings, and macro data. If the data do not converge, the trade should be reduced or abandoned.

22. Ethical and Social Dimensions

A paper on shorting a currency can sound indifferent to the people affected by depreciation. A weaker rupee raises import costs, can contribute to inflation, and can reduce purchasing power for households. AI-driven disruption of IT and BPO work can affect workers, students, and urban labor markets. These are not abstract numbers. They affect careers and families.

The investment thesis should not be confused with a desire for harm. Markets price risks whether or not one approves of them. A short-INR trade is a view that a macro adjustment is underpriced. It is not a claim that the adjustment is good. In fact, if the thesis is correct,

policymakers, companies, and workers should care precisely because the implications are serious.

The productive response is not denial. It is adaptation. India can reduce the risk by moving faster into AI-native services, advanced manufacturing, energy security, domestic semiconductor capability, high-value R&D, and export diversification. Indian IT firms can shift from selling hours to selling proprietary platforms, model governance, security, industry solutions, and outcome-based transformation. Workers can shift toward roles that supervise, evaluate, secure, and integrate AI systems. The state can support reskilling and reduce friction in manufacturing and high-value services.

A currency short is therefore also a warning indicator. If markets begin to price AI risk into INR, it will be a signal that investors believe the external account is too dependent on a vulnerable services model. The best outcome for India is not that shorts lose because of intervention. The best outcome is that shorts lose because India successfully replaces labor-arbitrage exports with AI-era exports of equal or greater value.

23. Conclusion

The case for shorting the Indian rupee rests on a simple but powerful mismatch. India has a large and persistent merchandise deficit. Services exports, remittances, and capital inflows have made that deficit manageable. But a large portion of the services-export buffer is tied to offshore knowledge work, and offshore knowledge work is exactly where frontier AI is improving fastest.

The supplied thread's core insight is that the crowded trade is shorting visible IT and SaaS equities, while the larger trade is shorting the currency of the economy whose external account relies on that labor-arbitrage model. Public data support the starting point. India's services exports exceed US\$400 billion, software and IT-enabled services are central to the services surplus, GCCs employ nearly 1.9 million professionals, and the merchandise deficit is large enough that the services buffer is macro-critical. A US\$80 billion compression in exposed services exports would be enough to move the current account toward stress levels. A more severe compression would create a much larger adjustment problem.

The rupee is not an unqualified short at any price. It has already weakened materially. It is undervalued on some real-effective-exchange-rate measures. The RBI has large reserves and can make the path painful for shorts. Indian IT firms and GCCs may adapt better than bears expect. Oil may fall. Foreign inflows may return. These are real risks.

But the investment case remains compelling because it identifies a macro channel that is still less crowded than the obvious equity shorts. AI does not need to destroy Indian IT for INR to weaken. It only needs to reduce the growth and pricing power of services exports

enough to shrink the dollar buffer. Once that happens, the current account, FDI, equity flows, and reserve policy interact in the same direction.

Therefore, under the assumption that enterprise AI adoption moves from productivity pilots to procurement repricing between 2027 and 2029, shorting INR is one of the best liquid macro trades on AI disruption. It is not a bet against India's long-term potential. It is a bet that the rupee will have to absorb the transition cost between the old offshore labor model and whatever export model replaces it.

Appendix A: Notes on the Supplied X Thread

The supplied thread is treated as a thesis seed rather than as a verified data source. Its key claims are paraphrased as follows: the obvious AI shorts in SaaS and IT consulting are crowded; India has historically relied on services exports, remittances, and capital inflows to fund its external deficit; IT services and GCCs create a large dollar-denominated export base; AI can compress labor-hour revenue by 30 percent to 60 percent over five years; a US\$80 billion services-export loss can move the current account toward stress; the better expression is INR rather than individual IT equities because the currency captures services surplus shrinkage, FDI slowdown, and equity outflows at once.

This paper agrees with the structure of that argument but modifies several details. First, the official services-export numbers for FY2025-26 are higher than the thread's approximate US\$370 billion figure. Second, the official merchandise deficit for FY2025-26 is larger than the thread's approximate US\$240 billion goods-deficit figure, which strengthens the importance of the services buffer. Third, software services are officially above 40 percent of services exports, while the thread's roughly 55 percent figure is more plausible when adjacent IT-enabled and business-process services are included. Fourth, the paper treats the US\$80 billion compression case as a base-case stress, not a certainty.

Appendix B: Simplified Equations

Let:

$$CA = X_g - M_g + X_s - M_s + NPI + NTR$$

$$\Delta CA \approx \Delta X_s - \Delta M_s + \Delta NPI + \Delta NTR$$

where X_g is goods exports, M_g is goods imports, X_s is services exports, M_s is services imports, NPI is net primary income, and NTR is net transfers such as remittances. The short-INR thesis focuses on $\Delta X_s < 0$ or a sharp slowdown in X_s growth. If $\Delta X_s = -US\$80bn$ and other terms are unchanged, $\Delta CA \approx -US\$80bn$. At US\$4.15tn GDP, this is:

$$\frac{80}{4150} \times 100 \approx 1.93\% \text{ of GDP.}$$

If the starting current-account deficit is 1.0 percent of GDP, the simplified post-shock deficit is about 2.9 percent of GDP. That is the core arithmetic behind the trade.

Appendix C: Research Limitations

This paper has limitations. It relies on public data, which lag market reality. It models AI compression with scenarios, not observed long-term export declines. It assumes that clients capture a large share of AI productivity through lower vendor pricing. It does not build company-level revenue models for every IT vendor or GCC. It does not forecast RBI reaction functions in a fully specified macro model. It also does not model possible policy responses such as export incentives, manufacturing acceleration, capital controls, or fiscal support.

The paper's contribution is therefore not a precise forecast. It is a framework. It identifies a plausible structural shock, maps it to the external account, and argues that INR is the cleanest liquid expression if the shock materializes.

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