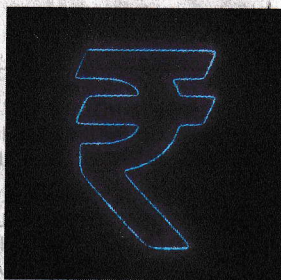


Rupee can extend gains

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Rupee gains ground on capital inflows GETTY IMAGES

The rupee gained 1.3 per cent for the week ended on June 27, its biggest weekly gain in over two years. While it slipped on Monday, the domestic currency covered up all the losses on Tuesday and closed at 85.53. The appreciation in the domestic currency is largely due to the sharp fall in crude oil price. The decline in the dollar is also aiding the rupee. The dollar index is currently hovering around 96.40, the lowest in three years.

WEEKLY RUPEE

VIEW

Real gross domestic product (GDP) in the US for the first quarter of this year decreased 0.5 per cent, as per the third estimate by the US Bureau of Economic Analysis released last week. Also, the core PCE (personal consumption expenditure) price index, the Fed's primary inflation measure, increased 0.2 per cent in May versus the expected 0.1 per cent. These factors weighed on the greenback. Adding to this is US President Donald Trump's relentless push for an interest rate cut from the Fed.

Apart from the dollar's weakness, another factor that helped the rupee gain ground is the capital inflows. Since last Tuesday, the net FPI inflows have been \$1.5 billion, as per NSDL data.

That said, there might be challenges ahead for the rupee, as hinted by the chart.

TECHNICAL CHART

The rupee, which has been rallying in the recent sessions, is facing a resistance ahead at 85.30. If this barrier is broken, it can extend the upswing to 85. However, if there is a decline on the back of this resistance, it can scale back to 85.80 and 86, notable support levels.

As it stands, the rupee bulls are backed by the dollar bears. The price action of the dollar index shows a steady decline. While 96 is the nearest support, the subsequent support is at 95.15. In case the dollar index breaches the support at 96, the rupee can extend the rally beyond the resistance at 85.30 and rise to 85.

RUPEE OUTLOOK

The leg of movement in the exchange rate of dollar-rupee depends on how the dollar index reacts to its support at 96. If this is invalidated, the rupee can advance to 85 in the near term.