FPI outflows, tariff overhang keep rupee under pressure

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The rupee slipped to a record low of 88.33 against the dollar on Monday. On Tuesday, it slightly recovered and closed at 88.16.

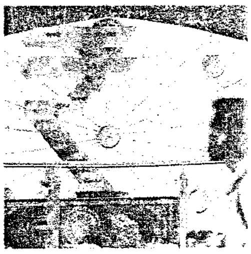
Tariffs continue to play spoilsport for the domestic currency. Even though the US Court of Appeals termed the tariffs as illegal last Friday, it stopped short of striking them down as the litigation is in progress.

WEEKLY RUPEE VIEW.

Apart from this tariff impact, the rupee has been under pressure due to FPI (foreign portfolio investors) selling.

Over the past week, the net FPI outflows have been nearly \$2.7 billion. As the stock market continues to be under pressure, the rupee is unlikely to get immediate support from fund flows.

Positive numbers like GDP growth of 7.8 per cent in Q1, narrowing of current account deficit (\$2.4 billion



in Q1 FY26 compared to \$8.6 billion in the same period last year) and Manufacturing PMI at 59.3, which indicates expansion, failed to lift the Indian unit.

On the other hand, in the US, the core PCE price index expanded at 2.9 per cent in July. This is the inflation gauge for the Fed and it remains well above their 2 per cent target. That is denting the chances of a rate cut. Nevertheless, experts still weigh for a cut in the September Fed meeting, which can drag the greenback.

CHART

That said, the chart of dollar/rupee shows that the bear trend in the rupee is intact.

The rupee breached the support at 87.80 last Friday. After marking a record low of 88.33 on Monday, it is now at 88.16. While there can be a corrective rally from the current level, it is likely to be capped at 87.80. Notably, the region between 87.70 and 87.80 will act as a barrier.

If the downtrend continues, the local currency can drop to 88.50. But at the moment, 88.30 is providing some support.

The chart of the dollar index shows that despite a rally on Tuesday, it remains in the 97.60-99 range. A breakout of 99 can lift the dollar index to 101.15. Yet, only a decisive breach of this hurdle can lead to bullish trend reversal.

On the other hand, if the dollar index slips below the support at 97.60, it can extend the decline to 96.40, a key support. A breach of this can intensify the sell-off.

OUTLOOK

The rupee can trade within 87.80 and 88.30 for the next few sessions. However, we expect it to eventually slip below 88.30 and touch 88.50 before the end of this month.