Rupee may weaken more

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The rupee declined to a new low of 89.95 against the dollar on Tuesday. Last week, in this column, we said the rupee could consolidate between 89 and 89.60 for some time and then decline towards 90. But this fall has happened without seeing the consolidation. This indicates that the RBI is continuing to stay out of the market without any intervention.

WEEKLY RUPEE VIEW.

The domestic currency weakened in the past week in spite of the weakness in the greenback. The dollar index (99.45) has come down from around 100.25 to 99 over the past week. It is currently trading at 99.45.

The outlook remains bearish for the rupee. It looks vulnerable to decline below 90 in the near-term. There is room to see 90.25-90.50 on the downside from here. But, thereafter, there are good chances to see a recovery towards 89.80. The immediate support is at 89.65. If the RBI intervenes immediately around the psychological level of 90 and takes the rupee above 89.65, then a recovery towards 89.20-89 is a possibility.

The US 10-year treasury yield (4.11 per cent) opened the week on a strong note. It has been rising well since the beginning of the week.

A crucial resistance is in the 4.15-4.2 per cent region. If the 10-year yield manages to breach 4.2 per cent, it could gain momentum. That, in turn, could take the yield up to 4.3 per cent and even higher going forward. Such a rise in treasury yields could aid the dollar index to regain strength.

DOLLAR OUTLOOK

The dollar index (99.45) has good support in the 99-98.50 region. A fall below 98.50 is less likely. As long as the index stays above 98.50, the bias will remain bullish. The dollar index could rise to 100.50 and even 101-101.20 in the coming weeks. This could happen either from here or after a dip to 98.50.