Rupee slides further, recovery hinges on the dollar

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The rupee (INR) slid further and made a record low of 85.84 versus the dollar (USD) on Monday. From there, the domestic currency recovered a bit and closed at 85.72 on Tuesday.

WEEKLY RUPEE VIEW.

The recovery in INR is due to a moderation in dollar over the last three sessions. Nevertheless, the fall in the dollar was not fully capitalised as the rupee only recovered marginally.

One of the reasons was a sell-off in the equity market earlier this week, which kept the sentiment weak. The foreign portfolio investors (FPIs) remained net sellers in the equity market, weighing on the local currency.

According to National Securities Depository Ltd (NSDL) data, the net FPI sell-off so far in January has been nearly $2 billion.

Adding to the woes, the price of crude oil has been on an upward trajectory over the last two weeks. The Brent Crude futures ($77/barrel) has risen about 6 per cent. Since India is an importer of crude oil, hardening crude oil prices is a negative.

The chart also continues to show the negative trend in the rupee. Below is an analysis.

CHART

The rupee, after hitting a low of 85.84, is currently at 85.72. There are no signs of a bullish reversal seen on the charts.

But the dollar index (DXY), which has now fallen to 108 after making a high of 109.5, has a key support ahead at 107.80. Therefore, the movement in INR hinges on how DXY will react to the support.

If DXY slips below 107.80, it can open the door for a temporary weakness in the dollar where DXY might moderate to 107 or to 105.80. This can also lead to an uptick in INR, possibly appreciating to 85.20.

However, if the dollar index rebounds, it can potentially hit 110 soon, which will most likely drag the rupee to 86-86.20 region.

OUTLOOK

The rupee's immediate outlook depends on the dollar index's reaction to its upcoming support at 107.80. A breach of this can lift INR to 85.20. But if DXY recovers, the Indian currency can soon touch 86.