Rupee is set for sideways action

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The rupee, after marking an all-time low of 90.42 against the dollar on December 4, seems to have found some footing. It closed at 89.88 on Tuesday.

WEEKLY RUPEE VIEW.

Nevertheless, the local currency may not be completely out of the woods yet due to factors such as capital flight and moderating domestic equity market. According to NSDL data, net FPI outflow so far in December stands at $1.53 billion. This increases the demand for dollars, impacting the domestic unit. The outflow might not be over as the domestic equity market has been moderating, particularly since the beginning of December.

CRUDE OIL PRICES

Also, there has been an increase in crude oil prices over the past couple of weeks, which is also weighing on the rupee. The domestic currency shares an inverse relationship with the price of the energy commodity. However, crude oil prices have been softening so far this week, and so this may not be a threat in the short run. Overall, the above factors have been a drag on the Indian currency. That said, the chart shows that the downside, at least for the short-term, is over. Here is an analysis.

CHART

The rupee, currently at 89.88, has a trendline support at 90.25. We expect the region between 90.25 and 90.50 to act as a cushion against the selling pressure.

However, the broader trend is bearish, and any rally is likely to be limited. From the current level, the nearest resistance levels for the rupee are 89.75 and 89.60.

A breakout of the latter can drive the local unit higher to 89.20. On the other hand, if the downtrend regains momentum and the rupee slips below the support at 90.50, it can drop further to 91.The dollar index, currently trading at 99, has been on a decline over the last two weeks. But over the past few sessions, it has been consolidating between 98.80 and 99.20. Since the price is now below both the 21- and 50-day moving averages, there is a negative bias. Going ahead, we expect the dollar index to slip to 98.60 or 98.25 and then see a rally. Notable resistance levels are at 99.50 and 100.25.

OUTLOOK

While a potential decline in the dollar index can be a positive for the rupee, factors such as FPI selling can put a cap on the upside. Overall, in the short-term, we expect the rupee to stay within 89.60 and 90.25.