Volatile week ahead for rupee

WEEKLY RUPEE VIEW.

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The rupee (INR) closed flat against the dollar (USD) on Tuesday at 82.32. The domestic unit is off the lifetime low of 82.69 hit on Monday as the price of crude oil fell sharply and the dollar stayed flat. Some market experts also believe that the Reserve Bank of India (RBI) stepped in to provide some buffer by selling more than a billion dollars on Monday. Notably, the foreign exchange (FX) reserves have been on a declining trend. As per the RBI data, the total FX reserves stood at $532.7 billion on September 30. That means the RBI has sold nearly $75 billion of reserves in the first two quarters of this financial year.

Yet, the magnitude of strengthening of the rupee from here can be limited as the dollar seems to have more room to rally.

While the decline in crude oil can help the local currency, foreign flows can be a concern. According to the latest data by NSDL (National Securities Depository Limited), the net foreign flows have been on the wrong side so far in October. The net outflow stands at $457 million. The stock market, which is already facing a sell-off this week, can add to the

woes if there is more fall during the week as it can increase the outflows, weighing on the rupee. Not to mention the potential for a further rally in the dollar. Technically, the rupee is in a downtrend and there is no signs of reversal.

CHART

For nearly two weeks, the rupee was moving in the range of 81.30-82. On Monday, it broke below the range and marked an all-time low of 82.69. Though it has recovered a bit to 82.32, the trend remains bearish, and the probability of the rupee to depreciate is higher. The nearest support could be at 82.50, with subsequent ones at 82.70 and 83.

But if there is a recovery, it can possibly rise to 82 or 81.70. A rally beyond these levels in the coming week is not likely.

The dollar index (DXY), which bounced off the support at 110, is currently hovering around 113. Momentum is in its favour, and it will not be a surprise if the DXY reclaims the 114 levels.

OUTLOOK

Technically, the chart shows that the trend is bearish for the rupee. On the fundamental front, the dollar and foreign flows might continue to put pressure on the rupee. The saving grace could be a sharp fall in crude oil prices.

That said, domestic inflation and trade balance data are set to be released this week, and this could keep the exchange rate of USDINR volatile. Yet, the overall bias is bearish where INR is likely to drift to 83 in the near-term.