

# Rupee trending towards 96/\$

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The rupee remained under pressure and hit a fresh record low of 95.74 against the dollar on Tuesday before recovering marginally to close at 95.6325. The domestic currency continues to face headwinds amid geopolitical tensions, elevated crude oil prices and persistent foreign portfolio outflows.

## WEEKLY RUPEE VIEW.

Sentiment worsened after US President Donald Trump rejected Tehran's response, calling it "totally unacceptable". Markets, which had earlier hoped diplomacy could ease tensions, turned risk-averse again following the remarks.

Reflecting this, the benchmark Nifty 50 index declined 3.3 per cent so far this week, while Brent crude futures rose 6.2 per cent, trading around \$107.50 per barrel at the time of writing. Sustained high crude prices remain a key negative for the rupee given India's dependence on oil imports.

Foreign flows also remained weak. According to NSDL data, net FPI outflows

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stood at about \$1.94 billion so far in May. India's foreign exchange reserves have also declined steadily - from \$728.49 billion as on February 27 to \$698.48 billion as on April 24 and further to \$690.69 billion as on May 1. This indicates that the RBI may have been intervening in the market to smooth volatility and limit excessive depreciation in the rupee.

### ELEVATED OIL PRICES

Meanwhile, markets are closely watching India's upcoming trade data, which could provide more clarity on how elevated crude prices are impacting the country's external balance.

Prime Minister Narendra Modi's recent remarks on fuel conservation, reducing imports and curbing overseas spending have also added to concerns that prolonged high oil prices could

worsen India's external position going ahead.

The rupee, which began May on a positive note rising to 94.06 on May 7, lost the momentum and the bears immediately took control, dragging the local unit. It dropped and marked an all-time low of 95.74 on Tuesday before ending the session at 95.6325.

Given the weakness as indicated by the chart, the likelihood of further decline is high. The nearest potential support is at 96 followed by 96.30 and 96.80. The rupee declining despite the dollar staying flat indicates the underlying weakness. The dollar index has been moving within the range of 97.80-98.50 since the start of May. If it breaks out of 98.50, it can add further downside pressure on the rupee. Whereas a breach of the support at 97.80 can give the local currency a breathing space. However, the gain might not be significant.

### OUTLOOK

The near-term bias remains negative for the rupee amid elevated crude oil prices, persistent foreign outflows and geopolitical uncertainty. The local currency appears vulnerable to a decline towards 96 and possibly 96.30.