Rupee slips but outlook not bearish yet

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The rupee depreciated by nearly 1.1 per cent against the dollar over the last week and closed at 85.34 on Tuesday. While the local currency initially dropped on the back of India's Operation Sindoor, which triggered some sell-off, recent news of the US and China agreeing to slash reciprocal tariffs pushed the dollar higher, weighing on the rupee.

WEEKLY RUPEE VIEW.

A truce in the trade war between the US and China means that the participants are now of the belief that the Fed might resort to a lower number of rate cuts this year. This left the US 10-year yield going up, pushing the greenback too high.

Another factor weighing on the Indian currency of late is the rally in crude oil prices.

The Brent crude oil futures ($65.50/barrel) have gained around 7.2 per cent in May. Given the rupee's inverse relation to oil prices, a rising crude oil will act as a drag on it.That said, there are positive factors for the rupee.

As tensions ease between India and Pakistan, the equity market looks positive. Consequently, the FPI inflows can increase leading to a demand for the rupee. As per NSDL data, the net foreign inflows so far stand at $1.3 billion.

Also, government data shows that the CPI (Consumer Price Index) based inflation for April dropped to 3.16 per cent following March's 3.34 per cent. April's print is the lowest since July 2019.

These factors can support the rupee.

POSITIVE BIAS

On the chart, the rupee maintains a positive bias and the recent drop is likely to be only a corrective decline. While there might be an extension of the downswing, it is likely to be restricted to 85.50 or 85.75.A rebound on the back of either of these levels can lift the rupee back to 85 and 84.70. On the other hand, if the local unit slips below the support at 85.75, it can depreciate further. Nearest support levels below 85.75 can be seen at 86.00 and 86.15. A breach of the latter can turn the outlook weak.

The dollar index is currently hovering around the resistance at 102.

Above this is another hurdle at 102.50.

If these levels are breached, the outlook can turn positive for the dollar index, potentially lifting it to 104.60 and 105.

But if the dollar index resumes the fall from the current level, it can drop to 100 and 98.

OUTLOOK

Given that the dollar index is at a resistance and that developments like India-Pakistan ceasefire and a truce in the US-China trade war can encourage risk-on sentiment, the rupee can appreciate to 85 and 84.70 in the near-term.