Rupee to maintain equilibrium

Akhil Nallamuthu
bl. research bureau

The rupee (INR) has been consolidating against the dollar (USD) over the last week. On Tuesday, it ended flat at 83.97.

After witnessing higher volatility in early August, the dollar seems to have gone silent in the past few sessions, leading to a muted movement in the USD-INR.

Data released on Monday showed that the CPI print for July came in a tad lower at 3.54 per cent against the expected 3.65 per cent, a positive for the Indian currency.

However, the foreign flows put some pressure on the local unit.

WEEKLY RUPEE VIEW.

The NSDL (National Securities Depository Limited) data show that the net FPI outflows over the past week stood at nearly $950 million.

CHART

Nevertheless, good domestic fundamentals like lower inflation and considerable foreign reserves ($675 billion) held by the RBI gave positive impetus to the rupee. The chart shows that the rupee is now moving in a narrow range. Below is an analysis. Since last Tuesday, the rupee has been charting a narrow sideways trend between 83.90 and 84. While the broader trend is bearish for the Indian unit, for the near-term, we can expect it to remain steady at around 84.

In case the support at 84 is breached, the rupee can find next support at 84.15. If this level is invalidated, the local currency can depreciate to 84.30. On the other hand, if the rupee breaks out of 83.90, the upside can be restricted to either 83.80 or at 83.60.

A rally past 83.60 can lift the rupee to 83.30. However, as it stands, an upside beyond 83.80 is unlikely. The dollar index (DXY) has largely been oscillating between 103 and 103.40.

The direction of the break of this price band can give us a clue about the next leg of trend. A breakout of 103.40 can lift DXY to 104 whereas a slip below 103 can drag it to 102.20, a notable support.

OUTLOOK

Broadly, both fundamental and technical factors point to USD-INR pair consolidating, at least in the short-term. The rupee is expected to remain within 83.80 and 84.15 over the next week.

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