

Rupee depreciates ahead of US Fed meet

WEEKLY RUPEE VIEW.

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The rupee continues its descent even as inflation cooled in November.

The CPI eased to a 11-month low to 5.88 per cent last month compared to 6.77 per cent in October. Besides, the dollar has been stable and has not rallied since the beginning of this month. Despite this, the Indian currency extended the decline on Tuesday as well, to close the session at 82.81 against the greenback, losing about one-third of a percent yesterday.

Partly, the crude oil prices rallying on Monday could have had some impact. However, the prices are still at lower levels and notably, Brent futures are trading below \$80 a barrel. Another reason for rupee weakness of late could be the sell-off from the FPIs (Foreign Portfolio Investors). Although the net inflows in December stands at over billion dollars, over the past week, the FPIs have net sold a little over \$300 million.

The charts too give INR a

negative bias. The rupee, as we expected, rallied a little and fell off the resistance at 82.20 last week. As it closed at 82.81 on Tuesday, the prospect of the local currency re-testing the low at 83.29 looks bright. But 83 can give some support. That said, a bullish trend reversal is less likely. In case the rupee bounces off strongly from 83 and appreciates, it will face hurdles at 82.65 and 82.50. Subsequent resistance is at 82.20.

The dollar index (DXY) has been consolidating at around 105 for nearly two weeks. It remains below the 200-day moving average. On the downside, it has support at 104.30 and 103.60. DXY should breach either 104 or 106 for us to get a sense on the next leg of trend.

BEARISH OUTLOOK

The overall trend is bearish for the rupee and the charts indicate further depreciation in the coming weeks. However, post the announcement of the monetary policy decisions by the Fed on Wednesday night, the currency pair of dollar-rupee can turn volatile. On the downside, 83 is an important level to watch whereas on the upside, 82.50 is crucial.