

# Rupee's weakness worsens

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The rupee came under strong pressure over the past week. The currency depreciated 1.3 per cent to close at 96.20 against the dollar on Tuesday. Notably, the currency lost about 0.6 per cent on Tuesday alone, highlighting the renewed stress in the market.

## WEEKLY RUPEE VIEW.

The primary trigger has been the re-escalation of tensions involving the US and Iran. Concerns over disruptions to global energy supplies resurfaced after reports that the Strait of Hormuz had once again been blocked, reigniting fears in the oil market. As a result, Brent crude futures, currently trading around \$86 per barrel, rose over 5 per cent last week and are up 13 per cent so far this week.

The dollar has also strengthened, benefiting from safe-haven demand as geopolitical uncertainty intensified. The stronger greenback has added to the pressure on emerging market currencies, including the rupee.

Domestic macroeconomic indicators are also not offering any relief. India's trade

deficit widened to \$30.4 billion in June, reflecting elevated import costs. Wholesale inflation also surprised on the upside, with WPI rising to 9.87 per cent in June, compared to market expectations of 9.15 per cent. The wholesale inflation in May was 9.68 per cent.

Foreign flows remained positive, with net FPI inflows amounting to about \$1.5 billion over the past week, taking cumulative inflows in July to \$2.7 billion. However, the supportive impact of these flows was overshadowed by rising oil prices and renewed risk aversion.

Overall, the fundamental backdrop has turned unfavourable for the rupee. If geopolitical tensions persist and crude prices remain elevated, the pressure on rupee could intensify further.

## CHART

The rupee slipped below the crucial support at 95.80 on Tuesday and hit a two-month low of 96.24 before closing at 96.20. The price action suggests that the currency may have resumed its broader downtrend after the corrective recovery seen in recent weeks. From the current level, the rupee is likely to weaken further towards 96.50. A breach of this level can pave the way for a retest of the all-time low

at 96.96. On the other hand, if the currency stages a recovery, it can rise to 95.80, which has now turned into a resistance. A breakout above this can lift it further to 95.40. However, given the prevailing bearish momentum, a sustained move above 95.80 appears less likely.

The dollar index, currently hovering around 101, continues to hold above the key support at 100.50. As long as this level remains intact, the broader bias will stay positive. The index also trades above its 21-day and 50-day moving averages, as well as a rising trendline, substantiating the bullish stance.

If the dollar index extends its rally from the current level, it can advance towards 102, which could drag the rupee closer to a record low of 96.96. However, a break below 100.50 can weaken the near-term outlook for the dollar and pull the index down to 100. Such a correction may provide room for the rupee to recover above 95.80.

The fundamental and technical setup remains unfavourable for the rupee. A sustained rise in the dollar index could drag the currency towards 96.50-96.96, while any recovery is likely to face resistance at 95.80.