Rupee sheds bullishness

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The rupee depreciated nearly a quarter of a per cent to end at 83.07 against the US dollar on Tuesday. Over the past week, the Indian currency has been moving up in most of the sessions. However, on Tuesday, the rally in the dollar weighed on the rupee, resulting in a fall.

WEEKLY RUPEE VIEW.

The dollar gained as investors looked for a safe haven, mainly triggered by tensions in the Middle East. So, despite favourable conditions like a fall in India's 10-year bond yield and good foreign inflows, the rupee declined.

On Tuesday, the 10-year yield stood at nearly 7.15, versus the high of 7.24 made in early January. According to the NSDL data, the net FPI inflows for January stood at nearly $1.7 billion on Tuesday.

CHART

The chart shows that the rupee has shed its bullishness because of the sell-off on Tuesday.

The rupee fell off a trendline resistance at 82.80 and closed at 83.07 on Tuesday. Only a breach of 82.80 can turn the trend bullish for INR. Now that it has fallen off this barrier, it is likely that the rupee could extend the downswing to 83.30, a support.

If it slips below 83.30, it can drop to 83.50. On the other hand, if INR recovers, it can face resistance at 83 and 82.80. A breakout of 82.80 can trigger a rally to 82.50 or 82. But given the strength in the dollar, a rally looks less likely in the rupee. The dollar index (DXY) broke out of the resistance at 102.80 on Tuesday. This has opened the door for a rally to 104.20, from where there could be a correction to 103.50. A breach of 104.20 can lead to an upswing to 105 or 105.60.

OUTLOOK

As it stands, the rupee is showing a bearish inclination despite good domestic market sentiments and fundamentals. This is largely due to the rally in the dollar. DXY appears to move up further, and this can weigh on rupee. We expect the rupee to weaken to the 83.30-83.50 price range in the near term.