

Outflows, strong dollar weigh on the rupee

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The rupee remained under pressure last week and slipped to a fresh lifetime low of 92.48 on Friday. Although the domestic currency recovered marginally thereafter, it closed at 92.38 on Tuesday, indicating that the broader weakness persists.

WEEKLY RUPEE VIEW.

A major factor weighing on the rupee has been capital outflows. According to NSDL data, foreign portfolio investors' net outflow so far in March is \$9 billion compared with a net inflow of \$4.2 billion in February.

External sector data has also turned less supportive. India's merchandise trade deficit widened to \$27.1 billion in February, nearly doubling from \$14.1 billion a year ago, driven by a 25 per cent rise in imports. Though the figure came slightly below market expectations of



\$28 billion, it still indicates elevated demand for dollars.

Globally, the dollar index continues to hold firm around the 100 mark, supported by safe-haven demand. Markets are closely watching the upcoming Federal Reserve policy decision on Wednesday. While rates are widely expected to remain unchanged, investors will focus on the central bank's guidance, particularly how it views rising oil prices and the potential implications for inflation.

The dollar has also been drawing strength from the perception that the US economy is better positioned to

withstand an energy shock, given its greater energy independence. For India, however, the combination of a strong dollar and elevated oil prices adds pressure on the rupee due to the country's heavy dependence on energy imports.

Reflecting these pressures, India's foreign exchange reserves fell to \$716.81 billion for the week ended March 6, down from \$728.49 billion by the end of preceding week, suggesting that the RBI likely intervened in the market to smoothen the volatility.

The price action of the rupee shows a clear bearish bias, more so until the support-turned-resistance of 92 holds. Another leg of downtrend from the current level can drag the local currency to 92.50 and then possibly to 92.75. However, if the rupee gains strength and surpasses the nearest barrier at 92, the upswing can extend to 91.70. Immediate resistance above 91.70 is at 91.55 – the 21-day moving average.

But the next trend largely depends on how the dollar

behaves. If the dollar index, currently at 99.75, resumes the uptrend, it can touch 100.50. A breakout of this can take it higher to 100.80. In this scenario, the rupee can decline to 92.50 or 92.75.

On the other hand, if the dollar index falls from the current level, it can dip to 99.40 or to 99.20. Such a correction can help the rupee gain to 91.70 and 91.55. That said, one should be wary that the broader trend for the dollar is bullish and so, any recovery in the Indian currency is likely to be temporary.

OUTLOOK

Overall, the bias remains negative for the rupee as long as it trades below 92. A move towards 92.50–92.75 is likely if the dollar index resumes its rally. However, the next directional cue could come from the Federal Reserve's policy guidance. Any softness in the dollar following the meeting may allow the rupee to recover towards 91.70–91.55, though such gains may be limited and short-lived.