

Rupee range-bound despite trade balance, rising crude oil prices

Akhil Nallamuthu
BL Research Bureau

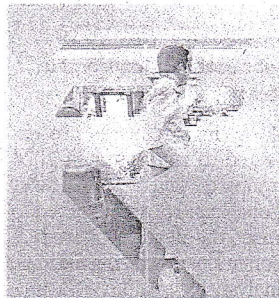
The rupee appreciated nearly 0.2 per cent against the dollar (USD) on Tuesday closing at 83.42. Fundamental factors like the trade balance and crude oil prices have been weighing on the currency.

WEEKLY RUPEE VIEW.

The trade deficit expanded to \$23.15 billion for May compared to \$19.1 billion for April. Year-on-year, there was a marginal increase in the deficit as it stood at \$22.1 in May last year.

In addition, the crude oil prices have been on the rise again. Over the past two weeks, the Brent crude futures has risen nearly 9 per cent. Also, the latest projections from the Fed points to only one rate cut this year, which is dollar positive.

One factor that has been working in favour of the Indian unit is the foreign inflows. As per the NSDL (National Securities Depository



Limited) data, the net FPI (Foreign Portfolio Investors) inflows over the past week stood at \$1.5 billion.

Despite major factors being negative for the rupee, it manages to move in range. Given the high foreign exchange reserves of nearly \$656 billion, some market experts believe the RBI could intervene and help keep the exchange rate stable if there are any sharp movements on the downside.

VOLATILITY

The rupee, despite facing higher volatility, remains within the range of 83-83.60. Only a breach of either of these levels will lead to the local currency establishing

the next leg of trend. But given the prevailing conditions, that appears less likely.

If the rupee breaks out of 83, it can extend the upswing to 82.50 or to 82. On the other hand, if it slips below the crucial support of 83.60, it can quickly fall to 84. The downtrend could extend beyond this level and drag the rupee to 84.50.

The dollar index (DXY) has been on the upward trajectory over the last two weeks. Currently trading around 105.50, it faces its nearest resistance at 105.70. A breach of this can lift DXY to 107. But if there is a decline from the current level, it can find support at 104.80 and 104. The dollar index will retain the bullish bias so long as it stays above 104.

With the fundamentals broadly in favour of the dollar, the rupee is expected to face downward pressure. However, the currency is exhibiting good resilience dodging the negative impact of the fundamentals.

Going ahead, too, we expect the rupee to remain stable.