

Weak dollar likely to support rupee

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The rupee ended at 86.37 on Tuesday versus 85.82 on July 15, losing 55 paise over the past week.

The local unit moderated despite the dollar witnessing a decline.

The lack of breakthrough in the ongoing trade negotiations between India and the US has created uncertainty, and the likelihood of striking a mini-deal is low.

WEEKLY RUPEE VIEW

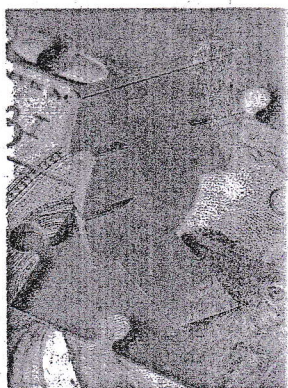
Reports also suggest that the Reserve Bank of India has been adding dollars to the reserves, and has been unwinding some of dollar-rupee short positions on the forward contracts. Also, there have been capital outflows, albeit at lower magnitude, as investors weigh on the trade deal ahead of the August 1 deadline. According to the National Securities Depository Ltd (NSDL) data, net Foreign Portfolio Investor (FPI) outflows over the past week (since July 15) stand at \$140 million.

However, the weakness in the dollar is likely to provide some cushion for the rupee during the coming sessions, unless there is a recovery in the greenback. Below is the analysis of charts.

CHART

The rupee slipped below the support at 86.10 on Friday, and ended last week at 86.13 versus the preceding week's close of 85.78. It further dropped to mark a low of 86.42 on Tuesday before ending the session at 86.37.

The breach of the support at 86.10 is bearish. The domestic currency might extend the decline to 86.60, the next support. But given the



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weakness in the dollar, a fall beyond 86.60 is unlikely.

DOLLAR INDEX

The dollar index, which has been in a recovery phase, now seems to have resumed the downtrend. Currently trading at 97.80, it fell off the barrier at 98.80, where the 50-day moving average coincided.

That said, there is support ahead at 97.60. If this level is breached, it can retest the support at 96.50. But if there is a rebound, which can lift the dollar index above 98.80, there might be an uptick to 99.50.

So, broadly, the movement in the dollar-rupee exchange rate hinges on the dollar index's reaction to the support at 97.60.

OUTLOOK

In the event of the dollar index falling below 97.60, the rupee can appreciate to 85.80. However, if the dollar index resumes the rally, the local unit might slip to 86.60 or 86.80.