

Re could weaken further

The currency declined despite foreign funds inflow and crude oil price stabilising

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The dollar (USD) bulls are back, and this led to a fall in the rupee (INR) over the past week. On Tuesday, it closed at 79.87 compared to 79.39 a week back.

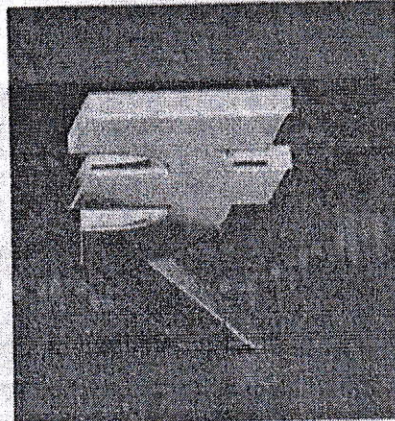
The rally was on the back of the Fed minutes, released last week, showing that they are not as dovish as the market would expect them to be.

Therefore, the rupee declined despite strong foreign inflows and crude oil price stabilising. According to the latest NSDL (National Securities Depository Limited) data, the net FPI (Foreign Portfolio Investors) inflows in August stood at \$5.9 billion.

The Brent futures price has been moving around \$96 a barrel. Going ahead, the local currency looks to weaken further given the toned down risk sentiment.

Chart

The rupee, which had been moving in the 79 - 79.80 range since the beginning of August, slipped below 79.80 last Friday. Since then, it has been trading below 79.80



Rupee is likely to depreciate below 80 ISTOCKPHOTO

and thus, the likelihood of a depreciation looks higher. While 80 can be a psychological support, it will eventually be broken with the next support at 80.20. For the rupee to turn the short-term trend bullish, it should decisively breach the support-turned-resistance level of 79.80.

The dollar index (DXY) witnessed a sharp rally over the past week. It broke out of the resistance at 107.40 and has rallied to the current level of 109. The price action hints at more rally. The nearest resistance is at 112.50. Subsequent resistance is at 115.

Outlook

Although the FPI inflows look good and the crude price has steadied, the rupee is facing downward pressure because of the dollar strength. This trend can be expected to continue in the coming week, and we expect the rupee to breach 80 and touch 80.20 in the near-term.