

## Positive capital flows lend support to rupee despite global headwinds

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The rupee traded largely flat last week. Several factors were at play, which effectively kept the currency in a sideways trend. On Tuesday, it closed at 90.95. According to NSDL data, net FPI in-

### RUPEE WEEKLY VIEW.

flows over the past week stood at \$1.2 billion, offering a cushion to the domestic currency and helping it absorb external pressures. However, global cues turned less favourable.

The US Core PCE Price Index rose 0.4 per cent month-on-month in December, higher than the expected 0.3 per cent. This marked the sharpest monthly increase since February last year, reinforcing expectations that the Fed may remain cautious on rate cuts. Such data tends to support the dollar and cap gains in emerging market currencies and rupee are no exception.

Meanwhile, crude oil prices have moved higher. Brent crude futures (now at

about \$71/barrel) rose nearly 6 per cent last week and is trading above a key technical level, indicating a bullish bias. Given India's dependence on oil imports, sustained strength in crude prices can increase dollar demand and weigh on the rupee.

In addition, uncertainty around trade tariffs and geopolitical developments, including US-Iran tensions, continue to keep the risk appetite fragile, a backdrop that is typically unfavourable for the Indian currency. Overall, positive flows are providing support though external headwinds remain.

### CHART

The rupee, which was trading between 90.45 and 90.80, slipped below the support at 90.80 last Thursday. However, there was no follow-through sell-off. The price action now shows that the rupee has found a new range within 90.65 and 91.

So, for the near-term, the key levels to watch out for are 90.45 and 91. A breach of this price band will lend us cues about the direction of the next trend. A breakout of

90.45 can lift the rupee to 90.20 and 90. But in case the support at 91 is breached, we will most likely see a decline to 91.80 and 92.

The movement in the local currency also depends on the dollar index. This index has been bullish recently. After laying a good foundation at 96.80, it has rallied to the current level of 97.90.

However, it now faces the 50-day moving average resistance at 98. If the dollar index surpasses this, it can eye 99.40 or even 100. In such a case, the rupee is likely to breach the support at 91.

On the other hand, if the dollar index retracts, the nearest support is at 97.35. A breach of this can drag it to 97. If this occurs, the rupee can appreciate above 90.45 and possibly move towards 90.20 and 90. Overall, the rupee is consolidating as capital inflows offset firm dollar and rising crude prices.

The 90.45-91 range remains key; a break above 90.45 could lift the currency towards 90.20-90, while a move below 91 may push it to 91.80-92, particularly if the dollar index strengthens further.