

Rupee rally may see a temporary pause

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The rupee appreciated nearly 1 per cent versus the dollar over the past week as it closed at 85.77 on Tuesday. From its all-time low of 87.95, the domestic currency gained about 2.5 per cent.

WEEKLY RUPEE VIEW.

A key factor has been the return of Foreign Portfolio Investors (FPI). After carrying out a selling spree until recently, they seem to have star-

ted buying Indian assets.

Over the past week, as per NSDL data, the net FPI inflows stood at \$2.1 billion. This has turned the flows positive for March, which now stands at \$1.3 billion. Notably, the Indian benchmark index has gained nearly 8 per cent from its recent low and there are signs of a recovery. This can bring in more capital inflows, which will be positive for the rupee.

However, geopolitical risks have been persistent. Israel ended the ceasefire and has now begun a ground offensive. The US airstrikes on Yemen's Houthis rebels can spark energy risk. These factors can increase

the demand for safety in the US dollar. If they trigger a rally in the dollar, it can weigh on rupee.

The rupee extended the upswing to mark a three-month high of 85.49 on Monday before moderating to the current level of 85.77. The price action appears positive as the rupee has now recovered above the 50-day moving average and the 50 per cent Fibonacci retracement of the prior downtrend. However, there is a notable resistance at 85.50. So, for the short-term, the rupee may move down to 86.15-86.25 band, a support. This can be substantiated by a recovery in

the dollar index. The dollar index, currently trading at 104.40, can move up further to 105.00-105.50. This can drag the rupee up to 86.15. In case the dollar index surpasses 105.50, it will open the door for the rupee to decline to 86.50. If it resumes the downtrend, rupee can see another leg of rally. But broadly, as it stands, over the next few sessions, the rupee might see a minor decline.

OUTLOOK

Before the next upswing, the rupee might see a gradual decline to 86-86.15 price band. It is also likely to stay within 85.50-86 price band.