Rupee recovery could be temporary

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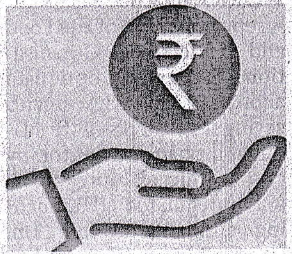
The rupee, after marking a fresh low of 84.5 against the dollar last Friday, recovered sharply. On Tuesday, it marked an intra-day high of 84.23 before closing lower at 84.34.

WEEKLY RUPEE VIEW.

Strong foreign inflows in the recent sessions helped in the recovery. Over the past week, the net FPI (Foreign Portfolio Investors) inflows stood at nearly $840 million, according to NSDL (National Securities and Depository Limited) data.

Landslide victory of the ruling Mahayuti coalition in Maharashtra boosted the investor confidence, providing positive impetus to the rupee.

However, this might not sustain as the dollar appears strong. Also, the US President-elect Donald Trump has talked tariffs, sparking the fear of a trade war, once he takes charge in January. This can lead to investors moving to risk off sentiment, which can fuel more rally in the greenback, weighing on the Indian unit.



CHART

The rupee moving above 84.35 is a positive sign. However, the rally may not sustain. There are resistances ahead at 84.20 and 84. Probably a breach of 84 can keep the positive moment for a while. But that probability is low.

We expect the rupee to gradually depreciate from the current level of 84.34 and touch 84.50 in a week or so. Over the next few weeks, it could even weaken to 85.

The chart of the dollar index (DXY) shows that the price region of 106.10-106.80 is a support band. Below this is another support at 105. We expect DXY to regain traction again from the current level or after seeing a minor dip to 105. The index is currently trading at 106.85.

A resumption in the uptrend can take the dollar index to 110, the nearest notable resistance. Subsequent barrier is the price band of 113.70-114.

OUTLOOK

The recent upswing in the rupee could be only temporary. It can moderate back to 84.50 over the next week. In the near-term, the downside could slowly extend to 85.