

Weak outlook for dollar positive for rupee

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The rupee lost 0.3 per cent against the dollar on Tuesday and closed at 85.34. The currency remained turbulent over last week.

WEEKLY RUPEE VIEW.

While it depreciated to mark a low of 86.11 last Thursday, it recovered sharply in the following session on Friday. The rupee extended the gain on Monday to hit a high of 84.78 before moderating to the current level of 85.34.

Foreign outflows have been weighing on the domestic currency, which led to a drop. Over the past week, net FPI outflows have been

nearly \$2.1 billion. Despite this, the rupee recovered sharply, particularly on Friday and Monday. This was due to a fall in the dollar index as investors remain concerned about the US economy, particularly on the back of the new US Tax Bill, which is estimated to add over \$3 trillion in federal deficits.

In addition, India Manufacturing and Services PMI, which came in at 58.3 and 61.2 for May, indicate that the domestic economy remains robust. So, broadly, despite foreign outflows, other fundamental factors have been in support of the Indian unit.

The rupee, which saw a sharp decline towards the end of last week, saw strong recovery on the back of the

support at 86.15. From the current level of 85.34, the currency might soften to 85.60. However, a decline below 85.60 is unlikely. A recovery, either from the current level or after a dip to 85.60, can lift the rupee back to 84.80. The upside can even extend to 84.60 and 84.50.

This will be substantiated by a potential decline in the dollar index. Currently trading at 99.35, the dollar index can resume the fall from here or after extending the recovery to 100.

On the downside, it can decline to 98. A breach of this can intensify the sell-off, possibly falling to 97. So, overall, the weak outlook for the dollar is positive for the rupee. Over the next week, we expect the rupee to retest the resistance at 84.80.