

# Rupee shows bearish inclination

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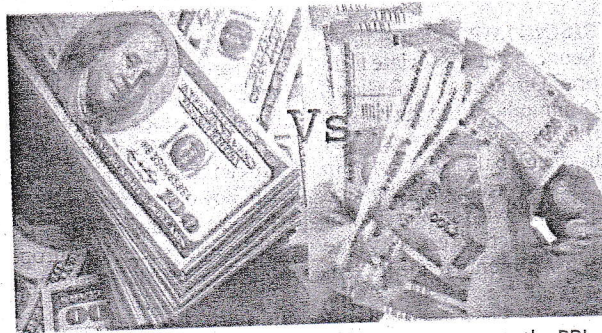
The rupee ended flat at 83.7275 versus the US dollar on Tuesday. China's rate cut is adding pressure to the emerging market currencies. Also, the dollar made some recovery, weighing on the local currency.

## WEEKLY RUPEE VIEW.

Nevertheless, there are positive factors for the rupee. The net inflows of FII (Foreign Institutional Investors) over the past week stood at \$734 million according to NSDL (National Securities Depository Ltd) data. For July, it stood at nearly \$6 billion. The domestic fundamentals too, are in favour of the rupee.

Notably, though, an increase in the foreign reserves hints that the RBI might be buying dollars, preventing the rupee from appreciating. The FX reserves went up by \$4 billion recently.

Therefore, the inflows into the equity market seem to be absorbed by the central bank, at least to some extent, according to some market reports. Technically, the price action shows some



**DOLLAR IMPACT.** Increase in forex reserves suggests the RBI is buying dollars, preventing the rupee from appreciating

negative bias. Below is an analysis.

### CHART

The rupee has been gradually falling since the beginning of July. The rupee lost about 0.5 per cent for the month versus the dollar. The chart gives the rupee a bearish bias and the likelihood of it declining further is high.

The nearest support is at 83.80. Subsequent support is at 84. On the other hand, if there is a rally from the current level, the domestic unit can face barriers at 83.60 and 83.40. Only a breakout of the resistance at 83.25 can turn the trend bullish. The dollar index (DXY) found support at 103.70 and rebounded recently. Currently trading around 104.60, it is testing the 20-day moving average. A

breach of this can open the door for a rally to 105 and then to 105.70.

But if DXY declines from here, it can find support at 103.70. A breach of this can lead to another leg of downswing. The outcome of the US Federal Reserve meeting is due on Wednesday. This could be key in setting the direction for the dollar index going forward.

### OUTLOOK

The chart shows that the bias is bearish. Also, there seems to be some pressure on emerging market currencies post China's rate cut and possibly, RBI is buying dollars.

Therefore, in the near term, we can expect the rupee to depreciate gradually, likely to 84.