CURRENCY INSIGHT

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Dollar Rupee Hits Fresh High amidst Strong Dollar Index and Capital Outflow Concerns

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The Dollar Rupee has recently reached a fresh high of 83.30, primarily due to renewed pressure from a robust US Dollar index. Additionally, elevated import prices have exacerbated the evidence of increasing capital outflows from India. Selling pressure on the Indian Rupee has intensified since the beginning of July, as substantial oil imports coincided with the global surge in energy prices. This has led to a higher amount of Rupees being exchanged for oil and gas imports.

From a technical analysis perspective, the USD/INR pair traded within a range of 81 to 83 from October 2022 to August 2023. However, just one day before India's Independence Day, the USD/INR pair broke out from its multi-month consolidation range, rising above the 83 mark. This breakout opened the door for a potential upside rally towards the 84 mark. It's worth noting that during the same period, the US Dollar Index exhibited a muted but generally bullish bias. Consequently, the RBI did not face significant challenges in maintaining Rupee volatility, and RBI intervention helped the USD/INR pair cool off to levels below 82.50.

Meanwhile, the US Dollar Index has been hovering near its highest levels in six months, around 105. Investors are closely monitoring the Federal Reserve's upcoming policy decision, with expectations that the central bank will maintain interest rates at their current levels. Investors are particularly interested in the Fed's outlook on inflation and its future policy steps. Recent positive economic data in the United States has raised hopes that the Fed can achieve a soft landing even if it keeps interest rates higher for an extended period. Additionally, global markets are awaiting key interest rate decisions from the Bank of England and the Bank of Japan this week.

While the Dollar Index is in an upward trend, it's important to note that levels above 105 are considered overbought at this time. On the technical charts, the Relative Strength Index (RSI) is also showing signs of forming a bearish divergence, indicating the possibility of a minor correction or consolidation. However, the overall trend remains bullish, and any dip towards the mean levels, represented by the 21-day Exponential Moving Average (EMA) around 104.25-104.35, could provide a more comfortable trading setup for the Dollar Index.

Returning to the USD/INR pair, the expectation is for the pair to move towards the 84 mark in the medium to long term. In the near term, the USD/INR pair is trading comfortably above the breakout level of 83, signaling strength, and the RBI's exchange rate is also situated near the 65 mark, suggesting further room for an upward rally. The next major resistance level for the pair is around 83.40-83.45, and considering the Dollar Index's relative strength, the RBI may attempt to keep the USD/INR pair below 83.50 in the near term. On the downside, immediate support is observed around 83.00, followed by 82.80 levels. Any dips towards or below the 83 level could present buying opportunities with a limited upside target around 83.40-83.45 levels.

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