BONANZA COMMODITY / CURRENCY
TECHNO + FUNDA RESEARCH

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INR = DOLLAR

CMP : INR. 77.79

Rupee against the Dollar at all time low, Why and What to watch for now

Indian rupee against the dollar fall towards fresh low of 77.81 today due to more than one reason, to begin with from overseas clue, relentless surge in global crude oil prices raised concerns about a sustained rise in imported inflation, US FED increases rate & indicate more aggressive rate hikes cycle atleast in near future after inflation soar to multi decade high, which increases US treasure yield above 3% and added by geopolitical tension. While in domestic market, same RBI hikes interest rates twice in a month period which resulted in shoot up of bond yield, added by continue outflow of forex reserves as FII constant net seller in Equity as well debt in last few months. Also, higher crude prices which may resulted in Current Account Deficit also makes pressure in INR from every recovery.

TWO FACTORS –

On year to date basis, Indian Rupee depreciated almost 5% against the greenback and US Dollar index risen almost 8% and touch 20-year high last month, primarily due to 2-reason, first aggressive US FED interest rate hikes and higher commodity prices due to Russia invasion on Ukrain. The Fed has already hiked rates by 75 basis points so far in 2022 and given the fact that US inflation remains sharply above targets, the central bank is seen carrying out several more rounds of 50-basis-point hikes. While geopolitical tension not expected to cool down any soon and depreciation in rupee likely to continue from every dip.

RECESSION FEAR –

Other factor behind rupee fall is weak domestic as well overseas data, Indian CPI as well WPI at multi month high, while US and China, a two largest economy, its latest Retail sales number shows much weak picture which resulted in more strength in dollar against global currency. Already US inflation at 40-year high and FED aggressive rate hike policy which carry a recession risk, while latest China number added fuel on it and this will resulted in hedge funds will rush towards safety assets like treasure yield & US Dollar from risky assets like Equity.

DOMESTIC NUMBERS - When one adds in worsening economic parameters in India, the outlook on the rupee worsens further. India's headline retail inflation surged to an 8-year high of 7.79% in April, while wholesale price inflation zoomed to a record high 15%. already, a slew of organisations including the World bank, IMF and the UN have reduced India's GDP growth forecasts.

FUNDS OUTFLOW –

Foreign funds have sold stocks worth more than $23 billion so far in 2022 while they are net sellers of $2.1 billion in debt.

INDIA CAD POSITION –

India imports nearly 85% of its oil requirements and high crude tends to push up domestic inflation while also widening the country's trade and current account deficits. excess of overseas payables over receivables is expected to be a decadal high in the current financial year due to surging oil prices. The gauge was at 2.7% of GDP in the quarter ended December 31, 2021.

WHAT TO EXPECT FIRST, 81 OR 75 for Rupee -

the rupee's near-term course would be charted by global risk appetite, which in turn depends on Chinese developments and the pace of US Fed rate hikes. In the near-term, we do expect the rupee to keep a weakening bias. Our June-end forecast on the rupee is around 78/$ because we do expect dollar to remain on a stronger footing, given the current risk-averse environment and the probability of faster rate hikes from the Fed added by tight spare capacity to cool down Crude oil prices in near term. Gradually it is to be expected that Rupee might fall towards 79-79.25 belt.
Some factors may support rupee from fall at every rally which includes RBI intervention, strong exports and any rebound in FII money from towards debt market which might attractive once rate hike cycles indicates to cool down.

IMPORTER / EXPORTER -

A weakening rupee makes imports more expensive while giving exports a boost by making them cheaper.

As the rupee weakens, importers should "buy all the dips", or episodes when the rupee notches up some gains due to dollar sales by the RBI or any other reason. Any dips to 77.30 – 77 belt will seen as buying opportunity. They can use the option route by buying out of the money calls at 78.50/79 and funding it by selling puts at 77

The exporters keep a stop-loss of 77.30/$ in case the rupee were to strengthen and hold onto their dollars for higher dollar/rupee levels which could come in the next few days. Or they can buy out of the money put at 77.25/77 and keep holding to the position. If the rupee gains the put will give them profit else they will be able to encase on the upside.

Above strategy will valid as long rupee trades above 77, and any close below 77 will force to review on fresh fundamentals as well as technical levels.

NRI INVESTORS -

While investing in assets or spending in Indian currency value in a foreign land may turn more expensive, for an NRI, there are opportunities to capitalize on. If you are an NRI investing in your home country, India, then with the depreciation in the value of the Indian currency, every dollar repatriated home by you is worth so much more. Historically, a reduction in the value of the Rupee has resulted in an increase in NRI remittances from nations such as the United States, the United Arab Emirates, the United Kingdom, and a few Asian countries. Because of the growing value of the US dollar, investment in India has become significantly more lucrative. Despite the fact that remittances from overseas are increasing, NRIs should pay close attention to the channels through which they execute their investments in order to maximize monetary benefit

INDIA FOREX RESERVES -

India's foreign exchange reserves topped the $600 billion mark again, just a month after the reserves slipped below the central bank's comfort level. Forex reserves had increased also in the week ended May 20, snapping nine consecutive weeks of shrinkages. Forex reserves were $601.4 billion for the week ended May 27 versus $597.5 billion in the preceding week, show data from the Reserve Bank of India. The portion of reserves parked in gold and other International Monetary Fund-backed assets rose by about $244 million.

TECHNICALLY SPEAKING –

Dollar Index which trades around 103 seen to test again its mid May month high of 105 in days to come as long support hold 101. While any Sustain Close above 105 will open door towards 110-110.50 range unless price close below 101 level. Only Close below 101 will be a bearish bat for Dollar index atleast for the next few months. (Sources - Investing.com/charts and Bonanza Research team)

On a weekly chart, INR already seen weekly close above 77 (which was previous peak) so now as long support of 77.30 – 77 hold, one can expect price towards 79-79.25 which is immediate trend line resistance and overall upto 79.80 – 80 zone which is 1.61% retracement of previous fall. Also, one should keep eye on Support of 77, as any Sustain below 77 makes room for more rupee appreciation towards 76.80-76.20 levels. (Sources - Investing.com/charts and Bonanza Research team)

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Disclosure:

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