Chart-in-Focus

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The Road Ahead For USDINR

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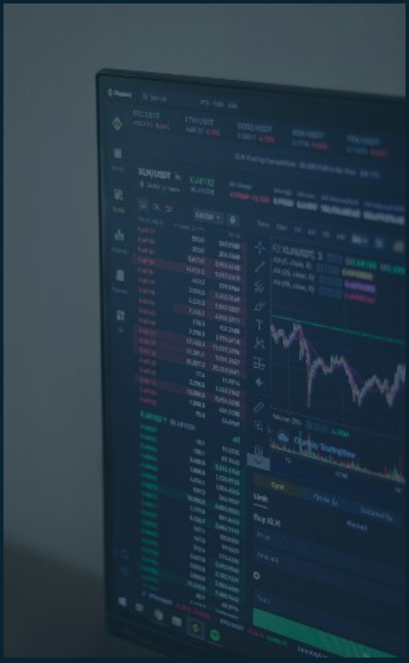

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Chart-in-Focus: The Road Ahead For USDINR

Over the past months, the Federal Reserve has been relentlessly on its rate tightening path; it raised interest rates on eleven out of twelve occasions. It was only in June that it took a pause on the anticipated lines and kept the rates unchanged in the range of 5.00% to 5.25%. However, the European Central Bank and the Bank of England decided to go ahead with the rate hikes as scheduled.

After the June 2023 meeting, the Federal Reserve decided to hold off on raising interest rates, signaling a pause in its campaign of rate increases. The committee recognized that the effects of previous rate hikes are still being felt and expressed the need to assess the impacts of its policy moves over the coming weeks. While Federal Reserve Chairman Jerome Powell did not anticipate a rate cut until inflation decreases significantly, he acknowledged that more rate hikes are likely in the future. The decision to skip the rate hike in June was somewhat surprising, as many had expected a longer-term plan to keep rates steady. The Fed's commentary indicated that they are not finished with rate hikes, which may have a potential impact on stocks and valuations of other currencies against the US Dollar.

After the Fed's decision to pause in its June 2023 meeting, the European Central Bank (ECB) and the Bank of England (BoE) took different approaches. The ECB decided to raise its interest rates by 25 basis points in response to high and persistent inflation. With inflation projected to average 5.4% in 2023, the ECB deemed tighter monetary policy necessary. Meanwhile, the BoE chose not to set the stage for a pause in its rate hike cycle, unlike the Fed. The BoE continues to monitor the impact of higher rates on economic growth and jobs. These actions reflect the differing economic situations and inflationary pressures faced by each central bank.

This series of rate hikes obviously had its effect on US Dollar Index (DXY) which has strengthened over this time. However, if we take a larger technical look at the Dollar Index (DXY) the formation of a major base dates back to July-October 2020 when the Dollar Index was trading significantly weak. However, the Index formed a strong base in the 88-90 zone during this period. This base was formed led by a emergence of a strong bullish divergence of the RSI against the price.

As evident from the weekly chart of DXY, it successfully formed a base in the 88-90 zone following a strong bullish divergence of the RSI against the price. It then subsequently broke above the 94.50 levels a year later in November 2021 as it crossed above a pattern resistance in the form of an extended trend line. After coming off its peak , the Dollar Index (DXY) is presently seen in a consolidating range that resembles a symmetrical triangle. Because of this, the range of the moves on the DXY are getting narrower; a directional trend will develop only when it crosses above 104-104.50 or slips below 101-100.50 levels.

The expected impact of the next two rate hikes in 2023 on the US Dollar Index is likely to be influenced by a variety of factors. As the Federal Reserve raises interest rates, it can attract foreign investors seeking higher returns on their investments, leading to increased demand for the US dollar. This increased demand can contribute to a strengthening of the US Dollar Index. Additionally, higher interest rates can make US dollar-denominated assets more attractive, which can further support the strength of the currency.

USDINR:

USDINR has had its share of fluctuations against the US Dollar (USD) due to various factors. However, the Indian currency has displayed strong resilience as compared to its peers. The value of the Rupee is being boosted by India's growth and this has led to a strong relative outperformance of the Indian Rupee against the US Dollar as compared to its peers.

A close look at the technical charts highlights these levels as being important for the Indian Rupee.

Going by a simple pattern analysis of the USDINR charts on a weekly time frame, it appears that the pair has moved while respecting the broader technical structure at most of the times. Once the pair crossed above the key moving averages of the 50-, 100-, and the 200 Week MA, it has remain in an uptrend marking higher peaks and higher troughs. It has also resisted each time it tested the upward rising trend line; this trend line begins from 74 and then joins each subsequent higher peak. Whenever a corrective move followed; it has taken support on the 50-, and 100-Week MA each time it tested them.

The USDINR pair tested the high of 83.43 in October 2022; since then it has been trapped in a defined range; it has oscillated in a very limited trajectory over these months without making any major headway. An intermittent attempt to break above this point happened in December 2002 when the pair marked the high of 84.42; however, this attempted breakout failed and the pair soon returned inside the trading range.

This price action over the past seven months has led to the formation of a Symmetrical Triangle Pattern. It is important to note from a technical perspective that symmetrical triangles are generally neutral pattern and often end up resolving as a continuation pattern; one must not anticipate the resolution of this pattern in any direction, but instead wait for a price move to confirm the onset of any directional trend. At present, the USDINR pair is inside this symmetrical triangle formation; the lower edge of this pattern also coincides with the 50-Week MA which is currently placed at 81.66.

In conclusion, We need to keep a keen eye on the behavior of USDINR vis-a-vis the levels of 81.66; we can take this as a 81.50-81.75 range. Any slip below this level will make the Rupee much stronger than what it is today as it would also mean a violation of the 50-Week MA which is currently placed at 81.66.

Along with this, one cannot also forget that the value of this pair is likely to be influenced by a variety of factors. There are greater possibility of the Fed raising its interest rates at least twice in its coming cycles and this may lead to the US Dollar Index getting stronger again. In this case, we will need to keep a close vigil on 83-83.25 levels. A move above this zone will mean a breakout from the Symmetrical Triangle pattern. These patterns resolve in the direction of the trend for more number of times.

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