CURRENCY INSIGHT

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USDINR Faces Resistance at Record High amidst Dollar's Overbought State and Major Currencies' Selloff; consolidation Likely Ahead

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1. **Dollar Index Surges Past 106.50, Eyes Second Consecutive Monthly Gain**
2. **US Economy's Resilience Boosts Confidence in Handling Higher Interest Rates**
3. **Jobless Claims and Solid Growth Indicators Signal Robust Labor Market**
4. **Fed Holds Rates Steady, Hints at Year-End Hike, and Reduced Rate Cuts**
5. **Major Currencies Sell Off as Dollar Trades in Overbought Territory**
6. **RSI Shows Negative Divergence, Suggesting USDINR Consolidation or Correction**
7. **Resistance at 83.40-83.45 Zone, RBI Vigilant on 83.50 Level Breach**
8. **Overall Bullish Trend; Medium to Long-Term Outlook Aims for 84 Mark**

The Dollar Index recently surged above 106.50 for the first time this year, but it retreated from an overbought condition to around 106 just before the week's end. Nevertheless, it still appeared poised for a second consecutive monthly gain, driven by increasing confidence that the US economy could handle higher interest rates more effectively than other economies. Data released on Thursday indicated that the US economy maintained a reasonably robust growth rate of 2.1% in the second quarter, and initial jobless claims rose less than anticipated to 204,000 last week, further bolstering signs of a robust labor market. Last week, the US Federal Reserve chose to keep interest rates unchanged but indicated the possibility of another rate hike before year-end, as well as fewer rate cuts than previously anticipated for the following year. Subsequent comments from various Fed officials have reinforced the notion that the central bank may need to raise rates further.

Taking into account the performance of major currency pairs - the Euro, Pound, and Yen - it's noteworthy that they have experienced a sustained selloff in recent weeks. Currently, they are hovering near oversold territory, while the US Dollar is trading near overbought levels, increasing the likelihood of a reversal.

USDINR has recently achieved a record high of 73.41 in near-month futures contracts, a level that is likely to act as a formidable resistance in upcoming sessions. Following this record high, USDINR has been consolidating near that peak and encountering immediate support around the 83.00 mark. If the Dollar Index undergoes a correction from its elevated levels, as previously mentioned, given the overbought condition and the oversold state of other major currencies, this could assist USDINR in dropping below the 83.00 level.

The 14-period Relative Strength Index (RSI) is displaying a negative divergence on the chart. While USDINR prices have been making higher highs since mid-August 2023, during the same period, the RSI has remained relatively flat and even moved slightly downward. This divergence suggests a disparity between price momentum and market strength, indicating that USDINR may consolidate or experience a correction in the upcoming sessions.

Looking at resistance levels, a significant barrier is anticipated around the 83.40-83.45 zone. We also anticipate that the Reserve Bank of India (RBI) will not readily permit USDINR to breach the 83.50 level. Furthermore, if USDINR does dip below the 83.00 mark, it may correct further, possibly toward the next support levels of 82.50-82.60. However, as discussed in our previous reports, the overall trend remains bullish, and in the medium to long term, we anticipate USDINR moving towards the 84 mark. Therefore, any dips near the major support zone of 82.50-82.60 should be viewed as potential buying opportunities for medium to long-term investors.

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