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FOR PRIVATE CIRCULATION

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Weekly Technical Update

Equities

The week past and expected

The last week was extremely sluggish when compared to the last few weeks. It was quite obvious that most market participants preferred to play it safe ahead of major events, which always slow down market activities. The real trend gained momentum after the meeting of the FOMC and the market closed in a positive territory above the high of previous weeks.

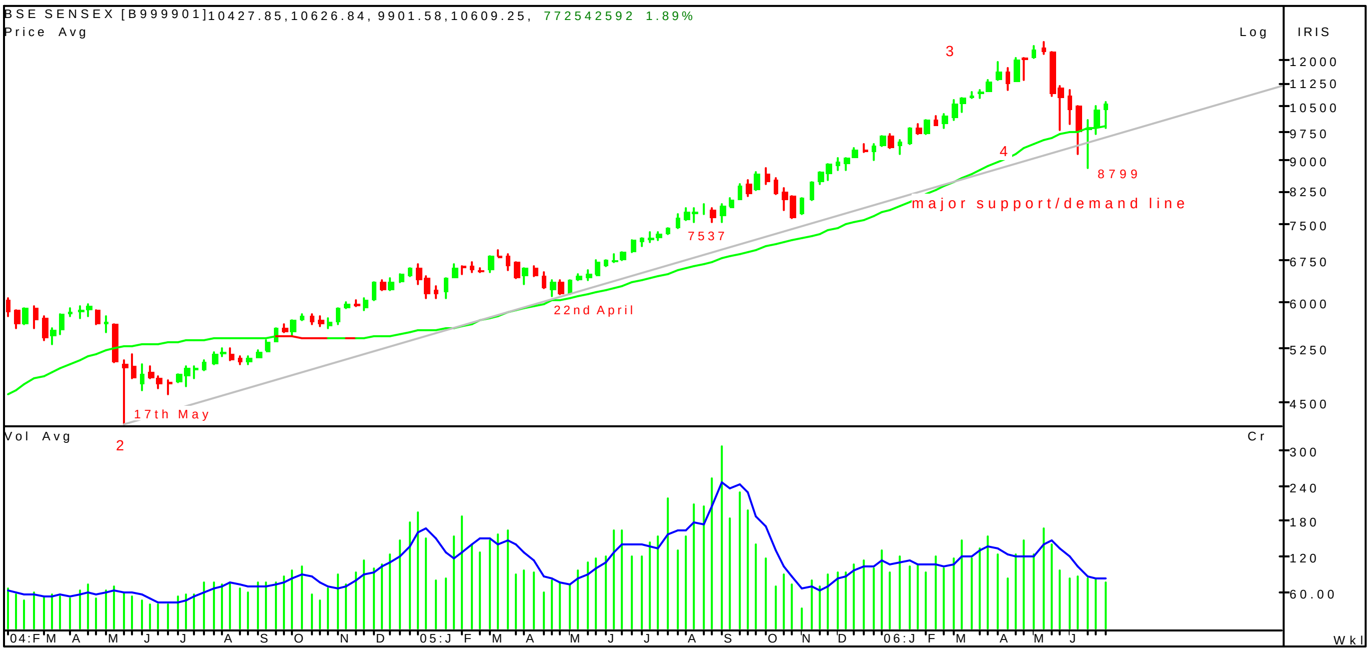
Technical Perspective

We would like to highlight that technical analysis has proven its strength in forecasting/predicting the likely trend of the market when the market has been in a completely undecided zone. A lot of observations that have come out of technical analysis have generated very good results based on which we have re-entered the market much earlier than people who were betting on other tools.

According to the daily chart of the market, the 20-day simple moving average has provided quite good support to the market when it was in a completely undecided zone. The market has taken the support of 9900 (2900) twice during the week and reversed back sharply on Friday as soon as the event of FOMC got over. Immediate upward targets are either 10650 or 10750 ((3190 or 3220 for the Nifty) as the bearish gap between 10679 and 10723 is still unfilled.

It seems the market might react from these levels, as the resistance area is quite genuine in terms of the bearish gap, upper range of the Bollinger Band, and 50% retracement level of the entire fall from 12671 to 8799. However, if it manages to trade above it then we might see the levels of 11000 or 11200 (3270 or 3320 for the Nifty).

BSE SENSEX DAILY CHART



On the downward side, the level of 9900/2900 might act as trend decider points for the market in future as sustenance below these levels may invite medium term southward correction in the market. Even though the market closed in the positive zone on Friday, it has not yet cleared all bearish inclinations for the market. The bearish breakaway gap between 10679 and 10723 is still unfilled and if it fails to sustain above it then it might invite short-term correction. Volumes are still below average in the entire rally from 8800 to 10600. This suggests that the market is running without fuel and might pause or correct the trend of the market in the near future.

Strategy for positional traders

We feel the market has already run up more than 600 points from its immediate bottom of 9900/2900 and is due for short-term correction. Any dip to 10350/3050 might offer an excellent buying opportunity for positional traders.

Strategy for aggressive traders: Sell short in the range of 10700 and 10750 (3180/ 3200) with the final stop loss above 10786/3231. Any sharp correction before reaching these (10700/3180) levels might be an opportunity to go long with the day's low stop loss.

Investors can liquidate their weak long positions/investments in the range of 11000/ 11350 (3300-3350) as these levels might prove to be a major hurdle for the market (62% retracement level of the entire fall from 12670 to 8800).

Stock specific

Almost all big caps have shown massive run-ups in the last few days. We might see a temporary sideways movement or mild corrections in them. (Don't rush for those stocks, which are far away from their recent bottoms.) In the coming week, we might see action in stocks other than index heavyweights. We can even expect short-term run up in select mid cap stocks. Our favorites are Dr Reddy's, Grasim, BHEL, HDFC, Bharti Tele, MTNL, Tata Steel and TCS. Look for buying opportunity in Bombay Dyeing, Adlabs, HTMT and NIIT Ltd among midcap stocks.

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