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FOR PRIVATE CIRCULATION

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Weekly Technical Update

Equities

The week past and expected

After October 13 2006, the market closed for the first time in the negative territory with the fall in all major index heavyweights. Top losers were ACC, Reliance Industries, Hero Honda, ONGC and HDFC. The stocks, which have held the market, were mainly nuclear energy related stocks, namely, NTPC, REL and Bhel. It seems the market has found the psychological pressure to trade above the major level of 14000.

According to daily and weekly charts, the volumes for the week were above average but on Thursday and Friday it fell below the daily average. This tells us the breadth of the market is becoming poorer and may attract further selling pressure if the indices remains below the weekly lows of 13755 and 3945.

Major oscillators like RSI turned below the trigger line of 'seventy'. This may help bears take charge of the market if indices fail to surpass the levels of 13925/4005 in the coming days. Purely according to price charts, the market has very strong support in the range of 13650/13550 (3910-3890). At these levels, value buying from big players is not ruled out. However, if it fails to hold on a closing basis, then it may be advisable to reduce weak long positions, as retesting of medium term levels 13200/3800 is not ruled out.

BSE SENSEX DAILY CHART



Strategy for the week

The Sensex has changed (disturbed) the cycle of regular correction by moving less than average run of 700 to 800 points on the higher side. In its last move, it was just able to encash 455 points from its recent bottom of 13577, which tells us the market is facing profit booking at each resistance levels. That may make it difficult for short-term traders to trade in the market as they may fail to achieve short-term targets.

The strategy should be to reduce leveraged long positions if the index fails to trade above the level of 13925/4005. Short-term trading buy is advisable only on decline or nearing major support levels and not in flows. Come out of overleveraged long positions if the market remains below the levels of 13550/3890. Medium-term buying is advisable only if the market reverses sharply from the abovementioned major support levels.

Be stock specific instead of sector specific. Our top picks on the buying side for the week: India Cement, BEL, Dr Reddy's, Grasim Industries, Hindalco, NTPC, Infosys Technology and Tata Motors.

Mid cap stocks : Selective buying is advisable with the two to three months view. Adlabs Films, Patel Engineering, Rolta (I) and Texmaco Ltd.

Commodity Check : LME Aluminum is forming classic cup with handle bullish consolidation on daily charts. Currently, it is trading at 2815 levels and we may expect a 10% rise in the coming days if it holds the levels of 2800 for the next few days.

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