Technical Analysis
India

Market Strategy

Tech Trends

For Private Circulation Only

Weekly

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Gautam Shah (CFTe, MSTA) 91-33-2281-6690
gautam.shah@jmmorganstanley.com

Nifty on Mission 4000

MARKET INDICES

BSE Sensex	: 13282
NSE Nifty	: 3834
Volatility	: Low
52-Week range	: 6118 - 13303

SHORT-TERM TARGET

Sensex	**: 13900**
Nifty	**: 4000**

MEDIUM-TERM TARGET

Sensex:

Conservative	**: Indecisive**
Aggressive	**: Indecisive**

STOCK MONITOR

Dr.Reddy's
Bharat Forge
Reliance Energy
Inox Leisure
Prithvi Information
Birla Corp.
Orchid Chemicals
BSEL Infrastructure

- **Uptrend to Accelerate**
  The indices tested our short-term target of 13200/3810, which was initiated in the weekly report dated 30th Oct 06. Early last week we saw the Sensex correct/consolidate from around the critical supply point of 13.2K only to test moving average support levels and reverse in a "V" shaped manner. With the weaker hands moving out in this shakeout, the set-up for the indices continues to look bullish and hence ST targets are being updated to 13900/4000. Any intra-week correction will now find support at 12850/3740 while minor resistance seen at 13500/3900.

- **Patterns – Story of the Hare & Tortoise**
  The Mid-cap index has developed a major bullish pattern that was earlier spotted on the Sensex a few weeks back. They would therefore continue to play catch-up while the large-caps stay range-bound and once they are on par with the indices a blow-off process would begin, which looks like a couple of months away.

- **Dr.Reddy's – Eyeing 900**
  The stock has a picture-perfect bullish breakout set-up on the charts with confirmation from most indicators that should see it gradually move towards the level of 900 with resistance at 838.

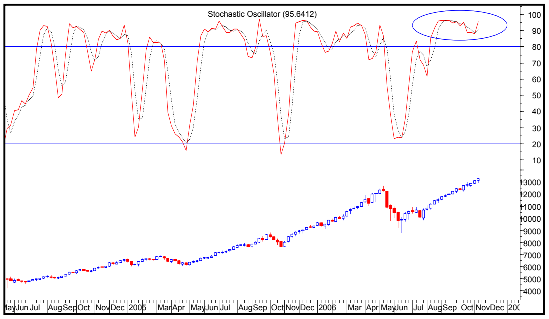
- **Inox Leisure – Entertaining the Bulls**
  After underperforming for a couple of months the stock seems to have gathered enough momentum that should begin a fresh uptrend and lead to a 15% rally in the next few weeks.

- **Birla Corp. – Best yet to Come**
  With a routine consolidation period completed the stock is likely to resume the broader medium-term uptrend this week onwards that should see it surpass the psychological mark of 400.

- **Orchid Chemicals – Better late than Never**
  The stock has been a surprise underperformer for the last couple of months. With a bullish breakout confirmed last week, the stock looks set for a 20% rally from current levels with support at 205.

Exhibit 1

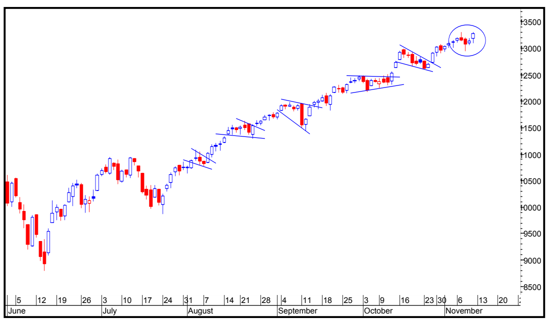
Creating room to move higher



Source : JM Morgan Stanley – Technical Analysis

Exhibit 2

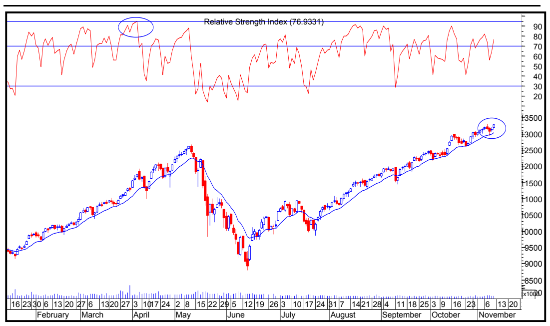
Unsuccessful attempt by the bears



Source : JM Morgan Stanley – Technical Analysis

Exhibit 3

Yet to get seriously overbought



Source : JM Morgan Stanley – Technical Analysis

Oscillator screening

The short consolidation/corrective period early last week helped the daily oscillators in moving away from the overbought zone, which has been the case a number of times in the last couple of months. This is a very positive sign as it creates room for the indices to rally further. Given this behavior the oscillators are now in neutral zone while the Sensex is at its all-time high of 13300. On the weekly charts, as expected the oscillators turned sideways in the last couple of weeks with support at the OB line. Monthly set-up continues to look dangerous given the multiple negative divergence but we believe that the same would have a bearish effect only January onwards next year. Overall, the oscillators are well placed to help the Sensex rally further from current levels.

Pattern screening

During the short 2-day correction early week a “Gravestone Doji” kind of a candlestick pattern was spotted on the daily charts that could have got a few bears excited. But as we pointed out in our daily reports the pattern was only a way to get the weaker hands out of the uptrend, which has happened. The indices continue to form a beautiful uptrending higher top and higher bottom pattern that is unlikely to be reversed easily. Even on the weekly chart the patterns suggests that the bulls are in no mood to give up easily. Based on this study, fresh support has been created at the level of 13K that would test the bears on any intra-week correction. The next minor resistance is seen at 13500/3900 around which another short consolidation is likely. Overall, the patterns indicate a rally to 13900 levels in the short-term.

Indicator / Moving Average screening

The 13-EMA again came to the rescue of the bulls last week as the Sensex reversed perfectly from the support of 12950. Unless the 13 and 30-EMA are broken on a closing basis, serious weakness is unlikely. The RSI indicator is in OB zone (Current reading – 77) but no where close to levels it tested before the crash in the month of May 06, which was 94 on a scale of 100. The MACD indicator is in buy mode while the DM continues to exhibit strength. Overall, the uptrend is likely to accelerate this month.

Market Musings

The Sensex gained 145 points over the week to close at 13282. The indices tested our ST target of 13200/3810, which was initiated in the weekly report dated 30th Oct 06. From a technical perspective even though the gains last week were minimal it would go down as a healthy period as the Sensex consolidated around the resistance level of 13200 thereby absorbing the supply. The fact that the indices have witnessed short corrections at regular intervals during the uptrend in the last 14 weeks is a heartening sign as it only helps in creating a base for the markets to move higher going forward. With the broader indices starting to do well one cannot complain about the poor breadth and volume activity anymore. The indices have shown the tendency to obey support levels on any reaction, which only means that serious buyers continue to exist at lower levels. The updated support levels to watch out are 12850/3740 in case of any intra-week correction. The markets are still far away from the blow-off process, which itself leads to a 5-7% rally as witnessed in the first week of May 06. For the near term the Mid-cap/PSU/Healthcare sectors are likely to outperform. Overall, given the technical aspects presented on Page 2 and the argument above, the uptrend is likely to accelerate and hence the ST target is being updated to 13900/4000 while a fresh MT target would be set next week.

Exhibit 4

Broad View – Steady Uptrend

Source : JM Morgan Stanley – Technical Analysis

Bulls Vs Bears

Dr.Reddy's (Rs. 789)

The stock has broken out of a picture-perfect bullish reversal pattern on the daily charts that should lead to a 100+ Rs. rally in the next few weeks.

Last week saw quality consolidation as the stock sustained above the support and breakout point of 767. With the pullback completed, the uptrend is likely to accelerate and should take it back to the highs it tested in the month of May 06.

The DM indicator remains strongly in buy mode while the candlestick pattern on the daily and weekly charts suggest that the bulls are well in control. Volume activity has been above average in the last couple of weeks and is also likely to pick-up going forward.

STRATEGY: Buy in the region of 785-790 with a stop loss below 738 for a short and medium-term target of 838 and 930 respectively.

Support: 750 and 738 Resistance: 810 and 839

Exhibit 5

Uptrend to strengthen

Source : JM Morgan Stanley – Technical Analysis

Bharat Forge (Rs. 377)

The stock has been a gradual mover in the last few weeks as it made higher tops and higher bottoms consistently. With the all-important supply point of 368 taken out, the uptrend is now likely to strengthen.

The broad pattern on the daily and weekly chart suggests that the stock could test a level of 450 over the medium-term.

With most indicators yet to get overbought there is clearly room for major upside even from current levels. A short-term base has been created in the zone 260-265.

STRATEGY: Buy in the region of 275-278 with a stop loss below 352 for a short and medium-term target of 405 and 450 respectively.

Support: 368 and 354 Resistance: 383 and 406

Exhibit 6

Steady performer

Source : JM Morgan Stanley – Technical Analysis

Reliance Energy (Rs. 521)

The stock has been one of the biggest underperfomers in the last couple of years as it staying range-bound with a negative bias. After a very long time a reliable bullish set-up has developed on the daily and weekly charts that should see it catch-up with its peers.

A bullish breakout from a "Triangle" pattern can be spotted on abnormally high volumes that should lead to a rally beyond the level of 600 in the next 2-4 weeks.

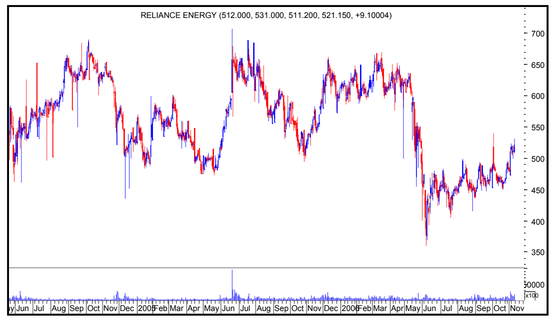
The moving averages are positively placed with a bullish crossover. The RSI indicator after a very long time has managed to stay in OB territory for a couple of weeks, which is a clear bullish development. Major support seen at 495, which is unlikely to be broken.

STRATEGY: Buy in the region of 515-522 with a stop loss below 490 for a short and medium-term target of 590 and 635 respectively.

Support: 505 and 495 Resistance: 551 and 591

Exhibit 7

Outperformer in the making



Source : JM Morgan Stanley – Technical Analysis

Inox Leisure (Rs. 176)

After the listing in the month of Feb 06 the stock rallied for a couple of months after which it entered a medium-term downtrend that saw it test a low of 86.

The set-up now suggests that the worst could be over and hence a fresh uptrend is likely to begin. A consolidation pattern breakout can be spotted on the charts indicating at a 15% rally from current levels.

The stock is known to be a quick mover and the same is likely to be on display in the next few weeks. Important support created at the level of 167 while the first supply point is at 193.

STRATEGY: Buy in the region of 172-177 with a stop loss below 150 for a short-term target of 205.

Support: 167 and 150 Resistance: 193 and 206

Exhibit 8

Sizable upside seen

Source : JM Morgan Stanley – Technical Analysis

Prithvi Information Solutions (Rs. 370)

The stock has created a solid long-term base in the region of 300-340, which will act as a support zone during any correction. It has the potential to get back to its all-time high of 460 and even surpass it by a wide margin even as the downside is restricted.

This makes the risk/reward scenario well in favor of the bulls. Some of the volume indicators hint at possible accumulation by the stronger hands in the last few weeks.

A reversal H&S pattern can also be spotted with near perfect features. The daily RSI indicator has reversed from close to the OS line last week and seems to be heading towards the OB zone once again.

STRATEGY: Buy in the region of 367-372 with a stop loss below 338 for a short and medium-term target of 405 and 450 respectively.

Support: 349 and 340 Resistance: 384 and 406

Exhibit 9

Best yet to Come

Source : JM Morgan Stanley – Technical Analysis

Birla Corp (Rs. 354)

After being in a steady uptrend in the period June-Sep 06 the stock consolidated during the month of October, which is a healthy sign. During this period support levels were tested from a where a reversal was also seen.

The current set-up suggests that the stock could get back to the highs it tested in the month of May 06. The candlestick patterns formed are positive suggesting that the bulls are well in control.

Volume activity saw a significant pick-up last week and looked like accumulation. Updated support seen at 334 and 319.

STRATEGY: Buy in the region of 350-356 with a stop loss below 315 for a short-term target of 390 and then 415.

Support: 334 and 319 Resistance: 370 and 391

Exhibit 10

Medium-term uptrend resumes

Source : JM Morgan Stanley – Technical Analysis

Orchid Chemicals (Rs. 221)

The stock has surprisingly remained sideways for more than two months and hence has a lot of catching up to do with its peers and the index. A reliable bullish breakout was confirmed last week on a close above 217 that resumes the medium-term uptrend.

The DM indicator is strongly in buy mode while the RSI has moved into OB zone without divergence. However the oscillators are in buy mode close to the OS line.

Volume activity was at a three month high during the breakout last Friday. A moving average crossover can also be spotted that would provide support on any fall.

STRATEGY: Buy in the region of 219-223 with a stop loss below 204 for a short and medium-term target of 243 and 291 respectively.

Support: 217 and 205   Resistance: 226 and 245

Exhibit 11

Breakout confirmed

Source : JM Morgan Stanley – Technical Analysis

BSEL Infrastructure (Rs. 60.7)

The stock continues to have a set-up on a multi-bagger on the weekly and monthly charts. From a short-term point of view, the stock seems to have completed a routine throwback last week and hence the next leg of the broader uptrend is likely to begin.

Volume activity saw a significant dip during the correction last week, which is a positive sign. The region of 59-61 is the all-important support zone and is unlikely to be broken.

The daily RSI indicator is at the supporting OS line from where a reversal is likely. The oscillators too are in highly OS zones with room for almost no downside. Moving averages continue to be positively placed indicating a reversal in the near term.

STRATEGY: Buy in the region of 60-62 with a stop loss below 52 for a short and medium-term target of 80 and 120 respectively.

Support: 61 and 59   Resistance: 69 and 81

Exhibit 12

Throwback completed

Source : JM Morgan Stanley – Technical Analysis

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JM MORGAN STANLEY FINANCIAL SERVICES PRIVATE LTD.
Apeejay House, 3 Dinshaw Vachha Road, Churchgate, Mumbai 400 020, India.
Tel. : (91-22) 6704 0404 Fax : (91-22) 6704 1511
Regd. Office: 141, Maker Chambers – III, Nariman Point, Mumbai – 400 021.
Tel: (91 22) 6630 3030 Fax : (91 22) 6630 1693