Weekly Technical update: 8th April 2007

The pattern the market followed this week was quite unique. The market experienced a fall on Monday that was beyond our expectations but managed to close at the week's highest levels on the back of abnormal gains in the world equity and metal markets. In technical terms, it was a process of filling exhaustion (continuation) gap between 12984 and 12812.

It should be noted that the market has already left a 'breakaway gap' unfilled between 13409 and 13387. Till it closes fully, the threat of a further fall will remain alive. To reduce the pressure of a further fall in the medium-term, bulls will have to fill the exhaustion continuation gap in the coming two to three days else bears may take control of the market.

Currently, the market is in a downtrend. However, it is surviving well above 12425/3600 and struggling to breach the level of 13300/3850. It has formed a rectangle consolidation formation on daily charts. However, whether it is bullish or bearish is still early to say. This may put pressure on traders to search for trading opportunities in the market with confidence.

A large number of external events took place and holding on to overnight positions may be extremely hazardous. As the positive divergence is missing on the Sensex/Nifty, the threat of hitting newer lows may remain there. For investment, as we have mentioned in our last update the current phase is quite attractive as we may get required quantity and decent levels.

Selective buying is advisable in those stocks on which the next growth is based. Infrastructure stocks like capital goods, cements and metals are an example. There is no doubt that in the environment of a CRR hike it is tough to identify multi-bagger stocks as CRR hits at the creation of money. However, we may expect decent average returns on investment in the coming few weeks with limited risk of a downside.

In brief, the medium-term trend is still not convincing for aggressive trading but selective investments are highly advisable. Attractive levels would be 12650/3650 and, in the worst case, 12000/3450. The metals, capital goods and pharmaceuticals stocks are in a positive trend and our top picks are Sterlite, Hind Zinc, JSWSL, ABB and Wockhardt Pharma. Even though banking, cement and technology stocks are showing resilience at lower levels, they may still remain in news alerts and trading positions must be avoided.

To invest with contrarian views, PNB, Grasim and Wipro may be the best picks with the long-term view in mind. The most affected sectors, auto and property, are still not in a proper trend. However, according to the wave theory, it maybe too early to say so but the market may have reached their panic levels and may consolidate at current levels. We may review them in the coming week based on their overall performance in terms of volumes and intra-week volatility.

On Thursday, volumes were above average and we have seen lot of churning due to expected announcement of CRR hike from China's central bank. As the announcement flashed during market hours, it seems the pain of the news must have been resolved and may be the opening will be firm on Monday as inflation figures were below previous levels and the firm closings of the US markets. In case, the market opens lower then it may be an opportunity for buying Nifty futures around 3700 with a protective stop loss at 3674 with the short-term view in mind. A resistance exists at 3758, 3780 and 3850 according to Nifty futures.