



Markets rally

The week gone by saw the Sensex/Nifty rallying smartly. In the process, the main indices broke out of their immediate resistances of 16347-16500/4923-4950 that also coincided with a downward sloping trend line that had held down the highs of Sept 2011. While the Sensex gained 5.24% W-o-W, the Nifty moved up by 5.0% over the same period.

Reflecting the positive sentiments seen during the week, market breath was positive in four out of the five trading sessions of the week. W-o-W volumes were substantially higher on both the exchanges. This was mainly due to the fact that the previous week had only four trading sessions. While BSE volumes were higher by 32.9% W-o-W, NSE volumes rose by 41.5% over the same period.

Market perspective

As mentioned earlier, the week gone by saw the Sensex/Nifty breaking out of a falling trendline that had held down the highs of Sept 2011 (See the chart above). In the process, the double bottom made by the Sensex/Nifty early this month has held and the main indices have also closed above the 13-day simple moving average.

Short term momentum readings too rose smartly this week. As can be seen from the chart above, the 14-day RSI has cleared its recent highs and is also not overbought; implying scope for the markets to rise further in the short term.

On a larger perspective, the Sensex/Nifty continue to trade within the 15765-17256/4720-5198 levels (See the two red horizontal lines in the chart below). Thus, while the short term trend is up, the intermediate trend is yet to turn

UP. This would turn UP once the Sensex/Nifty convincingly move above their previous intermediate highs of 17256/5198.

Intermediate technical indicators are however giving positive signals, which suggests that price could follow. This week's positive price action has led to the Sensex/Nifty closing above the 13-week simple moving average. The 14-week RSI too has moved up smartly and has cut its 9-week EMA from below (See the chart below).

17256/5198 will be crucial levels to watch in the coming week

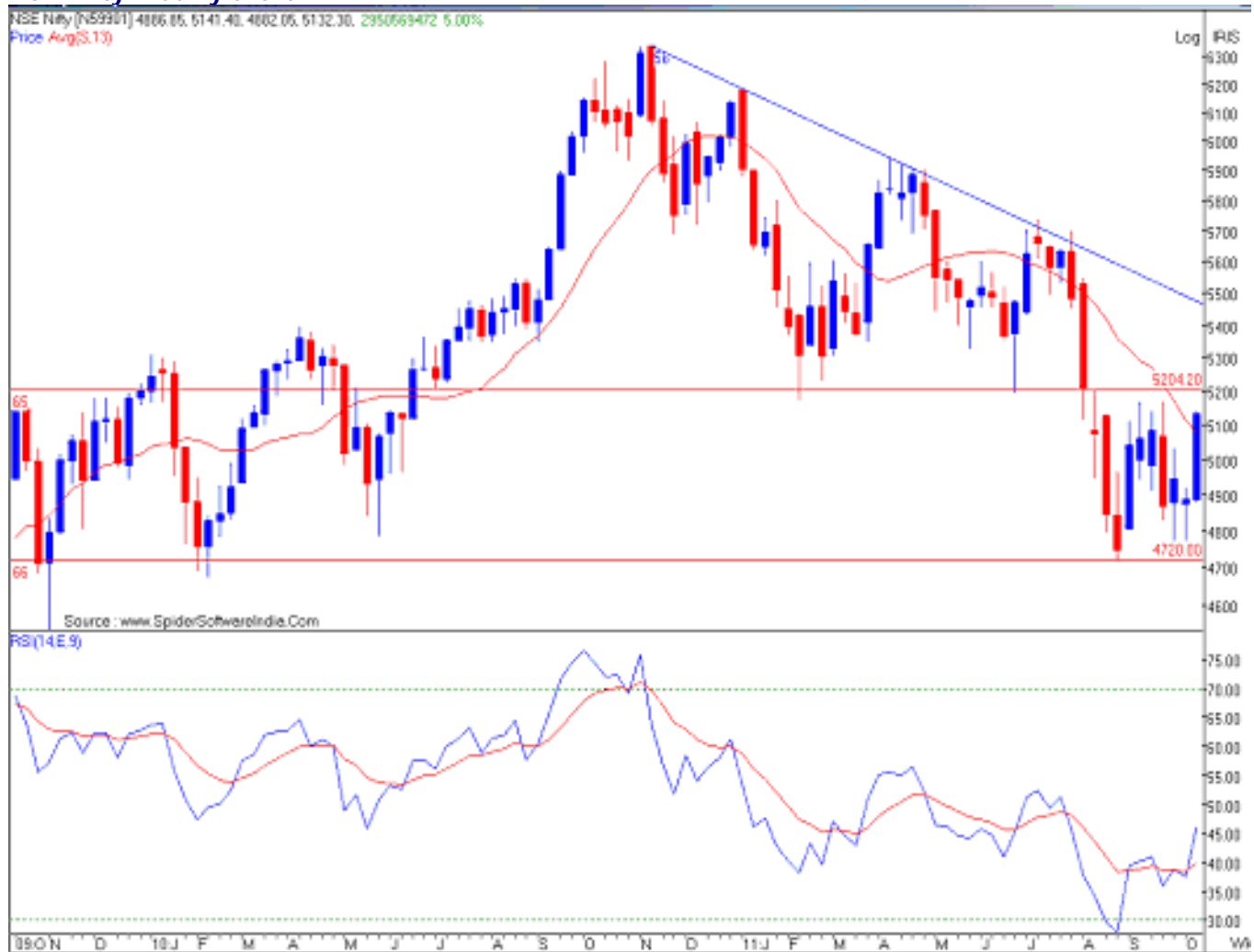
Given that the Sensex/Nifty are trading near the intermediate trend reversal levels of 17256/5198, these will be crucial levels to watch in the coming week. A convincing close above these reversal levels would lead to a fresh intermediate uptrend.

In this scenario, the next logical targets for the Sensex/Nifty are at 17664-18418/5323-5470. These levels coincide with a falling trend line that has held down the highs of Nov 10, Jan 11, Apr 11 and July 11 (See the chart below).

On the other hand, if selling pressure emerges next week and prevents the Sensex/Nifty from moving above the 17256/5198 intermediate trend reversal levels, then expect these main indices to slide lower. The weakness would accelerate if the immediate supports of 16828/5056 were broken.

In this scenario, it is quite possible for the Sensex/Nifty to continue to remain range bound within the 15765-17256/4720-5198 levels, which is what has been happening in the last seven weeks.

NSE Nifty Weekly chart



Strategy

Given the possibility of the markets rallying further in the short term and testing their previous intermediate highs of 17256/5198, traders can continue to hold on to their existing long positions. Fresh longs can be built on a selective basis with strict stop losses to control risk.

Positional traders are advised to remain on the sidelines till there is confirmation of a fresh intermediate uptrend. We would prefer to wait and watch till the markets signal a fresh intermediate uptrend by moving above their previous intermediate highs. We would also look for broad based sectoral participation, as fresh intermediate uptrends are usually broad based.

Here are the key levels to watch for the coming week;

Trading Strategy: Short-term trend is up. Traders can continue to hold on to their existing longs and build fresh longs on a selective basis with strict stop losses to control risk. Positional traders should adopt a wait and watch approach till a confirmed intermediate uptrend is established.

Action Points	Sensex	Nifty	Action
Current Close	17083	5132	
Immediate Resistances	17191-17256	5169-5198	Close above 17256/5198 would lead to a fresh intermediate uptrend
Immediate Supports	16828-16595	5056-4991	
Further Downsides	16045-15745	4828-4720	Recent lows of the Sensex/Nifty
Further Upside Targets	17664-18418	5323-5470	18418/5470 correspond to major trend line resistances

Sectorally speaking

The week gone by saw all the sectoral indices ending higher. Leading from the front were the BSE IT, Bankex, Consumer Durables and Realty indices. The indices that gained the least were the BSE Healthcare, Capital Goods and FMCG indices. These were the laggards of the week.

Broad market indices under performed as they did not gain as much as the Sensex/Nifty. While the BSE 500 gained 4.54% W-o-W, the BSE Midcap and Small Cap indices gained 3.87% and 2.77% respectively over the same period.

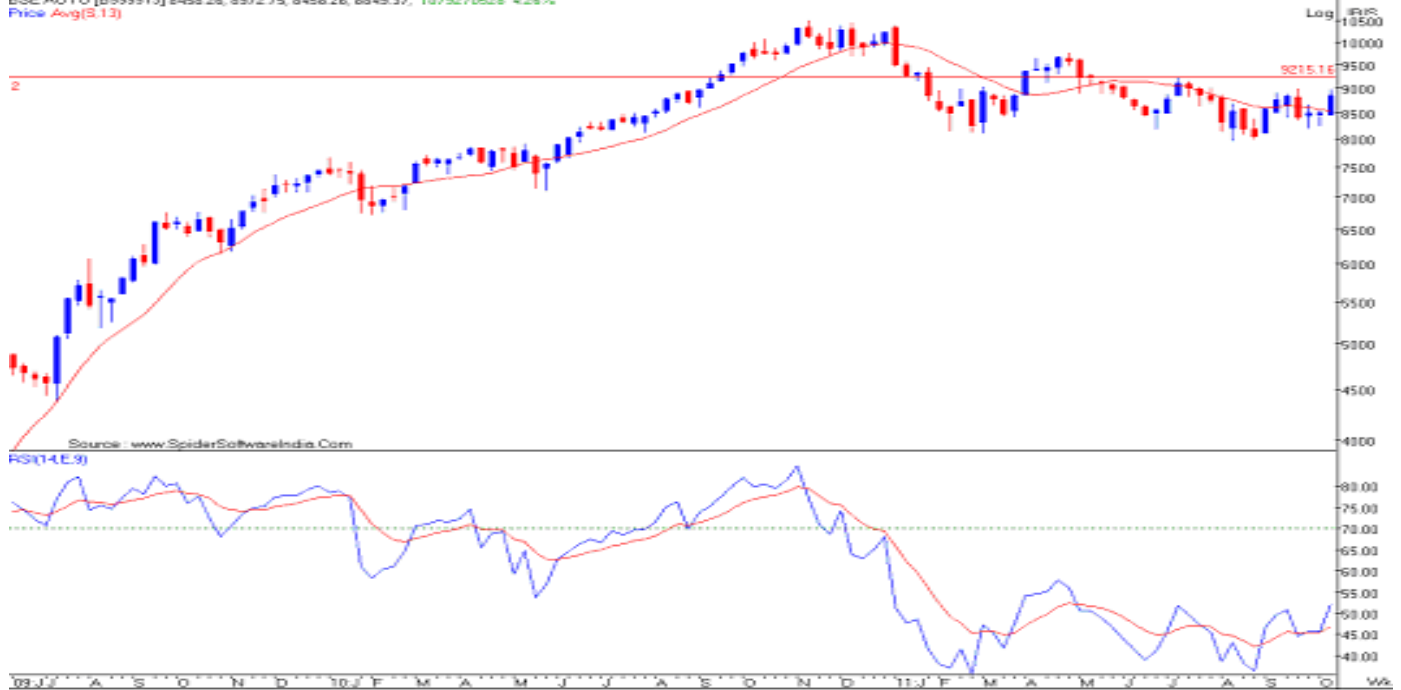
The BSE Auto index was one of the top gainers this week with W-o-W gains of 4.26%. Zooming into the weekly charts, we notice that the index has closed above its recent highs on a weekly closing basis. This week's upmove was also accompanied with a pick up in volumes, which is encouraging.

Technical indicators are giving positive signals as the index trades above the 13-week simple moving average and momentum readings too are picking up.

Our intermediate upside targets for the index are at 9215. CMP is 8849. Auto stocks that are looking promising on the charts are Tata Motors, Bharat Forge, Bajaj Auto and Exide Industries.

BSE Auto Index Weekly chart

BSE AUTO [B999913] 8458.26, 8572.75, 8458.26, 8849.37, 1079070628 4.26%
Price Avg(5,13)



The BSE Oil and Gas index weekly chart too looks promising. The week gone by saw the index clearing its recent highs on a weekly closing basis. There was a pick up in volumes and the index also managed to close above its 13-week simple moving average. Intermediate momentum readings too have picked up. Our intermediate upside targets for the index are at 9219. CMP is 8,859. Stocks that could take the index higher are Reliance, Cairn India and Essar Oil.

BSE Oil and Gas Index Weekly chart

BSE OIL&GAS [B9999115] 8466.70, 8578.40, 8466.70, 8855.48, 1075278529 4.83%
Price Avg(5,13)



While most of the sectoral indices are looking good on the charts, the BSE Capital Goods is looking the weakest and may thus continue to underperform.

Stock Pick – Buy Bharti Airtel



Bharti Airtel has made a triple bottom around the ₹345 levels in the last seven months. This week the stock rose sharply after testing the ₹345 levels early in the week. The upmove was accompanied with healthy volumes and the stock also managed to end the week above the crucial 200-day EMA.

The stocks trades above the 13-day simple moving average and short-term momentum readings too have picked up as can be seen from the rise in the 14-day RSI in the chart above.

We believe the stock is ready to move higher and therefore recommend a buy. Our entry levels are between ₹380-384. Stop loss is at ₹367, while upside targets are at ₹418. CMP is ₹383.65. Holding period is 5-10 trading sessions.

Note: Once the market opens for trade, the analyst will review it and decide to give the call through an internal mail/SMS at the same or different levels of entry, target and stop loss or not give the call at all. Clients could get in touch with the analyst through their designated dealers to check about this.

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