

Banking – End of road soon

Bank Nifty has rallied staggering 226% from its bottom of 3,330 touched in March 2009. The outperformance to Nifty has been substantial at 113%. Improvement in market sentiment followed by robust earnings has driven a sharp upswing in banking stocks both PSU and private.

In the past one month, (from July 16th), CNX Bank Nifty index has delivered returns of ~9% with majority of PSU banks scaling to all-time peak. Nifty appears to be stalling around resistance levels of 5,450-5,550 and the Bank Nifty, which has ~22% weightage, could see some profit booking.

We have conducted a study of 15 banking stocks (large and medium size banks) and Bank Nifty to arrive at our medium-term outlook.

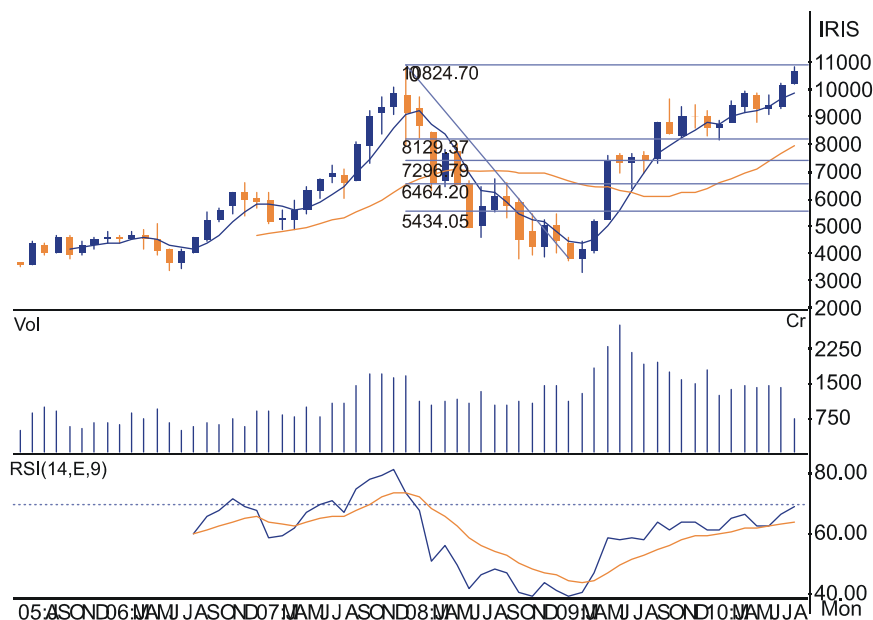
Ideally, as per Technical analysis, whenever, a stock trades at its all time high, it is considered to a bullish signal. However, taking into consideration advanced technical parameters like fibonacci extension, fibonacci retracement and RSI, **our study found that 8 out of 15 stocks covered in this report have entered into an overbought zone. Any unwinding pressure at these levels could lead to sharp corrections in them.** All chart studies have been carried on a weekly and monthly basis to get a better perspective of the medium-term outlook.

We have categorized banks covered into three buckets based on technical indicators as follows

Category	Action advised	Banks
I	Little headroom; start booking profits	BOB, PNB, CanBk, SyndBk, CBOI, UBI, OBC, Yes
II	Last lap remaining; hold on	SBI, Axis, HDFC Bank
III	Still some steam left; accumulate	ICICI Bank, IDBI, SIB, BOI

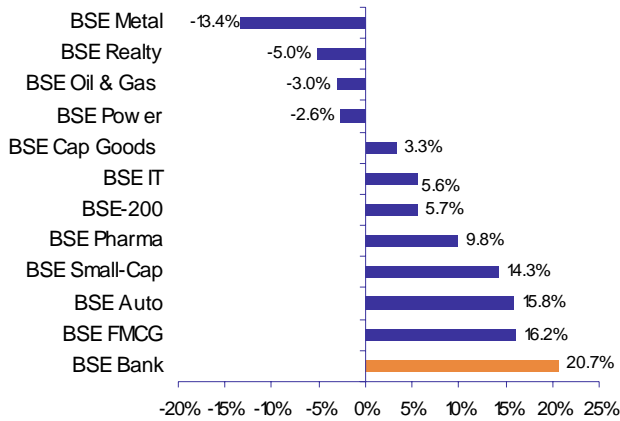
On the upside, Bank Nifty (currently at 10,890) has a very strong resistance at current level (as shown in the chart). Investors should use any rally to 11,000 as an opportunity to exit.

Bank Nifty



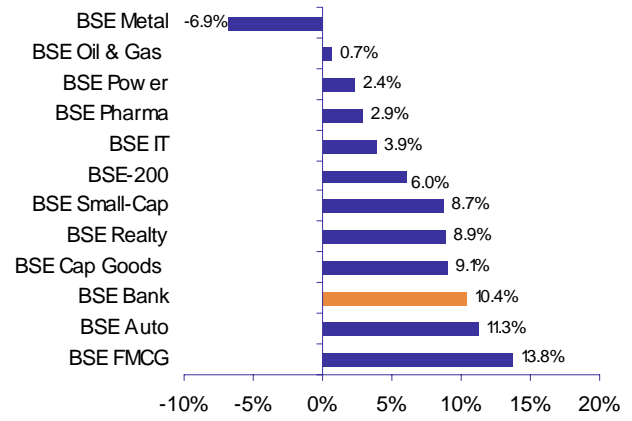
Source: IRIS, India Infoline Research

YTD sectoral performance*



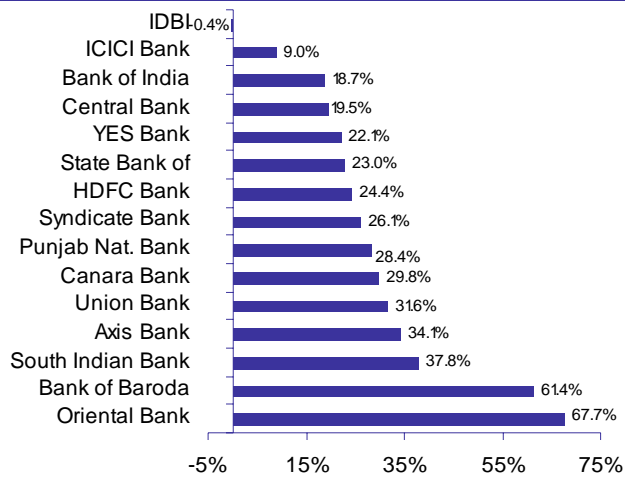
Source: Bloomberg, India Infoline Research

3-Months sectoral performance*



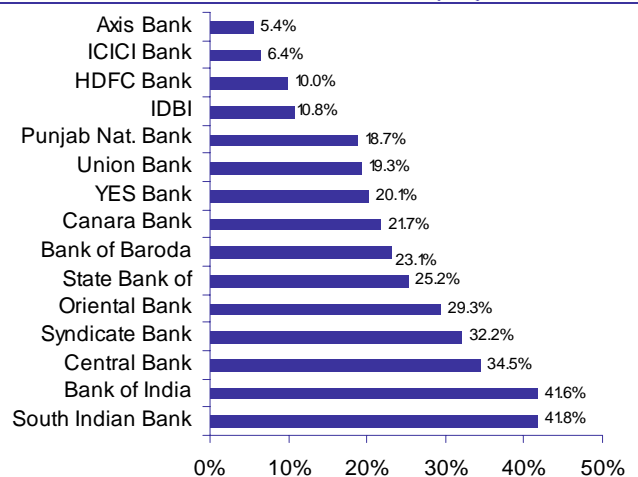
Source: Bloomberg, India Infoline Research

Bank stocks YTD return (%)*



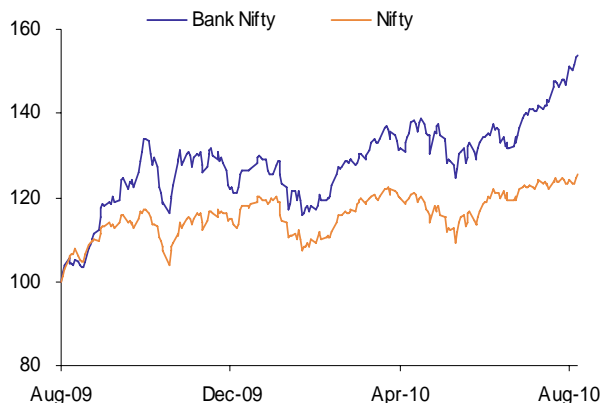
Source: Bloomberg, India Infoline Research

Bank stocks 3-month return (%)*



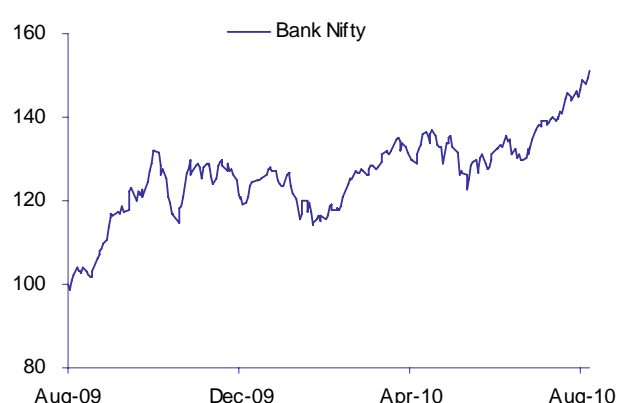
Source: Bloomberg, India Infoline Research

Bank Nifty outperforms Nifty*



Source: Bloomberg, India Infoline Research

Bank Nifty absolute returns (%)*



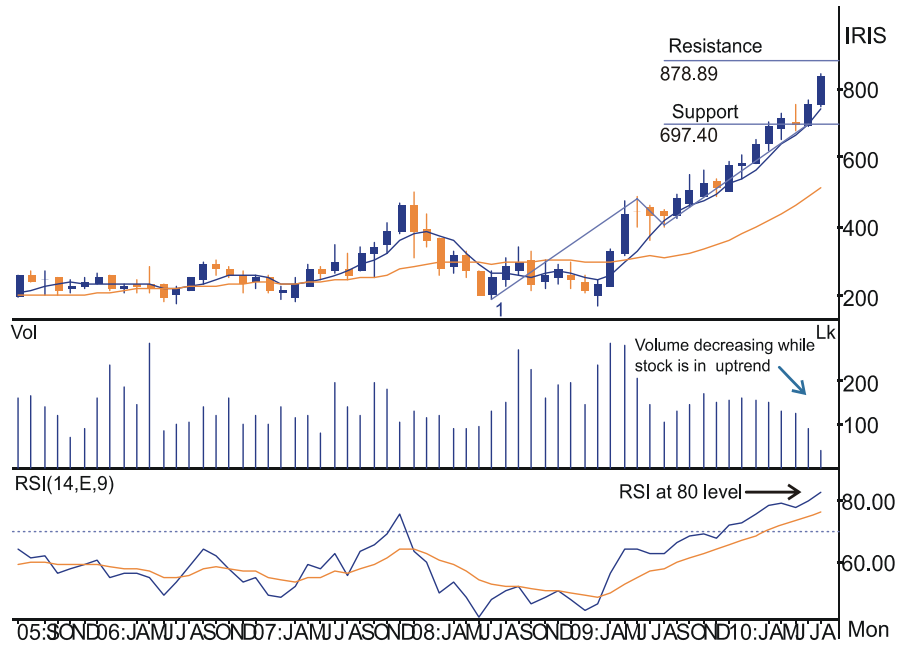
Source: Bloomberg, India Infoline Research

* Prices as on 17th August, 2010

Category I - Little headroom; start booking profits

Bank of Baroda

CMP Rs842

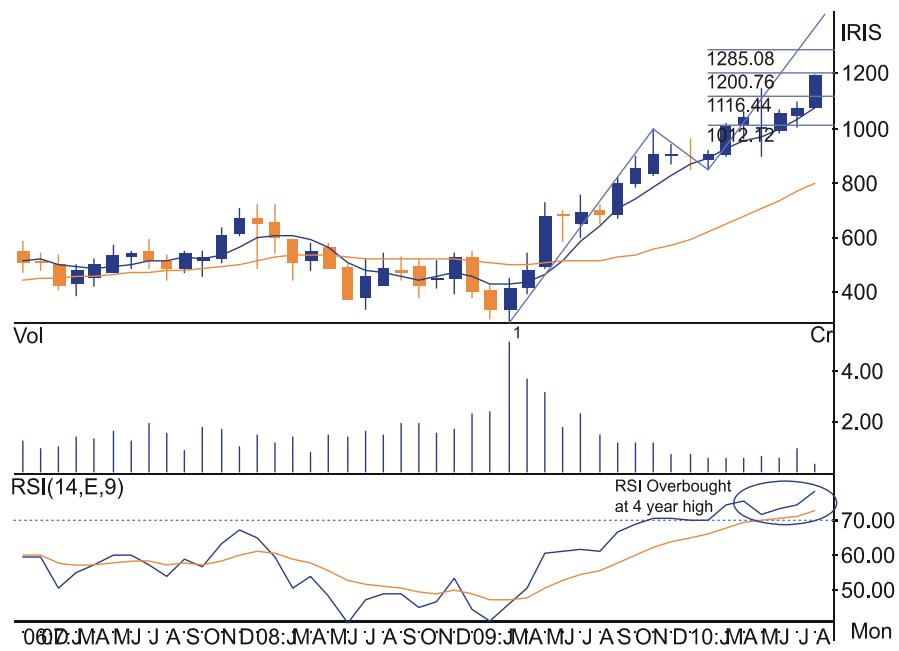


Source: Iris, India Infoline Research

- ⊕ According to the fibonacci price projection, the stock faces resistance at Rs878 as shown in the chart.
- ⊕ The RSI is close to its all-time highs at 81-82 levels
- ⊕ Such high RSI on monthly charts are not sustainable. Therefore, we advise investors to exit long position on Bank of Baroda immediately.

Punjab National Bank

CMP Rs1,183

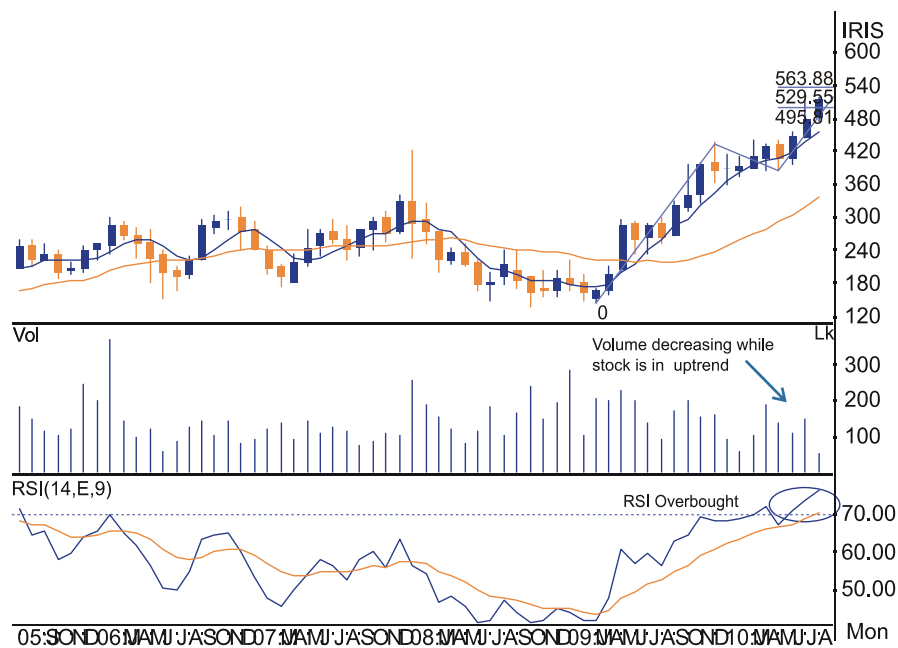


Source: Iris, India Infoline Research

- ⊕ PNB has rallied 65% from its previous 2008 peak of Rs720 and 313% from its low of Rs286 recorded in Mar' 09.
- ⊕ Monthly RSI is trading close to 78 level mark (10 year peak of 85).
- ⊕ We expect the stock to face resistance at Rs1,200 in near term and Rs1,285 in the medium term.

Canara Bank

CMP Rs527

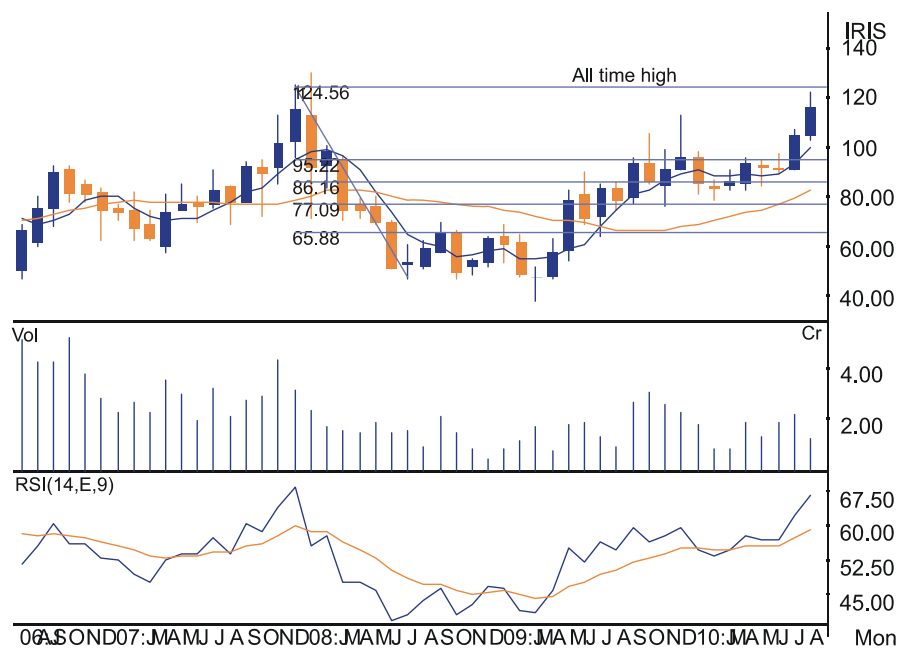


Source: Iris, India Infoline Research

- ✦ The stock has rallied from the lows of Rs386 in May'10 to the current levels.
- ✦ However, reading on the momentum oscillators (RSI and MACD) suggest that the recent momentum is likely to fizzle out at current juncture.

Syndicate Bank

CMP Rs120



Source: Iris, India Infoline Research

- ✦ After a decent run-up from low of Rs78 in February 2010, we expect the stock to face some resistance at its previous highs of Rs125-126.
- ✦ The upside seems to be capped as RSI, the momentum indicator, is facing resistance and signaling a reversal in current trend.

Central Bank

CMP Rs190

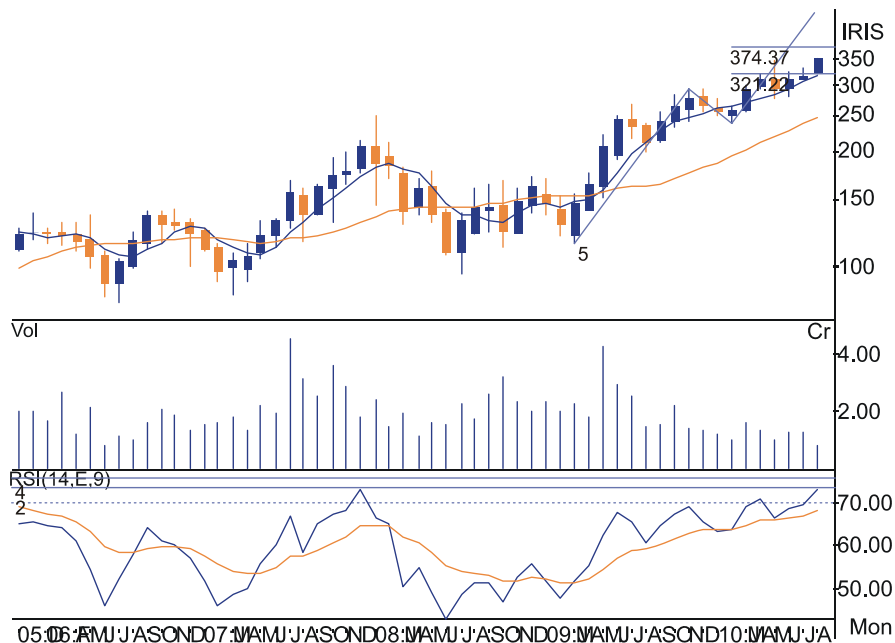


Source: Iris, India Infoline Research

- ⊕ According to Fibonacci retracement, the next immediate resistance for the stock is placed at Rs195 level.
- ⊕ The stock is moving in rising channel pattern on the weekly chart where the stock has faced resistance at its upper trend line on multiple occasion
- ⊕ RSI appears to be in over-bought zone (on weekly basis), which suggests further rally in the stock may not last long.
- ⊕ Traders should use this rally to exit their long position.

Union Bank

CMP Rs350

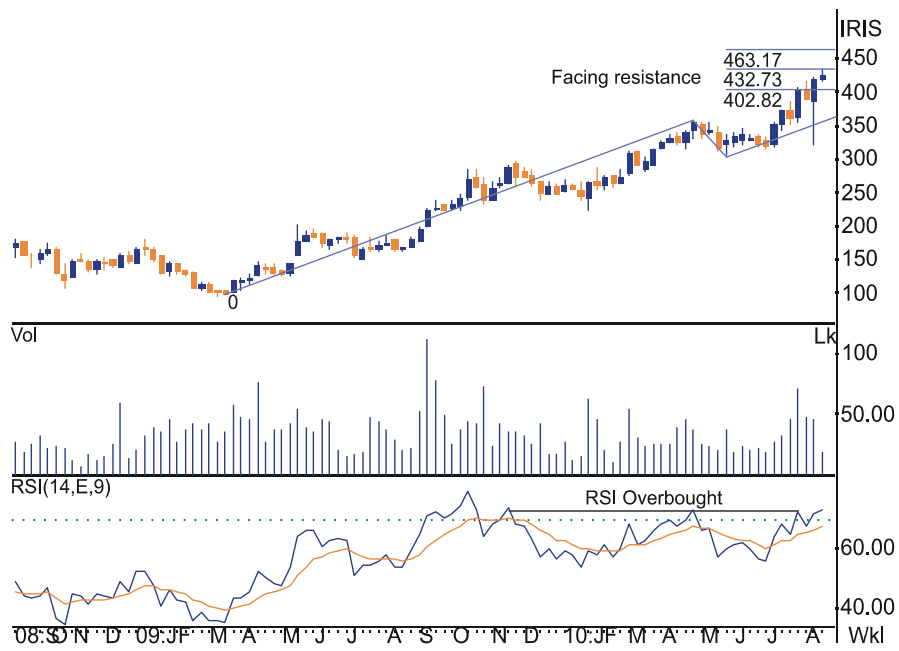


Source: Iris, India Infoline Research

- ⊕ The stock has hit its all-time high on Tuesday (17th Aug' 10).
- ⊕ According to Fibonacci projection, the next resistance for the stock is placed at Rs374 level.
- ⊕ RSI (momentum indicators) is above over-bought zone, which suggests further rally in the stock should be used to trim long positions.

Oriental Bank

CMP Rs427

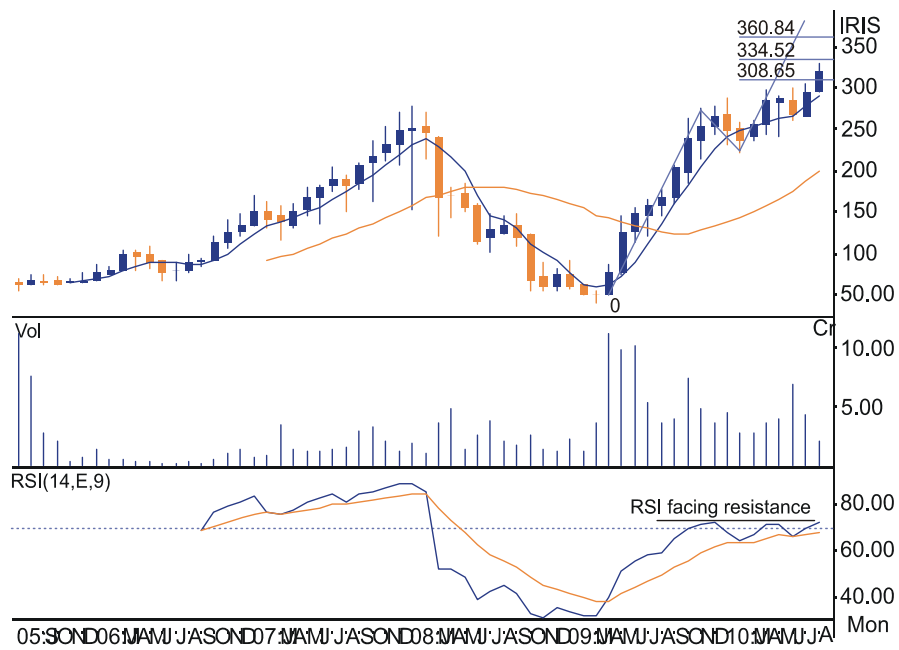


Source: Iris, India Infoline Research

- ✦ The stock has been an outperformer in the banking space for the last one year with return of 26% in the last three months.
- ✦ However, upside seems to be capped looking at the oscillators movements.
- ✦ RSI has faced resistance at 75 levels on three occasions. We expect stock to face resistance at this juncture.

Yes Bank

CMP Rs328



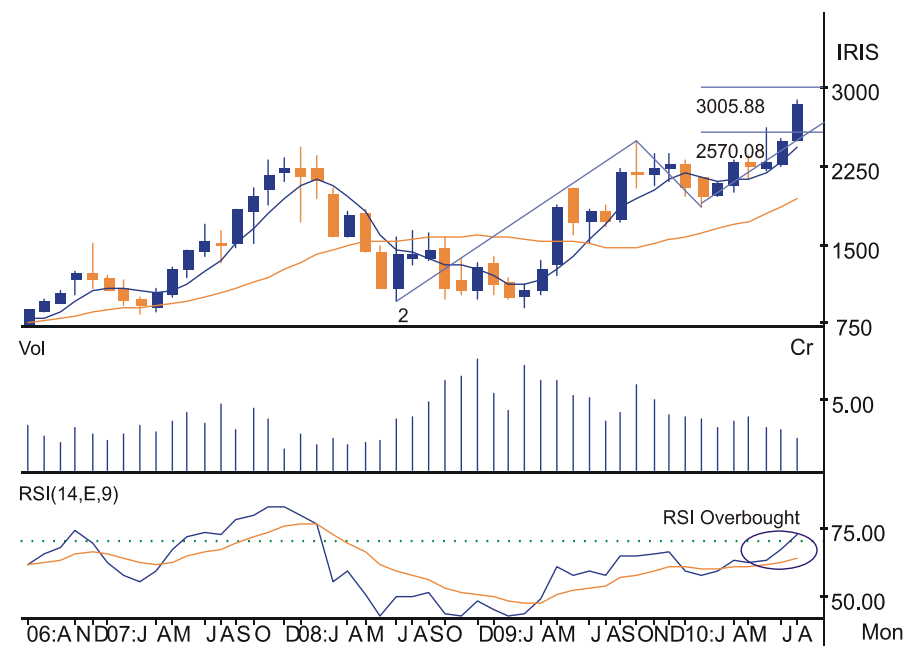
Source: Iris, India Infoline Research

- ✦ The stock is moving in a rising channel pattern on the weekly chart where it has faced resistance consistently at its upper trend line.
- ✦ On monthly chart, the stock faces resistance at Rs334-335 levels
- ✦ RSI appears to be in overbought zone and facing resistance, which is a cause for concern.
- ✦ Traders should use this rally to exit long positions in the counter.

Category II – Last lap remaining; hold on

State Bank of India

CMP Rs2,815

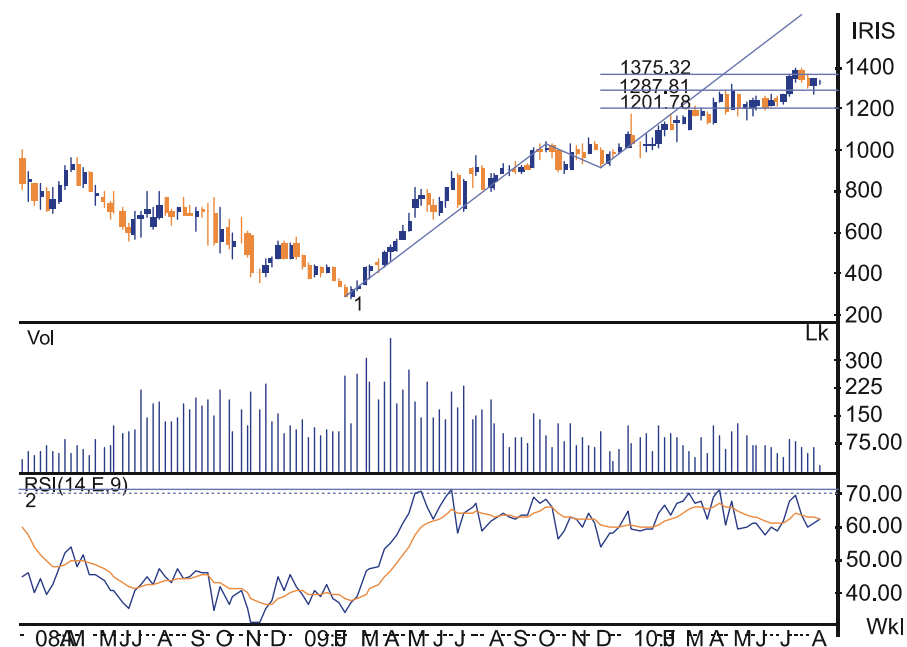


Source: Iris, India Infoline Research

- ⊕ The stock has outperformed benchmark index by 3% ytd.
- ⊕ The stock RSI, on monthly charts, is nearing the overbought zone. However, historically it has traded at higher overbought zone levels.
- ⊕ Investors should use rallies up to levels of Rs3,000 to exit.
- ⊕ The stock has strong support at Rs2,450-2,500 levels.

Axis Bank

CMP Rs1,353

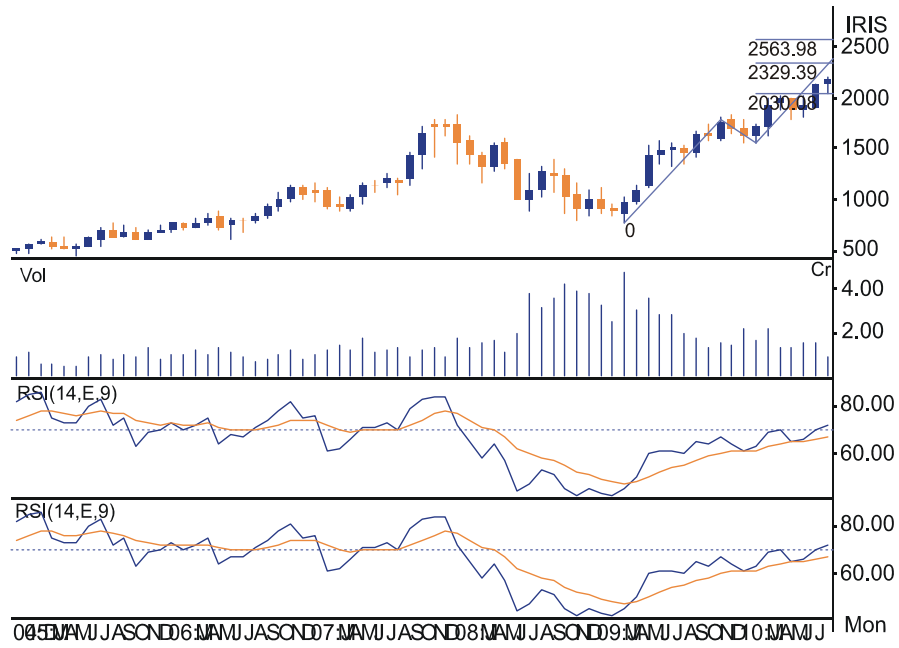


Source: Iris, India Infoline Research

- ⊕ Axis Bank has rallied above its 2008 peak of Rs1,295.
- ⊕ However, the stock has faced strong resistance at Rs1,400 levels.
- ⊕ The momentum indicator, RSI, on weekly chart has been range bound between 71 on the higher side and 53 on the lower side since May' 09
- ⊕ We expect the stock to trade sideways with a negative bias.
- ⊕ Strong support at Rs1,200

HDFC Bank

CMP Rs2,192



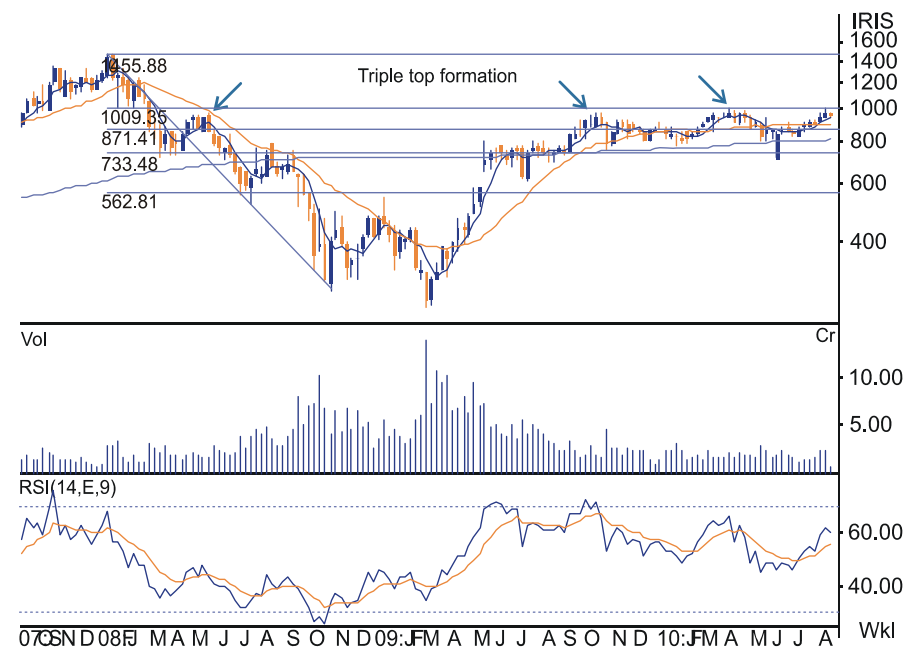
- ⊕ On monthly charts, the stock has been able to hold on to its long-term trendline since March 2009.
- ⊕ The upswing would be violated once the stock closes below Rs2,050. However, the stock has upside potential target to touch Rs2,325

Source: Iris, India Infoline Research

Category III – Still some steam left; accumulate

ICICI Bank

CMP Rs968

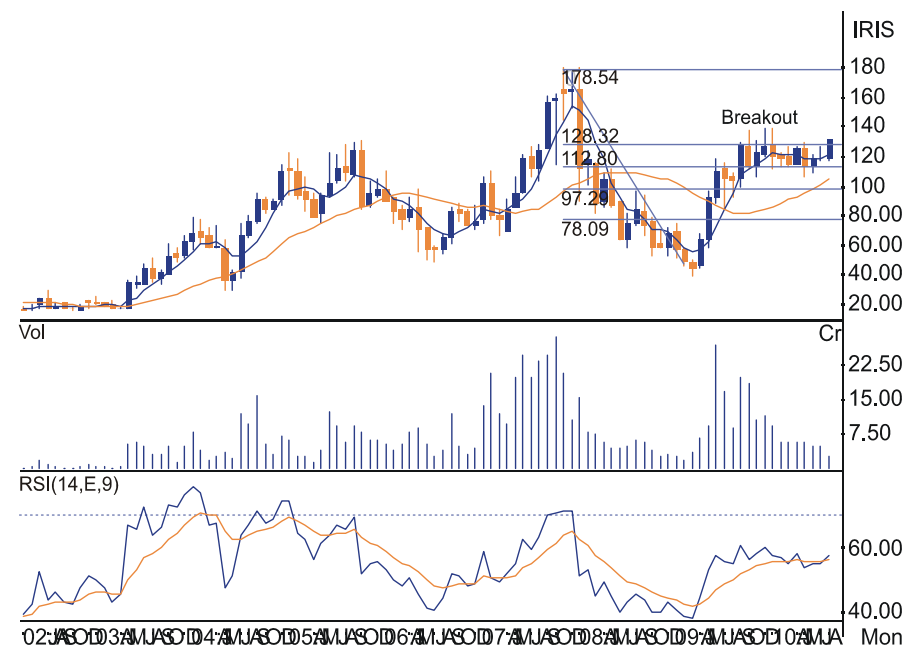


Source: Iris, India Infoline Research

- ✦ ICICI Bank has created triple top formation on the weekly charts.
- ✦ The resistance for the stock is at Rs1,005.
- ✦ Traders and investors are advised to take long positions only above Rs1,005.

IDBI

CMP Rs132

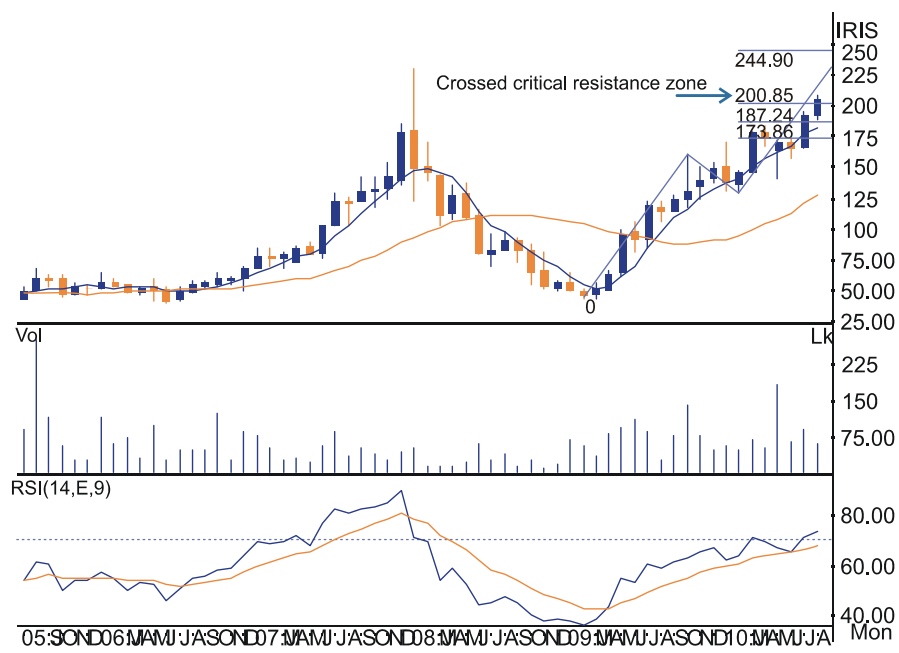


Source: Iris, India Infoline Research

- ✦ IDBI has broken out from inverted head and shoulders pattern, with neckline placed at Rs128.
- ✦ The stock has been a laggard since January 2010.
- ✦ Stock has made multiple tops around Rs134-136 level, a move above this critical resistance level with higher volume could see the stock attempting Rs150.

South Indian Bank

CMP Rs206

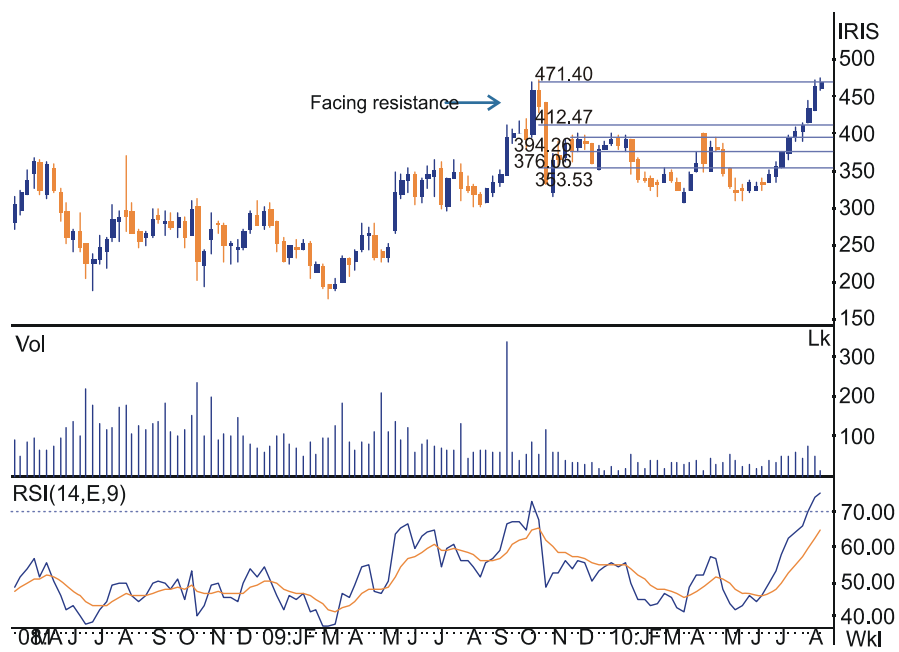


- ✦ Recently, the bank has given a strong breakout above its critical resistance of Rs195.
- ✦ We expect the stock to continue its near-term rally and attempt its previous peak of Rs229.

Source: Iris, India Infoline Research

Bank of India

CMP Rs462



- ✦ The stock saw a crossover above its all-time high of Rs474 on Tuesday (17th Aug 2010). However, the stock was not able to sustain at higher levels and corrected to Rs467 levels.
- ✦ In the past 3 years, the stock has attempted to cross over Rs465-480 on three occasions but has failed during the past two attempts.
- ✦ RSI is still below the over-bought zone, which suggests further rally in the stock is possible if the sector continues to shine.
- ✦ Any move past the above mentioned resistance zone with heavy volumes could see the stock attempting levels of Rs510-520.

Source: Iris, India Infoline Research

Annexure

Fibonacci Retracement: A term used in technical analysis that refers to the likelihood that a stock price will retrace a large portion of an original move and find support or resistance at the key Fibonacci levels before it continues in the original direction.

Fibonacci projection: This runs from three data points and compares swings in the same direction. They are run from a prior low to high swing and then projected from another low for possible resistance or they are run from prior high to low swing and projected from another high for possible support.

RSI - A momentum indicator that compares the magnitude of recent gains to recent losses to determine overbought and oversold conditions of a stock. The RSI ranges from 0 to 100. A stock is deemed to be overbought once the RSI approaches the 70 level, meaning that it may be getting overvalued and is a good candidate for a pullback. Likewise, if the RSI approaches 30, it is an indication that the asset may be getting oversold and therefore likely to become undervalued. A crossover of 9-dma RSI (in daily/weekly/monthly charts) over the 14-dma RSI suggests building up of buying movement. Similarly, a crossover of 9-dma RSI below its 14-dma suggest negative build-up.

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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