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*Battle for 13700 continues...***MARKET INDICES**

BSE Sensex : 13796  
 NSE Nifty : 4076

Volatility : High  
 52-Week range : 8799 - 14723

**SHORT-TERM TARGET**

Sensex : xxxxx  
 Nifty : xxxxx

**MEDIUM-TERM TARGET**

*Sensex:*  
 Conservative : xxxxx  
 Aggressive : xxxxx

**STOCK MONITOR**

**NIIT Technologies**  
**Adlabs Films**  
**Dhampur Sugar**  
**Oswal Chemicals**

- **Volatility to remain within 13700-14300 trading zone**

The markets continued to trade with a negative bias last week as the Sensex repeatedly tested the lower end of the well-marked trading range of 13700-14300. The underlying technical triggers continue to remain weak but unless the “price action” itself confirms the same by breaking down below 13700 on a closing basis, a negative stance with price targets cannot be kept. Interestingly, 22 popular global markets hit lifetime highs last week while the Sensex is finding it difficult to even sustain above 14K. The markets are likely to remain volatile in the above mentioned range in the near term during which any pullback to the resistance band of 14000-14300 should be used as a selling opportunity. We continue to believe that the second half of this month would see a trending market with bears in control. The Technology & Capital Good sectors are likely to underperform while the Mid-cap/Banking sectors could see bullish activity.

- **Patterns – Advantage Bears**

The emergence of a fresh bearish “Three Black Crows” and “Engulfing” pattern on the daily and weekly charts respectively suggests that a breakdown below 13700 can be expected soon. Once confirmed, a quick move down to 13300 levels is likely.

- **NIIT Technologies – Best in Technology**

The stock has one of the best technical set-ups among the Technology stocks. A breakout from a trading range has been confirmed on good volumes that should lead to a 10-12% rally.

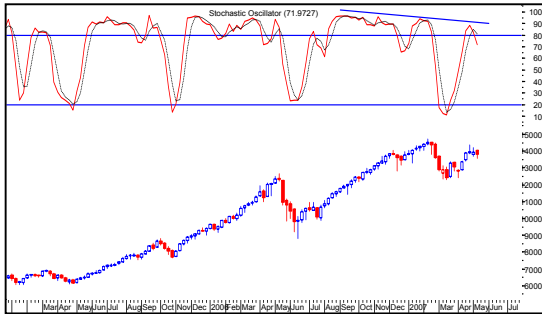
- **Adlabs Films – The “Return” of Entertainment**

The stock has been a steady performer in the last couple of months. A phase of an accumulation seems to have got completed last week that should lead to a 50+ Rs. upmove in the near term.

- **Oswal Chemicals – More Upside than Downside**

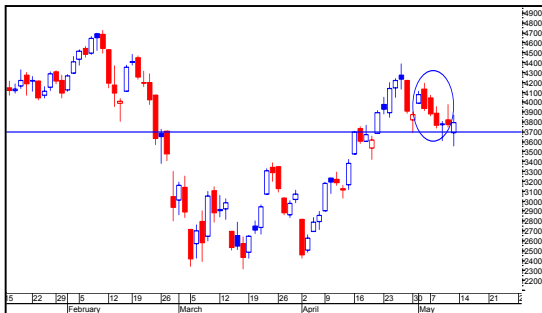
Renewed price and volume activity has been noticed last week as the stock closed above the major resistance of 40. A quick 10-12 Rs. upmove is in the offing with downside restricted to 36 levels.

**Exhibit 1**  
**Not a healthy weekly set-up**



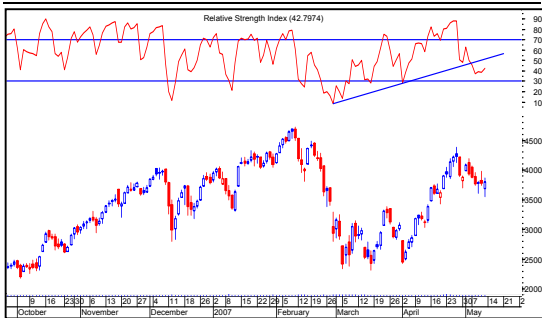
Source : JM Morgan Stanley – Technical Analysis

**Exhibit 2**  
**The bearish “Three Black Crows” pattern**



Source : JM Morgan Stanley – Technical Analysis

**Exhibit 3**  
**RSI trendline breakdown confirmed**



Source : JM Morgan Stanley – Technical Analysis

**Oscillator screening**

Since the volatility last week was more intra-day and not on a closing basis the impact of the same was a little subdued on the oscillators. The daily Stochastic is close to the oversold line in buy mode, which is slightly positive for the short-term. At the same time, the weekly oscillator is depicting a completely different picture as it is sell mode around the overbought line. This has to be given more importance over the set-up on the daily charts. The monthly charts hint at a major downtrend beginning in the next 2-3 weeks. Overall, the studies suggest that the indices could remain volatile in a range for a few days before witnessing a breakdown.

**Pattern screening**

The pattern studies had a major role to play during the volatility last week. This is because the bulls and bears fought a fierce battle for the level of 13700. In the end it was a temporary victory for the bulls as they managed to get the Sensex back above 13700 despite a very weak opening last Friday. An extremely rare bearish candlestick pattern named “Three Black Crows” was spotted last week (See Exhibit 2) that should eventually lead to a market breakdown/downtrend in the coming days. Such patterns typically carry “bad news” and would be felt by the market during the rest of May. Also, on the weekly charts a bearish “Engulfing” pattern can be spotted that is not only negative stand-alone but also brings alive the “Shooting Star” pattern spotted a couple of weeks back. Pattern resistance for the coming week seen in the 14000-14200 zone. Overall, the studies suggest that the breakdown below 13700 has only been delayed by a few days.

**Indicator / Moving Average screening**

The indicator studies, which were neutral until last week have generated a host of bearish triggers. A clear RSI trendline breakdown can be spotted on the daily and weekly charts (See Exhibit 3). The MACD indicator has generated a sell after many weeks while the PSAR indicator is still in sell mode. The DM/ADX indicator is also setting up for a major buy/sell signal this week. The 13-EMA has been breached on a closing basis as well. Overall, the studies hint at more downside than upside.

**Market Musings**

The Sensex lost 138 points over the week to close at 13796. Despite the abnormal volatility last week the bias was clearly negative as the indices faced resistance on every rally. With the Sensex ending the week above the all-important support of 13700 the battle for this level has been shifted to this week. The underlying technical triggers as explained on Page 2 earlier continue to be bearish, but unless the “price action” itself confirms a breakdown, targets cannot be set. Interestingly, 22 popular global markets are at lifetime highs and we (Sensex) still continue to underperform by staying in the well-marked range of 13700-14300. The various bearish patterns spotted in the last couple of weeks suggest that a breakdown from this region is almost certain in the near term and therefore any pullback to the resistance zone of 14000-14300 should be used as a selling opportunity. The Technology, Oil&Gas and Capital Good sectors are likely to underperform in the near term while Banking and Mid-cap sectors could see some outperformance this week. Support remains at 13700 and 13300 (4030 on the Nifty) while resistance seen at 14000 and 14300 (4135/4180 on the Nifty). Overall, the Sensex is likely to remain in the range of 13700-14300 early this week after which a breakdown can be expected, which once confirmed leads to 13300/3900.

Exhibit 4

**Broad View – Perfect end to Wave 5 on the medium-term charts as per Channeling concept**



Source : JM Morgan Stanley – Technical Analysis

## Bulls Vs Bears

### NIIT Technologies (Rs. 487)

The stock has one of the best technical set-ups among the technology stocks. Despite the sector underperformance in the recent past the stock has been steady in a range till last Friday when it confirmed a major bullish breakout.

Just about every technical study is supporting the breakout making the scenario reliable. Volume activity was at a 2-month high on the breakout day while the RSI indicator witnessed a similar move and is yet to move into overbought territory.

Moving averages continue to support the price action while the MACD indicator is strongly in buy mode in positive territory. A move back to its life high of 535 and then possibly higher is in the offing.

**STRATEGY:** Buy in the region 485-490 with a closing stop loss below 450 for a short-term target of 535.

**Support:** 476 and 450    **Resistance:** 507 and 536

### Adlabs Films (Rs. 460)

The stock seems to have completed a phase of accumulation that should lead to a steady rise in price in the near term. From a trading perspective, a 10-12% rally is in the offing with very limited downside risk.

The level of 450, which has been acting as a stiff barrier, has been surpassed last week on a closing basis and would now act as a strong support in the days ahead.

A bullish breakout can be spotted on the daily RSI indicator while the DM/ADX indicator has generated a fresh buy after many weeks. Volume activity too saw a substantial pick-up towards late last week.

**STRATEGY:** Buy in the region 455-465 with a stop loss below 434 for a short-term target of 500 and 515.

**Support:** 450 and 435    **Resistance:** 480 and 501

Exhibit 5

#### Bullish breakout confirmed



Source : JM Morgan Stanley – Technical Analysis

Exhibit 6

#### Short rally in the offing



Source : JM Morgan Stanley – Technical Analysis

**Dhampur Sugar (Rs. 75)**

With the sector on the whole looking positive on the charts we feel that the stock is likely to outperform having the potential to rally to 90 levels in the short-term.

A medium-term bottom seems to have been confirmed last week with the stock reversing once again from the important support of 70. The same has led to multiple positive divergence on the daily charts.

The rally last Friday on huge volumes is only the beginning of the uptrend that is likely to go on for many weeks. Interestingly, on the weekly charts the RSI indicator has taken good support at the OS line for the last few months thereby showing its reluctance to move lower. Resistance for the week seen at 83.

**STRATEGY:** Buy in the region 74-76 with a closing stop loss below 70 for a short-term target of 90.

**Support:** 73 and 70    **Resistance:** 83 and 91

**Oswal Chemicals (Rs. 40.5)**

The stock has seen renewed price and volume activity last week that should lead to an uptrend in the short-term. With the resistance at 40 taken out on a closing basis, a quick 10 Rs. rally would not be a surprise.

The weekly MACD indicator has generated a buy trigger last week while a moving average crossover has been confirmed. Even though the indicators are slightly overbought on the daily charts we think the same would not have much of an impact on the price action.

The volume activity in the last two weeks has been abnormally high during which the bias for the price action has been positive. Strong support created at 36, which can be used as a stop for traders.

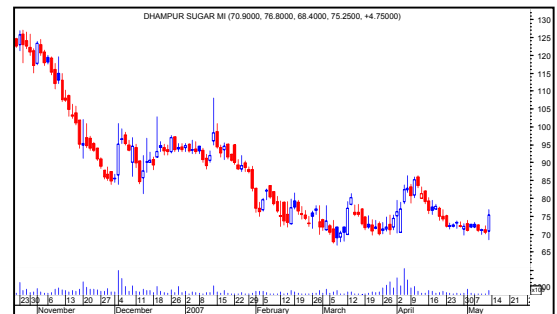
**STRATEGY:** Buy in the region 40-41 with a stop loss below 36 for a short-term target of 50.

**Support:** 37.5 and 36    **Resistance:** 45 and 50

*Tech Trends – May 14, 2007*

Exhibit 7

**Limited downside**



Source : JM Morgan Stanley – Technical Analysis

Exhibit 8

**Sizable upside seen**



Source : JM Morgan Stanley – Technical Analysis

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