Market Outlook

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Values that bind

Nifty Futures (Front month series):(3859.4)

The proposed $700 billion bailout package did little to stall the falling markets on Monday morning as investors turned jittery and lost confidence on turnaround of economy. There was also increasing skepticism regarding the passing of the bill, which is highly unpopular, and the fear was that financial crisis and credit flow would remain. Meanwhile nationalization of the mortgage banks Bradford and Bingley by UK government caused further jitters. Earlier the Dutch-Belgian banking giant, Fortis NV , was partially nationalized as investor confidence disappeared. In this scenario, though Asian markets opened in the green, they soon moved into the red. The worst fear came true as the **House of representatives failed to pass the Emergency Economic stabilization Act**. Fear and panic gripped the investors who were hopeful of the passage of the 700 billion bailout package and Dow tumbled more than 777 points in a record sell off, posting the worst one day percent decline in 21 years. Most of the world markets are down by 7-9%. There is a crisis of confidence as even banks are reluctant to lend to each other. Though the bill is not dead yet and efforts are on for a revote and revival but a great damage has been done. Oil moved down further on concerns of slowing economy and treasuries and gold seem to be in demand as investors flew to safety. Bank turmoil continues as Wachovia corp banking operations were bought out by Citigroup Inc. in a deal brokered by FDIC. Hypo real estate, Germany's second biggest commercial property lender received loan guarantee from its government to fend off insolvency. Our markets shed valuable points on the last trading day though it closed off the intraday lows. Both Sensex and nifty spot hit fresh lows of this year before rebounding from the low and Nifty futures, though it did not break the low of 3761 hit on 16th July came very close to breaking it as it tested 3775 and closed the day with a loss of 138.75 points, off the low of the day. Most of the sectors closed in the red, some like metals and realty hit fresh low. As per the provisional data, FII were sellers on the bourses and DII were buyers. That the Markets will open gap down today is a forgone conclusion. What now needs to be seen is the level which stalls the decline. Technically, Nifty futures now has support in the 3700, 3665, 3630-3593 region. 3593 region is the 50% retracement level from the low of 851.25 tested on 21 September 2001 to the high of 6336 reached this year on 9th January and 3628 is the 50% retracement from 921 level tested on 28 April 2003 from where this great bull market began to 6336 top. If this 3593-3630 region is broken decisively then fresh panic is likely to set in and the slide will gain further momentum. Else some consolidation may be expected in the 3700-3600 region before the next move. On a pull back resistance will now be seen in the 3760-3800 region and above that around 3820 and 3885. Acid test for the bulls will now be the 3955-4000 region. The weekly charts were weak signaling a possibility of test of lower levels and after today's close the monthly charts will turn negative too. Markets are likely to open gap down on dismal global cues and then chart its own course as the day progresses. Volatility may remain high.

Resistance: 3885, 3900, 3955, 4000, 4085-4070, 4100
Support: 3820, 3800, 3790, 3760, 3700, 3665, 3628, 3600, 3590, 3500

L&T (2347.25): If the 2240 region holds on declines and markets give signs of pull back, long position may be taken with a stop below a decisive breach of 2200 for pullback target of 2290-2300.

Resistance: 2350, 2390, 2400, 2440, 2500
Support: 2300, 2240, 2200, 2100, 2000

Note: All prices relate to NSE spot prices unless otherwise stated. Stop loss is a risk control mechanism and should always be there since it is a level which breached signals that the call has gone wrong and steps must be taken to put a stop to further loss. It also quantifies the risk.

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Religare securities limited – Unit-410, Ideal Plaza, 11/1 Sarat Bose Road, Kolkata-700020
Tel. 91-33-3051 0900(097) E-mail: Kalpana.kabra@religare.in
Corporate Office: 19 Nehru Place New Delhi-110019. Tel: 91-11-55562200,
Fax: 91-11-55562277.