November 23, 2011

Pullback over - Approaching yearly lows again!

Nifty Price Matrix	
52 Week High	6338
52 Week Low	4720
200 Week EMA	4856
52 Week EMA	5299
200 Day SMA	5363
100 Day SMA	5185
50 Day SMA	5045

Amid all the uncertainties prevailing in the global financial arena on the lingering concerns about the Euro zone debt crisis, the domestic equity benchmarks did post a pullback towards late October 2011. However, as evident from the current slide, the pullback proved short lived as it turned out to be just a relief rally after stagnating in a narrow range for nearly three months and hit a swing high of 5399.

In our Technical Report titled *"Index at crossroads"* dated September 29, 2011, we had appositely envisaged a pullback attempt panning out after the index hit a 52-week low of 4720. We had argued that the index will respect the yearly lows of 2010 (4675) initially and stage a pullback to retrace the previous fall (5740 to 4720) and then turn back to retest its 52-week lows.

The Nifty behaved precisely in line with our expectation and recorded a swing high of 5399 in late October 2011, which turned out to be the 61.80% retracement of the previous fall and a re-test of the 200 day SMA. It has remained on a steady downward spiral since then.

Now the index is within an arm's length distance from its 2010 lows (4675). We, therefore, take a fresh look at the long-term charts as post violation of the yearly low on a sustained basis there is a strong possibility of the benchmark heading towards the 4200-4000 range. In this report we present historical evidence of the past three instances when breach of previous year's lows triggered a larger price and time correction.

Exhibit 1: Nifty Daily Chart

Source: Spider software, ICICIdirect.com Research

Breach of yearly lows may trigger larger price and time damage

Over the past two decades, there have been three major instances when the index breached its previous yearly lows. Each of these events triggered jitters in the equity markets and led to a steeper correction.

In the current scenario, so far the index has been defending year 2010 lows (Sensex: 15652, Nifty: 4675.40). A decisive breach of these lows

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As the benchmarks breach their 2010 lows, they are expected to usher in larger price and time damage

However, if one is considering the short to medium term outlook, we can expect the Nifty to take support in the vicinity of 4450-4400 levels and pose a relief rally

Such a rally is expected to be short lived and in magnitude not more than 61.8% retracement of the most recent fall. (Fall commenced from 5400 levels)

would result in price damage of at least 15-20% going by empirical evidence. Exhibit 2 and Exhibit 4 show the relevant statistics.

Exhibit 2: Instances of Nifty breaching previous year's low

	Nifty			
	1994	1996	Points Change	% Change
1st Instance	1082.8	775.45	307.35	28.38%
	2000	2001	Points Change	% Change
2nd Instance	1108.2	849.95	258.25	23.30%
	2007	2008	Points Change	% Change
3rd Instance	3554.5	2252.75	1301.75	36.62%

Source: ICICIdirect.com Research

Exhibit 3: Nifty Yearly Chart

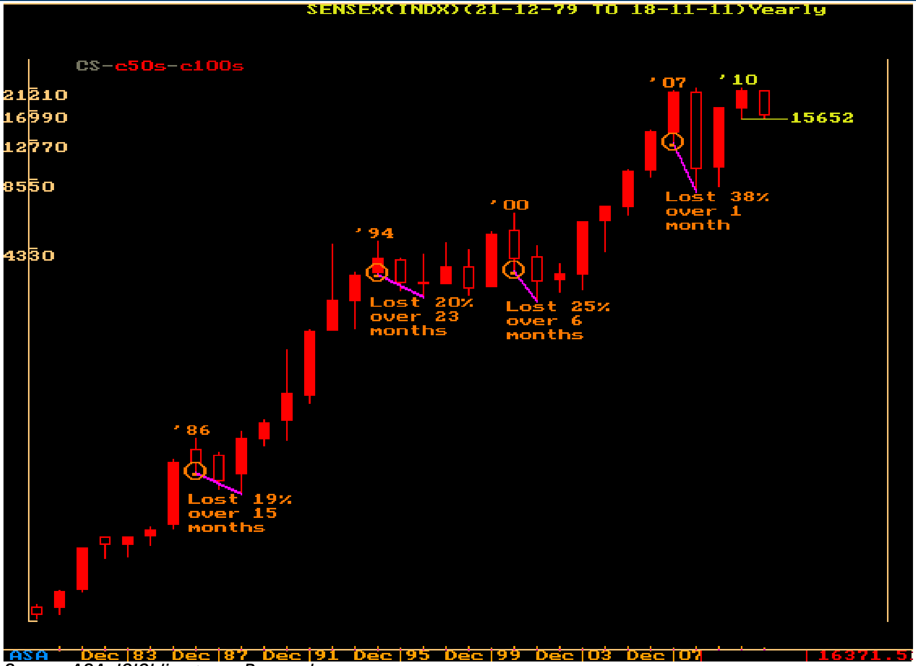
Source: Spider software, ICICIdirect.com Research

Exhibit 4: Instances of Sensex breaching previous year low

	Sensex			
	1994	1996	Points Change	% Change
1st Instance	3405.9	2713.1	692.8	20.34%
	2000	2001	Points Change	% Change
2nd Instance	3491.55	2594.85	896.7	25.68%
	2007	2008	Points Change	% Change
3rd Instance	12316.1	7697.4	4618.7	37.50%

Source: ICICIdirect.com Research

Exhibit 5: Sensex yearly chart



Source: ASA, ICICIdirect.com Research

Major sectoral indices have already breached their 2010 lows…benchmarks to follow suit

Earlier during 2011, many sectoral indices and broader markets, as represented by the midcap and small cap indices, have breached their 2010 lows. Since then, they have been reeling under continuous selling pressure.

Capital goods, oil & gas, metals and realty indices have been underperforming along with the midcap and small cap segments over the past few months (as shown in Exhibit 6) since they breached their 2010 lows making a strong case for the benchmarks to follow suit.

Among other important sectors, banking and IT are very close to their 2010 lows. The recent selling pressure is likely to get accelerated if the 2010 lows are decisively breached.

Going by this evidence, we believe it is only a matter of time before the benchmarks also follow suit and breach the yearly lows.

Exhibit 5: BSE Indices breaching their 2010 Lows

BSE Indices	Lows of 2010	Close as on 22nd Nov 2011	Sectorial Indices breaching 2010 lows
Capital Goods	12684	9363	Aug-11
Metals	13827	10227	Aug-11
Oil & Gas	8940	8151	Jun-11
Power	2767	1907	Jan-11
Realty	2454	1563	Jan-11
Mid cap	6276	5629	Aug-11
Smallcap	7926.8	6080	Feb-11

Source: ICICIdirect.com Research

Post break-down scenario: Likely to head towards major support zone in 4200-4000 range

Post violation of the earmarked supports of the 4675-4750 range, the next floor for the Nifty is placed in the range of 4200-4000 levels based on the following technical observations:

- The golden Fibonacci ratio of 61.8% of the entire rally from March 2009 low (2539) to the November 2009 high (6338) is placed around 3990
- The rising gap-up area of the only upper freeze in the history of Indian equity markets is placed in the region of 3918-3710
- The major support trend line connecting the low of June 2003 (920) and December 2008 (2252) projects support around 4000 over the next two quarters
- Time wise, we have observed that whenever the index has breached its prior year lows, it has spent six to 12 months in a base formation before any meaningful rally could take place.

Exhibit 6: Nifty quarterly charts highlighting long-term support trend line

Source: Spider software, ICICIdirect.com Research

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