

Weekly Nifty Observer

Issue - 146

18 to 22 June 2012

Nifty Outlook

.....probability to continue trading above 5000 levels is high next week; on breach of 5150 levels, 5220 is on cards for Nifty.....

Support

5110/5080 (4950 remote support)

Resistance

5150/5220 (5270 remote resistance)

Market Strength Indicators (Weekly)

14 period RSI - Up by 2.56 points from 48.2 levels previous week

14 period StochRSI - Up by 17.75 points from 58.46 levels previous week

Stochastic - Up by 23.64 points from 35.28 levels previous week

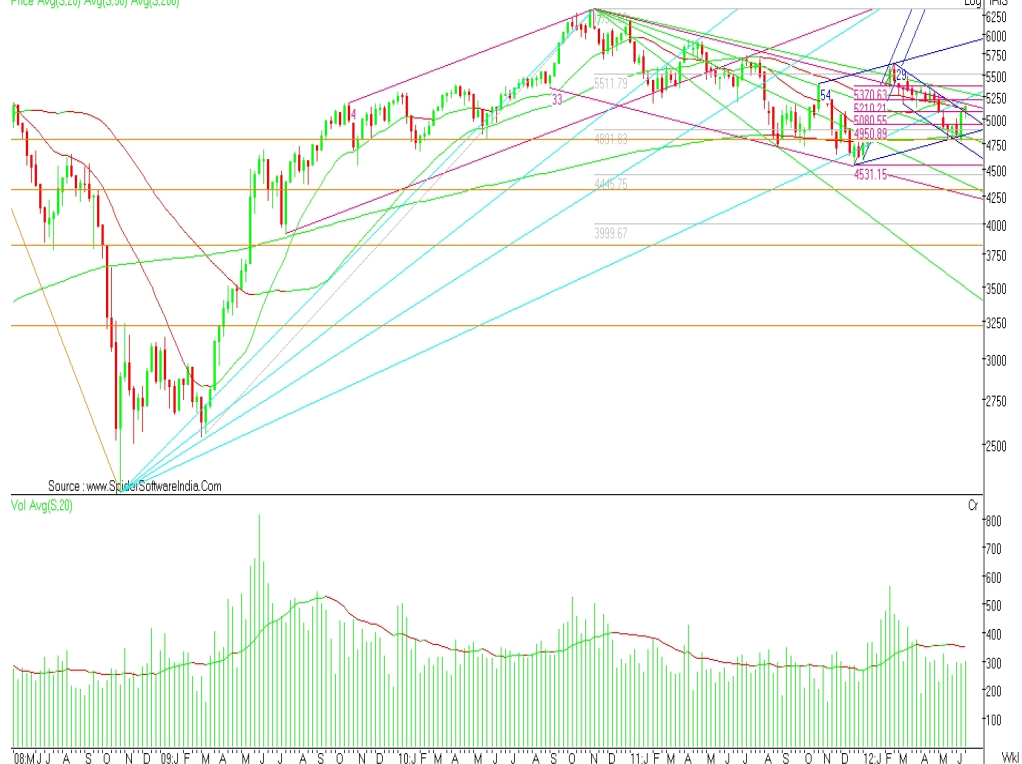
Market Intensity Indicator (Weekly)

NFP - At premium of 8.65 points from discount of 8.95 points previous week

Volatility - Up by 0.01 points at 0.38 levels

Spot Nifty Weekly Chart

NSE Nifty [NSE9901] 5096.70, 5146.20, 5015.15, 5139.05, 3010857984 1.39%
Price Avg(S,20) Avg(S,50) Avg(S,200)



Technical Comments

Weekly Nifty closed 1.40 % up at 5139.05 levels after making high of 5146.20 and low of 5015.15 levels. It must be noted that last week Nifty managed to close above 5080 levels, an important resistance levels on W-o-W basis.

Since fifty five weeks, Nifty is trading below the lower part of the channel which was drawn from high of 5181.95 (week ending 23/10/2010), high of 6335.90 (week ending 12/11/2010) and low of 3918.75 (week ending 17/07/09).

Since last eight weeks Nifty manages to give closing below the upper part of the channel (5150/5220 levels). The channel is drawn from the low of 5348.90 (week ending 03/09/2010), low of 4720.00 (week ending 26/11/2011) and high of 6335.90 (week ending 12/11/2010). In next few weeks if Nifty manages to moves inside this channel then, it will move towards the lower part of the channel (around 4250 levels).

On historical weekly chart, this was 6th consecutive week for Nifty to trade below its 4th speed line. Twenty consecutive week earlier it tested 4th speed line (around 4700/4650 levels). The speed line was drawn from the low of 2252.75 levels (week ending 31/10/08) and high of 6335 levels (week ending 12/11/10). Only, sustainability above 4th and last speed line will open path for Nifty to move towards 3rd speed line around 6000 levels with many psychological resistance levels. The probability to move towards 3rd speed line will grow stronger with continuation of consolidation only above and around 4th speed line.

Over historical weekly chart thirty five weeks earlier, Nifty tested, but failed to sustain above the lower part of channel of Andrew's Pitchfork (around 5840 levels). The Andrew's Pitchfork is drawn from the low of 936.70 (week ending 17/04/03), high of 6357.10 (week ending 11/01/2008) and low of 2539.45 (week ending 06/03/2009).

On weekly basis Nifty was found trading below its 20 weeks SMA around 5209.63 levels, above its 50 weeks SMA around 5113.91 levels and above its 200 weeks SMA at 4830.52 levels along with rise in volume which was below its 20 weeks SMA. It must be noted that Nifty after four consecutive weeks of closing below its 200 days SMA on W-o-W basis, since last twenty four weeks it managed to close above it.

LONG TERM TREND WILL REMAIN BULLISH ON W-O-W BASIS TILL NIFTY HOLDS 4831 LEVELS. ONLY SUSTAINING ABOVE ITS 200 PERIOD SMA ON W-O-W BASIS WILL ENSURE FOR BULL PHASE TO CONTINUE IN WEEKS TO COME.

Last week Nifty not only manages to sustain but also closed above its 50 period SMA on W-o-W basis. Continuation of sustainability above its 50 period SMA will increase the probability of Nifty to move towards an important resistance zone of 5220/5370 levels, above 5150 levels. Below 5080 levels, Nifty will find strong support at 4951 levels on weekly basis.

The Data: On weekly basis, Nifty closed 1.40 % up along with 1.44 % rise in volume and fall in open position by 6.86 %.

Interpretation of Data: Nifty rise with rise in volume and fall in OI suggesting a lot of traders initiating from both sides but larger traders may be liquidating into the higher prices. The market may be vulnerable to larger price swings as shorter-timeframe traders attempt to trade from both sides of the market but liquidating before end-of-day. Often signals of a market turn near-term or continued volatility which is more common at significant tops (or bottoms).

Rise in Nifty with fall in open position on W-o-W basis suggests that the current rise of 1.40 % in Nifty was mainly due to fresh short build up in June 12 future contracts.

Implication of the Interpretation: The week saw short covering (two trading sessions), long liquidation (two trading sessions) and fresh long build up in remaining one trading session. No fresh short build up was observed for the week. On W-o-W basis short covering was observed. For next week fresh long build up, if continued along with short covering, it will drag Nifty towards 5220 levels or above. Long liquidation with fresh short build up will only force nifty to trade below 5100 levels.

Global Cues

Source: Yahoo Finance

Market Outlook - One thing is almost certain to come from the Sunday event, and that is more volatility for U.S. stocks. Central banks from major economies are ready to take steps to calm financial markets should the outcome of the Greek elections create a market storm. S&P futures will see their high or low depending on the outcome within one hour of the futures' opening on Sunday night at 6 p.m. Eastern time.

Greece Election Outcome - Market have viewed the Greek election as a potential turning point for Greece, with all eyes on whether voters will favor the leftist Syriza party opposed to the austerity measures that are part and parcel of Greece's international bailout package, or the conservative New Democracy, which is committed to upholding terms of that agreement. The election, which could result in Greece's eventual departure from the euro zone, is also seen as another hurdle for the wider euro zone, which has been embroiled in a debt crisis for well over a year.

Other Events - The rest of the week is not likely to be any quieter. The Federal Reserve is due to release a policy statement on Wednesday at the end of its two-day meeting, and the steady flow of sovereign debt warnings and downgrades is likely to continue.

CBOE Volatility index - In yet another sign of market nervousness, the CBOE Volatility index, Wall Street's fear gauge, was up for much of Friday, even as stocks rose, although the VIX finally closed lower. Stocks and the VIX typically have an inverse relationship.

Expectations from Fed Meet - Despite of so many uncertainties stocks ended the week on a positive note, marking a second straight week of gains. The benchmark S&P's index is now up 6.8 % for 2012, though still well off its highest levels of the year. Part of what has spurred optimism has been the hope that the Fed and other central banks would act to provide more economic stimulus. There has been continuing speculation over whether the Fed will engage in a third round of quantitative easing. Market think that expectations of QE3 will drive the market one way or the other. But the fact that the Fed has made no recent changes to policy could mean the economic data policymakers are seeing is "not as bad as everyone thinks".

Precautions from Greece Outcome - Weeks of worries over potential outcomes of the Greek election have prompted a number of central banks to prepare for market problems. Among them, ECB President Mario Draghi said the ECB was ready to step in and fund any viable euro zone bank that gets in trouble. The Bank of England on Thursday announced a 100 billion pound (\$155 billion) offer of loans to banks. Also ahead of the vote, Russell Indexes said certain events in Greece could mean changes in its indexes through implementation of its "financial crisis" rule. Its indexes include the Russell Global Index.

Global Rating Cuts - Market nervousness has been added by a slew of recent ratings cuts. Among the most recent, Fitch Ratings on Friday downgraded Egypt's sovereign credit rating deeper into junk status. On Thursday, Egan-Jones cut France's sovereign credit rating. This trend may continue as agencies try to gauge the impact of the euro zone and other problems on the global economy.

National Cues

Source: Capital Market

Market Outlook - Outcome of a parliamentary election in Greece, RBI's mid-quarter monetary policy review, progress of the monsoon rains, a two-day meeting of the Fed Open Market Committee on US interest rates and G20 summit will decide the near-term trend on the bourses.

RBI Move - The RBI is seen cutting the repo rate by 25 basis points at mid-quarter monetary policy review on Monday. Easing of core inflation, falling crude oil prices, weak industrial production data for April 2012, sharp deceleration in GDP growth in Q4 March 2012 and decline in exports in May 2012 have raised expectations of interest rates cut to revive economic growth.

Food Inflation - The hike in minimum support prices of various kharif (June-October) crops 2012 is expected to further fuel persistently high food inflation in the coming months. Food inflation has been in double digits for around a year and has been contributing significantly to overall inflation. The government on Thursday, 14 June 2012, raised the minimum support prices of various kharif (June-October) crops 2012 in the range of 15.3% to 53.1%

Greek Election - Greek voters return to the polls on Sunday, 17 June 2012, after the splintered results of a May 6 parliamentary election left no party able to put together a government. The poll could potentially decide whether the nation will remain in the euro zone.

ECB Steps In case of Credit Crunch - The European Central Bank stands ready to provide support to the euro-zone system, said its President, Mario Draghi, in prepared statements at a speech on Friday, 15 June 2012. "The Eurosystem will continue to supply liquidity to solvent banks where needed," he said at the ECB Watcher's conference. His comments come amid reports that central bankers are ready to take measures to keep liquidity flowing in international markets should the results of Sunday's Greek elections trigger a credit crunch.

EU Summit - A key summit of the EU is scheduled on 28 and 29 June 2012 to discuss the ongoing European debt crisis.

FOMC Policy Meet - The Federal Open Market Committee holds its next policy meeting on June 19-20. It remains to be seen if the Fed extends Operation Twist -- a plan expiring this month that lengthens the average duration of bonds in the Fed's portfolio. The Fed launched Operation Twist in September 2011 to lower long-term borrowing costs.

G20 Summit - The 7th Group of 20 industrial and developing nations summit is scheduled to be held in Los Cabos, Mexico on 18 and 19 June 2012 to discuss current affairs such as poverty, youth unemployment and environmental issues. The leaders are also likely to discuss the ongoing European debt crisis.

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