Weekly Nifty Observer

Issue - 154 | 13 to 17 August 2012

Nifty Outlook

.....continuation of sustainability above 5300 levels will open for 5420 levels and above next week, else probability to move towards 5150 levels will increase with sustaining below 5300 levels......

Support

5250/5220 (5150 remote support)

Resistence

5380/5420 (5500 remote resistance)

Market Strength Indicators (Weekly)

14 period RSI - Up by 3.84 points from 52.52 levels previous week

14 period StochRSI - Up by 20.97 points from 75.36 levels previous week

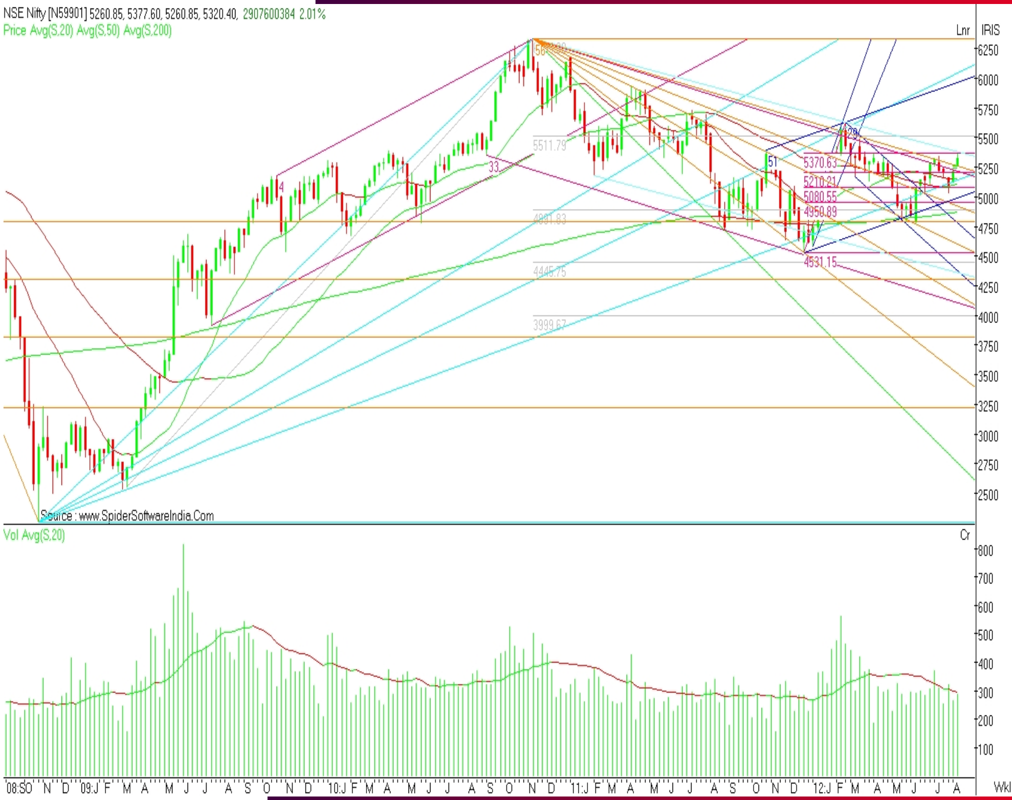
Stochastic - Up by 11.02 points from 44.1 levels previous week

Market Intensity Indicator (Weekly)

NFP - At premium of 24.7 points from premium of 25.35 points previous week

Volatility - Down by 0.02 points at 0.32 levels

Spot Nifty Weekly Chart



Technical Comments

Weekly Nifty closed 2.01 % up at 5320.40 levels after making high of 5377.60 and low of 5260.85 levels. It must be noted that last week Nifty for whole of the week sustained above 5300 levels and closed above it on W-o-W basis.

Since sixty three 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).

This is 7th consecutive week of closing above 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 move inside this channel, then only it will move towards the lower part of the channel (around 4250 levels).

On historical weekly (Linear) chart, nifty continue to sustain above 4th speed line and close above it for 10th week. 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 forty three 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 above its 20 weeks SMA around 5150.63 levels, above its 50 weeks SMA around 5105.41 levels and above its 200 weeks SMA at 4876.59 levels along with fall 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 thirty one weeks it manages to close above it.

LONG TERM TREND IS EXPECTED TO REMAIN BULLISH ON W-O-W BASIS TILL NIFTY HOLDS 4867 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 was 9th consecutive week for Nifty to close above its 50 period SMA. After one weekly closing below its 20 period SMA, since last two week Nifty again closed above it. Last week Nifty managed to close above 5300 levels and continuation of trading above it will open for 5370 levels or above in weeks to come with 5250 levels as immediate support on W-o-W basis. Above 5370 levels 5420/5500 levels zone will provide stiff resistance to Nifty next week.

Note on Weekly OI, Price and Volume

Source: ceer initiative

The Data: On weekly basis, Nifty closed 2.01 % up along with 8.27 % rise in volume and rise in open position by 6.99 %.

Interpretation of Data: Nifty rise with rise in volume and OI suggesting that the market is attracting larger numbers of trader willing to open positions from the long side and hold them. Traders are more confident that prices will continue to climb up. This scenario indicates for a bullish movement to continue.

Rise in Nifty with rise in open position on W-o-W basis suggests that the current rise of 2.01 % in Nifty was mainly due to fresh long builds up in August 12 future contracts.

Implication of the Interpretation: Last week saw both fresh long builds up and long liquidation in two trading sessions each while in remaining one trading session short covering was observed. However, on W-o-W basis fresh long builds up was observed. Continuation of fresh long builds up along with short covering will keep Nifty trading above 5250 levels and force to breach 5370 levels to move in 5400 and 5550 levels zone. But if fresh short builds up initiates with continuation of long liquidation, it will restrict up move above 5420 levels next week.

Global Cues

Source: Yahoo Finance

Global Investors Sentiments - At present global investors are focusing too much on the potential risks, such as the break-up of the euro zone, and end up getting left on the sidelines when markets move higher. Its a bull market and the mistake investors have made is too much attention on global risk, and not enough attention on fundamentals that are very resilient.
Cautious Upside Approach - There is record high aggregate earnings for S&P 500 companies this year and signs of improvement in the labor market. It means investors should be taking on more risk rather than fretting about the dangers stemming from Europe's debt crisis. Current ralley is being driven by the hope of more "easy money" policies from central banks in the United States, Europe and China. It may be an early signs of stabilization in the U.S. economy after a soft patch earlier in the spring and summer.
The Other Side - The market could also be setting itself up for a fall. Betting on what central bankers will and won't do is a risky game. Investors who have been hopeful that policymakers will take stronger action through this entire sovereign debt crisis have been consistently disappointed. That is why many are still erring on the side of caution.
Investment in US Stocks - Many investors has been using the U.S. stock market's rally to cut its remaining exposure to stock markets in developed European economies. They have repatriated the money to the United Stated where they have invested in U.S. equity positions, cautiously hedged with options. They now have higher-than-normal exposure to both U.S. and emerging market equities.
Central Banks Action - Both the European Central Bank and the Federal Reserve are due to meet during the first half of September. Investors are hoping the ECB will buy bonds of troubled European nations in a bid to ease the debt crisis.
Nonfarm Payrolls Report - The July nonfarm payrolls report, which showed U.S. employers had done the most hiring in five months, is not enough to convince investors who want to see more confirmation before unwinding their defensive stance and getting more aggressive.
Defensive Sector Move - Much of the money heading into U.S. equity markets over the last two months has been heading into defensive sectors such as consumer staples, healthcare and utilities, some of it in a flight to safety from overseas markets, especially Europe. Of two classically defensive sectors - utilities and telecoms - the utilities sector is trading at a 24 % premium to the S&P 500, compared with an average 5 % discount over the last 10 years, while the telecom sector is trading at a 50 % premium compared with the usual 5 %, according to data cited by UBS Wealth Management.
Cyclical Sectors - Cyclical sectors seem to be pricing in something of a more dire economic scenario and are trading at a nearly two-decade valuation low relative to defensive sectors.
Data to watch - July Producer Price Index YoY (14 Aug), July Consumer Price Index YoY (15 Aug), July Industrial Production (15 Aug); July Building Permits MOM (16 Aug)

National Cues

Source: Capital Market

Market Outlook - Progress of the monsoon rains, inflation data and some prominent Q1 results will dictate trend during the truncated trading week. The stock market remains closed on Wednesday, 15 August 2012, on account of Independence Day.
Results - Tata Steel and Coal India unveil Q1 results on Monday, 13 August 2012. The Q1 June 2012 results season ends on Tuesday, 14 August 2012, when Hindalco Industries, Reliance Infrastructure and IDFC unveil Q1 results.
WPI Inflation - Inflation based on the monthly WPI is seen inching up to 7.4% in July 2012 from 7.25% (provisional) for the month of June 2012, as per the median estimate of a poll of economists carried out by Capital Market. The data is due for release at 11:30 IST on Tuesday, 14 August 2012.
CPI Inflation - CSO will unveil data on consumer price index (Agricultural Labourers/ Rural Labourers) on Friday, 17 August 2012.
Policy Reforms Expectations - Investors are also awaiting policy initiatives from the government after Finance Minister Palaniappan Chidambaram promised to unveil fiscal consolidation steps.
Monsoon Session Bills - A comprehensive Land Acquisition, Rehabilitation and Resettlement Bill is among the 31 Bills the government has lined up for consideration and passing during the ongoing monsoon on session of Parliament. Among the other bills include those on Forward Contracts, Banking laws, whistle-blowers and women's reservation as also the Prevention of Bribery of Foreign Public Officials bill. The monsoon session of Parliament will conclude on September 7.
Monsoon - Investors will closely watch the progress of the monsoon rains in the crucial month of August. The IMD expects normal rains in August 2012. The monsoon has been less than average during the current year. Quantitatively, monsoon season rainfall for the country as a whole was deficient by 19% till 3 August 2012. Nineteen out of 35 states/union territories received less than the average rainfall till the end of July 2012.