

Weekly Nifty Observer

Issue - 153 06 to 10 August 2012

Nifty Outlook

....sustaining and trading above 5210 levels will open for 5370 levels or above next week with 5150 levels as W-o-W support to nifty.....

Support

5150/5120 (5050 remote support)

Resistance

5250/5320 (5370 remote resistance)

Market Strength Indicators (Weekly)

14 period RSI - Up by 4.72 points from 47.8 levels previous week

14 period StochRSI - Up by 25.77 points from 49.59 levels previous week

Stochastic - Down by 2.21 points from 46.31 levels previous week

Market Intensity Indicator (Weekly)

NFP - At premium of 25.35 points from premium of 23.7 points previous week

Volatility - Up by 0.01 points at 0.34 levels

Spot Nifty Weekly Chart

NSE Nifty [NSE9001] 5129.75, 5246.35, 5129.75, 5215.70, 2686470464 2.27%
Price Avg(S,20) Avg(S,50) Avg(S,200)



Technical Comments

Weekly Nifty closed 2.27 % up at 5215.70 levels after making high of 5246.35 and low of 5129.75 levels. It must be noted that last week Nifty sustained above 5200 levels and closed above it on W-o-W basis.

Since sixty two 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 6th 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 chart, nifty again failed to sustain 4th speed line and close below it for 4th week. Twenty four 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 forty two 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 5148.42 levels, above its 50 weeks SMA around 5093.96 levels and above its 200 weeks SMA at 4866.38 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 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 8th consecutive week for Nifty to close above its 50 period SMA. After one weekly closing below its 20 period SMA, last week Nifty again closed above it. Last week Nifty managed to close above 5210 levels and continuation of trading above it will open for 5370 levels or above in weeks to come with 5150 levels as immediate support on W-o-W basis. Above 5210 levels 5250/5320 levels zone will provide stiff resistance to Nifty next week.

The Data: On weekly basis, Nifty closed 2.27 % up along with 17.13 % fall in volume and fall in open position by 1.60 %.

Interpretation of Data: Nifty rise with fall in volume and OI suggesting that the market is running out of traders willing to open or hold an open long. Trades are liquidating both losing short position and closing winning long positions. A higher probability the market is set to retrace in price lower at some point forward.

Rise in Nifty with fall in open position on W-o-W basis suggests that the current rise of 2.27% in Nifty was mainly due to short covering in August 12 future contracts.

Implication of the Interpretation: Short covering was observed in two trading sessions with fresh long builds up in one session. Fresh short builds up with long liquidation was observed in one trading sessions each. However on W-o-W basis short covering was found. Continuation of short covering and along with it fresh long builds up will only keep nifty afloat 5200 levels to move towards 5420 levels or above in weeks to come. If however, long liquidation initiates with it fresh short builds up continued it will keep nifty trading below 5320 levels in days to come and probability to move towards 5050 levels will increase.

Global Cues

Source: Yahoo Finance

Last Week - Despite a ho-hum earnings season and central banks' disappointing hopes for aggressive economic stimulus this week, U.S. stocks held firm. After four days of losses, the benchmark S&P's 500 index rallied on Friday, finishing the week in the positive for a fourth straight time and reaching three-month highs. The trigger for stocks' surge was the Labor Department report that U.S. employers added 163,000 jobs to their payrolls in July, the most in five months. However, the unemployment rate, based on a different government survey, edged up to 8.3 %.

Results - Quarterly earnings due next week include Walt Disney Co., Priceline.com and Chesapeake Energy. Results from Macy's Inc and J.C. Penney Co Inc should shed light on the strength of consumer spending.

Stocks Attractively Priced than Bonds - Sustaining momentum are valuations that make stocks attractively priced relative to other assets. To be sure, some corporate earnings have been impressive, especially in defensive stocks such as utilities. Based on measures like dividends and price-to-earnings ratios, equities appear cheap compared to other assets like Treasuries where yields on the 10-year note fell to a record low this past month. Stocks are the best house in a bad neighborhood.

Options Trade in ETF's - After the Fed and the ECB didn't take aggressive, immediate measures to spur growth, the market disappointment was fairly short-lived, considering how hotly the actions had been anticipated. In another positive sign, large blocks of upside calls were apparently bought on Friday in an exchange traded fund designed to measure equity performance in the global emerging markets. The option flow in the iShares MSCI Emerging Markets fund seems to express confidence that today's global equity market rally can continue over the next seven weeks.

Defensive Sector Move - Much of that rise has come on gains in defensive sectors like telecommunications, a sign that while investors aren't ready to abandon stocks, they're still looking to limit risk and volatility. Telecom shares are by far the strongest performers of the year, surging 18.6 %, more than double the S&P's 8.5 % gain for the year. In a sign of near-term momentum, 87.5 % of telecom shares are trading over their 50-day moving average, according to data from Bespoke. Utilities, another defensive group, has almost 98 % of components above the moving average, compared to 71.8 % of the S&P at large. Up move in defensive and utility sector comes despite an earnings season marked by weak revenue growth and companies that are more negative about their outlooks than they have been 11 years. Still, more than two-thirds of S&P components have topped profit expectations thus far, according to Thomson Reuters data.

National Cues

Source: Capital Market

Market Outlook - India's NSE index expected to trade in a range of 5,050-5,350 points for the week.

Drought Condition - Broader sentiment likely to be weighed down by continued worries about the impact of the summer drought on Indian food prices and rural consumption. The monsoon rainfall until 31 July 2012 was 19% below the long-term average, with some areas getting little or no rain and some others seeing excessive rain and flooding. Minister of State for Agriculture Harish Rawat last month said that rainfall in August is likely to be 84%-85% of the long-term average, below the previous forecast of 96%. Investors worry the drought could also delay any fiscal reform measures such as a hike in diesel prices.

Fiscal Reforms Expectations - India's monsoon parliament kicks off on Wednesday, a day after vice presidential elections. Marketmen are widely expecting that the government will announce few reforms after the election of new vice president next week. Election to the post of vice president will be held on 7 August 2012 and the results would be out on the same day.

IIP Data - Domestically, the industrial production data on Thursday could be important, though the report is seen unlikely to be a major market mover given its volatile nature.

Results - Earnings season for the April-June quarter continues as well, with blue chips DLF, Bharti Airtel, and State Bank of India among the companies due to post their earnings. Key earnings highlights: Monday: DLF, Steel authority of India; Wednesday: Tata Power Finance, Oil; India, Mahindra & Mahindra, Bharti Airtel; Thursday: Ranbaxy, IOC; Friday: State bank of India, Sun Pharma

Expectations from Chidambaram - After the RBI kept repo rate unchanged last month, the spotlight will shift to the newly appointed Finance Minister, P Chidambaram, who is anticipated to announce few reforms and policy changes against a backdrop of slowing growth and a weak monsoon.

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