THE ECONOMIC TIMES

Mon, 26 Jun-17; Economic Times - Delhi; Size : 419 sq.cm.; Page : 9

TECH VIEWS

Use 9,400 as New Base for Nifty and Create Fresh Longs in Index

Investors can expect more declines in the mid and small-cap stocks in the coming weeks. Traders could use 9,400 as the new base and create fresh longs in index. The pharma sector could provide some short-term defence against a market correction. Investors could use a bear spread strategy in Bank Nifty of 23,500-23,200 strikes to trade the volatility on the downside.

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Where are We? In the 5th month of an advance in the markets for the Nifty but after the Midcaps ended a 4-month winning streak last month. We developed the first inter market divergence where a new-high in the Nifty in June was not confirmed by a new-high in midcap and small cap indices.

What is in Store? The Midcap rally is slowly losing steam and after this week's failed attempt to make it back, we should expect more declines in the Mid and Small stocks in the coming weeks. The last round of selling in the broad market did not affect the Nifty much, so next week we need to watch if key support levels for at 9560 and Bank Nifty at 23430 are protected or not. If broken, expect more broad-based selling and a deeper correction in the market. The next major support would come in only near 9300-9240.

What could Investors Do? The oversold defensive Pharma sector could provide some short-term defence against a market correction. The classic FMCG sector has already played that role this month and so it might not do that much. Still these sectors hold out better by falling less in a weak market. Commodity prices did pick up in the last few days and if they continue higher then metals could also remain in focus though they were down this week.

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Where are We? The Nifty failed to cross the previous high of 9,709 making a lower top on weekly charts witnessing sharp selling in the last two trading days. The monthly candle has turned negative, indicating a pause for the up-move from the current levels. High beta sectors and mid-caps have seen sharp profit booking to the tune of 2.5% average during the week.

What is in Store? We believe volatility will increase in the next week in individual sectors and stocks with respect to rollover movements on account of derivatives expiry. The Index has closed at the lower end of the monthly range, sustenance below 9,620 (last month's close) would continue to put pressure on markets with profit booking in index heavyweights. The key trend reversal level for the Bank Nifty is placed at 23,400, below which the trend would turn negative.

What could Investors Do? One should wait for directional breakout on the upside above 9,700 to add fresh longs or could wait for correction to enter at lower levels. As the Bank Nifty has been a consistent outperformer, a breakdown below 23,400 level could see a fast paced correction in private banks as they hold the highest weightage. Investors can adopt a bear spread strategy in Bank Nifty of 23,500-23,200 strikes to trade the volatility on downside with minimum risk of premium paid.

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Where are We? The indices have seen a very measured upmove in the last many weeks. Even though the trajectory has been up, the momentum of the uptrend has diminished quite a bit. This is actually a positive sign as the market seems to be showing a lot of maturity at these levels. Despite trading at such elevated levels and near life-highs, we do not see any signs of euphoria or a buying climax. The fact that corrections have been shallow and more time-wise in the last couple of months is another encouraging takeaway.

What is in Store? The Nifty has been struck in the 9500-9700 range for the last one month. While some more consolidation within this area could be seen early this week, we think a foundation is being laid for an upside breakout beyond 9700. Once confirmed, the Nifty should be on course to test the larger and more psychologically important target of 10,000. It is only from around this mark that we expect a meaningful correction to play out. At this juncture we do not have evidence to say that the markets are topping out and hence all minor dips towards the 9400-9500 area should be used as buying opportunity.

What could Investors Do? With the local technical set-up staying strong, global markets steady, news flow and flows supportive, volatility at its low and passive allocation into equities from other asset classes rising consistently, there is a reason to stay optimistic on Indian markets. Investors are advised to stay put and continue to ride this run-up without getting distracted by minor aberrations. Traders could use 9400 as the new base and create fresh longs in index and stocks close to it keeping the risk/reward angle in mind. With India at the doors of the revolutionary tax reform GST, there is a reason to look at things half-glass full and for the long-term and not get bogged down with short-term transition glitches that might only lead to short-term volatility in the markets. We see the buying opportunities in Banking, Auto, Metals and Capital Goods sectors.