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TECH VIEWS

Breaking 10,500 Could Lead to Deeper Correction

Nifty is likely to see a consolidation phase and a fresh leg of downside up to 10,330 in case the index closes below 10,500, say technical experts. They expect IT, capital goods, energy and media stocks to outperform, while PSU banks, metal and pharma could underperform over the near term.

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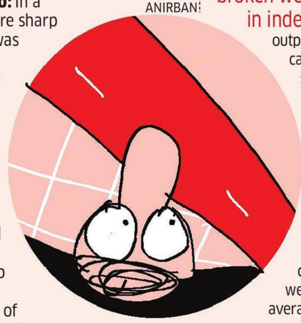
Where we are : Nifty remained in the bear grip for the week gone by. No respite was seen as minor swing highs are also being sold off. A "Bull Trap" at 11,100 level kept the benchmark index under pressure. Additionally successive close below key 50- and 200-DMA placed at 10,817 and 10,860 respectively also weighed more toward downside, Nifty ended the week at 10,725.

What is in store: The index is yet again in its previous two-month long sideways trading range, this implies rise in the volatility and unwarranted whipsaws. A "Hammer" candlestick on daily indicates buying interest near the lower end of the sideways range (10,600-11,000) and also some respite in the midst of ongoing correction. Thus a consolidation is likely, while fresh leg of downside up to 10,330 is expected in a scenario when index stage a close below the level of 10,600.

What could investors do: In a prevailing scenario where sharp swing lows/correction was seen in the select Nifty 50 stocks, we advise a cautious approach for both traders and investors. Among sectors, we are positive on energy and auto. Accumulation is advised in select stocks viz. Reliance, Hero MotoCorp and Maruti, expect a potential upside in tune of over 5%. On the other hand we expect follow up correction in Biocon, Lupin & Shriram Transport Finance.



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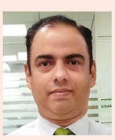
Where we are: The strong up move in crude prices up by 20% year-to-date (YTD) and disappointing December 2018 quarter results of India Inc have been the key reasons for a sharp correction. IT sector has outperformed to gain by 9.5% YTD which managed to hold the fall in the market. Year-to-date till February 15, the Nifty50 has declined by 1.3%. In the same period, the mid-caps and small-cap indices have declined by 9.3% and 11.2% respectively, sharply underperforming the broader markets.

What is in store: The Nifty50 has seen some bounce from the support levels of 10,600 as it was oversold on daily charts after a sharp fall of 500 points over the past seven trading sessions. A price correction in September and October of 2018 and time wise correction over the past 3.5 months has completed the consolidation zone for the markets. One can expect a breakout from here. The weekly and monthly setup continues to look mixed and we believe if 10,500 levels are broken we could set for deeper correction in index heavyweights which have been outperforming over the past six weeks in the calendar year 2019. On the higher side, sustenance above 10,900 levels, the monthly candle would turn positive and recover prior damages, and will strengthen the broader markets.

What could investors do: The sharp correction in mid-caps and small-caps provides investors to accumulate high quality stocks at current levels. PSU Banks should lead the up move, as Bank Nifty has corrected by 11% over the past two weeks and closed at an important monthly average support line. Among other sectors we continue to remain positive on are capital goods and pharma, as the risk reward remains favourable from current levels.



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Where we are: The downside momentum continued in the Nifty for the sixth consecutive session on Friday. A negative candle has been formed with long lower shadow. This daily candle pattern is resembling a bullish hammer pattern, but not a classical one. However this pattern is indicating an emergence of value buying at lows. We observe a range bound action with symmetrical price movement in Nifty in the last couple of months. Small bottom reversals have been formed after a weakness of about six sessions. Having declined for six consecutive sessions from the swing highs (11,118) and also a formation of long lower shadow of Friday's candle, there is a high possibility of a small upside reversal in this week, probably resulting in lower highs.

What is in store: A long bear candle has been formed in last week with minor lower shadow, as per weekly chart. Technically, this pattern is indicating a formation of bearish belt hold line. Normally, a Bearish belt hold line is a top reversal pattern and signals weakness in the underlying. But being placed within a larger sideways range, the significance of pattern implication could be less.

What could investors do: The short-term trend of Nifty is weak. Being placed near a support and after a positive chart pattern, one may expect small upside bounce in the Nifty from near 10,585-600 levels in this week The overall chart pattern of larger timeframe is indicating a possibility of minor upside bounce in the market, which could be a sell on rise opportunity. Sectorally, IT, capital goods, energy and media could outperform, while PSU banks, metal and pharma sectors could underperform over the near term.

Quantitative Strategies

MOTILAL OSWAL SECURITIES

Option Writing

STRATEGY 1

Writing against Cash / Future Holding

Sell TATASTEEL 510 CE 28-FEBRUARY-19 at ₹1.85

Target Level	:	0.05
Stop Loss Level	:	2.75
Gross Monthly Yield	:	1.05%
ROI	:	4.70%
Margin	:	₹40,500
Days to Expiry	:	11

Writing with Hedging

Leg 1: Sell TATASTEEL 510 CE 28-FEBRUARY-19 at ₹1.85

Leg 2: Buy TATASTEEL 550 CE 28-FEBRUARY-19 at ₹0.50

Target Level	:	0.05
Stop Loss (Spread) Level	:	2.05
Gross Monthly Yield	:	0.75%
ROI	:	3.45%
Margin	:	₹40,000
Days to Expiry	:	11

STRATEGY 2

Writing against Cash / Future Holding

Sell DCB BANK 185 CE 28-FEBRUARY-19 at ₹0.70

Target Level	:	0.05
Stop Loss Level	:	1.05
Gross Monthly Yield	:	1%
ROI	:	2.40%
Margin	:	₹1,22,000
Days to Expiry	:	11

Writing with Hedging

Leg 1: Sell DCB BANK 185 CE 28-FEBRUARY-19 at ₹0.70

Leg 2: Buy DCB BANK 195 CE 28-FEBRUARY-19 at ₹0.15

Target Level	:	0.05
Stop Loss (Spread) Level	:	0.85
Gross Monthly Yield	:	0.75%
ROI	:	1.90%
Margin	:	₹1,21,000
Days to Expiry	:	11

Pair Trading

STRATEGY 1

Leg 1 : BUY HDFC LTD ONE LOT 28-FEBRUARY-19 AT ₹1,883.50

Leg 2 : SELL HDFC BANK TWO LOTS 28-FEBRUARY-19 AT ₹2,105.35

Tenure	:	7-8 Days
Target Profit	:	2.60%
Stop Loss	:	1.25%
Margin	:	₹3,52,000

This pair has 98% correlation over the last one year. Pair (HDFC Ltd / HDFC Bank) has Trade lot ratio of 0.6 with price ratio of 0.89. It was moving in between price spread difference of 110 to 230 points from last couple of weeks. It has gone to its recent higher band of the spread so now it's time to do the reverse trade with the expectation of narrow down to its spread gap as per its statistical data on 2SD band

Pair Trading

STRATEGY 2

Leg 1: BUY ACC ONE LOT 28-FEBRUARY-19 AT ₹1,358.25

Leg 2: SELL AMBUJA CEMENT ONE LOT 28-FEBRUARY-19 AT ₹204.55

Tenure	:	7-8 Days
Target Profit	:	3.30%
Stop Loss	:	1.60%
Margin	:	₹1,86,000

This pair has 95% correlation over the last one year. It has Trade lot ratio of 0.90 with price ratio of 6.64. As per statistical data it is turning from its lower band of 2 SD (95% probability) and has potential to head towards its mean after the spread consolidation of last couple of weeks.