

Weekly Nifty Observer

Issue - 148

02 to 06 July 2012

Nifty Outlook

.....next week will set stage for 5420/5550 levels in coming few weeks and 5150/5120 levels is expected to give strong support to Nifty on weekly basis

Support

5210/5150 (5080 remote support)

Resistance

5320/5370 (5420 remote resistance)

Market Strength Indicators (Weekly)

14 period RSI - Up by 4.73 points from 51.02 levels previous week

14 period StochRSI - Up by 22.15 points from 77.85 levels previous week

Stochastic - Up by 4.89 points from 90.64 levels previous week

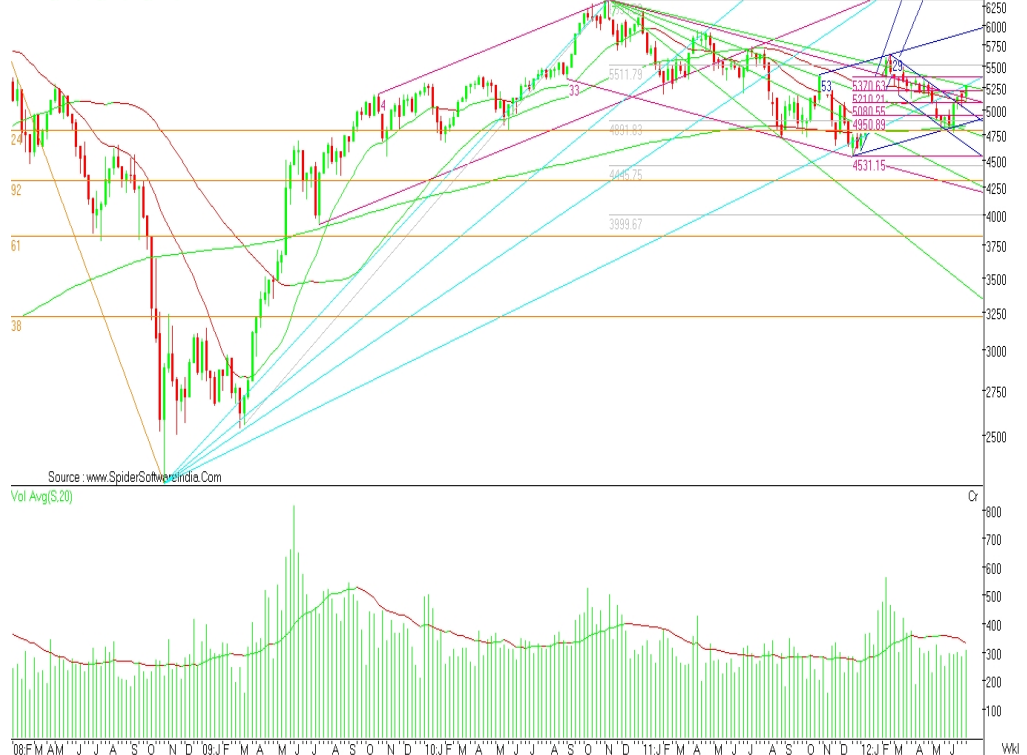
Market Intensity Indicator (Weekly)

NFP - At premium of 18.45 points from premium of 5.1 points previous week

Volatility - Up by 0.02 points at 0.38 levels

Spot Nifty Weekly Chart

NSE Nifty [NSE9001] 5158.50, 5286.25, 5095.50, 5278.90, 3097329920 2.58%
Price Avg(3,20) Avg(3,50) Avg(3,200)



Technical Comments

Weekly Nifty closed 2.58 % up at 5278.90 levels after making high of 5286.25 and low of 5095.50 levels. It must be noted that last week Nifty tried to test 5300 levels and closed just below it on W-o-W basis.

Since fifty seven 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).

After nine consecutive weeks of closing below the upper part of the channel (5150/5220 levels), Nifty last week managed to close above it. 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, this was 8th 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 seven 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 5195.50 levels, above its 50 weeks SMA around 5097.57 levels and above its 200 weeks SMA at 4839.21 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 six weeks it managed to close above it.

LONG TERM TREND IS EXPECTED TO REMAIN BULLISH ON W-O-W BASIS TILL NIFTY HOLDS 4840 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 3rd consecutive week for Nifty to close above its 50 period SMA and 1st weekly closing above its 20 period SMA on W-o-W basis. For next week 5195/5210 levels will act as immediate support zone below which Nifty will find 5150/5120 levels as weekly support. Next week if Nifty manages to trade above 5220 levels then probability to test 5370 levels or above will increase with 5302 levels as immediate resistance.

However, consolidation around 5300 levels may be the likely outcome for next weeks' Nifty move.

The Data: On weekly basis, Nifty closed 2.58 % up along with 7.64 % rise in volume and fall in open position by 5.46 %.

Interpretation of Data: Nifty rise with rise in volume and fall in OI suggesting the market has 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 2.58 % in Nifty was mainly due to short covering up in July 12 future contracts.

Implication of the Interpretation: Heavy fresh long was being build up since last three consecutive trading days. However, the week started with long liquidation and thereafter on 2nd trading day of the week short covering was observed. On W-o-W basis short covering was observed. With ongoing short covering along with continuation of fresh long build up next week Nifty may trade above 5200 levels. Sustaining above 5200 levels will open for 5420 levels or above in next coming few weeks with 5320/5370 levels as important resistance levels. On weekly basis 5150/5120 levels zone will give strong support to Nifty.

Global Cues

Source: Yahoo Finance

Market Outlook - Any market reaction to further developments in Europe next week could be exaggerated by lighter-than-usual volume. Wall Street trading desks may be more sparsely populated because it will be a short week. The U.S. stock market will be closed on Wednesday, the Fourth of July, in observance of Independence Day. That could break any weekly momentum when Wall Street resumes trading on Thursday.

Outcome of EuroZone Two Days Meeting - Market welcomed news that the euro zone is a step closer to solving its 30-month-long debt crisis. There is an agreement by European leaders to stabilize the region's troubled banks, a pact that helped remove some of the uncertainty that has plagued markets. Under pressure to prevent a catastrophic breakup of their single currency, euro-zone leaders agreed on Friday to let their rescue fund inject aid directly into stricken banks starting next year and intervene in bond markets to support troubled member-states. They also pledged to create a single banking supervisor for euro-zone banks based around the European Central Bank in a landmark first step toward a European banking union that could help shore up struggling member Spain.

Agreement By European Union Members - The leaders of the 17 European Union countries agreed on a series of short-term steps to shore up their monetary union and bring down the borrowing costs of Spain and Italy, seen as too big to bail out. To that end, the euro zone's temporary European Financial Stability Facility (EFSF) and permanent European Stability Mechanism (ESM) rescue funds will be used "in a flexible and efficient manner in order to stabilize markets" to support countries that comply with EU budget policy recommendations, a joint statement said. The next question is whether the ESM/EFSF will have enough capital and assuming they don't, will the ECB chip in by giving it a bank license, thus leveraging its size and which is yet to be determined.

ECB Expected Move - The market's focus shifts to the European Central Bank next week as market wait to see whether it cuts interest rates to complement the measures taken by EU leaders to shore up banks and bring down borrowing costs for Spain and Italy. Most economists polled by Reuters expect the ECB to cut borrowing costs on Thursday, July 5, at its meeting, which takes place against a darkening economic backdrop. But internal resistance to the central bank reviving its bond-buying program remains high. The ECB has already loosened its collateral rules to make it easier for banks in Spain to access its funds.

US Indices Move - For the week, the Dow rose 1.9 %, the S&P 500 advanced 2 % and the Nasdaq gained 1.5 %. For the month, the Dow added 3.9 %, the S&P 500 rose 4 % and the Nasdaq climbed 3.8 %. But for the second quarter, the Dow dropped 2.5 %, the S&P 500 slid 3.3 % and the Nasdaq lost 5.1 %. Despite the weak second quarter, the three major U.S. stock indexes wrapped up the first half of the year with decent gains: The Dow was up 5.4 %, the S&P 500 was up 8.3 % and the Nasdaq was up 12.7 %.

European Bond Sale - European bond yields will be closely watched next week. Madrid will auction three-year, four-year and 10-year bonds at a primary auction on Thursday in another big test for Spanish yields that are still not far below 7 %. France will sell between 7 billion and 8 billion euros in long-term bonds on Thursday.

Economic Data - Next week's data includes the Institute for Supply Management's U.S. manufacturing index and construction spending on Monday, followed by factory orders and June car sales on Tuesday. After the holiday on Wednesday, investors will face a blitz of economic indicators. On Thursday, weekly jobless claims and mortgage data, ADP's private-sector payrolls report and the ISM's U.S. services-sector index will be released. On Friday, the government's June nonfarm payrolls report will come out. Economists polled by Reuters have forecast a gain of 90,000 jobs, with the U.S. unemployment rate holding steady at 8.2 %.

National Cues

Source: Capital Market

Market Outlook - Data on India's manufacturing and services sector for June 2012, the progress of the monsoon rains, further news from the European Union summit, if any, and Chinese economic data will dictate near term trend on the bourses. Auto and cement stocks will be in focus as companies from these two sectors start unveiling monthly sales volume data from Sunday, 1 July 2012.

HSBC Manufacturing Purchasing Managers' Index - The manufacturing Managers' Index (PMI) for June 2012 will be out by 2 July 2012. The HSBC manufacturing Purchasing Managers' Index slipped marginally to 54.8 in May from 54.9 in April. It has stayed above the 50 mark that separates growth from contraction for a little over three years now.

HSBC Services Purchasing Managers' Index - The services purchasing managers' index for June 2012 is also expected to be out next week. The services sector grew at its fastest pace in three months during May. HSBC's services purchasing managers' index rose almost two points to 54.7 in May from 52.8 in the previous month.

Q1 Corporate Earnings - Q1 June 2012 corporate earnings will start trickling from the second week of July 2012. A deceleration in top line growth of India Inc amid economic slowdown and slowdown in investment cycle will weigh on bottom line growth in Q1 June 2012 as the core operating profit margin could be negatively impacted by deceleration in top line growth.

Results - HDFC announces Q1 results on 11 July 2012. Infosys announces its Q1 results on 12 July 2012. HDFC Bank declares its Q1 results on 13 July 2012. Bajaj Auto reports Q1 results on 18 July 2012.

Monsoon - The monsoon rains were 18% below average in the week to 27 June 2012. As per reports, the rainfall was 23% below the long-term average in the monsoon season till 27 June 2012. The delay and deficiency in monsoon rains are worrisome, as they coincide with the peak sowing period for summer crops. Weak rains have already hit sowing of summer-sown crops such as rice and soybeans, two of the country's most important staples.

Chinese Economic Data - A batch of Chinese economic data due out over the next few weeks will cast new light on the scale of the ongoing economic slowdown in the world's second biggest economy. Official manufacturing survey for June 2012 due on Sunday, 1 July 2012. Other figures due out later, over a five-day period from July 9 include second quarter GDP, as well as such indicators as June fixed-asset investment, inflation, industrial production and bank lending.

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