

Nifty - precariously poised

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The Nifty weekly chart indicates substantial pressure on the benchmark. The blue trendline and text indicates a bearish head & shoulder formation and the red trendline and text indicate an unformed inverse head & shoulder formation that could have had bullish implications if the Nifty had stayed above the 5750 levels. Since the 5750 has proved to be an elusive event, the bearish head & shoulder comes into play below the 5300 levels (taking into account the 2% confirmation margin below the neckline).

For the bears to gain momentum, the Nifty must add open interest below the 5300 levels, the traded volumes should preferably rise on days that prices decline. While a pullback after testing the neckline is a routine phenomena, it maybe noted that volumes will be a dead give away if the pullback is a false move to suck in the retail players.



Traders should nurse a short sell bias and refrain from trying to super time the market on a micro level as the larger picture is likely to play out in the coming weeks. Since Head and Shoulders can also turn out to be complex patterns at times, a few weeks of enticing strength may also be seen to suck in the retail players as the smart money distributes paper. Volumes will play a paramount role in determining the credibility of the display of any strength as the ticket size per transaction must rise exponentially on uptick days if the bulls are serious about buying. Poor ticket size per trade and overall volumes will only deepen the downsides.

The long term charts indicate that the markets are not completely prepared for the event risks in the domestic markets stemming from the systemic risks of the western markets and may react nervously to any fresh negative development in the European / US / MENA regions. The open interest and levels of retail presence seems to suggest that the selling pressure need not be sizable to push the indices over the cliff.

In terms of price targets, we foresee a possibility of the 4800 / 5000 levels on the Nifty spot as fairly achievable. We do not feel these levels will be an absolute bottom though. Taking a fresh view at those levels will be in order.

Standby for updates.

Fair disclosure – our investment company has been nursing a short position on the Nifty and therefore we have a vested interest in this report. Derivative trading is fraught with risks and traders should do their due diligence / consult an investment consultant before acting on this report.

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The author of this piece is the author of “A Traders Guide to Indian Commodity Markets” – India’s first commodity trading manual.

End of report