Outlook for December 2003

November 26, 2003

The markets have unnerved most market watchers in the recent past, especially after Diwali as the markets rose to cross the magical 5000 mark only to fall by a good 8 % in three weeks ! Is this rally for real ? Or will it flatter to deceive ? We'll take a pragmatic, technicals based view below –

The daily bar chart of the Nifty below shows a rising tops and bottoms formation which is a clear indicator of a bull market. The moot question is, were will the bullishness end if the trend was to reverse. The simple trendline drawn from the lows of July and connecting the low of September 2003, shows a rough and ready support at the 1500 levels. Should one take the September low of 1285 made on 19/9/2003 as the base, and the top of 1630 made on Nov 06, 2003 as the absolute upmove of 100 %, a 38 % retracement of this 100 % comes to 1499 levels. That makes the 1500 levels as the immediate support levels on the Nifty. However, markets are governed by the emotions and their after effects on share prices of millions of traders and therefore susceptible to whipsaws. Should there be an exceptional weakness, expect the 1460 levels to be a firm base for the markets in the month of December. Only below this level especially on a sustained closing basis, should the markets be construed as reversing the bullish trend.

A look at the momentum oscillators shows another interesting pattern. The MACD oscillator shows a sustained reading above the equilibrium (zero) line and that shows an intact uptrend. The lows made by the MACD oscillator in September are at the same level made by the lows of November 2003, however, the index is a good 225 points higher between the two troughs. That shows a classic bull market correction formation. Should the Nifty remain above the 1475 levels and consolidate thereon, there are bright chances of the next top being beyond the 1680 mark by the end of December or early January. In the interim, traders need to keep their ears to the ground and watch the price / volume / market breadth correlation for signals of a breakout / breakdown.

My outlook on the markets is positive and though the traded volumes maybe lower because of decreased FII participation, the local players are unlikely to surrender the bullish initiative without a tough fight. The derivatives segment has been pointing towards a steady scenario in the outstanding long positions and that shows that the bullish interest remains alive and intact. Only if the gross long outstanding positions fall below the Rs 7500 crs, would I start reviewing my bullish outlook. Till then, maintain a bias towards buying long and avoid the temptation to sell short. Trades maybe initiated with limited volumes to avoid the excessive volatility typical of markets trending on lower volumes.

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