

Chartbusters

STUDY OF INDIAN AND GLOBAL TECHNICAL TRENDS

VOL 2, April 2019



March saw Nifty breaking out from a prolonged consolidation period between 10,600-11,100 and the architect of recent rally have been i.e. BankNifty, Infrastructure & Midcaps.

Nifty is currently playing catch up with other EMs & global markets peers. In early February, Indian indices were at the bottom of the pack. Now they are among the best performers. Applying principle of fractal nature, fib extensions, we expect Nifty to hit three-digit Gann number of (121)00.

Following fractal nature, wherein post correction of 13-15 months Nifty Midcap index marks a reversal; we expect the midcaps index to be among the major movers in 2019 regardless of the volatility associated with election verdict. Nifty internals suggest that recent rally (from 19th Feb) has been broad-based compared to previous ones as 26 stocks from the index have outperformed Nifty so far.

Sectors which can outperform the index from current scenario are BankNifty & Energy. Revival is likely in Autos. Interestingly, in previous two election years (2009 & 2014), Auto index had recorded impressive returns in both Q2 & Q3.

Stock ideas: HDFC & Siemens

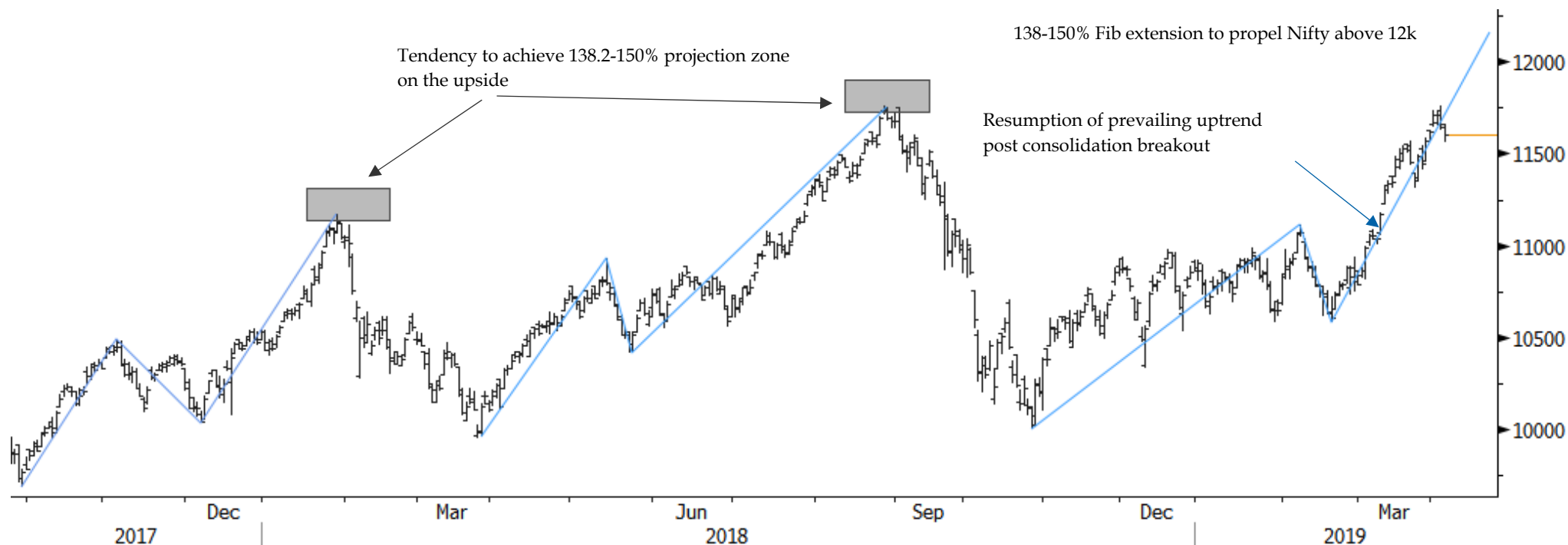
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April 08, 2019

NIFTY: TOWARDS 12K

Exhibit 1: Nifty Weekly chart - Aiming towards new horizon!



Source: Bloomberg, YES Sec - Research

- ✓ Gaining for the straight fourth year, Nifty is by ~7% this year so far. It consolidated between a tight band during Nov'18-Feb'19; however, positive breakthrough out of the consolidation zone has resumed its prevailing uptrend.
- ✓ NiftyRealty index recovered most gaining 17%, followed by Energy Index and BankNifty (up 10-12%). Auto and Media index have been underperforming for the consecutive year.
- ✓ Historically on several occasions (as shown in the above chart), it is observed that whenever Nifty retraces less than 61.8% of the prior move, follow up move tends to achieve 138.2-150% extension levels. Based on principle of fractal nature, we expect Nifty gradually moving towards 11,900-12,200 zone.
- ✓ From near term perspective, levels of 11,750-11,800 could act as hurdle zone, hence buying on pullback move towards 11,500 is advisable.

SECTORS IN FOCUS

Exhibit 2: Nifty Energy – Northbound journey to continue

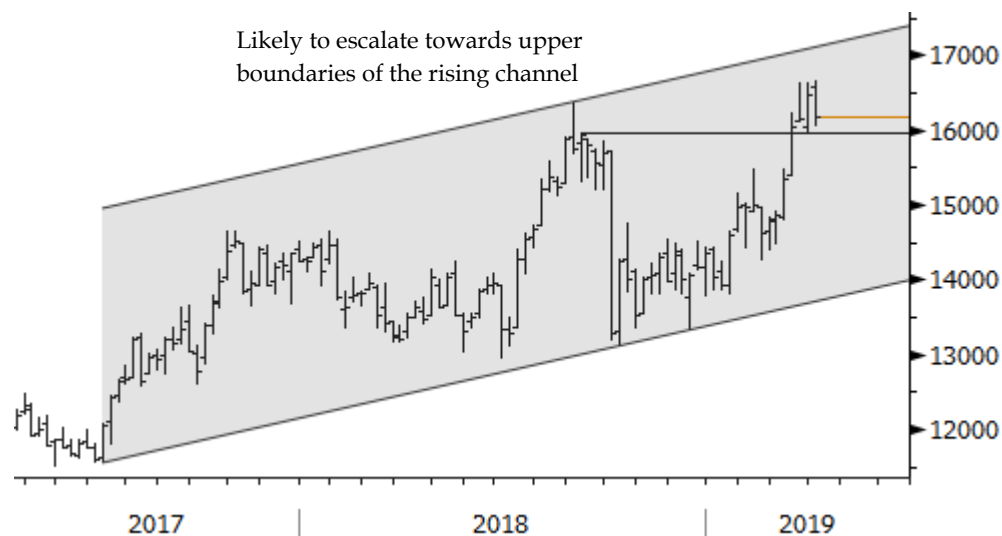
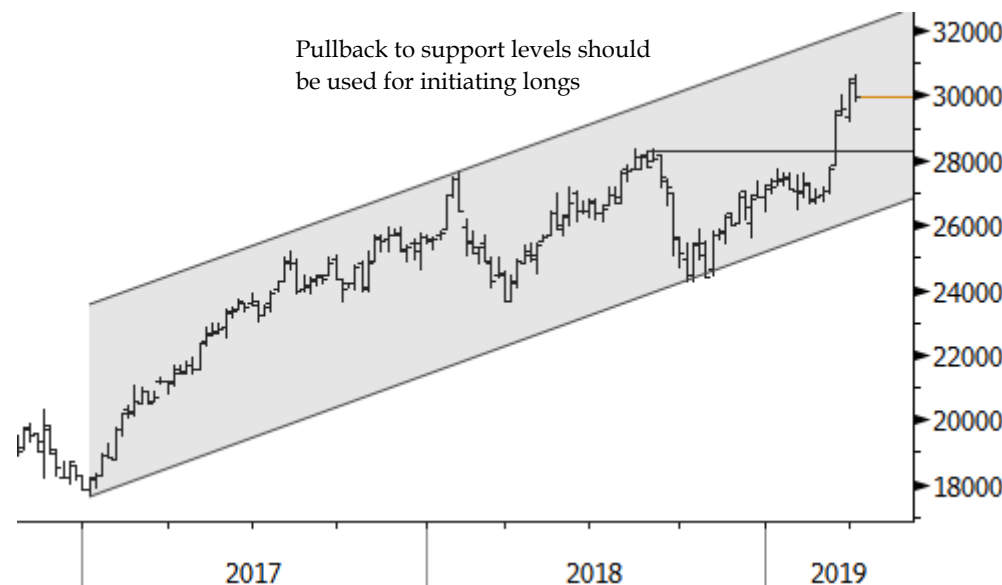


Exhibit 3: Bank Nifty - leading from the front



Source: Bloomberg, YES Sec - Research

- ✓ Gaining for the straight fourth year, the index has been trending up with higher top and bottom chart formation. The index has surpassed peak of 2018 (i.e. 16,361), thereby hitting fresh record high of 16,661.
- ✓ Recent price structure shows sustained move above important averages and 15,700 support levels. Moreover, ratio chart of Energy/Nifty suggests further outperformance ahead, hence selective stocks from this arena could continue to trend higher.

- ✓ BankNifty which gained ~14% in past six weeks has surpassed levels of 30k. Appearance of large monthly bullish candle, breaking out from consolidation phase ensures resumption of prevailing uptrend.
- ✓ Breadth within banking stocks have improved with Private and PSU bank index gaining 13/21% respectively in the prior month. Going ahead, BankNifty which holds maximum weightage in the Nifty could continue to outperform. Given the fact, immediate support between 29,500-29,200, BankNifty is likely to escalate towards 32,000 zone.

SECTOR SUMMARY

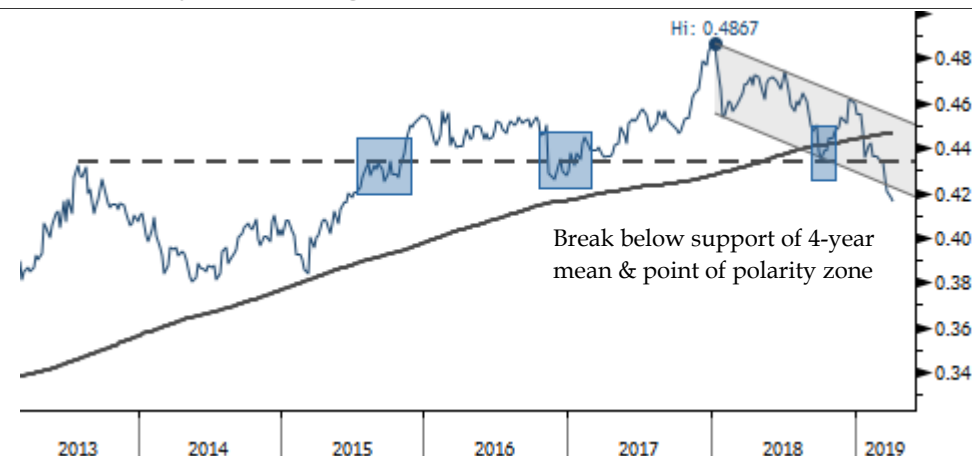
Exhibit 4: Weekly ratio chart of Nifty Pharma index/Nifty: Down in the doldrums



Source: Bloomberg, YES Sec - Research

- ✓ Ratio chart of Pharma index/Nifty had marked a peak of 1.65 in 2015. Since then, the ratio has been continuously trending lower.
- ✓ Pullback in May 2017 was a short-lived rally as the ratio failed to regain control above its previous bottom.
- ✓ Since then, it is moving lower in a downward sloping channel. On shorter time-frame, it is on the verge of a breakdown from a bearish H&S pattern signaling further underperformance of the pharma stocks.

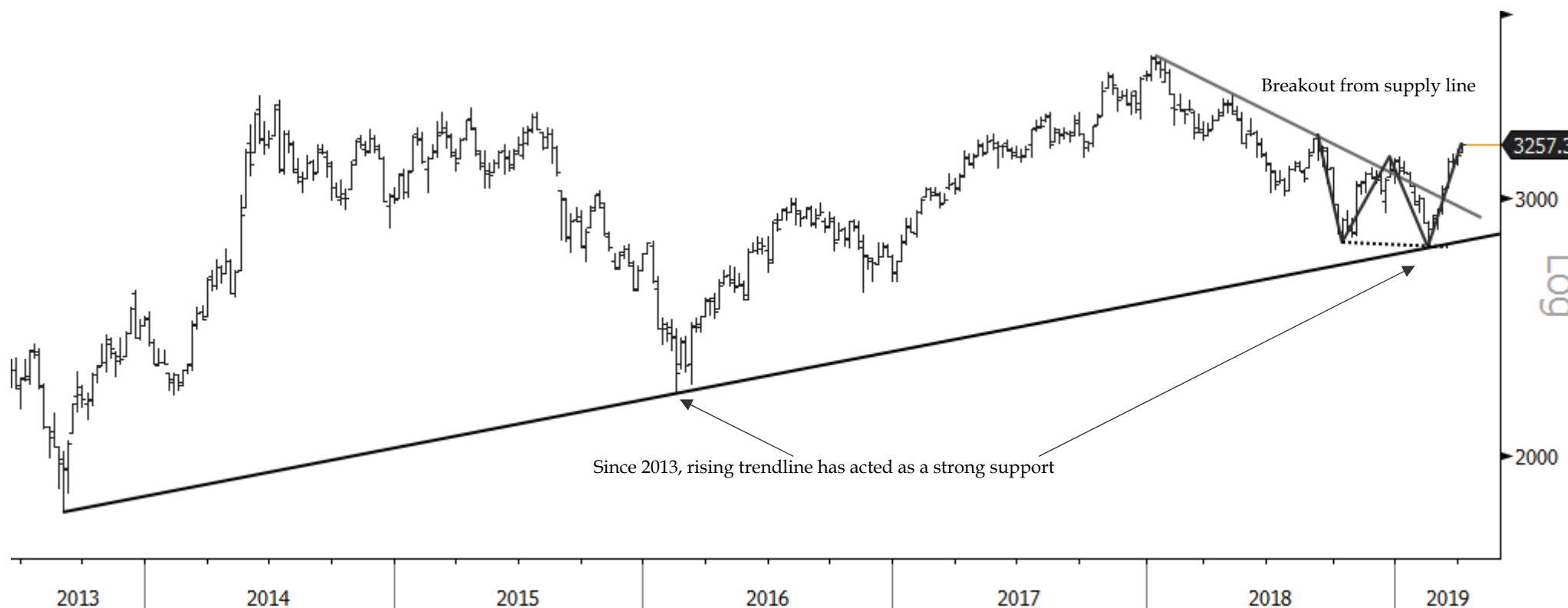
Exhibit 5: Weekly ratio chart of Nifty Consumption index/Nifty: Trending lower



- ✓ Peak of 0.48 on ratio chart of Nifty Consumption index/Nifty appears to be a distant memory as it has been moving lower since 2018. In the month of March, it broke the downward sloping channel as the momentum intensified in broader markets.
- ✓ It also broke below the point of polarity line. The same was marked around the support of its 4-year mean. Breakdown from a downward sloping channel suggest underperformance is likely to continue against the strength in benchmark index.

NIFTY INFRA INDEX – COMING OUT FROM HIBERNATION PHASE

Exhibit 6: Weekly chart of Nifty Infra index: Breakout from confluence of supply zone



Source: Bloomberg, YES Sec - Research

- ✓ Nifty Infra index went through sharp corrective phase in 2018 as it lost ~25%. However, it found support around its long-term trendline which is in place since 2013.
- ✓ Recovery attempt proved to be short-lived as it retraced below its 2018 low and marked a new low around its rising trendline.
- ✓ Rally post 2019 low resulted in a breakout from descending trendline and in the process it formed a W pattern (i.e. double bottom breakout). The advance from second low witnessed an accelerated move – sign of momentum.
- ✓ Sustainance above three-digit Gann number of 324(0) would result in a move towards 361(0) in the medium term.

NIFTY AUTO INDEX – SHOWING SIGNS OF EXHAUSTION IN SELLING PRESSURE

Exhibit 7: Weekly chart of Auto index: ALT Bat harmonic pattern has resulted in change in sentiment

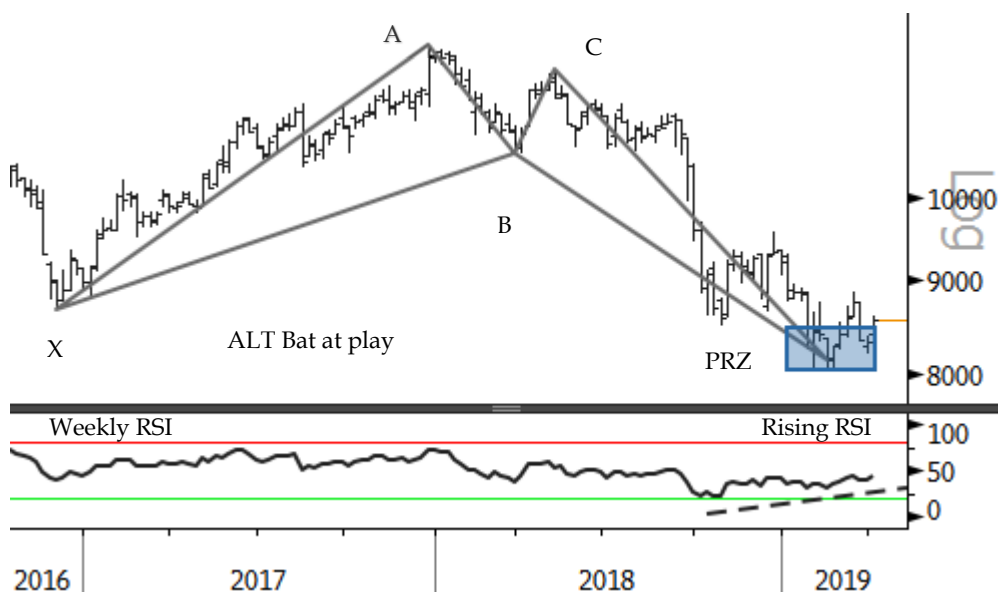
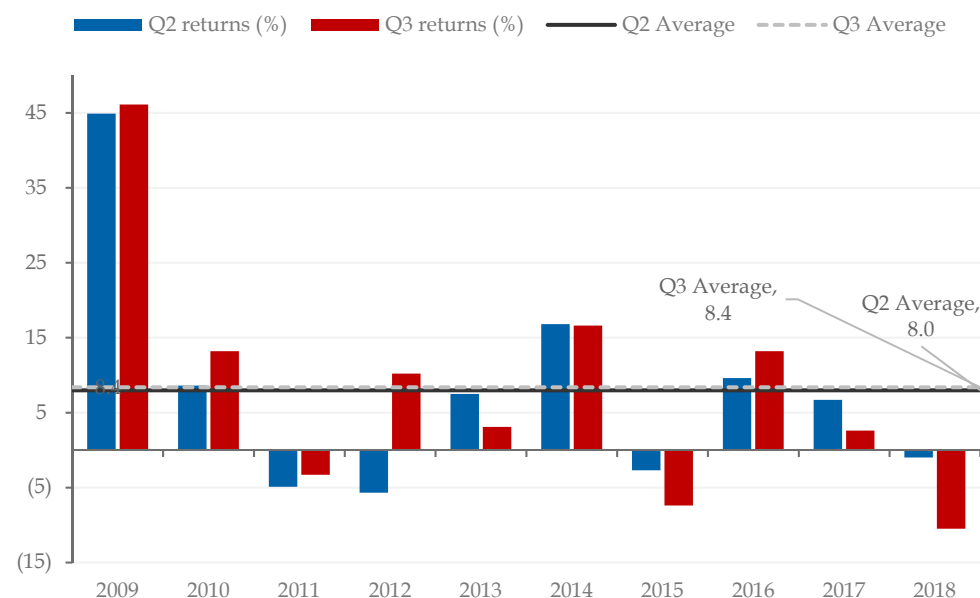


Exhibit 8: Quarterly seasonality of Nifty Auto index shows an average return of 8% in Q2 & Q3

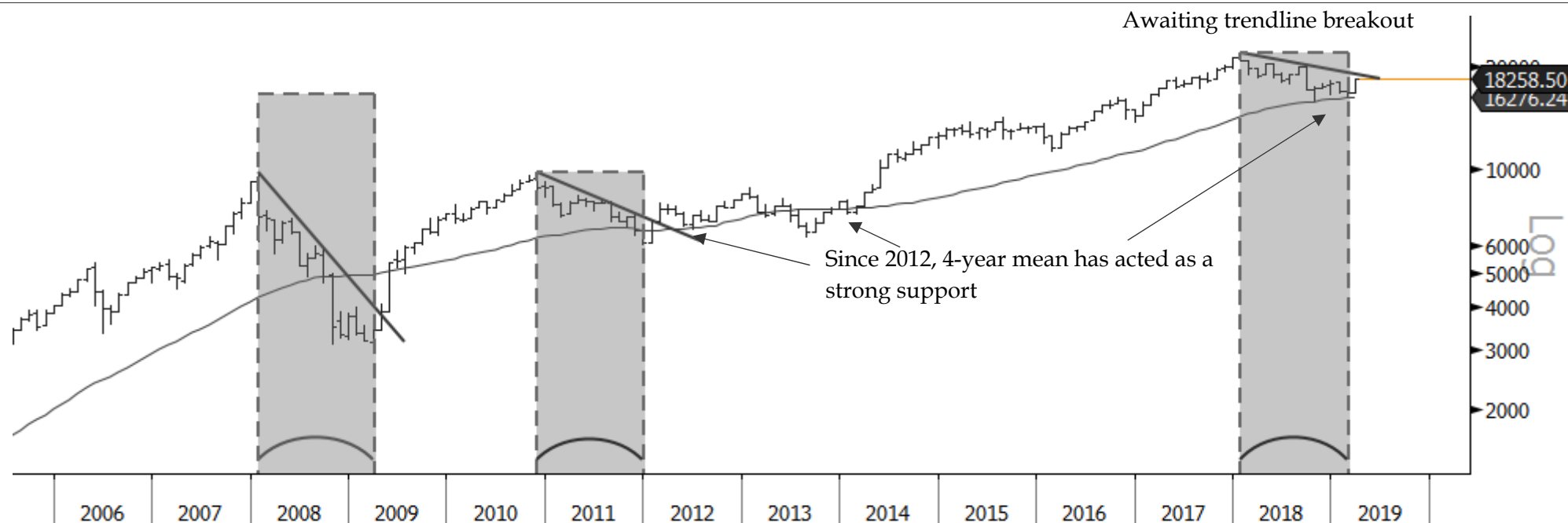


Source: Bloomberg, YES Sec - Research

- ✓ Nifty Auto index has not participated in the recent rally and has been among the major underperformers since 2018.
- ✓ However, presence of PRZ post sharp decline along with positive divergence on weekly RSI has led to a change in sentiment.
- ✓ We expect Auto Index to continue recent revival and attempt zone of 9,300-9600 in medium term.
- ✓ Historically proven seasonal trend as indicated in above chart put a strong case for a smart rally in Auto stocks.
- ✓ Based on seasonality returns, Q2 has delivered positive returns on 6 instances in last 10 years. Meanwhile, the trend improves further in Q3 with average returns of last 10 years placed at 8.4%.
- ✓ Interestingly, in previous two election years (2009 & 2014), Auto index had recorded impressive returns in both Q2 & Q3.

NIFTY MIDCAP 100 INDEX – BIG UPMOVE LURKING ON THE HORIZON

Exhibit 9: Monthly chart of Nifty Midcap 100 index: Fractal nature of corrective moves

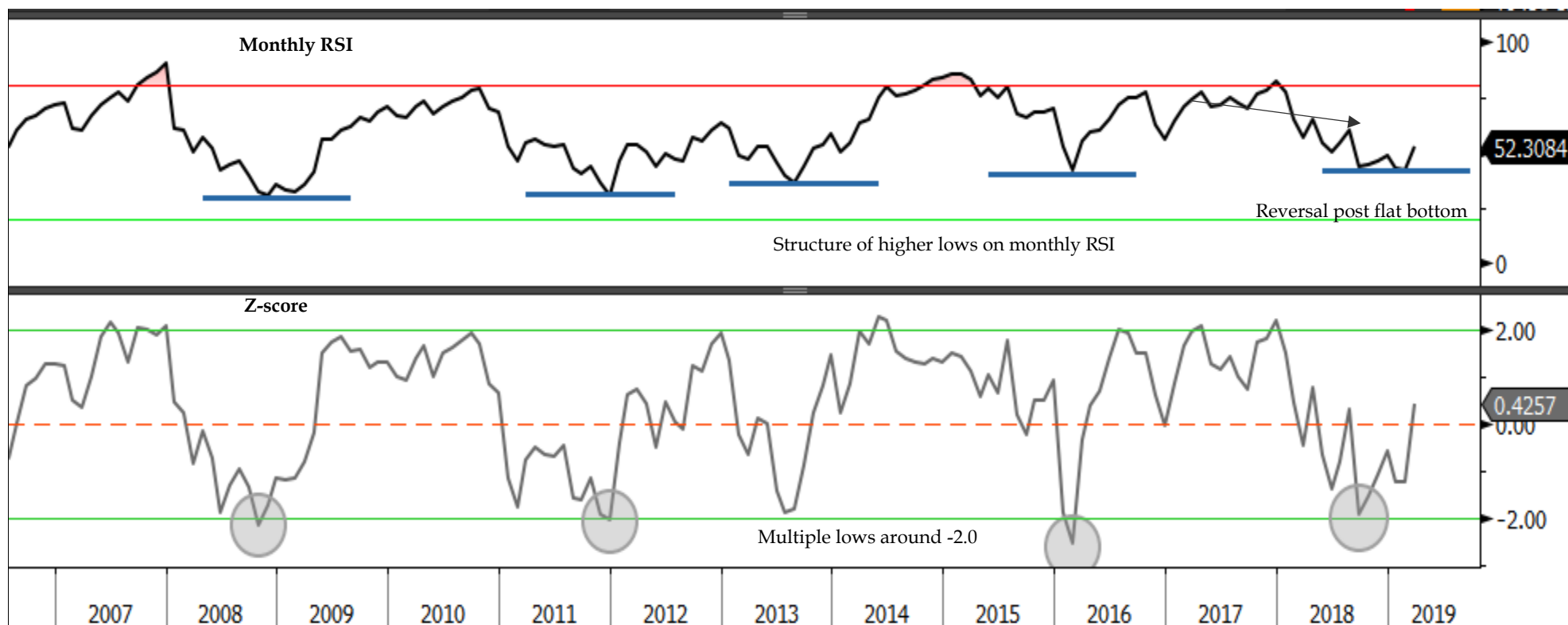


Source: Bloomberg, YES Sec - Research

- ✓ Since 2008, Nifty Midcap 100 index has seen a tendency of correcting for a span of 13-15 months (major corrective moves).
- ✓ Post the declining phase, it has given a breakout from the downward sloping trendline. In the first instance (as seen in the above chart), it rallied back to the previous peak swiftly. On the second occasion, the resulting upmove post breakout was time-consuming nevertheless it rallied yet again to earlier high.
- ✓ In the current set-up, index bottomed out around its 4-year mean and in the process completed a corrective phase of 14 months.
- ✓ Despite a rally of ~14% from Feb lows, it is yet to stage a breakout past the descending trendline. Sustenance above three-digit Gann number of 190(00) would signal the start of a new upmove.
- ✓ The recent rally is at the nascent stage of a major upmove. In the near term, volatility is plausible with election around the corner, but support of 4-year mean (which coincides with Feb 2019 low) is likely to act as a strong support.

INDICATORS ON MONTHLY MIDCAP 100 INDEX IN SYNC WITH RISING PRICE

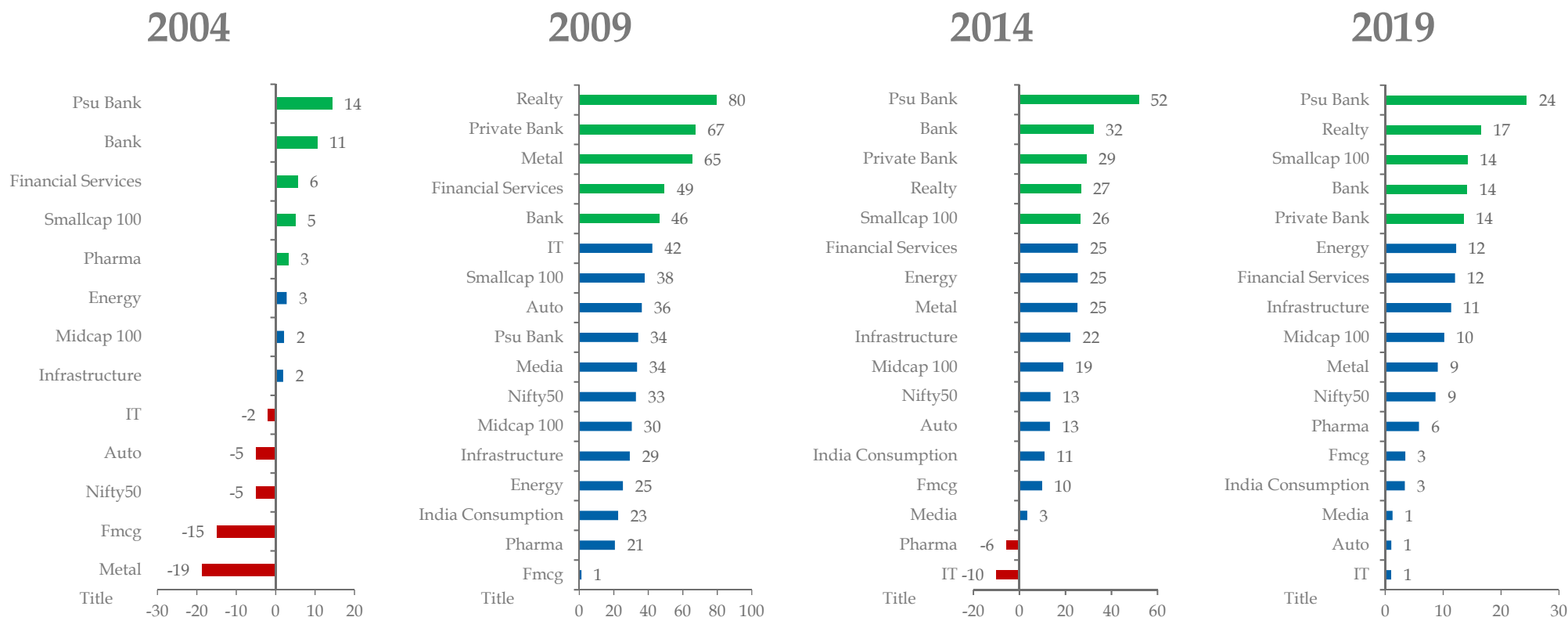
Exhibit 10: Indicators bouncing off support zone



Source: Bloomberg, YES Sec - Research

- ✓ Monthly RSI for Midcap 100 index shows series of periodical higher lows in collaboration with Midcap's overall uptrend.
- ✓ Recently RSI turned up, forming flat bottoms. A positive breakthrough above levels of 60 could regain momentum on the upside.
- ✓ Monthly Z-score indicator (20-bar) bottomed out near readings of -2.0 on several occasions. Recent reversal from the support zone indicates positive follow-up action could attract bullish momentum.

PRE-ELECTION SECTORAL TREND – (1ST MARCH TO ELECTION RESULT DATE)



BankNifty & Financials has a tendency to outperform the Nifty ahead of budget (i.e. from 1st March to result date of the election)

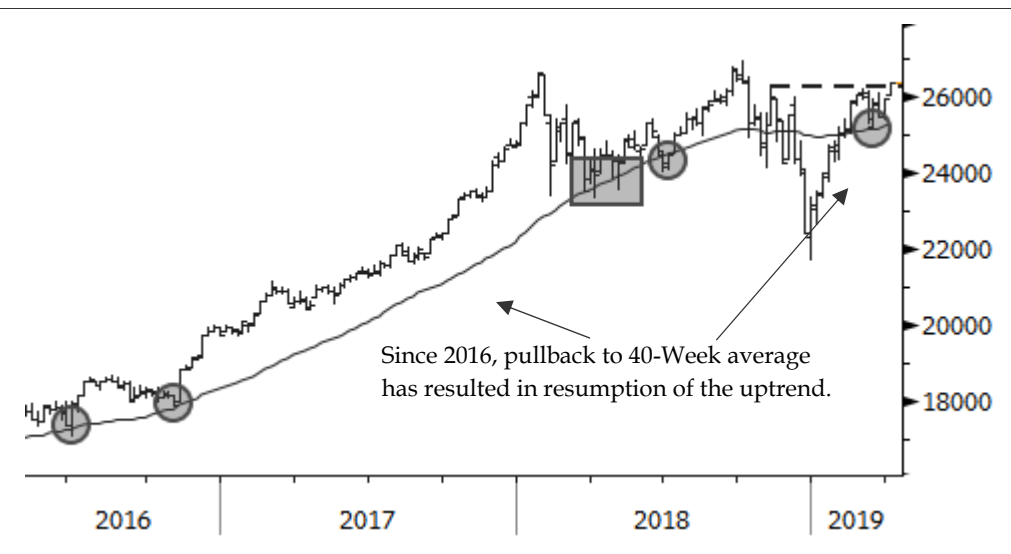
FMCG sector tends to remain under pressure, underperforming benchmark Nifty

Realty index has stood out as among the top 5 gainers in previous pre-election rallies

Source: Bloomberg, YES Sec - Research

US INDICES: UPTREND CONTINUES TO REMAIN INTACT

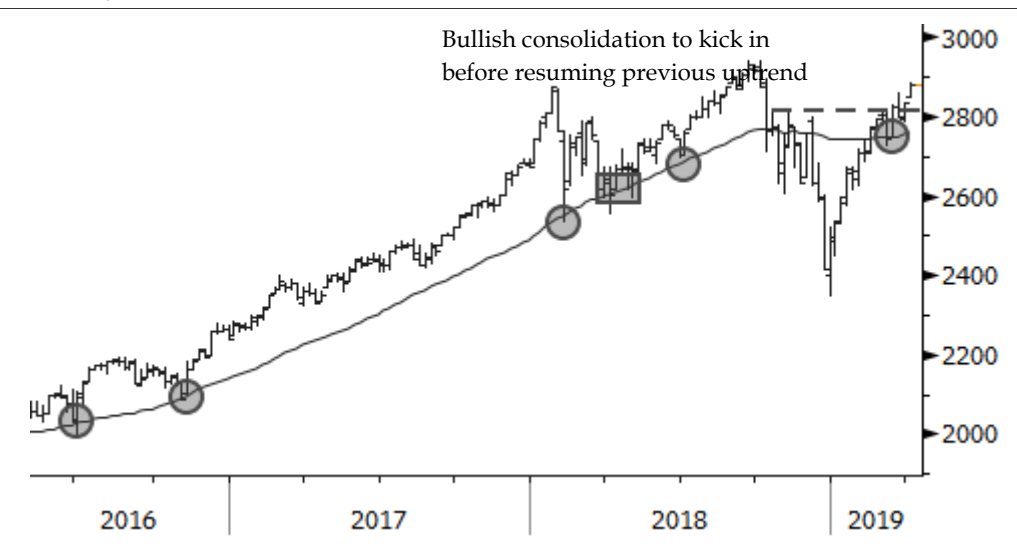
Exhibit 11: Dow Jones weekly chart: Pullback from hurdle zone, but uptrend still in place



Source: Bloomberg, YES Sec - Research

- ✓ Year 2019 brought in fresh wave of optimism as the index has surged by ~12% last quarter. However, it hit a well-defined wall of worry i.e. presence of multiple peaks coincided with four-digit Gann number of 2601(0), which resulted in a retracement.
- ✓ Reversal from hurdle zone dented the short-term structure but the overall trend continues to remain intact as it trades comfortably above its 40-week average. A throwback to midpoint of current Gann channel would provide an opportunity to add longs.

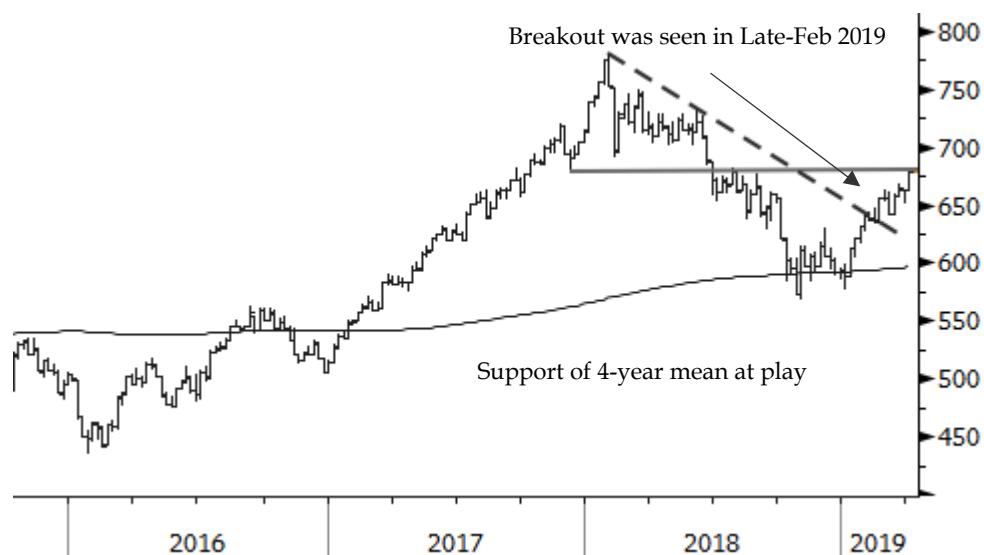
Exhibit 12: S&P 500 index: Breaking out from confluence of supply zone



- ✓ Despite a pullback from the hurdle zone, the damage on the index was limited as it found support around its 40-week average. The resulting rally broke out from a confluence of hurdle zone.
- ✓ As observed since 2016, the index tends to respect support of its 40-week average before moving higher.
- ✓ S&P 500 index is now whiskers away from previous peak of 2,941. A move above three-digit Gann number of 289(0) would result in a shift in orbit towards 2980.

GLOBAL INDICES (MSCI)

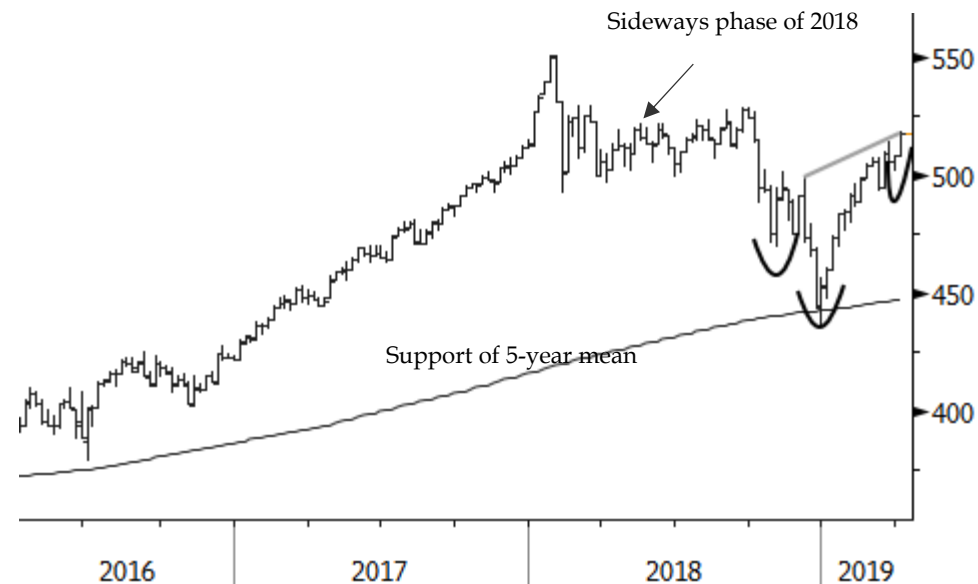
Exhibit 13: Weekly chart of MSCI Asia Pacific Ex. Japan: Trending higher



Source: Bloomberg, YES Sec - Research

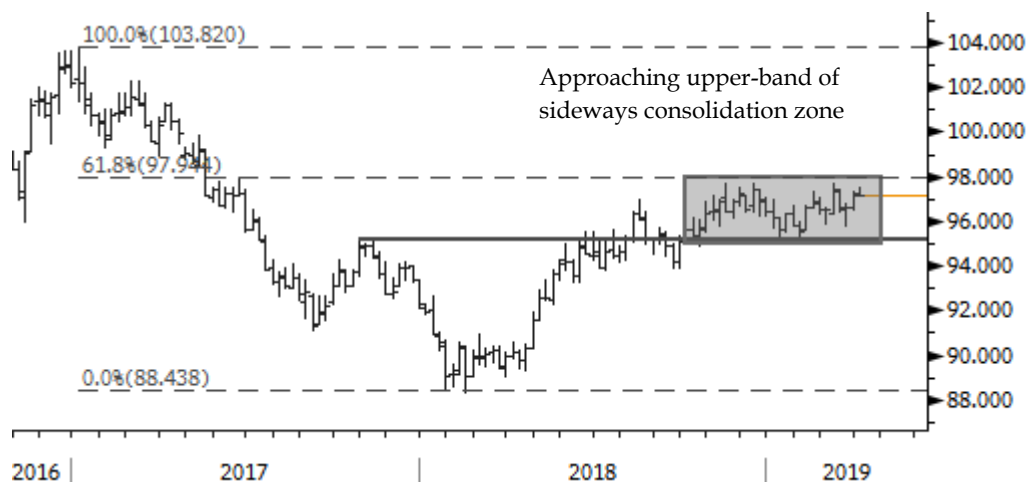
- ✓ A round of consolidation was seen around point of polarity & midpoint of Gann channel. However, it quickly regained momentum on the upside.
- ✓ Sustenance above three-digit Gann number of 677 would result in resumption of prevailing uptrend.

Exhibit 14: Weekly chart of MSCI All World index: More room on the upside



- ✓ Post a sideways phase of 2018, it broke on the downside in October 2018. Selling pressure dragged the index towards its 5-year mean, which acted as a savior. So far in 2019, it has staged a rally of more than 12% and currently it is attempting a break from the neckline of an inverted H&S pattern. Recently sharp shift in US bonds markets and new signs of concern for global economy led to a retracement. However, broader charts of MSCI All World index does not show any long-drawn repercussions yet.

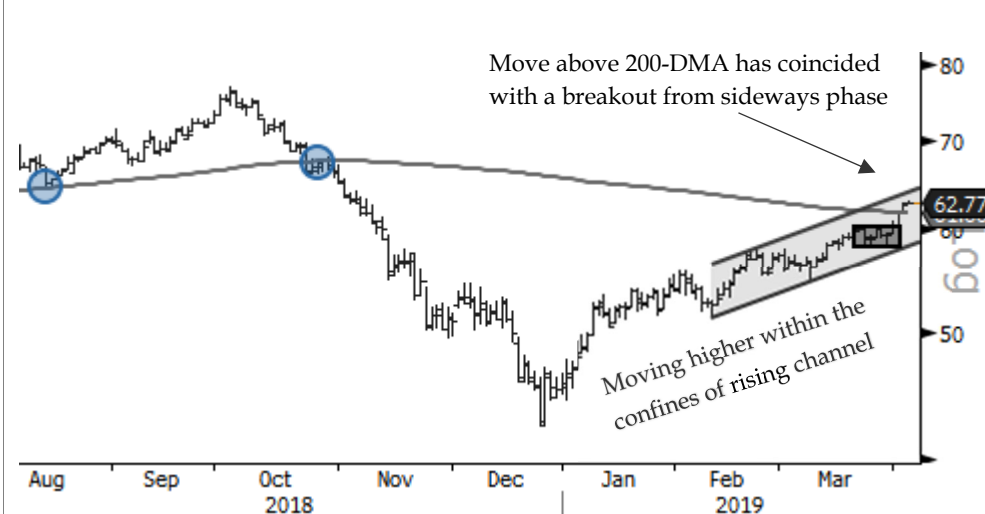
Exhibit 15: Dollar weekly chart: Dollar continues to hold 95



Source: Bloomberg, YES Sec - Research

- ✓ The greenback has shown strength amid the concerns of weakening growth & multi-month lowest level of US treasury yields.
- ✓ It is currently pushing towards the upper-end of the recent trading range (i.e. 97.80-98). A sustenance above the same would also result in a move above 61.8% retracement mark of the previous decline. We believe there is room for further upside in US Dollar above 98 mark.

Exhibit 16: WTI Crude weekly chart: Boiling hot



- ✓ Crude has regained control above its 200-DMA after a phase of decline which saw it testing a low of US\$42 Late-December.
- ✓ 2019 has seen a swift upmove of over 30%. Recently, oil prices staged a fresh breakout from a phase of consolidation, which has signaled resumption of prevailing uptrend. We expect, Crude oil to move higher within the confines of the rising channel and attempt US\$66 mark.

Exhibit 17: Gold weekly chart: Rangebound action to continue

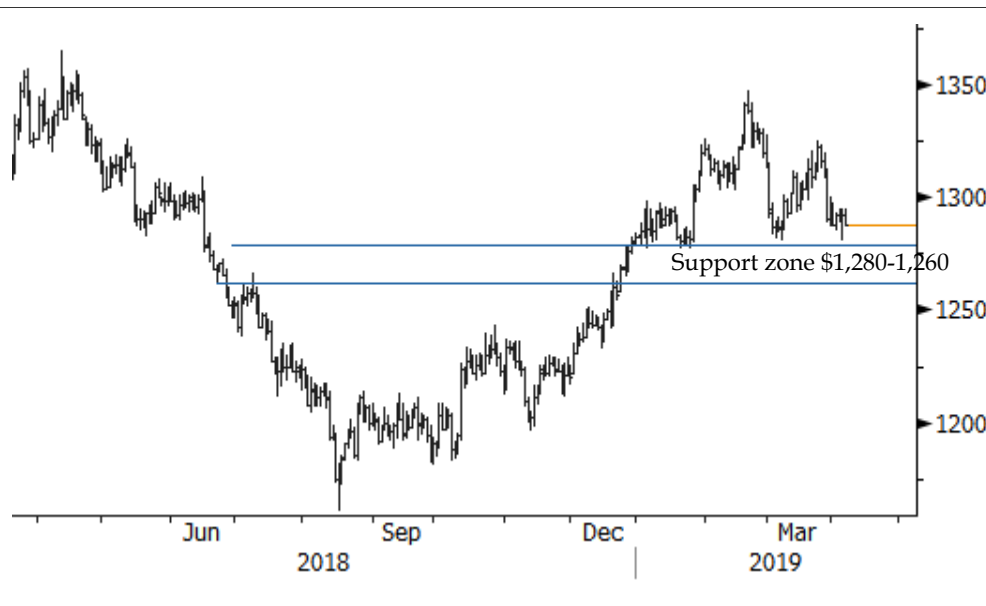
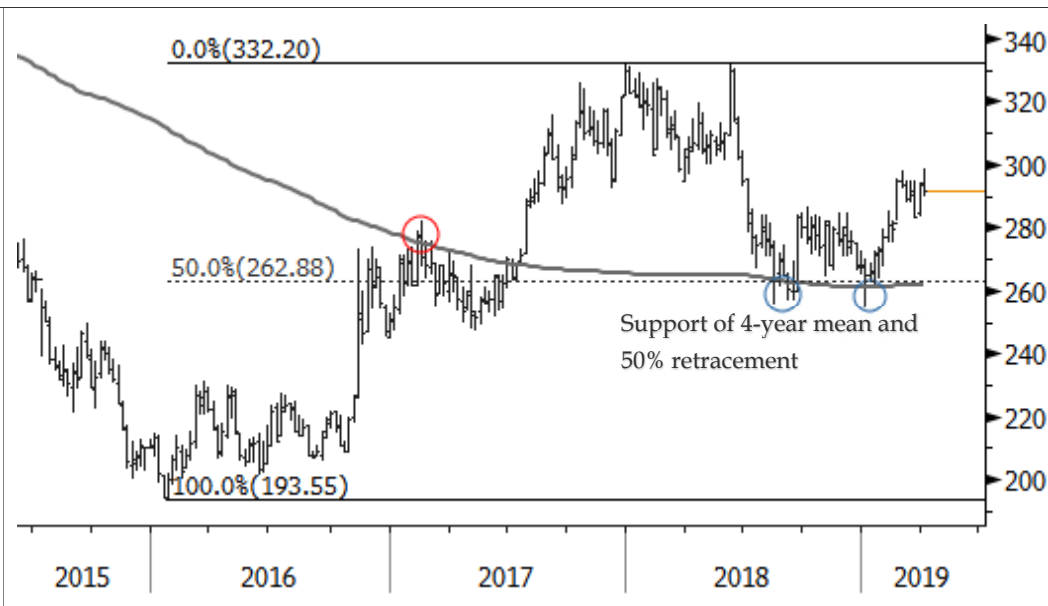


Exhibit 18: Copper: Likely to inch higher!



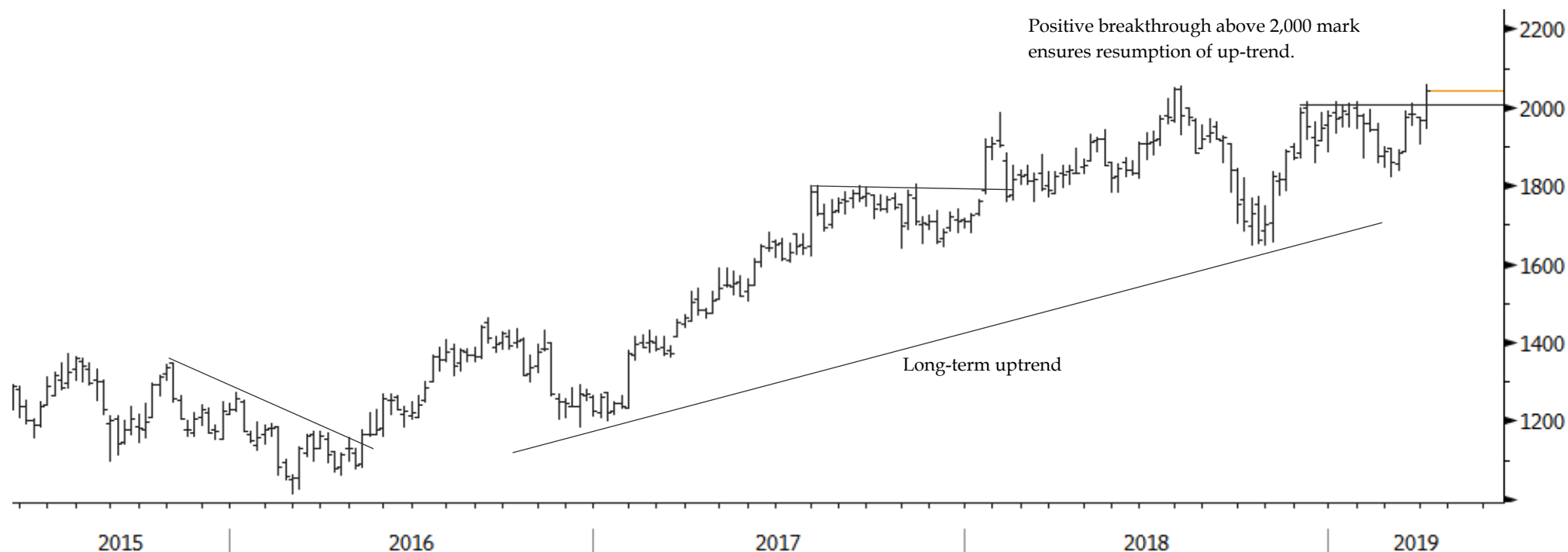
Source: Bloomberg, YES Sec - Research

- ✓ Gold prices are trading between tight trading band. Multiple lows are seen near US\$1,280; while on the higher side, descending peaks kept rally short lived.
- ✓ Gold's ongoing non-trending phase is likely to continue with immediate support placed between US\$1,280-1,260 band; while on the higher side, it's likely to retest levels of US\$1,330-1,340.

- ✓ Since late 2016, the copper prices have been trending up forming series of ascending tops and bottoms.
- ✓ It's recent price structure shows renewed buying interest near mid-point of the previous up-move. Moreover, levels of 4-year mean which stalled Feb'17 rally, are now acting as a savior zone.
- ✓ A decisive breakthrough above levels of US\$295 could lift copper prices towards US\$320/340 zone; while on the flip side, important support is placed near US\$265.

STOCK IDEA: HDFC – SET TO OUTPERFORM

Exhibit 19: HDFC Ltd weekly chart Breaking out of congestion phase



Source: Bloomberg, YES Sec - Research

- ✓ Gaining for the consecutive third year, HDFC is yet to gain its momentum on the upside (i.e. HDFC is up by ~3% YTD, against Nifty's gain of ~8%).
- ✓ The stock has been trading in a secular uptrend, forming series of ascending highs and lows. Recently it surpassed levels of Rs2,000, witnessing positive breakout on multiple time frame.
- ✓ Appearance of prior week's hammer candle pattern indicates crucial support near Rs1,900; while on the higher side, sustenance above Rs2,050 will keep structural outlook positive.
- ✓ The stock is expected to move gradually higher towards Rs2,260 plus zone. Based on above rationale, we recommend a **Buy on HDFC between Rs2,030-2,010 with stop loss of Rs1,895 for a upside target of Rs2,271.**

STOCK IDEA: SIEMENS– SET TO ASCEND

Exhibit 20: Siemens weekly chart – Breakout from H&S pattern to push Siemens towards Rs1,300



Source: Bloomberg, YES Sec - Research

- ✓ In the month of March 2019, the stock reclaimed its semi-annual Gann point (i.e. 1047) and in the process, it also broke out above the peak of January 2019.
- ✓ The stock has also bounced back from its 10-year mean, also recent price structure shows positive breakthrough out the inverse H&S chart pattern. RSI is trending higher in collaboration with rising price move, which confirms the momentum on the upside.
- ✓ Price ratio of Siemens Vs Infrastructure index is bouncing off multi-year lower levels suggesting the stock is going through the transition phase after a prolonged underperformance.
- ✓ Considering immediate support near Rs1,100, the stock is expected to move gradually higher. Hence, we recommend a **Buy on Siemens between Rs1,140-1,120 with stop loss of Rs1,050 for an upside target of Rs1,300.**

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BUY > 15%

ADD 5% to 15%

HOLD -15% to +5%

SELL > - 15%

NOT RATED

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