

Ajcon Technical Advisory

Weekly Technical report

25-July-2011

Sensex 18722.30 (0.86%)

Nifty 5633.95 (0.95%)

Last week we suggested, "... we expect the markets to range between 5500 to 5700 for some more time. Only a break below 5500 will be considered as weakness and then Nifty may go down to 5350-5300 levels. Break below 5540 will give an initial warning that 5500 might be in danger. On the other hand strength above 5650 can take Nifty to test previous reaction high of 5740..."

As expected 5550-30 again acted as support and despite few efforts to break it, Nifty always bounced back smartly. Though, it couldn't break the short term resistance at 5650-60 either.

Weekly chart made a small insider green candle with lows exactly at 38.2% of the rally from 5200 to 5750. Inside candle shows indecisiveness, however, the low indicates strong support at 5550-30 for short term.

Daily charts made a candlestick pattern called "Morning Star", which is a bullish reversal pattern if occurs at important lows. Confirmation comes from the strength above its last candle's high, which coincidentally is a short term resistance level also *i.e.* 5650-60.

All this suggests that strength above 5650-60 will open up further upside till 5750. On the other hand, break below 5550-5530 may witness downside to 5450. However, probability of breaking out 5650 is very high at this point of time. Short term traders can buy above 5660 for target of 5750 with a stop loss below 5600. In an unlikely case of breaking below 5530, traders can go short for 5450-60 as first target, with a stop loss above 5560.

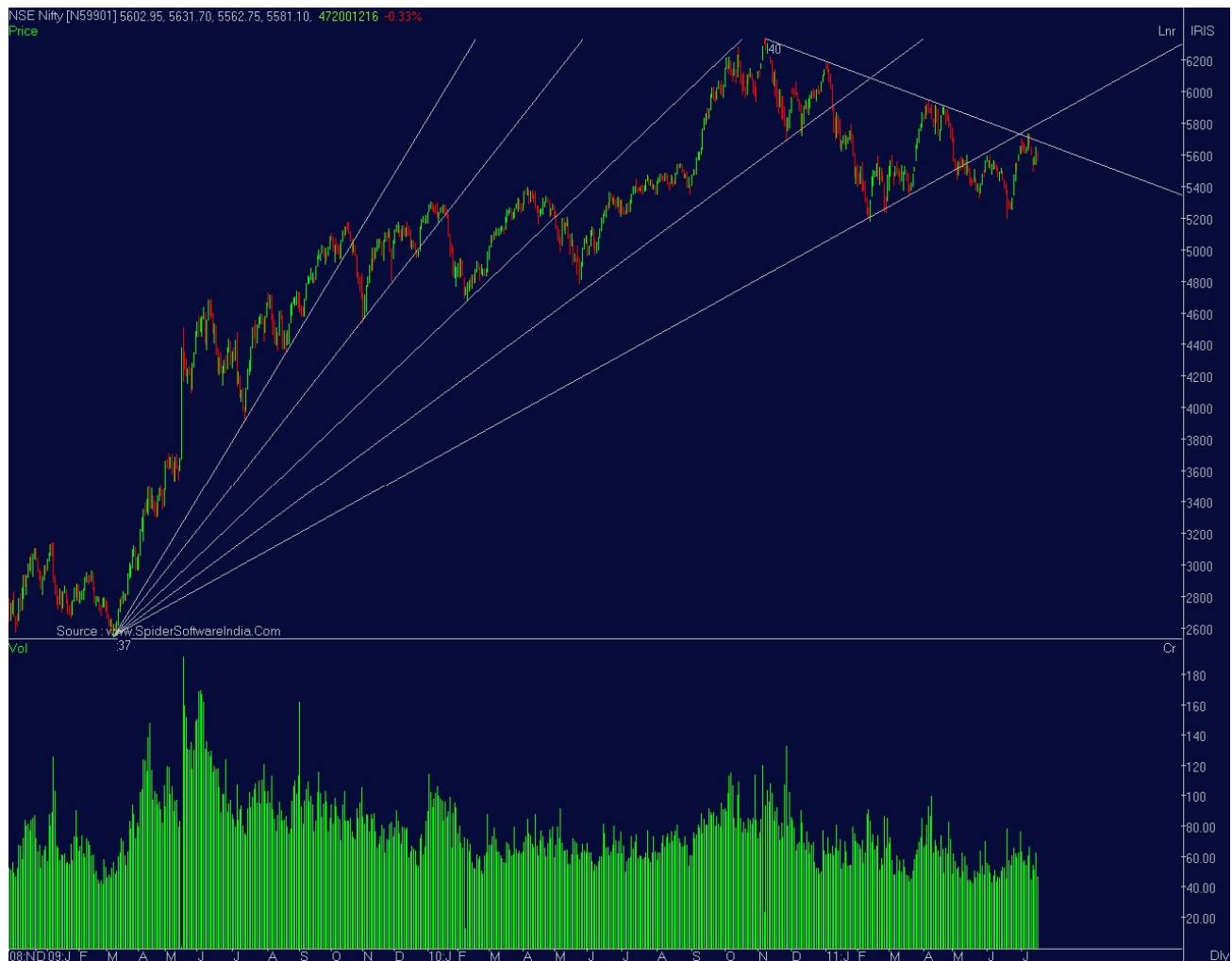
For short term 5650-60 remains a hurdle and 5500 a crucial support. For medium and long term 5750 is a major hurdle and 5200 a good support. We maintain our view that Nifty is likely to trade in the range 5450 -5750 for some time. Breakout of either side will decide the medium to long term trend for the markets. However, looking at the double bottom at 5200 and individual stock patterns, chances of the breakout on the upper side (5750) is higher.

Mid-term Picture-

Technically a break below previous lows of 5200 will confirm a larger and deeper bear trend, and then 4700-4800 levels will be talked about. However, it was argued much earlier (since Nov'10) by us that we might well be entering a deeper bear market and indeed, last high of 6338 was made on 5th Nov

2010. Since then we have been witnessing lower highs and lower lows. First it was 6350, then 6150 and then 5900 where Index was resisted before making lower lows of 5700 and 5200.

Nifty Daily chart from Mar'09 till date (Equi-angled lines)



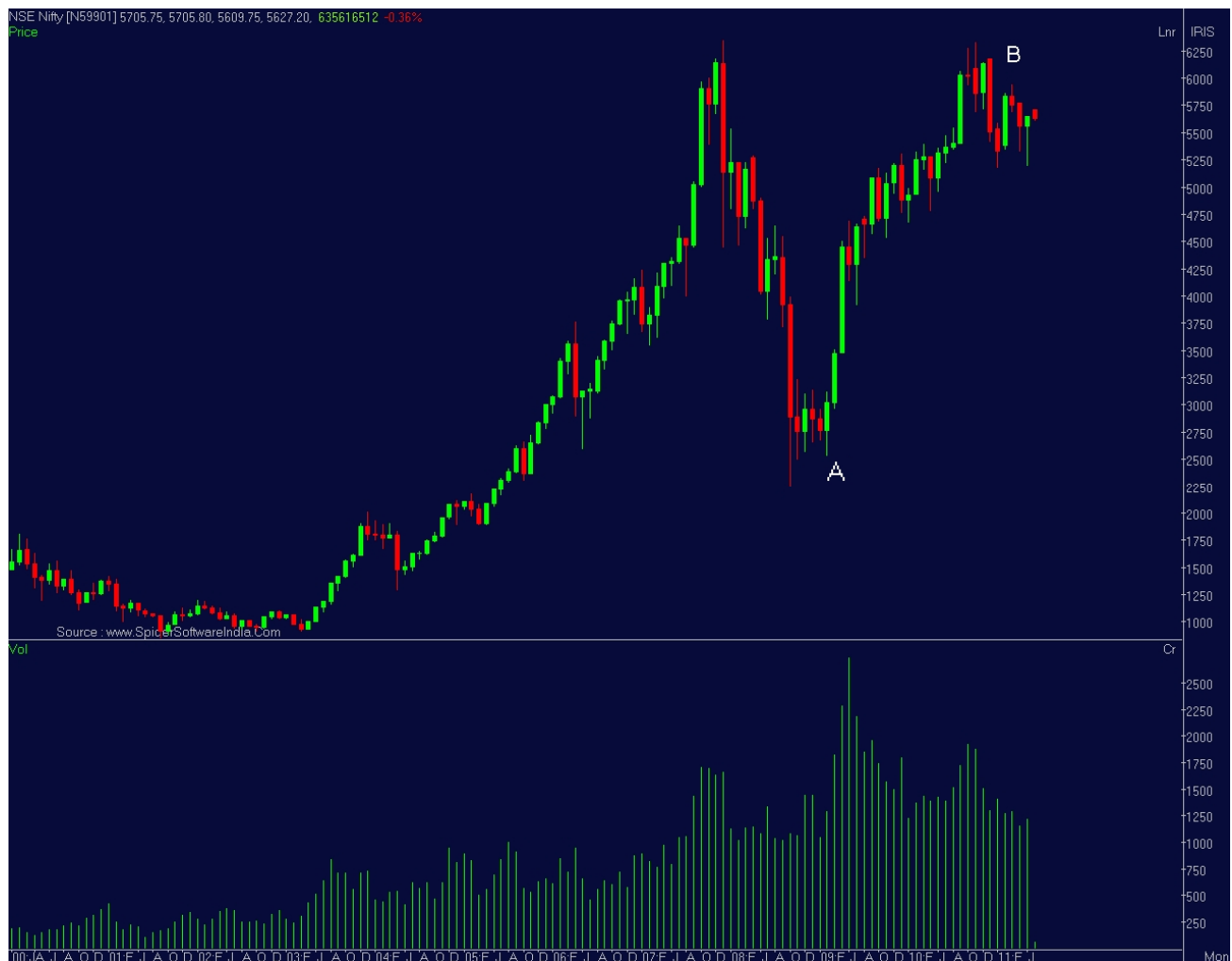
(Source: www.spidersoftwareindia.com)

It can be observed that Nifty is following equi-angled lines ever since it started to rally from the lows of Mar'09. Once it breaks the line, Nifty travels towards next equi-angled line. The current line also acted as a support in Feb 2011 at around 5200 levels, Nifty bounced back and now it has breached the line. So we may expect the south journey to continue till nifty meets the next line. It can be noticed that current market action is tested exactly on the equi-angled line which is now acting as a resistance.

Incidentally the falling trend line which was drawn from joining highs of Nov'10 and Jan'11 is also placed around current market action. This makes 5750 mark an important resistance level.

Long Term Picture-

Nifty Monthly Chart



(Source: www.spidersoftwareindia.com)

The current up move is considered be a part of C wave of a larger structure which started in January 2008 (please see the chart above), which is unfolding as A-B-C formation.



“A” leg started from January highs of 6358 and ended at March 2009 lows. After which B leg started moving up to test the previous highs again. Since November 2010, C leg has started moving downwards, which can see much lower levels.

A leg of this formation was a 14 month affair. B leg consumed 20 months and proved its corrective nature. C leg can take 9-18 months to complete. 7 months of C legs are already completed.

Current rally from 5200 can be labeled as an X wave of this larger C leg and it can move maximum up to 5750-5950.

Last we argued that, “...Though price wise 5750 has already been achieved, time wise this leg can consume some more time before its completion. Maximum time allowed for this leg is 20-30 days. So far 18 days has been completed. Hence, it can consume 10-12 more trading sessions before completion and can achieve the maximum upside price wise too...”

As expected Nifty remained in a range for the week and increased the time count for X wave to 23 days, still within limits of our maximum time.

Once this X wave is over, we may expect the second and final leg downwards.

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