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Hold on to equities! It is time for a pause, but buy the dip for a target of 12,200

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New sustainable life-time highs on Indian bourses in the midst of global jitters caught many by surprise reinstating the fact that Indian indices are in a long-term bull market as it continued to climb the wall of worries.

However, as the relentless up move on Nifty50 from the recent lows of 10,557 added almost around 1,000 points in the last 6 weeks taking the index towards long-term resistance levels placed around 11,500 from where a fresh breakout is required on long-term charts which shall further facilitate a multi-month up move.

Besides, this vertical up move after a pause of two months led the technical oscillators into overbought zones warranting a correction in the near term which appears to have unfolded from the highs of 11,495 last Friday.

In the worst case scenario, this correction may get extended up to 11,200 kinds of levels on the downside before resuming its up move. In case of a fresh breakout above 11,500 levels, the next logical target can be projected up to 12,200 for the indices.

What can lead the indices?

In line with major indices, Bank Nifty also registered a fresh breakout beyond its February 2018 highs of 27,652 levels. This breakout is projecting a bigger target placed around 29,300 levels.

Hence, private banks may still play a critical role in pushing the indices to much higher levels. However, PSU Banks are still lagging behind and they may continue to remain so but at lower levels, they are attracting fresh buying interest.

Hence, on sharp corrections one can selectively look into this space for better trading opportunities. Interestingly, FMCG index remained positive with new life-time highs even in Friday’s session when broader markets were correcting.

Hence, traders shall focus on outperformers from this space which are continuously hitting new highs. Similarly, IT is looking very promising whereas Autos which are almost 10% away from their life highs may become catch-up plays.

What has changed for the Indian market?

a) Boost in political sentiment?

Apart from earnings growth and the tag of the fastest growing economy in the world from IMF, recent political developments also appear to have positively impacted market sentiment.

One of the main concerns among market participants was about forthcoming general elections in 2019 and the unity of the opposition parties which may create uncertain political environment going forward.

But, the recent no-confidence motion against the existing government appears to have proved to be a blessing in disguise to ruling NDA and market at large.

Some of its allies who looked to be drifting away from it through their bitter criticism have chosen not to vote in favour of the motion but to abstain from voting which is nothing but lending indirect support to the ruling NDA.

It smashed the myth of opposition unity thereby hinting at a stable government formation in 2019 as there is no major shift in political alliances.

b. Emerging Markets on the verge of a rally?

India seems to be the sole outperformer among the Emerging Markets as measured by the MSCI Emerging Market Index which is a gauge of 23 economies.

MSCI Emerging Market Index appears to be positioning itself for a relief rally after taking a hit of 18 percent since January 2018 highs of 1,278 to recent June low of 1,038.

After this vertical fall for almost 6 months, this index is moving in an extremely narrow range of 51 points in the last 45 days suggesting a dramatic reduction in the selling pressure which may lead to at least a relief rally.

Besides, the larger trends in this index are suggesting that recent fall from January 2018 highs is only a correction inside the bull market as the last 6 months correction is looking pretty much like a part of the 4th wave.

Correction in terms of Elliot Wave Theory points out that one more leg of up move is pending for this index which should take it beyond January 2018 highs which again shall be positive for Indian markets.

Is INR on the verge of a breakdown?

With Dollar Index trading above its resistance point of 95, INR may come under pressure if the Dollar Index continues to strengthen further and sustains above 96 which may not be good news for Indian markets in the near term.

Technically speaking, if INR trades above 69 levels then it can extend its weakness between 70 and 71 kind of levels which may not go down well with equity markets.

Here are short-term trading ideas which could give 5-8% return:

Mahindra & Mahindra: Buy| Target: Rs 1020| Stop Loss: Rs 927| Return 8%

With new lifetime highs of 953 in last Friday's session, this counter appears to be on the verge of a fresh breakout from its contracting structure in which it was moving since May 2018 after registering highs of 933.

Hence, momentum shall pick up the pace once it registers a sustainable close above 950 levels. In such a scenario we can project a target of Rs 1,020.

Hence, positional traders are advised to buy into this counter for the said targets with a stop below 927 on a closing basis.

Bharat Petroleum: Buy| Target: Rs 429| Stop Loss: Rs 380| Return 7%

For the last couple of sessions, this counter appears to be moving in a range of 404 – 384 levels and looks ripe for a breakout from this range. Hence,

positional traders in anticipation of such a breakout shall go long for a target of 429 and a stop of 380.

Asian Paints: Buy| Target: Rs 1490| Stop Loss: Rs 1390| Return 5%

After the recent correction from the highs of Rs 1490, this counter appears to have posted bottom around recent lows of Rs 1394.

As price patterns are slowly shaping up in a positive fashion one can buy into this counter for a test of lifetime highs placed around Rs 1490. A stop suggested for this trade is 1390.

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