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'A breach of 10,239 levels on downside may take Nifty to sub-10,000 next week'

Once a breach of 10,239 on the weekly closing basis happens we will be comfortable to project a downside target somewhere between 9,900 – 9,700 where Nifty should bottom out, **Mazhar Mohammad, Chief Strategist – Technical Research & Trading Advisory, Chartviewindia.in**, said in an interview with Moneycontrol's Kshitij Anand.

Q) We saw a roller coaster ride for Indian markets this week. The index which reclaims 200-DMA came under selling pressure after reclaiming 10700. What is the sense you are getting?

Yes, as you rightly said, that Nifty50 faltered around its 200-day moving average (DMA) after entering into the bearish gap zone of 10,754-10,843 levels registered on 4th of October.

At this juncture what we need to understand is about the direction of larger trends which appears to have decisively tilted in favour of bears at least from August 2018 from the absolute highs of 11,760 levels (record high).

In fact, the market started slipping slowly into bear clutches from the beginning of January 2018 itself as suggested by the severity of the correction and weak advance-decline ratios on subsequent rallies.

When the larger trends are down the subsequent rallies are considered as counter-trend rallies (as they go against the main trend) and are bound to perish after retracing some of the lost ground before resuming the downtrend with an interim top.

Similarly, Nifty50 appears to have completed its counter-trend move around 10,775. In that case, eventually, all the gains which we have registered from the lows of 10,000 shall be wiped out.

It means we may also see Nifty trading sub-10,000 levels going forward and this projection is backed by a strong technical evidence based on historical price behavior with sell signals on long-term charts.

Contrary to our expectations, if Nifty50 regains strength and closes above 10,775 then we may see some more strength in the pullback rally which may get extended towards 11,069 levels.

Q) How are markets looking on the weekly charts? Considering we got expiry next, is it time to buy, sell or hold?

A) On the weekly charts, we have seen a 'Bearish Engulfing' kind of formation as the candle body completely engulfed the candle body of preceding week thereby making the weakness to get more pronounced.

However, in between support can be expected around 10,440 levels breach of which shall accentuate the selling pressure further.

Though the larger trend is down and completely in favor of bears there seems to be a critical support on the long-term charts around 10,239 levels where bulls may put up a strong fight.

Hence, we look out for breach of this level at least on weekly closing basis and once that happens we will be comfortable to project a downside target somewhere between 9,900 – 9,700 where Nifty should bottom out.

If it doesn't then we have the worst case target around 9,000 where Nifty's price will align with some of the critical longer-term averages which offered support to Nifty during bigger corrections in the past.

At this point in time readers may feel that it a very pessimistic projection. But, let us be a realist and remember the kind of volatility markets have seen during election time.

Recently, during the Gujarat state election result day, Sensex saw an intraday cut of 1,000 points in a single day. As we are heading for series of state elections along with general election around May 2019, this kind of information will only empower market participants.

Q) What is your view on Nifty Bank?

A) Relatively, Bank Nifty appears to have outperformed Nifty50 as it bottomed out on the 8th of October with a low of 24,240 against Nifty50 which hit a bottom on 26th October with a low of 10,004.

Besides, it has a strong technical reason to bounce back. It made a channeled move on the weekly charts since February 2018 high of 27,652. It has nicely recoiled after consolidating for a couple of weeks at the lower end of its channel.

Patterns on it are looking strong but Thursday's price behaviour appears to have done the damage on this index. However, downside momentum shall pick up once this index below 25,700 levels. Contrary to this, strength in this index shall resume on a close above 26,379 levels.

Q) What do you make of recent fall in crude prices? Do you think it will help limit the downside for the equity markets?

A) Unfortunately, markets don't work based on a single variable. Besides, it is looking like a very popular common mistake to suggest that a fall in crude prices will lead to rallies in equity markets.

Statistics don't conclude so. In fact, historically, crude and equity markets are more or less have a positive correlation over the longer time period.

For instance, between 1998-2000 Nymex Crude rallied from a low of US \$10 – 37, and during this period Nifty rallied from 803 – 1818.

Between 2001 – 2008, Light Crude rallied from a low of \$16. And, during this period Nifty rallied from 849 to 6357.

Between 2009 – 2011, crude prices rallied from \$32 and Nifty rallied from 2539-6300.

Same is the case on the downside.

Both equity markets and crude prices move hand in glove with each other. For instance in March 2015 when Nifty topped out at 9,119 and corrected by around 25 percent crude prices were down from \$62.

Hence, based on this data we believe strong crude prices are an indication of a strong growth in the global economy. Therefore, if crude prices are down by 30 percent from recent highs of \$76 - \$52 it is something to worry about but not to celebrate.

Q) Do you think worst is over for INR?

A) INR appears to be on a strong pull back mode as it has depreciated by around 17 percent since January 2018 from the highs of Rs 63/USD to a low of Rs74.40/USD registered on 11th of October.

Hence, such a strong pull back is technically justified and may get appreciated into the zone of 70.20 – 69 which is the erstwhile breakdown point before resuming its weakness.

However, for time being it may remain range bound between Rs70-72.50/USD and significant weakness should not be expected unless it closes below 72.50 levels.

Q) Top three stocks which investors can look at for the coming week for a minimum holding period of 1 month?

A) Traders are advised to adopt a market neutral strategy and look for stock specific opportunities.

Chambal Fertilisers: Buy| LTP: Rs 151| Target: Rs 167| Stop Loss: Rs 139| Return 10%

This counter appears to have registered a breakout only to initiate a fresh leg of up move from its multi-week consolidation range on relatively higher volumes.

At the lower end of the consolidation, range appears to be a strong support, traders should adopt a two-pronged strategy of buying at market prices and adding further on lower levels around 140.

Hence positional traders can go long for a target of Rs 167. The Stop suggested for the trade is a close below Rs 139.

Jindal Saw: Buy| LTP: Rs 83.70| Target: Rs 90| Stop Loss: Rs 78| Return 7.5%

This counter appears to have posted a short-term bottom, with a price and volume breakout, after retracing around 62 percent of its last leg of the rally from the lows of Rs 71-90.

This positive price action on the back of huge volumes in Thursday's session might be hinting towards a fresh leg of an upswing.

Hence positional traders should make use of this opportunity and go long for a target of Rs 90 and a stop placed below Rs 78 on a closing basis.

Dabur India Ltd: Buy| LTP: Rs 399.85| Target: Rs 460| Stop Loss: Rs 390| Return 15%

The last 4 days price action in this counter is looking quite positive and hence it may be on the verge of a breakout with a short-term bottom in place around Rs 390 levels.

In that scenario, it can be heading towards 460 kind of levels. However, in between, if the resistance point of Rs 423 proves to be a big hurdle then it will be in need of a fresh breakout above that level.

Hence, positional traders can look for Rs 460 kind of target with a stop below Rs 390 whereas short-term traders should consider booking profits of around Rs 423.

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