

Bulls Ready For Comeback

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Bulls ready for comeback as Nifty enters multi-year support

The recent volatility in the overseas markets has forced Nifty to fall below 10,100 mark which not only turns out to be a long-term support zone but also coincides with earlier breakout zone in the NIFTY to USDINR Ratio. Nifty has had the worst time for this year as the index has declined for more than 7% for two consecutive months (Sept & Oct F&O series) because of the liquidity crisis witnessed by NBFCs due to the IL&FS fallout. However, the NIFTY to USDINR ratio has entered the support of 1,000-day SMA which marks a case of extreme oversold zone.

On the daily chart, Nifty has been sitting on Positive Divergence in RSI, along with RSI travelling in extremely oversold zone on weekly basis. The midcap and small cap indices along with BSE Financial index so far have been failing to form significant lower low. This has also caused sectoral divergence amongst indices and bears may find it difficult to justify fresh breakdown at current levels.

Within the Nifty index, we have seen strength emerging from our proprietary *Fantastic Four index*, i.e. Nifty PSE, BSE Metal, Nifty Infra and BSE Oil & Gas index. We believe these indices will act as a major contributor for journey towards 12,000+ in the Nifty.

So far, out of the *Fantastic four index*, we have seen strong pullback emerging from BSE Oil & Gas index and Nifty PSE index, and the rest are in process of recovery. As the rally in most of the indices are bear market rebound, one can expect them to be shaper and forceful.

Despite extreme negative sentiment prevailing in the market, we see this opportunity as a silver lining within the dark clouds and hence expect a strong rebound of atleast 900-1,000 pts in the Nifty. We expect from a medium-term perspective, Nifty that has outperformed midcap and small cap index, will force fund managers to realign portfolio towards Nifty 50 Index or Sensex to counter tracking errors. From the all-time highs, now at current juncture, most of midcaps and small caps has been butchered down more than 30% and have confirmed the start of bear market. On the other hand, Nifty is down 15% and is still away from a bear market (official start of bear market is a fall of 20% from highs). This should further act as a catalyst for more funds being diverted towards Nifty and Sensex.

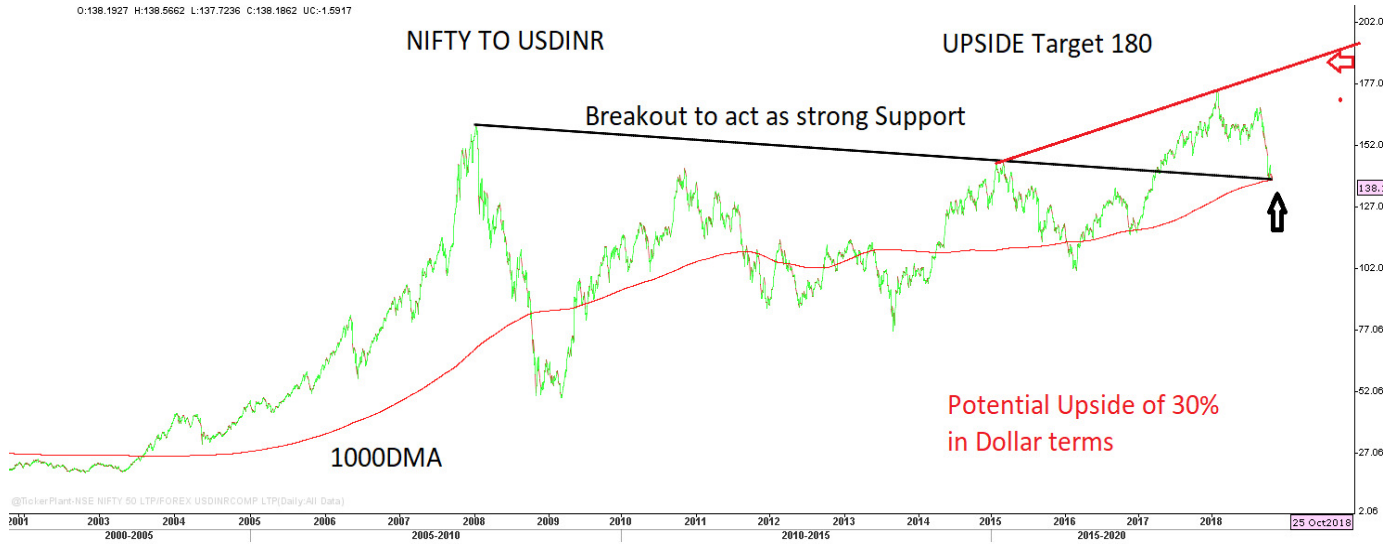
We advocate a CONTRA BUY ON NIFTY FUTURES for a short-term target of 11,100, beyond which we should see rally extending beyond all-time highs.

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NIFTY TO USDINR Ratio



NIFTY



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Sectors from Fantastic Four –

1. BSE Metal Index



2. BSE OIL & Gas Index



3. NIFTY Infra Index



4. NIFTY PSE Index



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