

Weak Rupee reverses Nifty breakout

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Nifty changes its course post extended weakness in the rupee

The earlier breakout in Nifty from 11,350-11,700 zone (refer our report dated Sept 06, 2018) which had opened a smooth journey towards 12,100 has turned void. Sudden change in open interest data suggests short-term pain for the market. This is after the open interest tally dipped below 2.67 crore mark with decline in Nifty Futures below 11,400 levels. This data suggests that long positions which was piled up at higher levels were forced to liquidate after major set-back in the rupee. In an ideal case, this long addition has scope to expand all the way to 3.75 crore similar to what we saw in Jan 2015. The breach of 72 on closing basis in the rupee has created some panic in debt market and this could have resulted in risk-off trade.

Though this development does not suggest that our earlier Nifty target of 12,700-12,800 remain void, but FIIs will avoid adding long positions unless we see stabilization in the rupee from the short-term perspective. Based on trading band analysis, a breakout from 69.5-72 in USDINR, will automatically force USDINR to touch 74.6-75. This could turn out to be the area from where aggressive long positions will be added from the FII desk.

For Nifty, this could translate in 5-7% decline as sell-off in bond market will have major impact on financials and other interest rate sensitive. Based on worst case scenario, we can expect Nifty to stabilize near 10,750-10,850 before resuming its journey towards 12,700. This would mean that FIIs may get a return of 25%-27% in dollar terms (Domestic investors would get nearly 21% gains) from lower levels.



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