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An alternative take on the markets

Nifty gave up almost all its recent gains, and came close to the near term support at levels of 10100 last week. Along the price support, the momentum indicators too (on a daily basis) showcase potential for the index to start the week with an uptick. That said, we remain sceptical about Nifty's ability to garner material upsides from these levels. Specifically, technical indicators: 1) channel resistance near levels of 10600 and 2) momentum indicators trading near 'overbought' zone (on weekly basis) and suggesting negative divergence, indicate a higher likelihood of trend reversal for the aggregate index. On stocks, we advise initiating long on Aurobindo Pharma whilst continuing longs on Havells and buying Emami.

- **Index:** Nifty gave up almost all its recent gains, and came close to the near term support near levels of 10100 last week. Along the price support, the momentum indicators too (on a daily basis) showcase potential for the index to start the week with an uptick. That said, we continue to remain sceptical about Nifty's ability to garner material upsides from these levels. Specifically, technical indicators – 1) channel resistance near levels of 10600 and 2) momentum indicators trading near 'overbought' zone (on weekly basis) and suggesting negative divergence, indicate a higher likelihood of trend reversal for the aggregate index.
- **Stocks:** Long Aurobindo and Havells. Buy Emami.

Nifty – uptick likely in near term



Source: Metastock

- **Nifty IT:** Nifty IT index had been trading in a triangle pattern ever since it peaked out in Mar'15. While the index gave an initial impression of breakout in late Jul'17, this breakout was only confirmed once it found support from the upper trendline of the triangle pattern in Sept-Oct'17. We believe the breakout from the triangle pattern is a strong signal towards trend reversal for the index and it is likely to attain higher levels going forward. While the index has corrected over last three weeks, daily momentum indicators suggest an uptick is likely in upcoming sessions.
- **Institutional flows:** FIIs were SELLers last week and sold equities worth Rs25bn. Overall, they have largely remained SELLers since Oct'16. DIIs on the other hand bought equities worth Rs1.1tn since Oct'16. DIIs as a class are currently buyers of Indian equities worth Rs1.7tn since the General Elections in May 2014, largely on the back of MFs buying equities worth more than Rs2.4 trillion (more than Rs1.2 trillion since Oct'16).

Derivatives

Securities featured in this note

Company	Near Term	Medium term
Nifty	(👍)	(👎)
Auro Pharma	(👍)	<->
Havells	(👍)	<->
Emami	(👍)	(👍)

(👍) denotes positive view, (👎) denotes negative view, <-> denotes no major view/ consolidation.

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Index

Nifty – uptick likely in near term



Source: Metastock

- Nifty gave up almost all its recent gains, and came close to the near term support near levels of 10100 last week.
- Along the price support, the momentum indicators too (on a daily basis) showcase potential for the index to start the week with an uptick. That said, we continue to remain sceptical about Nifty's ability to garner material upsides from these levels. Specifically, technical indicators – 1) channel resistance near levels of 10600 and 2) momentum indicators trading near 'overbought' zone (on weekly basis) and suggesting negative divergence, indicate a higher likelihood of trend reversal for the aggregate index.

Nifty- uptick likely in near term

Bank Nifty – wedge resistance limits upsides



Source: Metastock;

- The Bank Nifty continued to trade close to the wedge resistance near the 25700 odd levels last week.
- The recovery of the index from recent lows of Oct'17 was mainly led by PSU banks while some of the major private banks were laggards over this period. Resultantly, the index has not seen momentum indicators turn sharply and they continue to paint a bleak picture. Alongside the wedge resistance (near 25700), these indicators thus point towards a higher likelihood of a correction in the Bank Nifty in near term.

Bank Nifty – wedge resistance limits upsides

Nifty IT – Downtrend reversed



Nifty IT – Downtrend reversed

Source: Metastock;

- Nifty IT index had been trading in a triangle pattern ever since it peaked out in Mar'15. While the index gave an initial impression of breakout in late Jul'17, this breakout was only confirmed once it found support from the upper trendline of the triangle pattern in Sept-Oct'17 period and formed successively highs & higher lows.
- We believe the breakout from the triangle pattern is a strong signal towards trend reversal for the index and it is likely to attain higher levels going forward. While the index has corrected over last three weeks, daily momentum indicators suggest an uptick is likely in upcoming sessions.

Commodities/Forex

US Dollar (DXY) – reversion likely



Source: Metastock

- The dollar index broke out of the critical resistance levels close to 94.1 in late Oct'17 and in the process confirmed the reversal of its downtrend.
- After experiencing resistance near levels of 95.3, as expected, the index has corrected and is now near support zone of 92.6-92.9. With momentum indicators also trading closer to the 'oversold' zone, we expect the index to arrest the correction and attain higher levels in the sessions ahead.

USD- reversion likely

USD/INR – further depreciation likely



Source: Metastock

- The rupee largely remained range bound over 2016 between 66.2/\$ and 68.90/\$. In mid Mar'17, it finally broke down below this channel pattern that it had been in over 2016 and moved sharply higher vs. the dollar. It remained close to levels of 64-64.5/\$ for a large part of this year, before the sharp depreciation seen over Sep'17-Oct'17
- With the dollar index expected trade strong in the sessions ahead, our outlook on rupee remains negative. The next level of support for the rupee comes close to 66.2/\$.

Rupee – further depreciation likely

Stocks

Aurobindo Pharma - Long



Source: Metastock

- Aurobindo's stock has corrected substantially since the recent highs made in early Nov'17. Last week it came close to the support levels near 665 and we expect the stock to find support and reverse trajectory from these levels.
- Further, the momentum indicators also trade near the 'oversold' zone thus augmenting the case of a reversal in the stock's recent downward trajectory. On the back of these technical indicators, we advise investors to initiate long on the stock for target price of 725 and stop loss below 665.

Aurobindo- Long

Havells – Long



Source: Metastock

- Havells' stock has been trading in a channel pattern since early 2017 and post its recent correction from the peak formed in mid Oct'17, it came back to the bottom trendline of the pattern. We initiated longs on the stock in end Oct'17 expecting it to find support and reverse trajectory.
- Further, the momentum indicators also traded near the 'oversold' zone thus augmenting the case of a reversal in the stock's recent downward trajectory. The stock has appreciated in line with our expectation thus far and we advise investors to remain long on the stock for target price of 540 and stop loss below 470.

Havells - Long

Emami – Buy



Source: Metastock

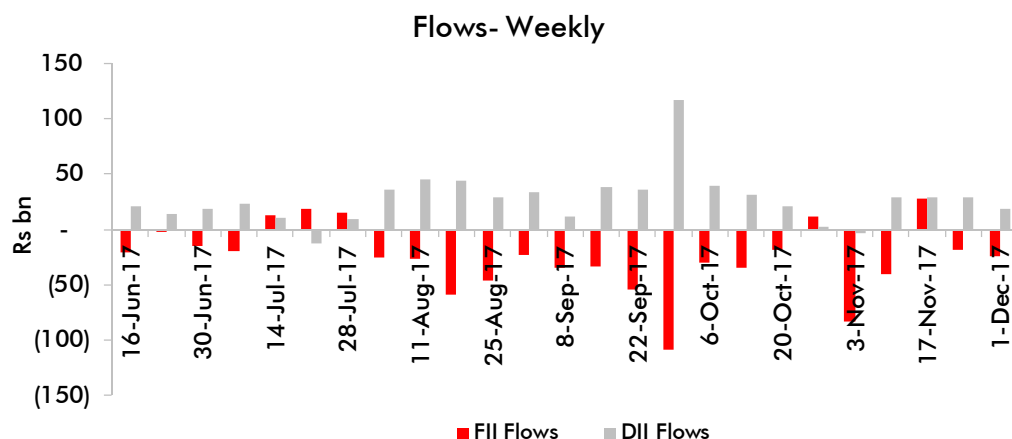
- Emami's stock had been consolidating since Aug'15 in a triangle pattern and it broke out of this pattern in mid Oct'17.
- We initiated 'buy' on the stock post this breakout, believing that the stock is likely to attain further highs. We continue to advise investors to 'buy' the stock for target price closer to levels of 1400 and stop loss below 1210.

Emami- Buy

India equity flows

Weekly flows

Exhibit 1: Weekly FII and DII cash equity flows



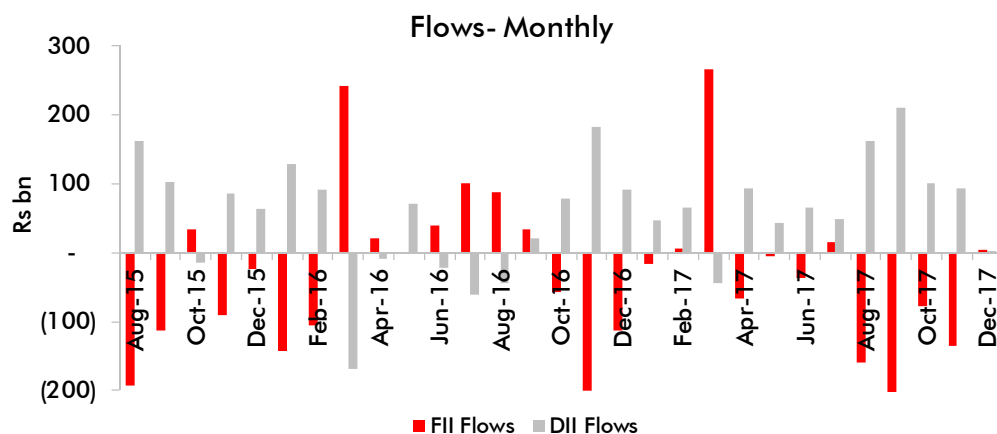
FII's were SELLers of Indian equities ...

Source: Ambit Capital research

- FII's were SELLers of Indian equities last week and sold equities worth Rs25bn.
- FII's have been largely SELLers since Oct'16 (barring Mar'17 when they were strong BUYers) and have sold Rs819bn worth of Indian equities since then. They have particularly been aggressive sellers since Aug'17- having sold Rs610bn since then.

Monthly flows

Exhibit 2: Monthly FII and DII cash equity flows



... while the DIIs were BUYers

Source: Ambit Capital research

- DIIs were BUYers of Indian equities last week and bought equities worth Rs18bn.
- DIIs have been offsetting FII outflows since Oct'16 and have bought Indian equities worth Rs1.1tn since then. DIIs, as a class, are currently buyers of Indian equities worth Rs1.7tn since the General Elections in May 2014. MFs have bought equities worth more than Rs2.4 trillion since the elections (Rs1.2trillion since Oct'16), indicating robust retail inflows which have been, in part, offset by outflows driven by insurance selling.

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