TECH VIEW

Profit-booking may Drag Nifty Lower

Both technical and derivatives data suggest the markets would continue to be volatile and can slide further towards 10,250 levels. Technical analysts say stocks from NBFC, capital goods, private banks and oil and gas sectors are expected to show strength in the coming weeks.

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Where are we? On Friday markets opened in the green following positive overnight cues from US, but couldn't hold onto the gains and sustained selling pressure through the day saw index closing near lows of the day forming a bearish candle. For the day Nifty closed lower by 0.9% at 10,452 levels and on weekly basis closed flat. Index is seeing supply pressure above 10,600 levels and unable to sustain above it.

What is in store? Index needs to sustain above 10,640 levels for the index to rally towards 10,740 which will fill falling gap area. In Nifty options significant amount of call writing was seen in strike price 10,500 and 10,600 which is likely to cap any upside in near term. The gap down opening of 6th February had taken support at rising trend line originating from September 2017 low of 9,769 and seen bounce back. Also, the 100-day moving average that arrested the declines in month of September and December has again provided support to recent fall and index has been trading above it for last eight sessions. This support comes around 10,400 levels suggesting as important level for the market.

What could investors do? Breaking below 10,400 levels, index is likely to retest recent low of 10,276 level. Below that next support level for index is seen around 10,100-10,070 where 200 DMA and previous swing lows are seen. For now, index is trading in range of 10,400-10,650 odd levels and break from the same will give direction to the market. Stock specific Bharat Forge, Hindustan Zinc, Cholamandalam Investment Finance and KPIT Technologies are technically showing strength to trade on the upside; while Kajaria Ceramics, Max Financial and Power Finance can be looked as shorting opportunities.

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Where we are? The derivative data suggests highest put concentration and aggressive put writing activity has been witnessed at 10,500 strike followed by 10,400 strike price. India VIX is at 16.35 and higher VIX suggests volatility which is likely to continue in near term. Once the VIX cools down, we will see market showing consolidation. Similarly, the highest Call concentration and Call writing activity is seen on 10,600 strike price, which signifies these levels are likely to act as resistance for near term.

What is in Store? The chart pattern suggests that if Nifty breaks below 10,400, it would trigger more profit booking in market which could drag it towards 10,250-10,200 levels in the short term, the market may witness more profit booking which could further lead the index towards 10,250-10,200 levels. However if Nifty manages to cross 10,700-10,740 resistance, the market may witness short covering action which could further lead the Index towards 10,800-10850 levels in the short term.

What should investors do? We expect the markets would continue to be volatile and can slide further towards 10,250-10,200 if it breaks below 10,400 levels in coming weeks. Daily strength indicators are in negative territory and are trading below their reference line signifying negative bias in near term. Monthly RSI has given negative crossover to its reference line indicating that Nifty is losing strength on short term. Nifty has good support at 10,200 levels; any violation of this support zone will cause further profit booking towards 10,050-10,000 levels which remains a buying opportunity for traders. We advise to buy stocks, if Nifty corrects in the short term to 10,200-10,050 levels which is a strong support zone. NBFC, capital goods, private banks and oil & gas, are expected to show strength in coming weeks.

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Where are we? On all four occasions during the truncated week gone by, our markets opened higher but mostly the picture changed as we approached the closing point. The intra-day volatility seems to have increased and this is what we call it as 'choppiness'. At the end, the market did not go anywhere as we saw few false breakouts from intraday range on either side.

What is in store? On daily chart, we can see a formation of an 'inverted pennant' in the making. A slide below 10,398 would confirm the 'inverted pennant' pattern and then we can expect retesting of 10,200 – 10,033 levels in days to come. On the flipside, a move beyond higher end (10,650) would provide some relief rally; but it certainly does not change the 'sell on rise' strategy in the near term as we are yet to see a complete impact of the 'bearish engulfing' pattern formed during the antepenultimate week.

What could investors do? Traders are continuously advised to remain light and should ideally avoid any kind of bottom fishing in the near term. In between we are likely to see some bounce backs; but this time, a possibility of these rallies getting sold into is quite high. Considering the distortion of weekly and probably the monthly chart as well, we consider this as a corrective phase of the entire rally seen from December 2016 lows. Hence, it is fair to accept that we may not be able to see new highs at least for next few months.

Quantitative Strategies

MOTILAL OSWAL SECURITIES

Option Writing

STRATEGY 1

Writing against Cash / Fut Holding

Sell Bank of Baroda 170 CE 22-FEB-18 at ₹0.70		
Target Level	:	0
Stop Loss Level	:	1.00
Gross Monthly Yield	:	3.25%
ROI	:	3.40%
Margin	:	₹82,500
Days to Expiry	:	4

Writing with Hedging

Target Level	:	0
Stop Loss (Spread) Level	:	0.70
Gross Monthly Yield	:	2.15%
ROI	:	2.25%
Margin	:	₹80,000
Days to Expiry	:	4

STRATEGY 2

Writing against Cash / Future Holding

Sell JSPL 280 CE 22-FEB-18 at ₹1.25		
Target Level	:	0
Stop Loss Level	:	2
Gross Monthly Yield	:	3.75%
ROI	:	3.40%
Margin	:	₹1,65,000
Days to Expiry	:	4

Writing with Hedging

Leg 1 : Sell JSPL 280 CE 22-FEB-18 at ₹1.25		
Leg 2 : Buy JSPL 290 CE 22-FEB-18 at ₹0.80		
Target Level	:	0
Stop Loss (Spread) Level	:	0.70
Gross Monthly Yield	:	1.34%
ROI	:	1.25%
Margin	:	₹1,61,000
Days to Expiry	:	4

Pair Trading

STRATEGY 1

Leg 1 : Buy IGL 1 LOT 22-FEB-18 at ₹295.55 and 421 shares in cash		
Leg 2 : Sell GAIL 1 LOT 22-FEB-18 at ₹468.65		
Tenure	:	4 Days
Target Profit	:	3.95%
Stop Loss	:	1.80%
Margin	:	₹3,51,000

This pair has 96% correlation over the last one year. Pair has trade lot ratio of 1.20 with price ratio of 0.63. The pair is well co-integrated and turning higher to its lower band of Bollinger so expecting it to test the mean or even upper band of 2 SD as per statistical data.

Pair Trading

STRATEGY 2

Leg 1 : Buy HDFC 1 LOT 22-FEB-18 @ 1814.45		
Leg 2 : Sell HDFC BANK 1 LOT 22-FEB-18 @ 1876.35		
Tenure	:	4 Days
Target Profit	:	3.60%
Stop Loss	:	1.70%
Margin	:	3,03,000

This pair has 96% correlation over the last one year. Pair has Trade lot ratio of 1 with price ratio of 0.97. It is well co-integrated and one of the best pair to deliver the consistent return in last one year. In the last two week pair has narrowed down from 0.97 and expecting it to oscillate in between 0.94 to 1.05 for next coming sessions.