

Weekly Market Outlook

May 27, 2024 thru May 31, 2024

Milan Vaishnav, CMT, MSTA



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Week Ahead: NIFTY Set To Move Within This Volatile Range; Curtailing Leveraged Exposures Is Recommended

It was a truncated day for the markets; over the past four trading sessions, the Indian equities continued to edge higher and ended on a fresh lifetime high. The volatility too remained at elevated levels. As mentioned in the previous technical note, the markets are building up ahead of the General Election results on June 4th; this is one of the major external events that affect the markets. Over the past four sessions, the Nifty maintained a buoyant trajectory; it oscillated in a 621.85-point range. Volatility also continued spiking higher; India VIX surged by another 9.66% to 21.71. Following a strongly trending week, the headline index closed with a net weekly gain of 491 points (+2.19%).



Over the past weeks, we have seen the Nifty and the VIX rising simultaneously. Past instances have shown that such a phenomenon often ends up acting as a precursor to any impending corrective move. We had into the expiry of the current month's derivative series; Nifty has built up fresh OI at 23000 and 23500 levels on the upside. On the lower side, 22500 has been seen building support as per the options data. The derivatives data show that the Nifty is gearing up for a volatile move on either side while it navigates the election outcome.

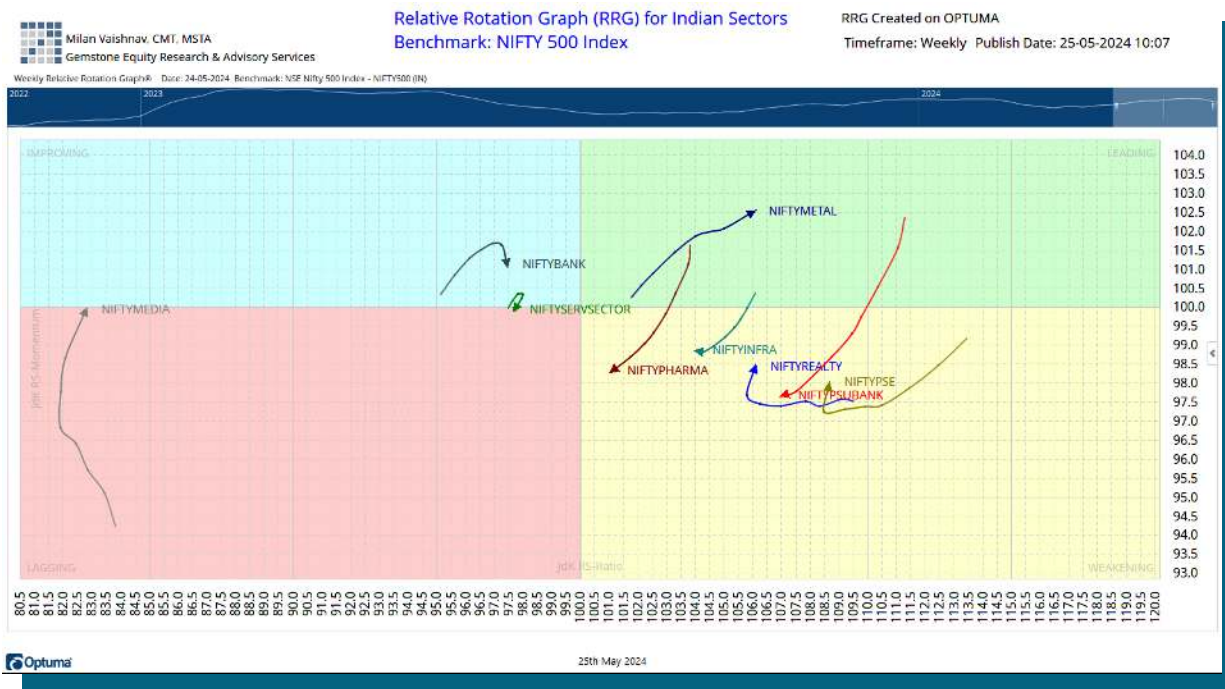
The coming week may see a stable start to the trade; the levels of 23200 and 23350 are likely to act as immediate resistance levels. The supports come in at 22700 and 23550 levels.

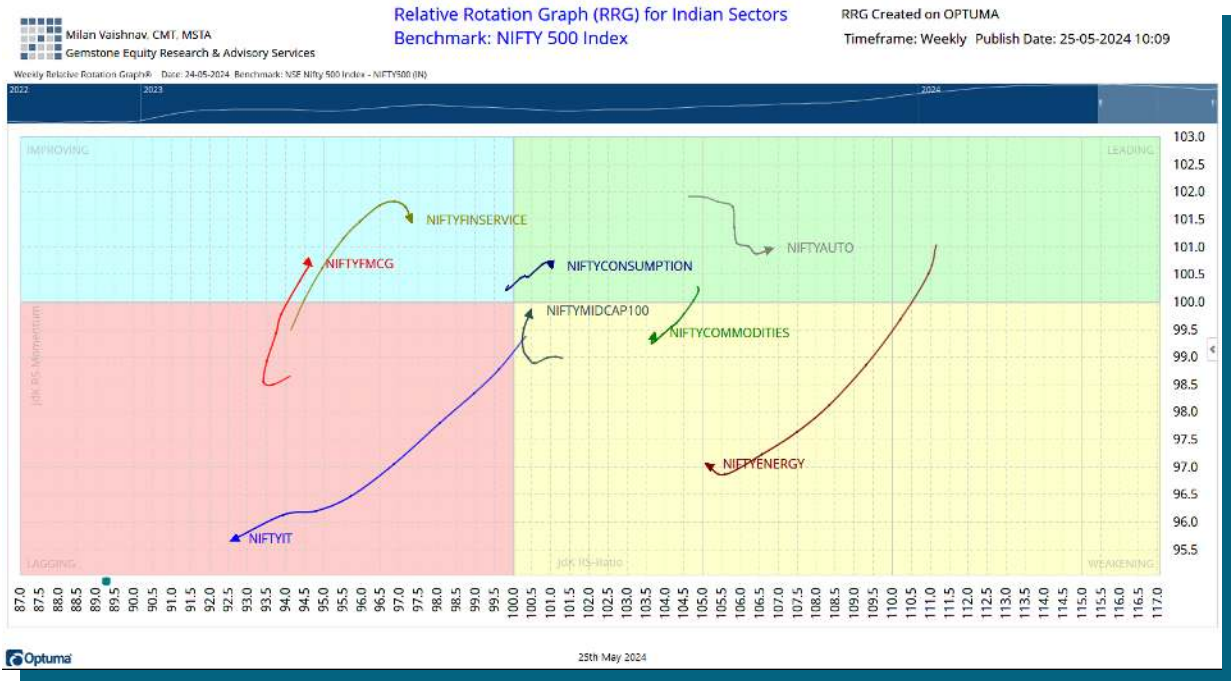
The weekly RSI is 67.29; it shows a mild bearish divergence against the price. The weekly MACD is bearish and trades below its signal line. A strong white-bodied candle shows a buoyant trend that existed throughout the week.

The pattern analysis of the weekly chart continues to show Nifty staying in a small rising channel; however, the nearest support in the form of a 20-week MA exists way below at 22179. So the slightest of the corrective bout has got significant downsides from the current levels. The 50-DMA is placed at 22342. So on a broader note, the immediate support zone for the Index exists at 22150-22350 levels. While the markets may stay in a broad range so long as they are above this zone, any violation of this support zone will inflict technical damage on the charts.

Overall, as we navigate the coming monthly derivatives expiry week and the general election outcome after that, it would be extremely important to prepare for the volatility that we are set to witness in the markets. It would be prudent to curtail leveraged exposures. Fresh buying should be kept limited to defensive and low-beta stocks; exposures in stocks with either strong or improving relative strength would be an added advantage. While enforcing strict protective stops and opting for hedges wherever possible, a very cautious approach is advised in the coming week.

In our look at Relative Rotation Graphs[®], we compared various sectors against CNX500 (NIFTY 500 Index), which represents over 95% of the free float market cap of all the stocks listed





Relative Rotation Graphs (RRG) show that the Nifty Auto, Consumption, and Metal Index stays inside the leading quadrant. These groups are likely to continue to relatively outperform the broader markets.

While staying inside the weakening quadrant, both Realty and PSE indices are showing improvement in their relative momentum against the broader markets along with the Commodities and Midcap 100 index. Besides this, the PSU Bank, Pharma, Infrastructure, and Energy index are also placed inside the weakening quadrant.

The Nifty IT Index continues to languish inside the lagging quadrant of the RRG. It is likely to relatively underperform the broader Nifty 500 Index. The Media Index is also placed inside the lagging quadrant. However, it is seen sharply improving its relative momentum and is on the verge of rolling inside the improving quadrant. The Nifty Services sector index has rolled back inside the lagging quadrant.

The FMCG index stays firmly placed inside the improving quadrant. The Nifty Financial Services and the Nifty Bank Index are also placed inside the improving quadrant.

Important Note: RRG™ charts show the relative strength and momentum of a group of stocks. In the above Chart, they show relative performance against NIFTY500 Index (Broader Markets) and should not be used directly as buy or sell signals.

Milan Vaishnav, CMT, MSTA

Consulting Technical Analyst | Member: (CMT Association, USA | CSTA, Canada | STA, UK) | (Research Analyst, SEBI Reg. No. INH000003341)

