

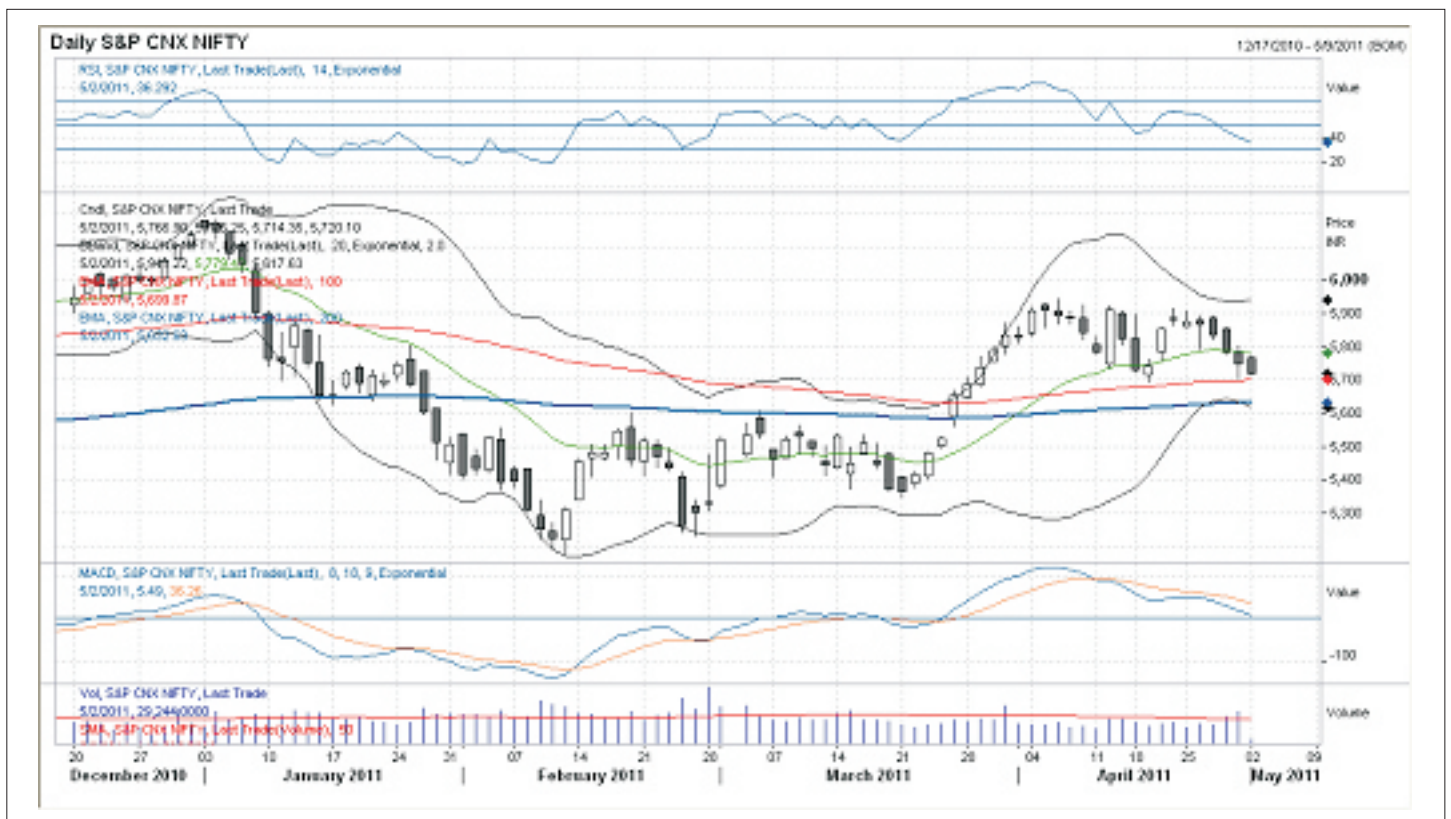


NSE Nifty : 5749.50

BSE Sensex : 19135.96

May 2, 2011

To the initial slump at the start of the new calendar year, the Indian equity market reacted with a remarkable recovery. Despite of the heavy volatility during the pullback rally, the indices retraced nearly 15% from the February lows. During the course, the market went past a number of major technical levels, including the 200-days moving average. Currently, the market is understood to be trading in a crucial phase. The current market structure makes the recent high critical for further upside.



Market Ahead

The recovery run seems to have entered the consolidation stage and has slipped into selling mode. The current market structure makes the recent high critical for further upside – a failure can be disturbing for the time ahead. The deteriorating enthusiasm in some of the technical indicators is also pointing towards this concern. Such a critical level for NSE Nifty comes at 5960 and the same for BSE Sensex is at 19850.

In the daily chart for Nifty (and Sensex) the MACD has formed a 'bearish crossover', which adds to the doubt on the short/medium term uptrend. The view is substantiated by the position of the Stochastic Oscillator in the weekly chart, which is retracing from the overbought territory. The dropping Money flow is yet another indicator which shows the same feature – Chaikin's money flow index is slipping below the oscillation mark. All these are indicating towards the *short-term* weakness.

However, the above mentioned are the views for the short-term. The medium-term outlook will possibly remain intact as long as Nifty manages to stay above the critical support of 5580 on a closing basis. Any continuation of sell-off below this will find strong support at around 5200. As mentioned above, 5960 will be the deciding resistance. The Index has to close and remain above this to boost the upside back towards 6300 levels in the time ahead. Moreover, if the index sustains above the critical mark mentioned above, there are chances that the market will once again test the highs and the upside will even escalate to the first resistance mentioned above.

[The fact that the market “failed” the 5400-mark in the January correction is understood to have resulted in a direction shift in the medium-term Elliott Wave outlook.](#) Moreover, the market indices have reached the first target of upside. The scope of medium-term downside cannot be ruled out. This will pull down the medium-term direction further, if breaks below 5200.

Wrap Up

To wrap-up, considering the current market structure, the range of 5960-5580 will be critical for the short / medium-term market. A break beyond these will possibly stretch the momentum towards that direction. The technical indicators are reporting a negative story. However, if the selling emerges, the market will probably bounce back from the supports mentioned above.

Even though the Foreign Institutional Investors (FIIs) started the year in a selling mode, they came back with heavy buying in the equity segment in the last couple of months, taking the net outlay for the year to Rs. 13121.30 crore (as on 27th April, 2011). The announcement from the Reserve Bank of India's monetary policy meeting scheduled to May 3, 2011, will be a trigger for further direction.

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