

Summary:

Have Indian equity markets ceased to attract the foreign investment? The domestic equity markets, which surged nearly 30% last year, seems to have lost its steam. The Nifty index has gained just 0.20% in last 16 weeks i.e. since the start of 2015. During this period, Nifty made its all time high of 9119 levels, after the policy rate cut and forward looking budget by Modi Government, however it could not sustain the gains. In a bull run, generally earnings tend to catch up with the prices but in case of Indian markets the prices have corrected to be line with lack-luster earnings.

Nifty Index Weekly Chart



In the recent leg of correction, the Nifty index has been insulated from the global cues as the concerns of weak corporate earnings weighed on the prices. The market tumbled nearly 400 points primarily driven by Pharma and IT sector. The CNX IT has corrected more than 5% as IT giants have posted dismal performance. The trailing P/E has corrected from 23.60 levels to 22.60 levels.

In the weekly chart of Nifty, prices have formed a Head & Shoulder Pattern which is a Bearish Reversal Pattern. Nifty is currently trading near the crucial support of 8260 which is the previous bottom and also the neckline of the Head & Shoulder Pattern. Nifty while forming the Head has formed a Double Top which is also a Bearish Reversal Pattern. If nifty gives a weekly close below 8260, we expect the reversal of uptrend in nifty where nifty could correct another 8-10% but if the prices take support at 8260 and starts its upward journey there is a possibility of 5-6% move up to 8700 level which is the bottom to bottom falling trend line resistance.

USDINR Weekly Chart



In the above weekly chart of USDINR, prices have given a Contracting Triangle Breakout above the levels of 62.63. Weekly RSI has given a positive crossover. We expect this up move in the pair to go up to levels of 63.20-50 which is the previous top. On the downside 62.60 which was the contracting triangle resistance has now become the support followed by 62.50 which is the bottom to bottom rising trend line support. As there is a breakout in the pair, we also expect the volatility in USDINR to increase.

The Indian rupee has given a breakout from the contracting triangle formation triggered by steep correction in equity markets. The volatility in USDINR pair, which surged to its one month high levels, is likely to remain elevated. Going forward, the movement in rupee would be driven global cues and quantum of foreign investment in domestic equity markets.

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