

December 18, 2018

Derivatives View

[Intraday](#)

[Positional](#)

Recommendations in the report

Action	I-Direct Code	Target 1	Target 2	Stoploss	Time frame
Buy RELIND DEC Fut at ₹ 1139.00-1140.00	RELIND	1151.0	1169.0	1127.0	Intraday
Sell LUPIN DEC Fut at ₹ 843.00-844.00	LUPIN	835.4	822.6	852.6	Intraday

Other Product offerings

Derivatives Strategy

Underlying	Action
ACC	Buy
Bharat Forge	Sell
Voltas	Buy
Duration : 1-2 months	

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Quant (Derivatives) Pick

Underlying	Action
Biocon	Buy
L&T	Buy
Asian Paints	Buy
Duration : 1-3 months	

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Index Outlook

- ❖ **Nifty Future:** The Nifty is likely to open flat to negative on the back of weak global cues. Buy Nifty in the range of 10855-10870, Target: 10887-10912, Stop loss: 10837

Bank Nifty Future:

- ❖ The index started the week on a cheerful note and traded well above the sizeable Call base of 27000. Despite Kotak Mahindra Bank seeing selling pressure, other private banks led the show and helped the index to end near the day's high. Put OI blocks were seen in 26500 strike, which is likely to be the support for December expiry. We feel the upside is likely to continue and one can sell OTM Puts. Buy Bank Nifty in the range of 26900-26950, Target: 27050-27180, Stop loss: 26800

F&O Highlights

- ❖ The short covering trend that started from 10300 levels continued for a fifth day in a row along with declining IV trend. Industry heavyweights like Reliance Industries, HDFC group, Tata Motors, ITC along with select metals performed well. Looking at the additions in 10700 Put, we feel it is safer to write OTM Puts instead of buying Calls

Stock Analysis

- ❖ **Long build-up/short covering:** BEML, Tata Motors, ITC, HDFC Group, Reliance Industries and Jindal Steel & Power
- ❖ **Short build-up/profit booking:** OFSS, Bharti Airtel, Reliance Infra, India Cement, Lupin and Tata Global

FII & DII Action

- ❖ FIIs sold ₹ 61 crore while DIIs sold ₹ 77 crore in the cash segment. FIIs sold index futures worth ₹ 320 crore while in index options they bought ₹ 21 crore. In the stock future segment, they bought ₹ 6 crore

Intraday Recommendations

i) Reliance Industries	ii) Lupin
Buy RELIND DEC Fut at ₹ 1139.00-1140.00	Sell LUPIN DEC Fut at ₹ 843.00-844.00
CMP: 1132	CMP: 847.1
Target 1: 1151 Target 2: 1169	Target 1: 835.4 Target 2: 822.6
Stop Loss: 1127	Stop Loss: 852.6

Note:

Call initiation message will be broadcast on iclick-2-gain

Source: NSE, Seeditf, Bloomberg ICICI Direct Research

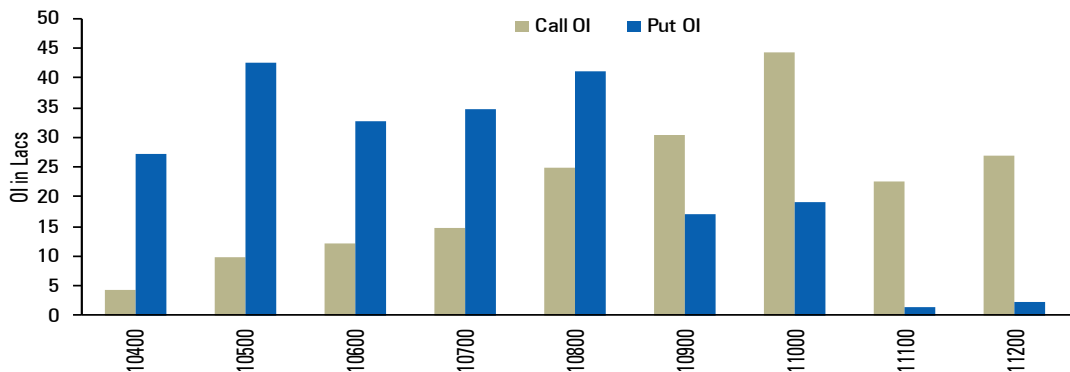
Highlights of the last session & Pivot Levels

	Spot	Fut	Basis	Future OI	PCR OI	PCR Vol	ATM IV
Current	10888	10911	23	22455075	1.67	1.10	14.50
Previous	10805	10820	15	22585125	1.62	1.20	15.10
Change (%)	0.77%	0.84%	-	-0.58%	-	-	-4.14%

Pivot levels (Dec)	S3	S2	S1	Piv	R1	R2	R3
Nifty future	10749	10824	10867	10899	10942	10974	11049
Bank Nifty future	26606	26824	26955	27042	27173	27260	27478

Nifty futures settled at a premium of 23 points with a fall in IVs by 4.1%

Nifty Options OI build-up



The highest Put base is at the 10000 strike with 50 lakh shares while the highest Call base is at the 11000 strike with 44 lakh shares

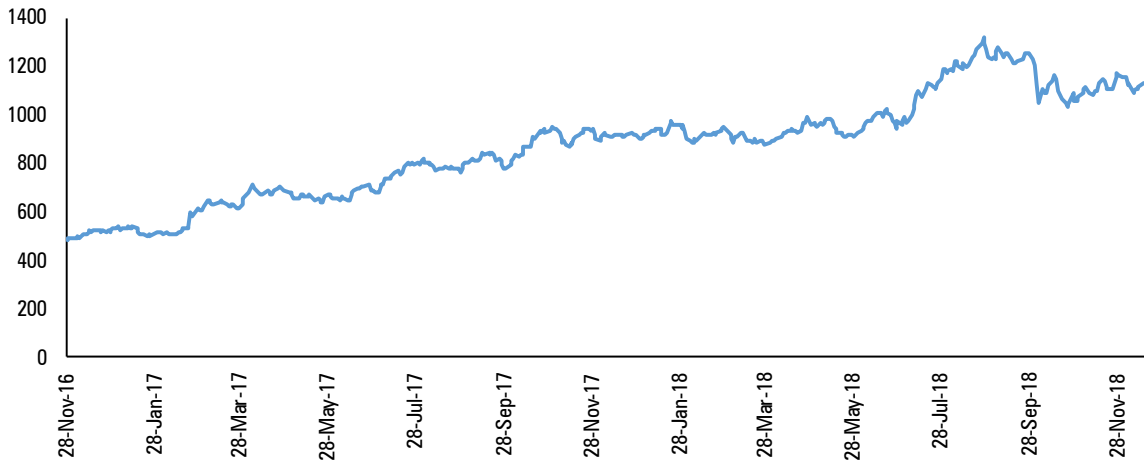
Strategy follow up

Date	Stock	View	Strategy	Reco	Target	SL	P&L	Comment
17-Dec-18	ASIPAI	Buy	Long Fut	1353.5	1363.0	1343.0	-	Not Initiated
17-Dec-18	JSWSTE	Sell	Short Fut	290.2	286.4	294.4	-	Not Initiated

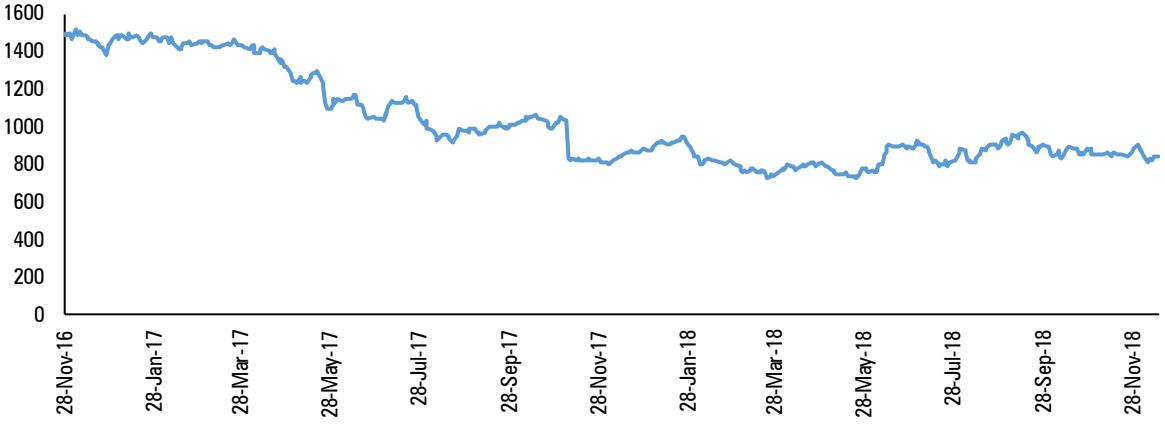
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Source: NSE, Seediff, Bloomberg ICICI Direct Research

Reliance Industries



Lupin Ltd



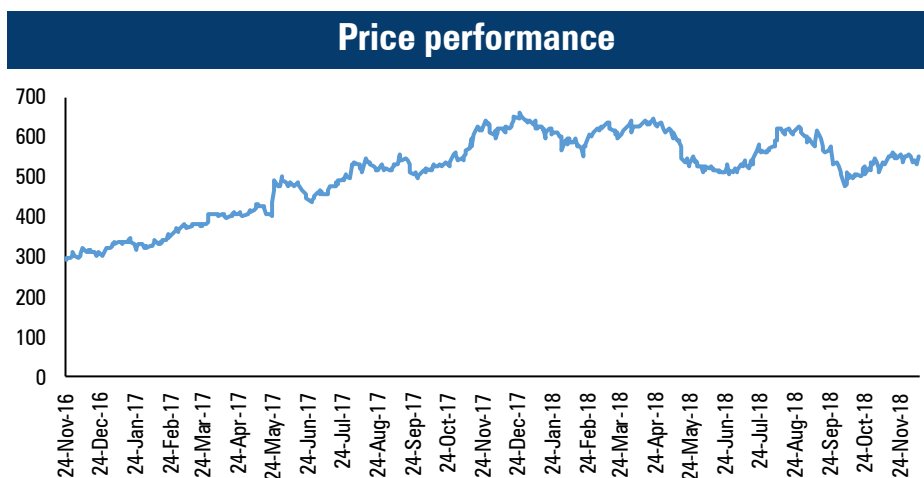
Source: NSE, Seediff, Bloomberg ICICI Direct Research
December 18, 2018

Weekly future recommendation

Buy Voltas Ltd (VOLTAS) December future in range of ₹ 560-565. Target: ₹ 630. Stop Loss: ₹ 530

Rationale

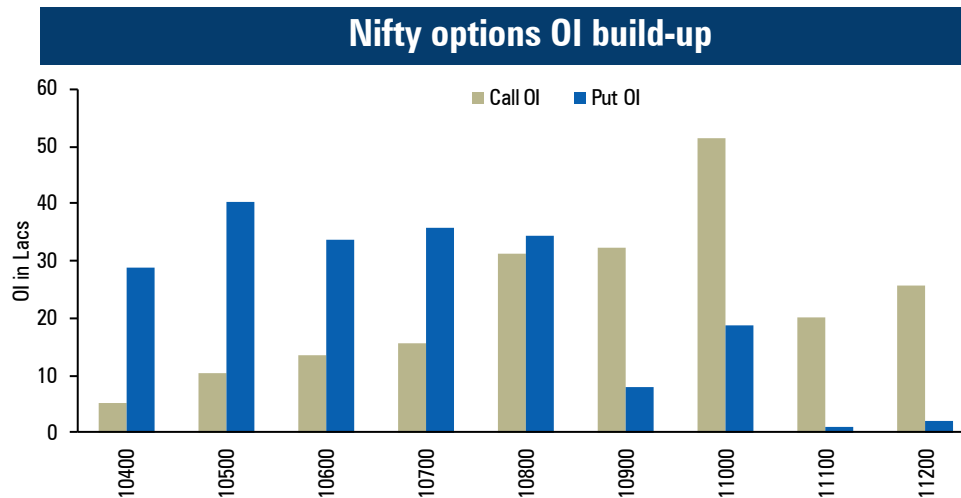
Post the state election verdict, renewed buying was seen in consumer discretionary stocks. Within the F&O category of consumer discretionary stocks, only Voltas is suggesting a strong risk reward pattern. The stock is also backed by two-month high delivery volume on election verdict date at an average price of ₹ 540. Current future OI in the stock of 6.7 million shares still has short bias. The same is getting reflected in the 100 bps discount vs. the spot price. Hence we recommend going long on the stock in the run up to December expiry, as short covering in the stock is likely.



Source: Bloomberg, ICICI Direct Research

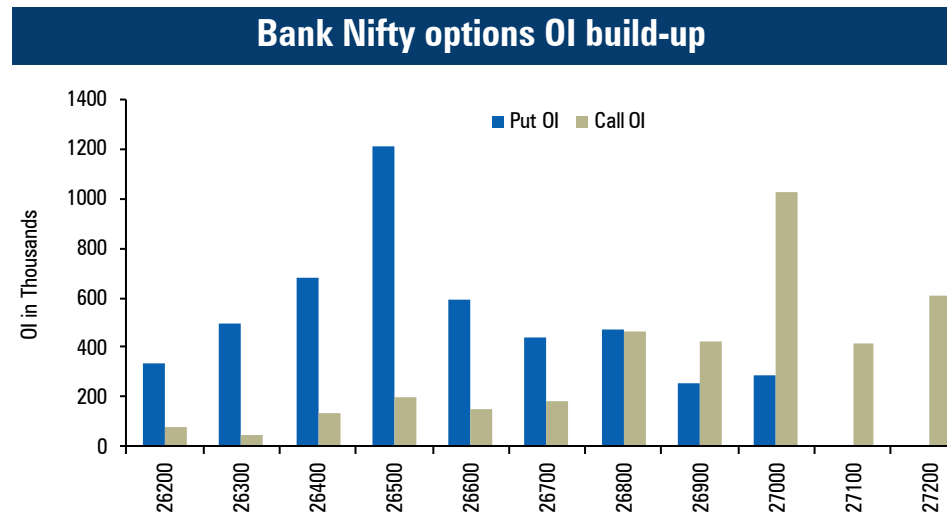
Nifty: Level of 10650 important support in current pullback...

- The Nifty witnessed a good pullback post the much awaited state election outcome. The lower difference in vote share of the party in power at the Centre led to this move
- The move was supported by DII flows who bought close to ₹ 3500 crore in the last few sessions of the week. In addition, closure of stuck up shorts was another reason for a sustained move of the Nifty
- The immediate support for the index is placed at 10700 where positions of Put writers are increasing. From December 10, this Put strike has seen an increase in the number of contracts from 27000 to 49000. On the other side, 11000 Call strike open interest has remained flat near 66000 contracts. This shows the Nifty is forming a higher base and a further up move can be seen towards expiry
- Stock specific short covering in the beaten down segments is clearly visible, which is leading to a broader market up move. Midcap and small cap indices are up more than 3% during the week while the Nifty is up only 1%
- Volatility has come down from more than 20% to 15% post the state election outcome, which is a good sign for the market. Also, the market moves, which were quite volatile would calm down on a lower volatility pattern



Source: Bloomberg, ICICI Direct Research

- Volatility remained extremely high for the index where it saw sharp moves on both sides. State election outcome and the government decision to appoint a new RBI head provided a sentimental boost to the Street. The Bank Nifty witnessed one of the sharpest recoveries since April and moved above 27000 levels
- Stability in the rupee near 71.5 levels against the US\$ is also seen as positive by Street participants. Post the event, the IVs fell sharply to 14% from 20%, indicating a continuance of the ongoing trend. We feel this will continue to attract OTM Put writing, which will provide required headroom to the index
- The 27000 Put added close to 6500 contracts last week. We feel the people have been buying protection against their long portfolio. A close above 27000 is likely to trigger short covering. Contracting IV has attracted OTM option writing in 26500 Put and 27500 Call. In case of any negative trigger, we do not feel the index will move below 26500. However, it is well placed to test 27500 in coming days
- The current price ratio of Bank Nifty/Nifty remained near 2.48 levels, which is the highest level of the price ratio since June 2018. We believe a close above 27000 would attract outperformance in banking stocks, which will push the ratio higher



Source: Bloomberg, ICICI Direct Research

Lower US growth forecasts & crucial FOMC meeting keeps fresh FII inflows at bay...

- US equity benchmarks failed to recover from the strong sell-off that was seen at the start of December. Additionally, yield on US 10-year continued to build on slower growth pricing for 2019 at play. However, the dollar continued to stay strong as the euro failed to recover on the back of a dovish ECB and increasing geopolitics uncertainties in Europe. EMs took cognisance of this risk-off tone and MSCI EM equity & forex closed almost flat for the week
- Fund flow fed on this risk-off tone as FIIs paused in their buying across key EMs. Outflows in the vicinity of US\$100 million were seen from Malaysia, South Korea and Thailand. Taiwan and Indian saw outflows of almost US\$500 million each
- In the Indian F&O segment, fresh long creation seen from FIIs in index future to the tune of US\$122 million. However, index option buying picked up recently as the Nifty neared 10800. For the week, their total index option buying aggregated US\$600 million
- Event wise, the upcoming FOMC meeting on December 20 has become the most important meeting in a long while. Post the last Fed meeting, the market was pricing in 2.1 rate hikes while dots plot suggested three rate hikes for 2019. However, since then, the market has sharply repriced the rate hike expectation to only up to two rate hikes as growth in GDP and EPS of 2018 was sharply revised lower for 2019 as fiscal stimulus is likely to fade out in 2019. A dovish dot plot could help revive the convergence trend between EMs and DMs

Fund flow action strongly improving					
Date	FII			DII	
	Index Fut	Stock Fut	Index Opt	Cash	Cash
7-Dec	86.0	119.3	-31.8	-128.8	33.8
10-Dec	-141.2	-118.8	9.4	54.7	-20.4
11-Dec	-88.7	93.7	6.1	-340.9	314.7
12-Dec	-68.2	-0.7	181.5	-188.7	156.5
13-Dec	334.2	-13.3	456.7	90.7	-7.3

Source: Bloomberg, ICICI Direct Research

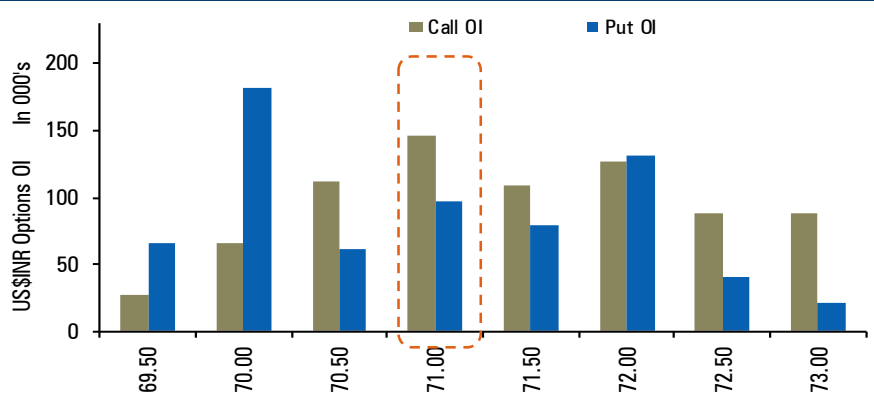
Rupee losses ahead of Federal Reserve's December monetary policy meeting...

- The US\$ is higher against major currencies this week ahead of Fed's monetary policy meeting next week. Any dovish assessment in the backdrop of declining US economic data could see liquidation in dollar long positions. The Euro remained steady post ECB's monetary policy meeting even as it has reduced growth projections and raised concerns of risk to the downside
- The rupee depreciated sharply during the week as a sudden unexpected resignation of the RBI governor along with changing political equations due to the outcome of state assembly elections weighed. We expect the rupee to remain in the range of 71.30–72.50 for next few session while upcoming Fed monetary policy meeting outcome to provide cues for EM currencies, including the rupee

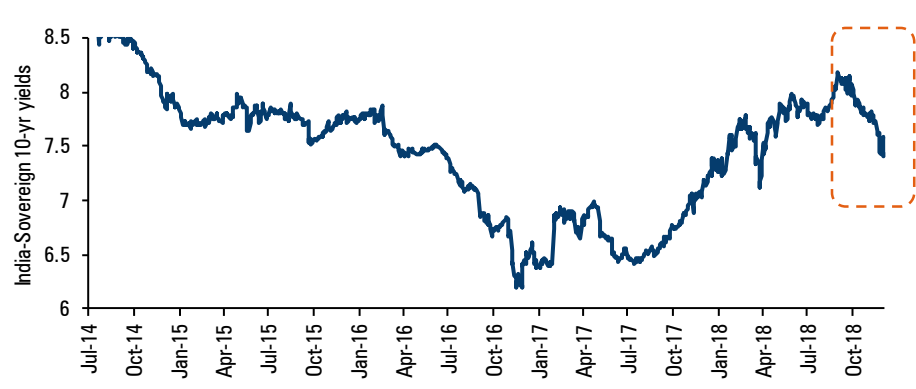
EM and DM currency vs. US\$...

Major currencies v/s US \$	cmp	pvs week	change %	Status
Dollar index	97.12	96.51	0.63	Appreciated
Euro €	1.1360	1.1379	-0.17	Depreciated
Japanese ¥	113.49	112.69	0.71	Depreciated
UK £	1.2631	1.2726	-0.75	Depreciated
Australian \$	0.7190	0.7208	-0.25	Depreciated
Canadian \$	1.3371	1.3322	0.37	Depreciated
Swiss franc	0.9940	0.9920	0.20	Depreciated
Emerging currencies v/s US\$				
Indian rupee	71.75	70.8075	1.33	Depreciated
Chinese yuan	6.8908	6.8743	0.24	Depreciated
Brazilian real	3.8907	3.9065	-0.40	Appreciated
Russian ruble	66.3615	66.4464	-0.13	Appreciated
South african rand	14.2401	14.1643	0.54	Depreciated
Indonesian rupee	14552	14480	0.50	Depreciated
S.korean won	1129.55	1119.69	0.88	Depreciated

US\$INR December options build-up



Decline in yields to help rupee contain depreciation



Open Interest Addition									
Long Build Up					Short Build Up				
Stock	Current OI	CMP	% Chg OI	% Chg price	Stock	Current OI	CMP	% Chg OI	% Chg price
COLPAL	2302	1308.2	39.77%	6.22%	Container Corp	2781	654	15.54%	-1.54%
TVS Ltd	7563	571.8	37.31%	5.08%	Auro Pharma	20855	728.15	15.49%	-3.52%
Torrent Pharma	848	1791	27.14%	5.72%	Arvind	2905	100.1	15.14%	-0.50%
IGL	2349	253.4	25.95%	1.44%	Dr Reddy	15148	2604	13.84%	-3.48%
SRF	1267	2194.3	21.24%	3.21%	Reliance	89535	1112.65	7.68%	-2.26%

Open Interest Closure									
Long Closure					Short Closure				
Stock	Current OI	CMP	% Chg OI	% Chg price	Stock	Current OI	CMP	% Chg OI	% Chg price
HDFCB IS Equity	47179	2100.7	-6.89%	-0.58%	Hexaware	2139	328.85	-17.86%	4.17%
KMB IS Equity	14326	1259.2	-3.59%	-2.05%	Amara Raja	1675	735.4	-17.69%	4.18%
TPW IS Equity	726	254.05	-1.36%	-1.51%	Coal India	19555	249	-17.29%	4.84%
					Ballarpur Ind	2887	936.15	-14.81%	4.64%
					Bank India	3724	88.5	-13.72%	10.97%

India:

- 20 December : India Economy Survey
- 12-15 December : Import, Export, Trade balance

Japan:

- 19 December : Trade Balance, Exports and Imports Data
- 20 December : All Industry Activity, Machine Tools Orders
- 21 December : National CPI Data
- 21 December : Nationwide Dept Sales and Tokyo Dept Stores Sales

US:

- 17 December : Empire Manufacturing
- 18 December : Housing Starts and Building Permit
- 19 December : MBA Mortgage Applications, Current Account Balance, Existing Home Sales
- 20 December : FOMC Rate Decision, Initial Jobless Claims and Continuing Claims, Leading Index,
- 19 December : GDP Data, Durable Goods Orders, Income & Spending Data

Euro zone:

- 17 December : Trade Balance and CPI
- 19 December : Consumer Confidence

Source: Bloomberg, ICICI Direct Research

Date	Scrip	Action	Recommendation
13-Dec-18	ACC	Buy	Positional Future : Buy ACC December futures in the range of 1493-1500; Target: 1630; Stoploss: 1418; Time Frame: Till Dec expiry

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Source: Bloomberg, ICICI Direct Research

Quant Picks: Open recommendations

Date	Scrip	Action	Buy Price	Target	SL	CMP	%Ret	Time Frame
30-Oct-18	Biocon	Buy	615-630	745	555	648		3 months
13-Nov-18	L&T	Buy	1365-1385	1595	1258	1411		3 months

Yearly Quant Picks								
12-Dec-18	Asian Paint	Buy	1290-1320	1635	1110	1341	1.6%	12 months
12-Dec-18	Ultratech Cement	Buy	3820-3900	4850	3320	4005	2.7%	12 months
12-Dec-18	Nestle	Buy	10550-10850	13550	9075	10986	1.7%	12 Months
12-Dec-18	United Spirits	Buy	605-625	775	520	627	1.1%	12 Months
12-Dec-18	Federal Bank	Buy	83-86	112	69.5	91	6.1%	12 months

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Source: Bloomberg, ICICI Direct Research

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Source: Bloomberg, ICICI Direct Research

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