

Technical Strategy: Buying opportunity amid consolidation, midcaps to outperform...

October 2020

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Buying opportunity amid consolidation, midcaps to outperform...

Technical Outlook..

Equity benchmarks pared initial gains and turned sharply lower in the second half of September amid elevated global volatility. The index has displayed signs of a slowdown in momentum for the first time since April as it formed a lower high-low on the monthly chart, indicating a pause in upward momentum after a 57% rally was seen over the past five months.

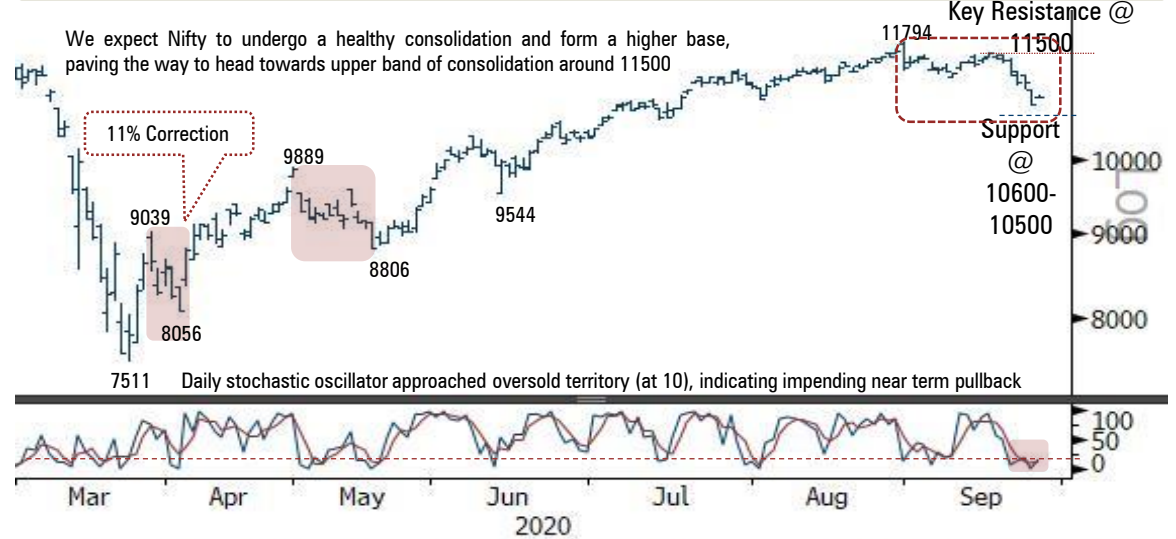
We believe the index is undergoing a secondary corrective phase that forms part of the larger degree uptrend. Going forward, we expect the index to extend the time wise consolidation in coming weeks as we enter the Q2FY21 result season while price wise correction will be limited. We believe the Nifty has immediate support at 200 days SMA around 10800. Only a breach below 10800 would lead to extended breather. However, we do not expect the index to breach the key support threshold of 10500-10600. Since March, intermediate corrections to the tune of 11% have formed a part of the large degree uptrend and presented an incremental buying opportunity. In the present scenario, the index has already seen a correction of ~8% from its lifetime high of 11794. We expect the index to maintain the same rhythm as it will complete 11% correction around 10500. Meanwhile, upside will be capped at last week's high of 11500.

Empirically, since 2009, post a sharp rally of more than 25% in Nifty midcap index, in the next five to six weeks average intermediate correction has been to the tune of 12%. In the current scenario, over the past four weeks the Nifty midcap index has corrected 9% from August high of 17555. We expect the index to maintain the same rhythm by arresting ongoing correction around 15500 (12% from August high) and maintain its relative outperformance.

Sectors	Outperformers	Bargain Buy
Pharma	Dr Reddys, Syngene, Ajanta Pharma, Pfizer, Hikal	Lupin, Natco Pharma, Abbott
Consumption	Berger Paints, Dabur, Zydus Wellness, Kajaria Ceramics, Voltas, Trent	Hindustan Unilever, Bajaj Electricals, Britannia
IT	Infosys, HCL Tech,, Persistent, TATA Elxsi	Sonata Software, Cyient
BFSI	HDFC Life, MCX	HDFC Bank, Axis Bank, BandhanBank
Auto	Hero Motocorp, Escorts, Balkrishna Inds	CEAT, Philips Carbon, Mahindra CIE
Capital goods and Infra	Ultratech Cement, Timken India,	L&T, BEL, Ramco Cements, BDL
Agro & Chemical	Coromandel , Atul, Vinati Organics, DeepakNitrite	Rallis, Sudarshan Chemicals
Midcaps	VST Tillers, Caplin Point, Adani Gas	Teamlease, Matrimony, EIH, PVR

Source: Spider Software, ICICI Direct Research
September 28, 2020

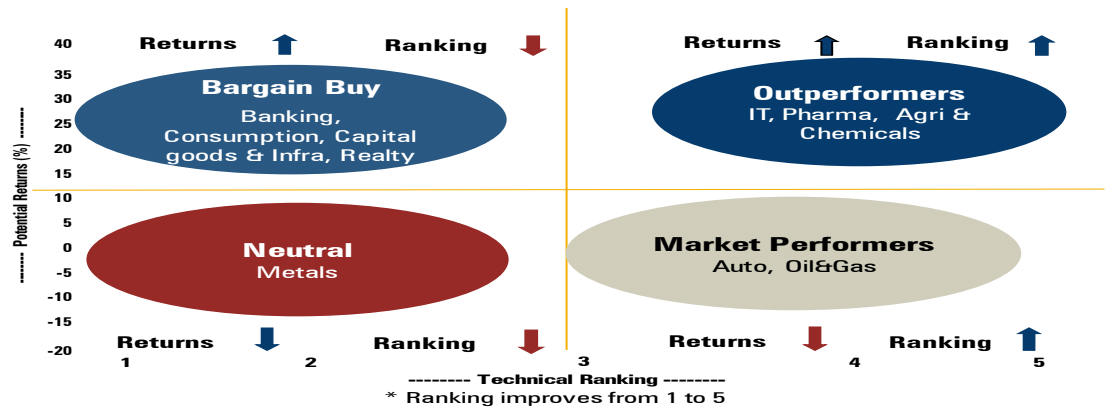
NSE Nifty Daily Bar Chart



NIFTY Index (NSE Nifty 50 Index) gladiator bar chart Daily 29MAR2020-25SEP2020

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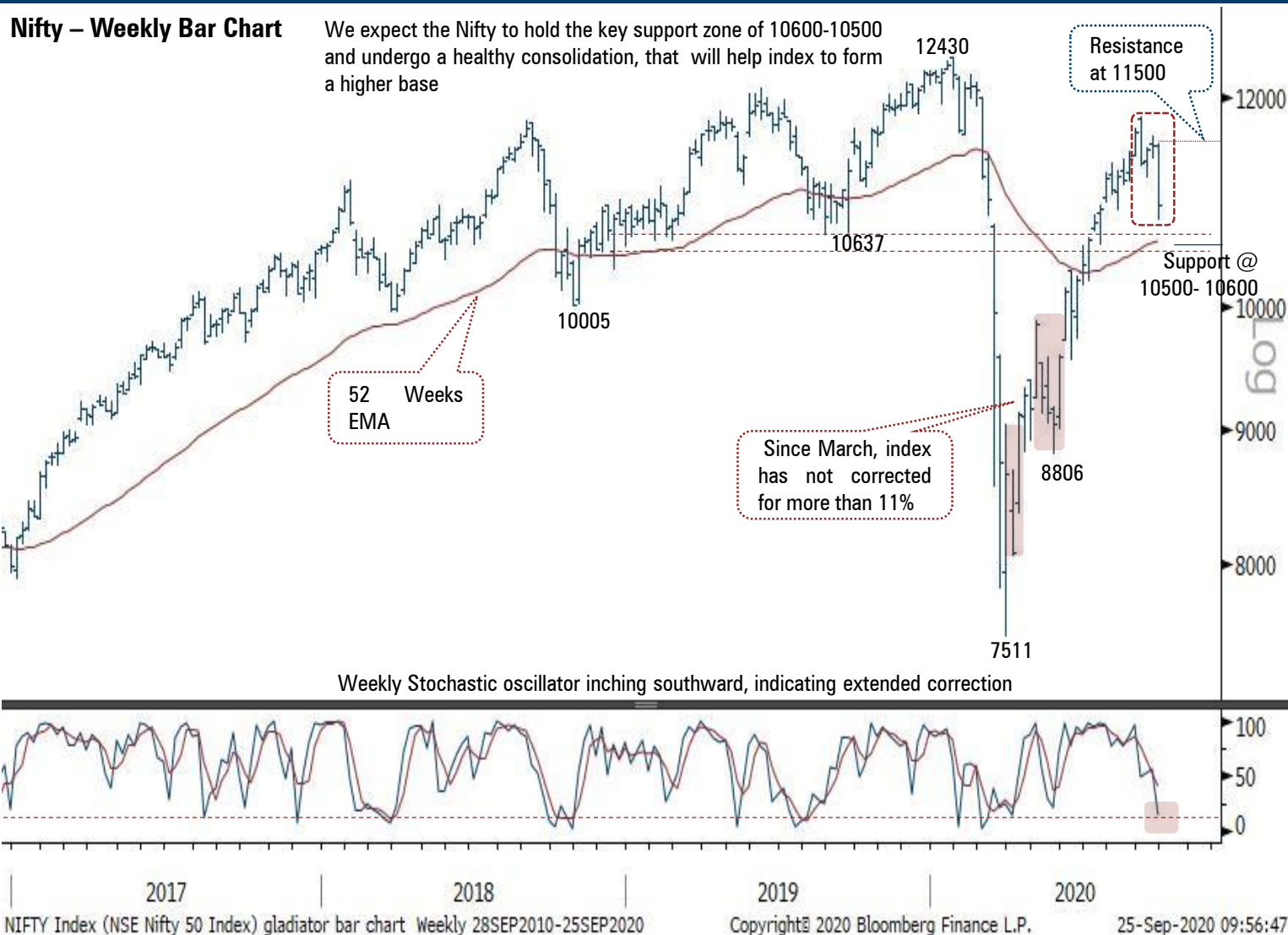
Relative rotation graph projection: Cyclical to outperform



Nifty: Consolidation amid stock specific action...

Nifty – Weekly Bar Chart

We expect the Nifty to hold the key support zone of 10600-10500 and undergo a healthy consolidation, that will help index to form a higher base



Technical Outlook

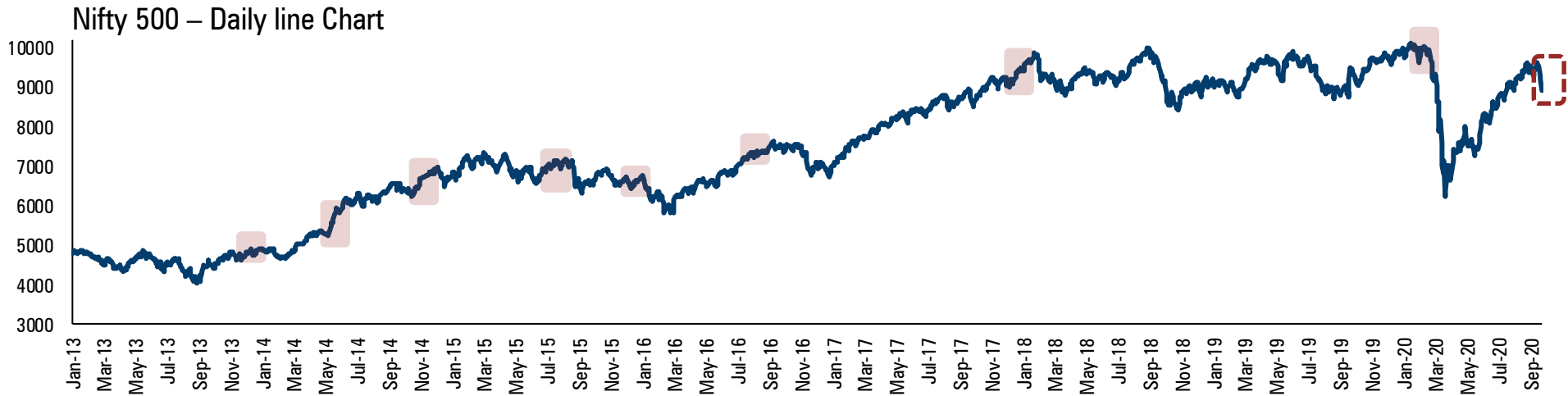
- The Nifty formed a lower high-low on the monthly chart for the first time since March, indicating a pause in upward momentum after a 57% up move was seen over the past five months
- Going ahead, we expect the Nifty to undergo a healthy consolidation as we enter the Q2FY21 result season that will help the index to form a higher base
- We believe the Nifty has immediate support at 200 days SMA around 10800. Only a breach below 10800 would lead to extended breather towards 11600-11500 zone. Since March, intermediate corrections to the tune of 11% have formed a part of the large degree uptrend and presented an incremental buying opportunity. In the present scenario, the index has already seen a correction of ~8% from its life-time high of 11794. Thus support zone of 10500-10600 will act as key support as it is:
 - a) price parity of May decline of 9889-8807 (11%) is placed at 10523
 - b) 52 weeks EMA is placed at 10588
 - c) 50% retracement of June- August rally (9544-11795), at 10670
- In the process, upside will be capped at 11500 as it is confluence of : a) 80% retracement of ongoing correction (11794-10790), at 11593, b) current week's high is placed at 11535

Source: Spider Software, ICICI Direct Research

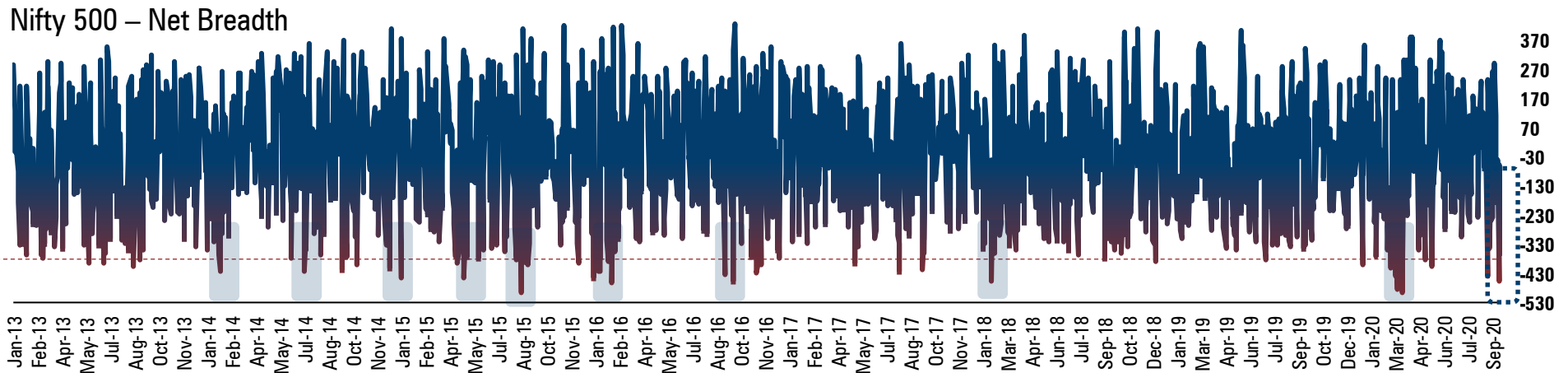
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Market breadth at bearish extreme; panic to offer buying opportunity



Empirically, Net advance - decline below -400 signifies market sentiment at its bearish extreme, offers favourable entry points from medium term perspective....



Source: Bloomberg, Spidersoftware, ICICI Direct Research
September 28, 2020

Midcap, small cap space outperformance to endure...

Nifty Midcap 100 – Weekly Chart

Rally	%	Weeks	Subsequent Correction	%	Weeks
May-Aug-2020	41	14	Aug-Sept	-8	4
Oct 2017-Jan 18	23	15	Jan-18-March 18	-16	10
Dec-16-May-17	36	20	May-17	-8	2
June-16-Oct-16	25	15	Oct 16- Dec-16 -	-16	11
Feb-June 2014	54	20	July-Aug-14	-9	5
May-Nov-2010	34	24	Nov-Dec 2010	-16	5
Mar-Jun -2009	98	13	June-July 2009	-15	5
Average	44	17		-12	6



Empirically, since 2009, post sharp rally of more than 25% in the Nifty midcap index, over next 5-6 weeks the average intermediate correction has been to the tune of 12%. In current scenario, over past four weeks as Nifty midcap index has corrected 9% from August high of 17555. We expect index to maintain the same rhythm by arresting ongoing correction around 15500 (12% from August high) and endure its relative outperformance against benchmark index Nifty.

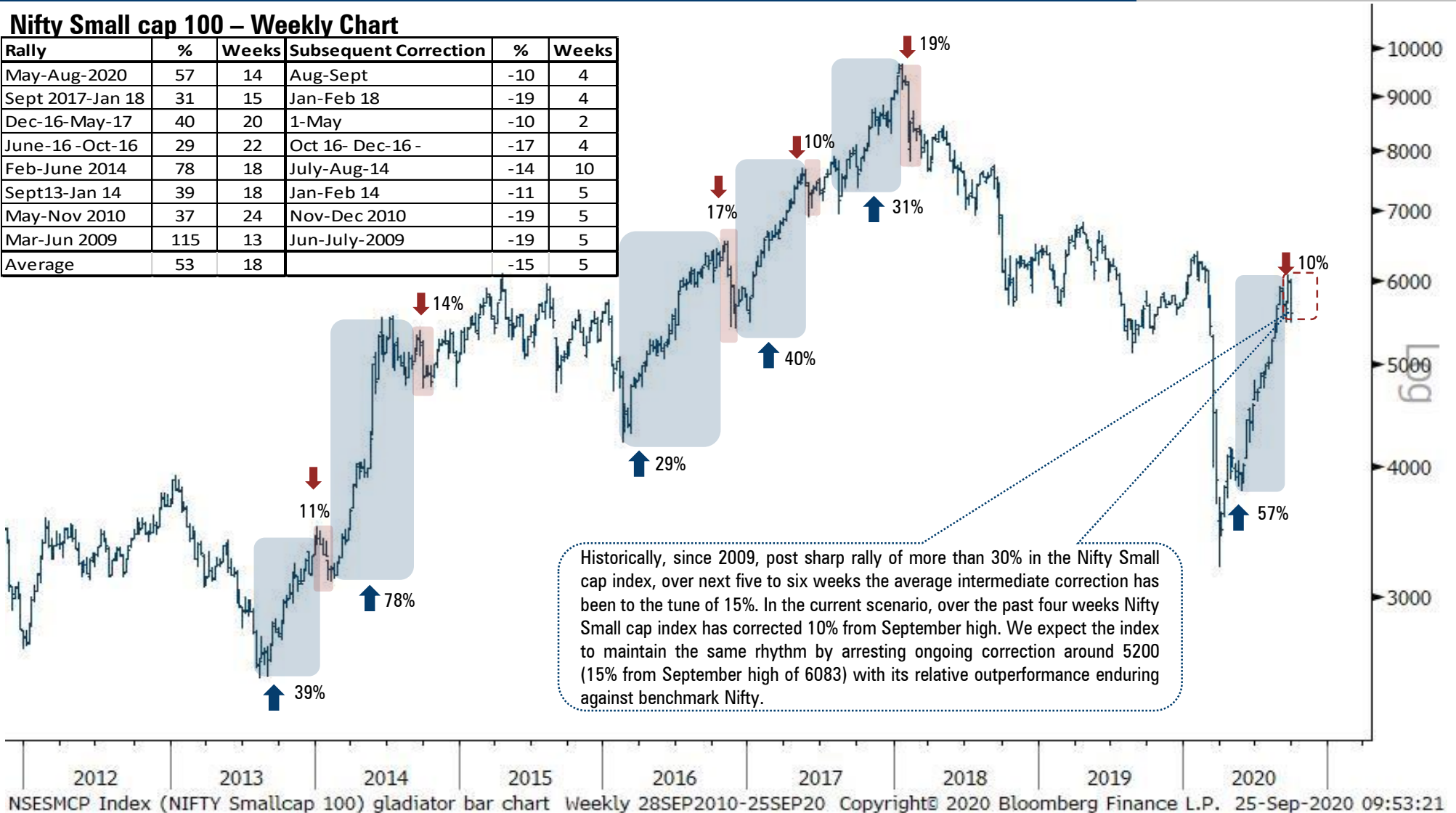
NSEMCAP Index (NIFTY Midcap 100) gladiator bar chart Weekly 28SEP2010-25SEP2020 Copyright© 2020 Bloomberg Finance L.P. 25-Sep-2020 09:50:11

Source: Bloomberg, Spidersoftware, ICICI Direct Research
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Midcap, small cap space to catch up, outperform benchmark

Nifty Small cap 100 – Weekly Chart

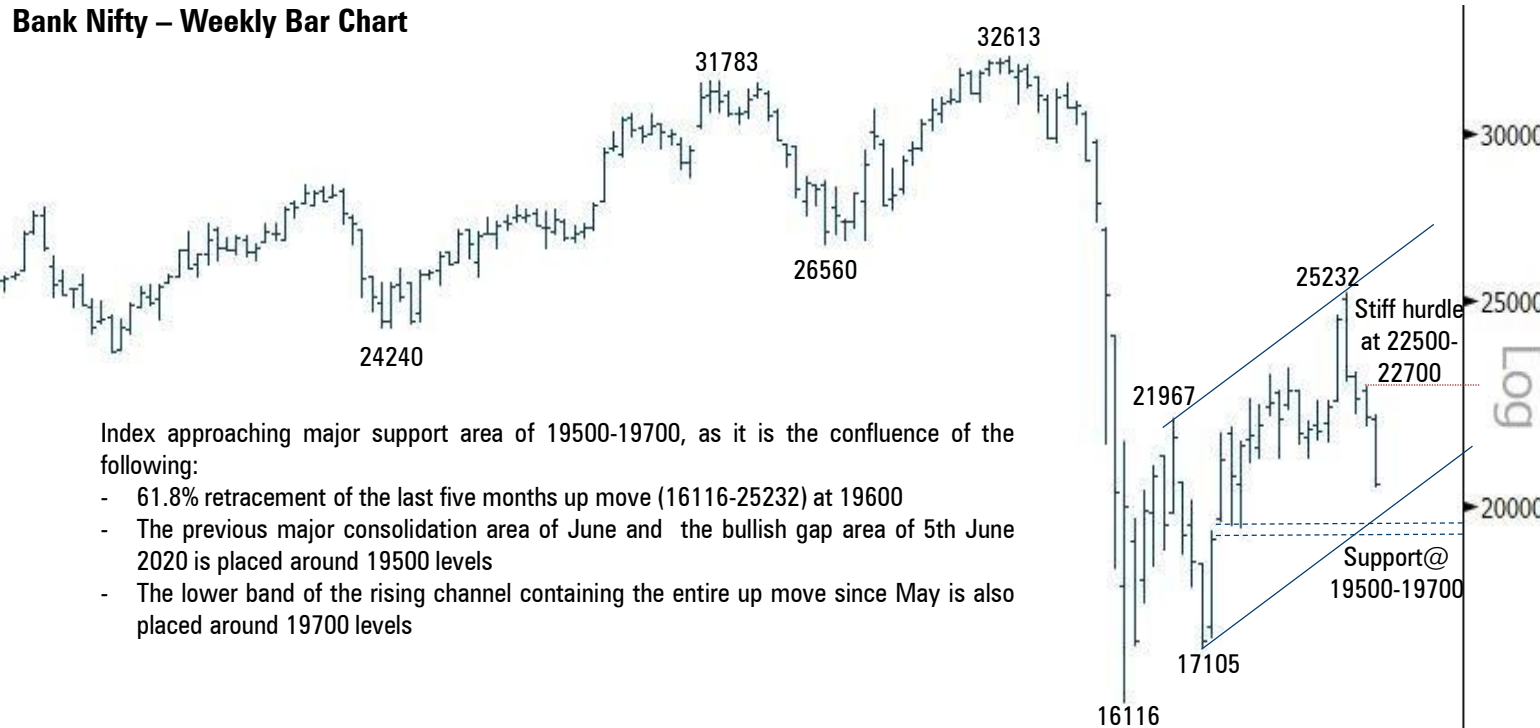
Rally	%	Weeks	Subsequent Correction	%	Weeks
May-Aug-2020	57	14	Aug-Sept	-10	4
Sept 2017-Jan 18	31	15	Jan-Feb 18	-19	4
Dec-16-May-17	40	20	1-May	-10	2
June-16-Oct-16	29	22	Oct 16- Dec-16 -	-17	4
Feb-June 2014	78	18	July-Aug-14	-14	10
Sept13-Jan 14	39	18	Jan-Feb 14	-11	5
May-Nov 2010	37	24	Nov-Dec 2010	-19	5
Mar-Jun 2009	115	13	Jun-July-2009	-19	5
Average	53	18		-15	5



NSESMCP Index (NIFTY Smallcap 100) gladiator bar chart Weekly 28SEP2010-25SEP20 Copyright© 2020 Bloomberg Finance L.P. 25-Sep-2020 09:53:21

Bank Nifty: Approaching major value area, thus offers favourable risk reward set up...

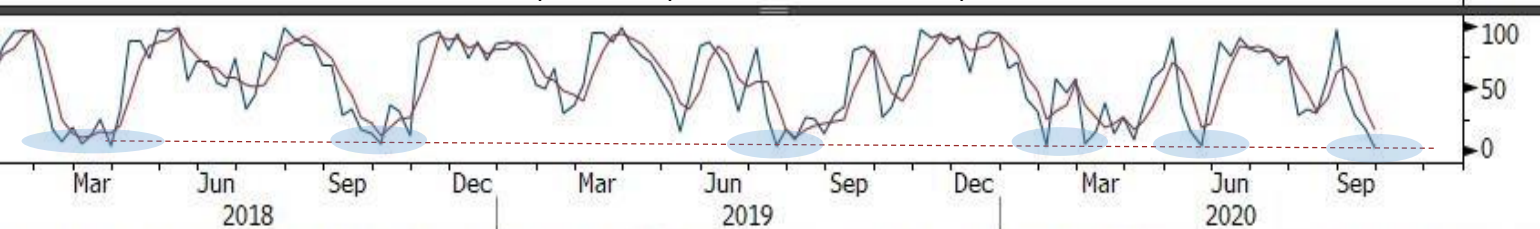
Bank Nifty – Weekly Bar Chart



Index approaching major support area of 19500-19700, as it is the confluence of the following:

- 61.8% retracement of the last five months up move (16116-25232) at 19600
- The previous major consolidation area of June and the bullish gap area of 5th June 2020 is placed around 19500 levels
- The lower band of the rising channel containing the entire up move since May is also placed around 19700 levels

Weekly Stochastic placed at an oversold territory

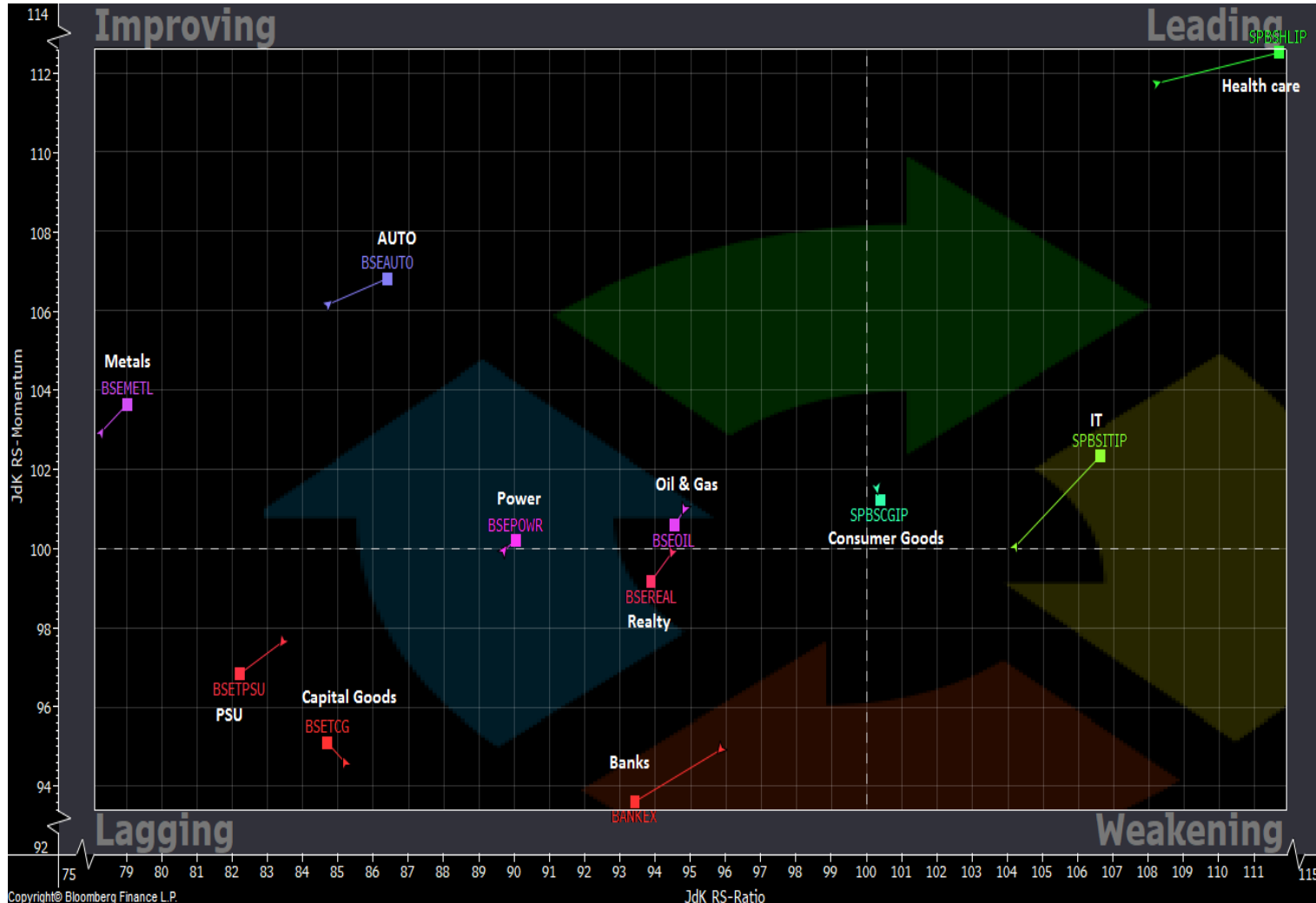


NSEBANK Index (NSE Nifty Bank Index) bar chart Weekly 20JAN2008-03JAN Copyright© 2020 Bloomberg Finance L.P. 25-Sep-2020 10:08:37

Technical Outlook

- The Bank Nifty after the recent profit booking is approaching major value area in the range of 19500-19700. We believe the current breather should not be seen as negative instead it should be used as an incremental buying opportunity in quality banking stocks as they provide a favourable risk reward set-up for the next leg of up move
- Since bottoming out in March 2020 (16116), the index has witnessed maximum correction of 22% during May as it corrected from 21967 to 17105. A similar magnitude of correction from the high of August 25232 also signals strong support around 19600
- On pullback, the index is expected face stiff hurdle around 22500-22700 as it is the upper band of the recent consolidation and the 50% retracement of the last four weeks decline (25232-20405) placed at 22600 levels
- Among oscillators, the weekly stochastic has also approached oversold territory with a reading of 14 and is placed near the major trend line support joining lows since March 2018 indicating impending pullback

Relative Rotation Graph – Month on Month



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Source: Bloomberg, ICICI Direct Research

September 28, 2020

Outlook

- IT and healthcare continue to remain in the Leading quadrant and witnessed improvement in both relative and momentum terms. IT, healthcare stocks after the last one week's breather are set to resume their primary up trend. Hence, we expect them to maintain their outperformance in coming months
- Banking stocks are currently placed near their major support area, thus providing a favourable risk reward set up for a bargain buy opportunity
- Consumer goods has entered into Leading quadrants as the Consumption stocks are witnessing rebound after higher base formation. Thus provides a bargain buy opportunity with a favourable risk reward set up
- Capital goods, infra and realty stocks witnessed a breather after the recent up move thus provides a bargain buy opportunity
- Auto stocks have seen a sharp rise in the last four months. We expect these stocks to enter a consolidation phase, thus performing in line with market in coming month
- Metals stocks are expected to continue their current profit booking trend in the coming month

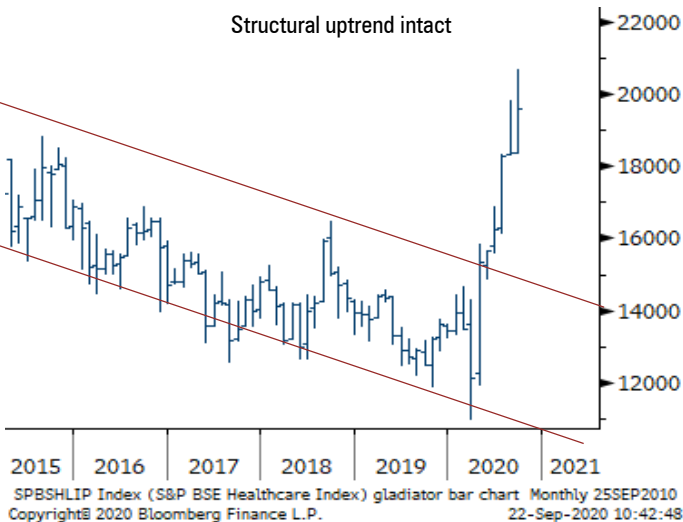
Sectoral indices – Relative to benchmarks

Relative Strength Comparative: Evaluating underlying strength

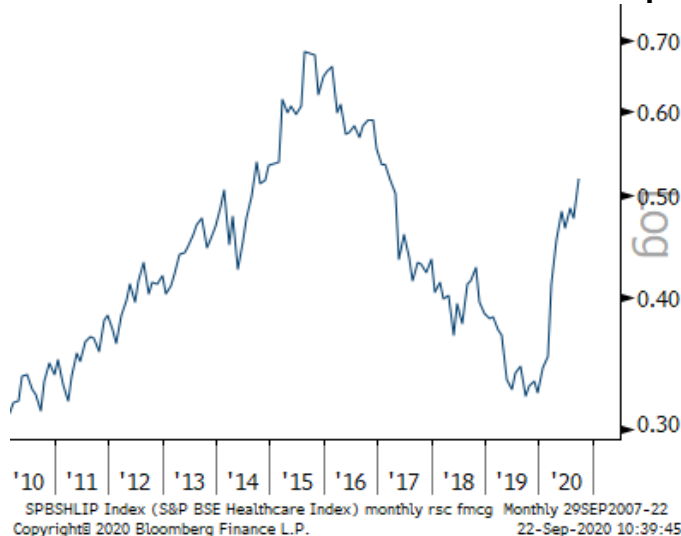
- To closely gauge the underlying strength in respective sectors vis-à-vis the benchmark, we analyse the Relative Strength Comparative (RSC) indicator. As the name suggests, it is a comparative measure of strength vis-à-vis a benchmark or a sector
- While the RSC line is rising, the sector is outperforming the general market i.e. it is either rising faster than the benchmark in an up trending market or going down less, in a down trending market or even rising. While the RSC line is falling, the sector is underperforming the broad equity market. If the market is going up, the sector is going up less or may be even going down. If the market is going down when the RSC line is falling, the sector is going down more than the market. A flat RSC line indicates in line market performance going up or down by the same magnitude
- The purpose of this exercise is to identify those sectors that are outperforming and avoid sectors that are underperforming

BSE Healthcare – Monthly Chart

Structural uptrend intact



BSE Healthcare Index vs. Sensex – Relative Comparison

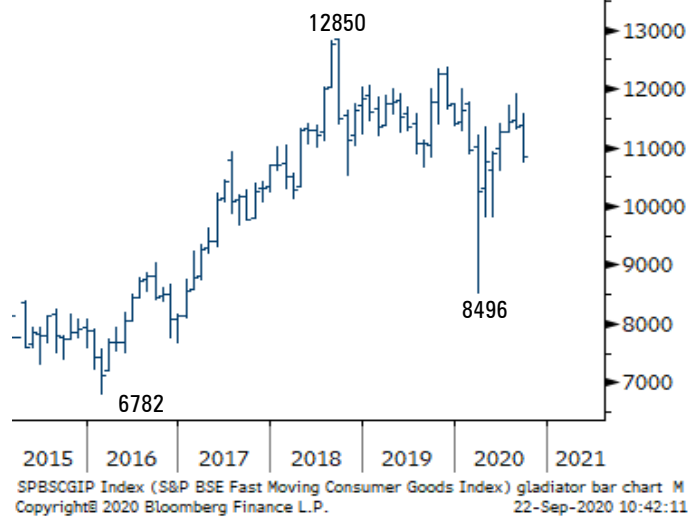


Technical Outlook

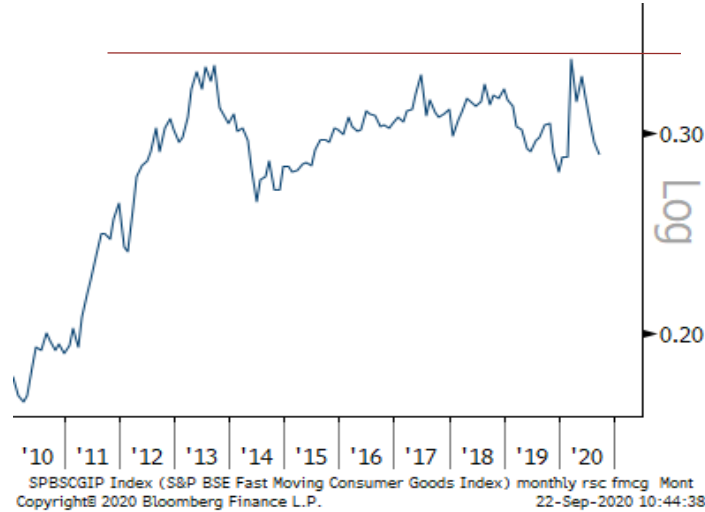
- The pharma and healthcare sector extended strong rally in September, thus maintaining its outperformer tag
- On Relative strength model, the sector is enjoying strong ranking supported by robust price structure. Although temporary profit booking cannot be ruled out, we expect it to continue its outperformance in coming month with declines offering a buying opportunity
- Technically we remain constructive on Dr Reddy's, Syngene, Ajanta Pharma, Pfizer and Hikal while Lupin, Natco Pharma and Abbott provide favourable risk-reward setup

Sectoral Indices – Relative to benchmarks

BSE FMCG– Monthly Chart



BSE FMCG Index vs. Sensex – Relative Comparison

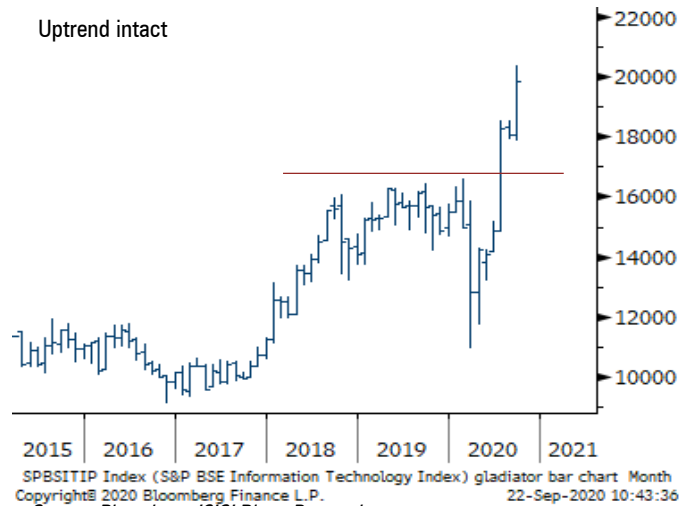


Technical Outlook

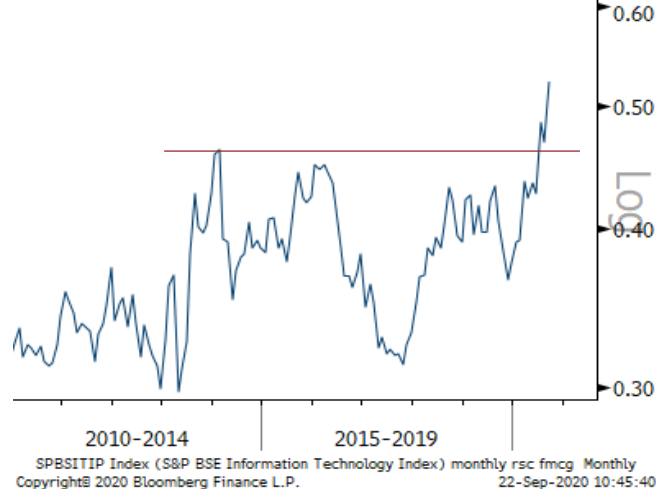
- The consumption space witnessed a divided performance as staples underperformed while discretionary space witnessed resilience
- In relative terms, ratio declined sharply due to underperformance of the FMCG heavyweights. We expect discretionary stocks to stay resilient while staples are approaching oversold zone
- We expect Berger Paints, Dabur, Zydus Wellness, Kajaria Ceramics, Voltas and Trent to outperform while Hindustan Unilever, Bajaj Electricals and Britannia are priced attractively

BSE IT – Weekly Chart

Uptrend intact



BSE IT vs. Sensex – Relative Comparison



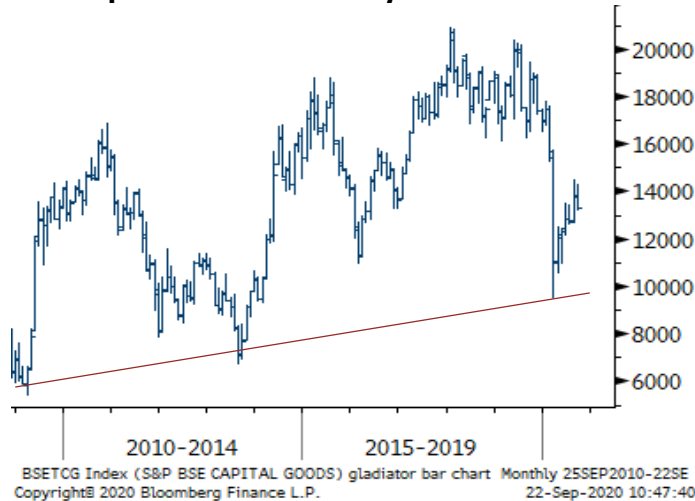
Technical Outlook

- The IT index surged to new all time after prior month breather
- In relative terms, sector is clearly exhibiting extended outperformance and expected to maintain its leadership profile backed by robust price structure
- We remain structurally bullish on Infosys, HCL Tech, Persistent and Tata Elxsi while Cyient and Sonata Software provide favourable risk reward setups

Source: Bloomberg, ICICI Direct Research
September 28, 2020

Sectoral Indices – Relative to benchmarks

BSE Capital Goods – Monthly Chart



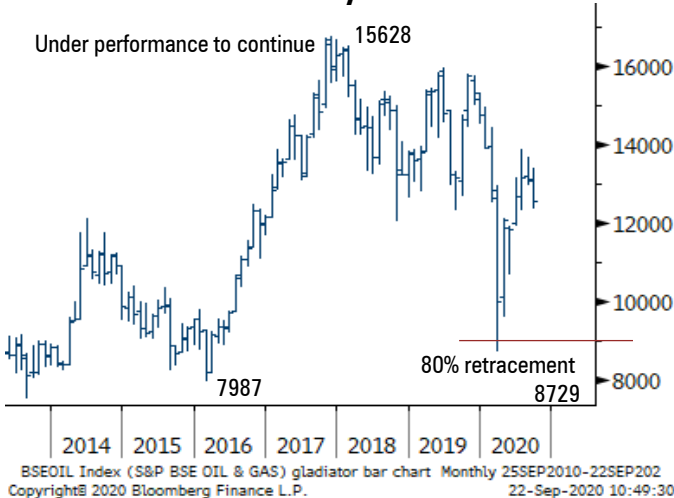
BSE CG vs. Sensex – Relative Comparison



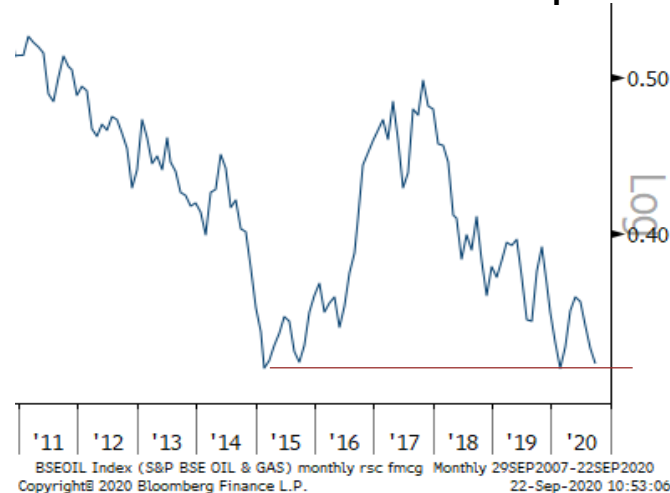
Technical Outlook- Cag goods & Infra

- Capital goods and Infra sector remained underperformers against benchmark
- Most capital goods companies are oversold and technical pull back cannot be ruled out, however on relative terms sector is likely to under perform amid stock specific action
- Stocks like UltraTech and Timken are expected to outperform while L&T, BEL, Ramco Cements and BEL provide favourable risk risk-reward setup

BSE Oil & Gas – Monthly Chart



BSE Oil & Gas vs. Sensex – Relative Comparison



Technical Outlook

- The index formed lower high-low as upstream oil companies and OMCs extended decline
- In relative terms, ratio has once again approached its March lows which coincides with CY14,CY15 lows and therefore a technical pull back from oversold trajectory is not ruled out
- Stocks like Adani Gas, Gujarat Gas are expected to outperform while risk reward has turned favourable in OMCs after sharp decline over pat two months

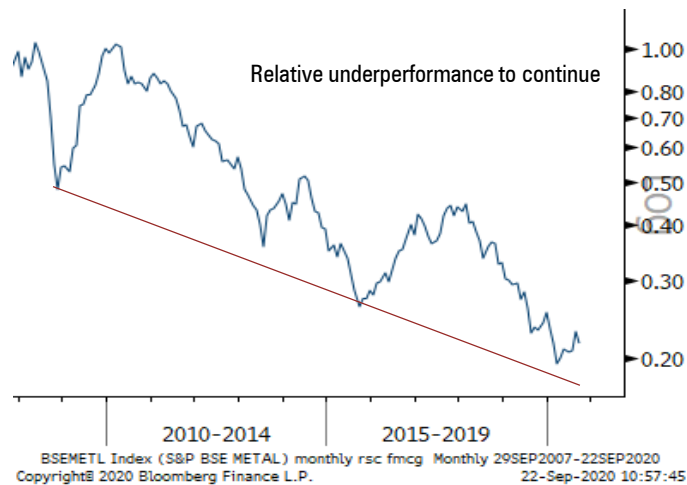
Source: Bloomberg, ICICI Direct Research
September 28, 2020

Sectoral Indices – Relative to benchmarks

BSE Metal – Monthly Chart



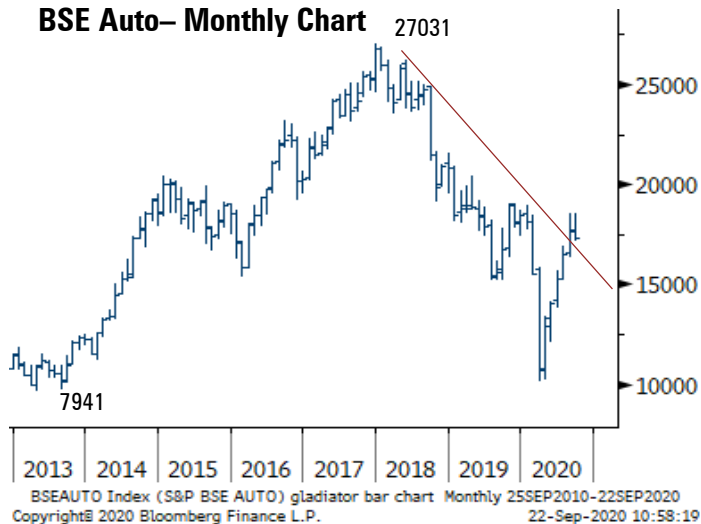
BSE Metal vs. Sensex– Relative Comparison



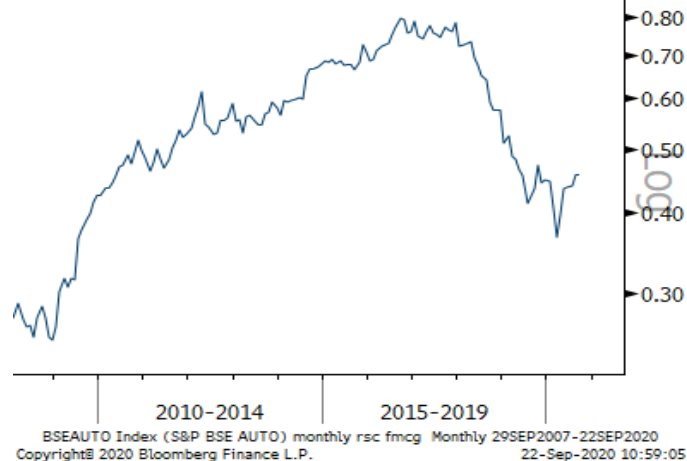
Technical Outlook

- The index reacted lower after past four month rally as profit booking emerged in base metal prices amid Dollar strength
- Structurally, index is expected to undergo higher base formation before next up leg resumes
- Ratio line seen trending up after bouncing from major support. However in the short term expected to underperform
- One should wait for a base formation before entering the sector

BSE Auto– Monthly Chart



BSE Auto Index vs. Sensex – Relative Comparison

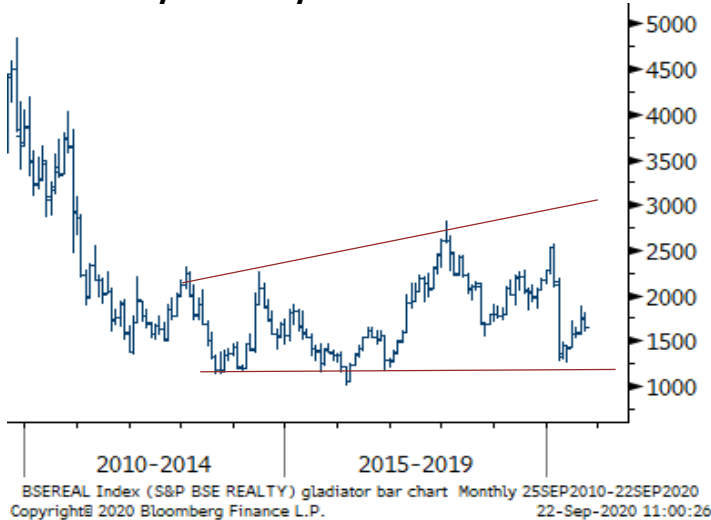


Technical Outlook

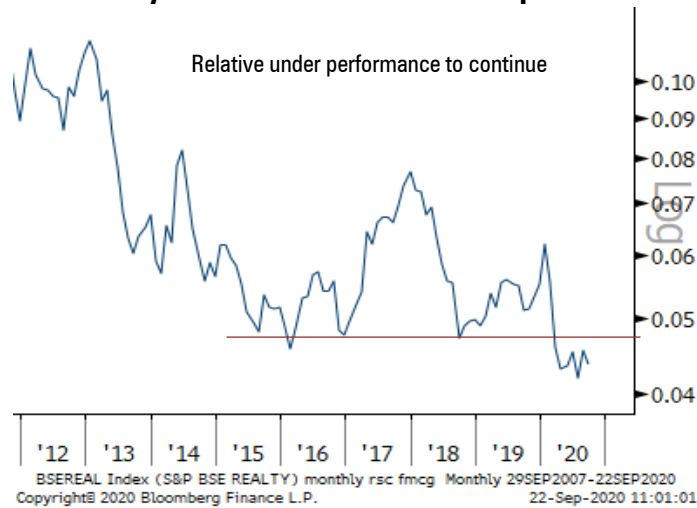
- The Auto index took a breather after breakout from two year falling trend line resistance
- We expect relative outperformance from two-wheeler and tractor space while within PV space provide favourable risk-reward setup
- Stocks like Escorts, Hero MotoCorp, Balkrishna Industries are likely to outperform. Meanwhile, Ceat, Philips Carbon and Mahindra CIE offer favourable risk-reward setups

Sectoral Indices – Relative to benchmarks

BSE Realty – Monthly Chart



BSE Realty vs. Sensex – Relative Comparison



Technical Outlook

- The realty sector extended its relative underperformance
- After sharp sell off Realty stocks have undergone healthy base formation over past three months. We expect sector to attempt pull back as risk reward is attractively placed
- On relative terms, however, index is expected to underperform benchmark amid stock specific action
- We believe technically, Oberoi Realty , Brigade Enterprises provide favourable risk reward setup

Forthcoming Economic Event Calendar

Date	Event	Date	Event
US		China	
1-Oct	Markit US Manufacturing PMI	1-Oct	Caixin China PMI Mfg
5-Oct	Markit US Services PMI	5-Oct	Caixin China PMI Services/Composite
5-Oct	Markit US Composite PMI	10-Oct	New Yuan Loans CNY
5-Oct	Change in Nonfarm Payrolls	15-Oct	Industrial Production YTD YoY
11-Oct	CPI MoM	15-Oct	Retail Sales YTD YoY
15-Oct	Industrial Production MoM	17-Oct	Swift Global Payments CNY
23-Oct	MBA Mortgage Applications	21-Oct	FX Net Settlement - Clients CNY
28-Oct	Retail Inventories MoM	29-Oct	Industrial Profits YoY
28-Oct	PCE Deflator MoM	30-Oct	Manufacturing PMI
30-Oct	Dallas Fed Manf. Activity	30-Oct	Non-manufacturing PMI
India		UK	
1-Oct	Markit India PMI Mfg	1-Oct	Markit UK PMI Manufacturing SA
5-Oct	Markit India PMI Services/Composite	5-Oct	Markit/CIPS UK Services PMI
5-Oct	BoP Current Account Balance	5-Oct	Markit/CIPS UK Composite PMI
8-Oct	Manpower Survey	11-Oct	Industrial Production YoY
11-Oct	Industrial Production YoY	17-Oct	Bank of England Bank Rate
14-Oct	CPI YoY	18-Oct	Retail Sales Ex Auto Fuel MoM
14-Oct	Wholesale Prices YoY	23-Oct	CBI Retailing Reported Sales
30-Oct	GDP/GVA YoY	28-Oct	Nationwide House PX MoM
30-Oct	Fiscal Deficit INR Crore	28-Oct	GfK Consumer Confidence

In this section, we focus on the relative performance of the BSE sectoral indices. The adjacent scatter chart highlights the relative performance of various sectors of the BSE relative to the Sensex with the y-axis plotting the relative price momentum and the x-axis plotting the relative price. The chart is then subdivided into four quadrants. The details of each quadrant has been explained in the notes at the end of the report.

Leadership quadrant: Top right is “Leadership” quadrant, which represents a sector that has strengthened in relative price and momentum vis-à-vis the Sensex.

Weakening quadrant: Bottom right is the “Weakening” quadrant where the relative price of a sector has started to deteriorate and momentum has started to slow.

Lagging quadrant: Bottom left is the “Lagging” quadrant where the relative price of a sector has become negative with momentum suggesting underperformance vis-à-vis the benchmark.

Improving quadrant: Top left is the “Improving” quadrant where the relative price trend of the sector has started to rise with momentum.



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