Nifty extends losses for fifth consecutive week; oversold conditions raise hope for a bounce

Sensex (74782) / Nifty (23398)

Source: Tradingview.com

Future Outlook

It was another disappointing week of trade for NIFTY, as prices continued to decline, with the losing streak now extending to the fifth consecutive week. While the week began on a muted note, selling pressure accelerated as the week progressed, particularly during the first three trading sessions. Thereafter, some resilience among buyers on the penultimate day helped cap the losses, while a smart intraday recovery on the final day, following a significant gap-down opening, helped recoup all of the overnight losses. The index eventually settled at the 23398 mark, registering a weekly loss of 2.09%.

While the technical setup and trend continue to remain fragile and aligned to the downside, the recovery observed during the final trading session, coupled with prices approaching the crucial 23200–23000 support band, suggests that a near-term bounce cannot be ruled out. A multitude of factors underscore the possibility of an upcoming bounce. Most technical indicators are now pointing towards oversold readings, reducing the likelihood of an extended decline from current levels. At the same time, breadth indicators, which track the overall health of the market, highlight the extent of the ongoing weakness, with more than 80% of stocks in the NIFTY 50 basket and nearly 70% of stocks in the NIFTY 500 currently in a downswing. In such a scenario, with prices approaching key support levels and market breadth showing significant deterioration, we anticipate a short-term bounce in the coming sessions. That said, such a recovery should not be construed as a trend reversal. A meaningful reversal in the broader trend, at this point, still appears to be a far-fetched possibility. In terms of levels, the 23450–23500 band is likely to act as an immediate hurdle, followed by a stronger resistance zone at 23600–23650, which had previously acted as support. On the downside, the 23200 level, marked by the current weekly low, is likely to provide an immediate cushion, followed by stronger support in the 23100–23000 band. This zone is significant not only as a prior swing low but also as a key psychological support level.

While the broader markets have encountered intense selling pressure over the past couple of weeks, a notable pocket of strength has emerged in the Small Cap and Microcap space, which has remained relatively resilient and has not witnessed any meaningful profit booking during this period. Exploring opportunities within this universe, while maintaining a strict focus on risk-reward parameters, could offer the potential to generate superior returns going forward.

LSR remains unchanged at 11%; while PCR neutralizes

The Nifty spot closed at 23398 this is week, compared to 23898 last week. The weekly Put-Call Ratio has increased from 0.84 to 1.06. The Open Interest of Nifty Futures increased by 14.86%.

Derivatives View

Nifty current month's future closed with a premium of 108 against a premium of 132 points to its spot in the previous week. Next month's future is trading at a premium of 193 points.

The benchmark Nifty experienced a free fall for fifth consecutive weeks and has plunged towards the historical swing supports of 23100 0dd zone. The derivative indicators showcased formation of shorts in both key indices on week-on-week basis, suggesting a complete carnage, but at same time the parameters have turned extremely oversold. FII's long-short ratio remained unchanged at 11% on a week-on-week basis, struggling with yet bleak view. For the upcoming weekly expiry series, substantial positioning is concentrated at 23300-23000 PE, indicating a downshift in the support zones, while scattered positioning of CE writers are seen from 23500-23600 strikes. The undertone seems to turn a bit cautious while global cues are likely to act as catalysts for the momentum to persist.

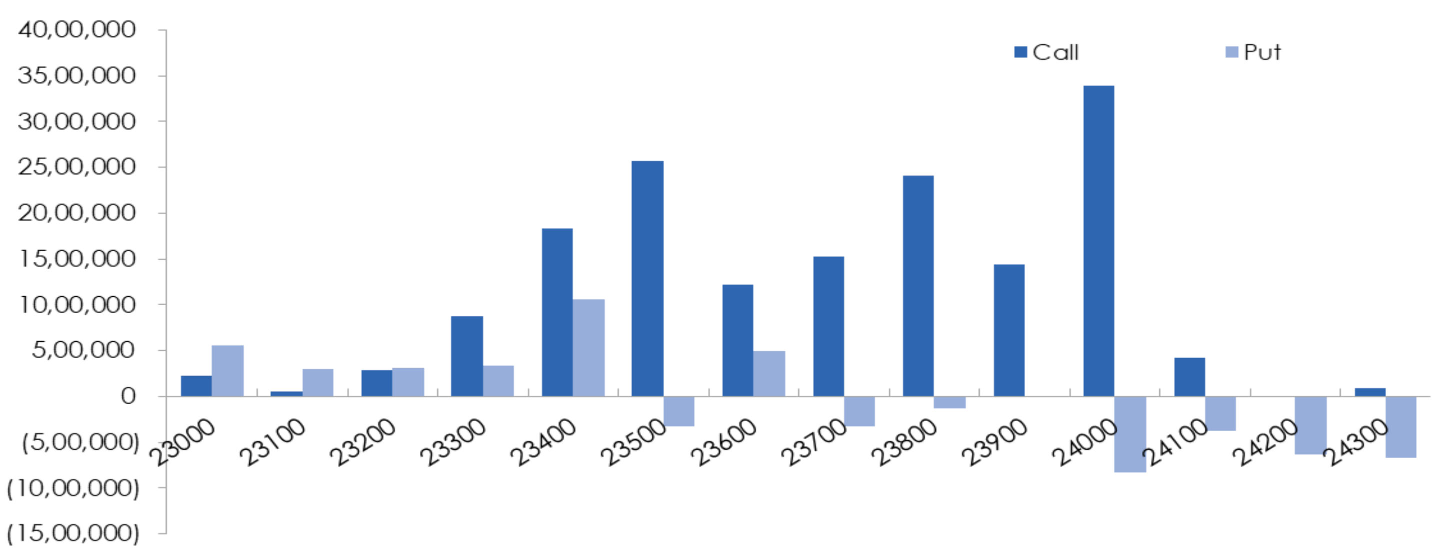
Long Formation

Scrip	OI Futures	*OI Chg (%)*	Price	*Price Chg(%)*
ATHERENERG	4039125	17.32	1657.30	4.01
BLUESTARCO	6933225	16.45	1546.80	4.84
VBL	77177025	10.59	416.80	1.61
DIVISLAB	3564700	10.47	9373.50	2.02
NAM-INDIA	8381875	6.90	1191.00	2.03

Short Formation

Scrip	OI Futures	*OI Chg (%)*	Price	*Price Chg(%)*
LTM	5283300	30.33	4251.10	(6.38)
WIPRO	248385000	20.73	165.49	(6.80)
SAGILITY	74712000	20.08	45.40	(3.40)
PIIND	4855200	16.69	2236.10	(8.67)
360ONE	4036500	16.33	1094.80	(4.08)

Nifty Put-Call Analysis (Sep series)



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