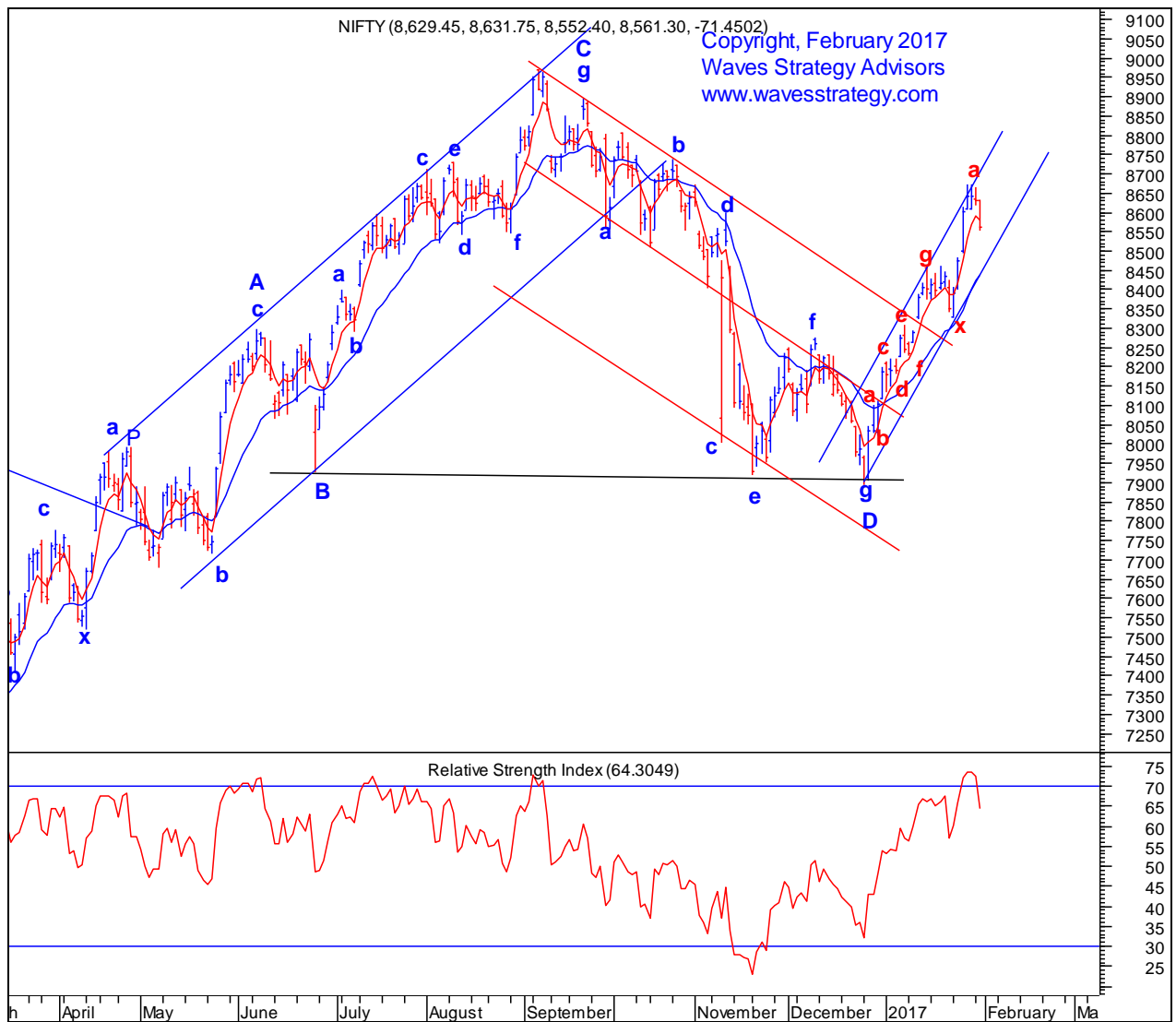


February 01, 2017

Bottom Line: High volatility is expected due to Union Budget today. Market reaction and closing will be important...

Nifty daily chart:



Nifty 60 mins chart:



Wave analysis:

In previous update we mentioned that, *“move below 8606 will confirm start of wave b on downside which will retrace a portion of wave a.”*

In the last trading session Nifty broke 8606 level in the first hour itself and post that throughout the day negative action was witnessed towards 8555 level. From sector perspective, IT was the major loser which cracked more than 3% on back of H-1B reform bill introduced in US house of Representative. It is interesting to see how news or events are coinciding with the price action. IT index is showing underperformance from last 2 years and has continued to move lower. It is better not to catch the low in this sector as of now. Apart from that weakness in broader market was witnessed in which Midcap and Smallcap lost more than 1.40% respectively. This indicates that one should adopt cautious approach and should not leverage high on either of the side due to the Budget event.

It is interesting to see that just before the Budget prices have reversed from the channel resistance and closed in negative territory. Most of the times we have witnessed that Budget has acted as reversal day. In last year also which is 2016 we saw that after the Budget Nifty reversed its trend on upside and moved higher from 6825 to the high of 8968 level in the first half of 2016. Medium term trend currently is positive and we will see if there is any distribution later in the week or markets continue to rally after wave b as per path shown on hourly chart.

Maximum 346 points of range was seen during the budget of 2009 which is highest since the year of 1999. The important point to note down is that in last 4 budgets which is including interim budget of 2014 we have seen more or less flat to negative or positive close not more than 1% on either of the sides. However on intraday basis 200 to 220 points movement on Nifty between highs and lows is possible. Based on the same we have shown the probable path of Nifty.

The daily chart of Nifty shows that prices respected the short term upward moving channel resistance and has reversed on downside from the same. This has given close below prior bars low for the first time after 5 trading sessions. The movement is exactly as expected by Gann Time square of Nine shown in previous updates. This has happened a day before the budget and hence one should strictly follow the risk management strategies.

As shown in 60 mins chart, fall witnessed in last session along with close below 8606 level indicate that minor wave b of second standard correction pattern has started. Now nature of wave b will guide us further for the development of pattern. If wave b retraces more than 61.8% of the wave a then chances of Triangle under formation will be high whereas if retracement is less than 61.8% then we can expect wave c to come on upside of Zigzag correction pattern.

In short, expect prices to show volatility between 8700 - 8450 levels over next few days and nature of wave b will provide important indication towards the short to medium term trend. Normally trend is seen 30 minutes after the Budget. Let us see if the similar movement holds true even today and prices follow the path shown on hourly charts.

Strategy for the day: In previous update we mentioned that "short positions can be created on move below 8600 levels with 8650 as stop and target of 8550" BANG ON! Nifty after breaking below 8600 levels continued to trade weak and formed a low near the target level. For today, fresh trades should be taken 30 mins after the Budget. Long positions can be created if Nifty move towards 8500 and then bounces back above 8560 with 8500 as stop and target of 8620. Short positions can be created if Nifty move towards 8600 and then moves below 8550 with 8600 as stop and target of 8500. Trade cautiously due to the event.

Note: Levels mentioned in this report is as per Cash (Spot) market

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