NIFTY—SEAT BELT SIGN ON!!

TECHNICAL ANALYSIS CMP 12056, 28-JAN-20

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The charts indicate that there a sell off in nifty imminent. While there is bound to be volatility driven short term corrections to rallies, this appears to be an overdue sell off as a deeper correction in the big picture. Following are the 5 indicators which leads to the above caution. As may be noted, the next few days will provide more clues with respect to likelihood of an immediate major correction.

1. Candle stick - Hanging man in weekly chart
2. Candle stick - Doji in monthly chart
3. Completion of wave cycle from 6826 (feb2016)
4. RSI divergence in weekly and monthly for continued period
5. Weekly MACD in the verge of bearish crossover

1. Candlestick - Hanging-man

Japanese Candlestick reversal pattern – "hangingman" appeared in the weekly chart last week. Hangingman pattern is a candle with little or no upper shadow, and with a long lower shadow.

Assuming the next 3 days happen to be risk off days, with a follow thorough pattern of red candle for this week, with an unfilled gap, it will indicate a completion of the rally on the upside, at least for the time being and a potential reversal.

2. Candlestick - Doji

Doji patterns form where the open and close are at the same/almost same levels. This formation is normally equated to red light in a car, where it indicates a slow down or stopping of momentum. However, for a better confirmation, the next candle is observed to see if that indicates the same sentiment (a red candle or any other bearish pattern.)

Dec nifty monthly candle chart formed a doji pattern and the jan candle, with 3 days left, could be forming a bearish candle as well, potentially indicating a trend end. Only when there is a rally above the upper shadow, with a green candle, reduce this risk.

3. Elliott wave – Wave cycle completion possibility

In Elliott, impulse waves are divided into 5 waves and corrective patterns into 3 waves. Further each wave has internal waves and the wave counts help to understand the completion of wave cycle and anticipate the next move. Since the patterns and wave counts can be applied at various levels ranging from monthly interval charts to 1 min chart, this helps predicts the moves even at the larger trend level.

The above wave count indicates that a wave from 6826 (feb2016) is most likely completed here or is about to complete. This is a 5-wave structure with the internal last wave being a wedge. (wedge is an extension form unlike a typical 5 wave move and extensions make it more difficult to predict the reversal point as it keeps dragging up and on an unexpected time point, collapses).

4. Continued RSI Divergence

The phenomenon of price action being bullish and making new highs, while the RSI not been making corresponding new highs is referred to RSI divergence.

This is an indication of underlying weakness and is a good indicator of any potential negative market factor having a more pronounced impact and a steeper sell off. Both in weekly and monthly charts, there is RSI divergence indicating potential exhaustion.

5. MACD—Cross over and Divergence

The blue line crossing the red line is referred to as cross over.

The cross over is yet to happen and will likely make it if there is further sell off in the market.

Also the divergence, the declining red bars, indicate potential sell off.

Conclusion:

There is a heightened risk of a significant sell off in Nifty, unless the Jan month closes at higher levels. Also, the sell off could be more prolonged with respect to the time the correction takes as this could be correction to the wave in larger trend.

However, as the extension pattern normally unfolds, there might be several extended moves before a major sell off commences. Thus, the risk of medium term sell off is recognised, even if the current wave continues to extend further.