



# Indecision or Insight?

## Nifty's Technical Tale of June 2024

June 2024 has been an eventful month for the Indian markets with the results of the general elections on 4th June holding significant sway on investor sentiment and market activity. While the jury might still be out on the long-term impact of the new coalition-led government, market activity, as seen on the technical charts, can act as a lighthouse for near-term direction.

In the week of the election results, the benchmark Nifty has formed a **“Dragonfly Doji”** on the weekly charts. From the perspective of a chartist, this is an important pattern which requires further attention.

# First up, “What is a Doji?”

The Doji is a session in which both the opening and closing prices are the same. The dragonfly Doji is named such because it resembles a dragonfly with a long tail and wings at the top. For the Doji to be of any relevance, its occurrence needs to be rare. In the case of Nifty, this formation is rare - the last significant occurrences on the weekly charts were in April 2021 and then in December 2020.

## Exhibit 1: Doji pattern observed on Tata Consultancy Services



## What does it indicate?

A Doji indicates that the demand and supply in the market is completely in balance and as such represents a market that is at a juncture of indecision. There are several ways to interpret the occurrence of a Doji:

At market lows it could indicate a reversal in the downward trend

At market tops it could indicate that the preceding rally is losing steam

More importantly, a Doji at a market top followed by a close of the Doji's high could indicate that the bulls have regained control and that the bullish trend is likely to continue

Further, the Dragonfly Doji emits bullish implications – its long lower shadows show that the market fell sharply during the session, but buying pressure pushed the price back up to close at or very near the session's high

# Our analysis of the occurrence

Basis our analysis, the occurrence of the Dragonfly Doji could develop into one of the following 3 scenarios:

## Scenario 1:

Next week market moves higher and closes in the green



This would signify that the bulls continue to remain in control.

## Scenario 2:

Next week market closes lower and forms a red candle



This would act as an alert with an expectation that the markets will turn weak / neutral with a definite bearish bias.

## Scenario 3:

Next week we get another Doji



It would be a sign of even more indecision – we can then expect to see more weakness and lack of bullish momentum.

## What happened in the following week, i.e., from the 10<sup>th</sup> of June to the 14<sup>th</sup> of June, 2024

**Scenario 1 played out.** The Nifty moved higher and closed the week above the previous week's high, closing at 23465.60.

Accordingly, our view based purely on the technical charts is that the bullish sentiment is still in place and the weekly bullish trend still stands.

Further analysis of the daily charts indicates that the momentum during the week ended 14th June 2024 seems to have been muted.

- The first three days of the week saw long (~100 points) upper shadows meaning that buying action was not sustainable
- The fourth day was a gap up that closed in the red, close to the day's low
- More importantly, the close on Friday, i.e., 14th June, was another Doji – more indecisiveness evident on the charts

## What happened next, i.e., from the 17<sup>th</sup> of June to the 21<sup>st</sup> of June, 2024

The following week that ended on 21st June told a similar story, Monday was a market holiday and the 4 trading sessions after that saw markets open high and close in the red, further endorsing the market participants' indecision.

Even though the weekly charts endorse the bullish momentum, they seem to be hiding the lack of momentum that is seeping into the market as evidenced by the daily charts. Thus, while we would still classify the weekly trend as bullish, we would suggest that investors err on the side of caution and be alert to changing market sentiment.

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