

# THE DOLLAR SENSEX

There are stories about the inverse correlation between SENSEX and the US Dollar Index (USD). The same stories which talk about inverse correlation cannot talk about perfect correlation, because perfect correlation does not last. For us at Orpheus it is not about inverse correlation, but it is about the degree of correlation. According to performance cycles, an asset will always outperform or underperform the other asset. This means that there will always be an inverse correlation between any pair of assets. So what matters is really not correlation, but which of the assets is outperforming the other and WHEN.

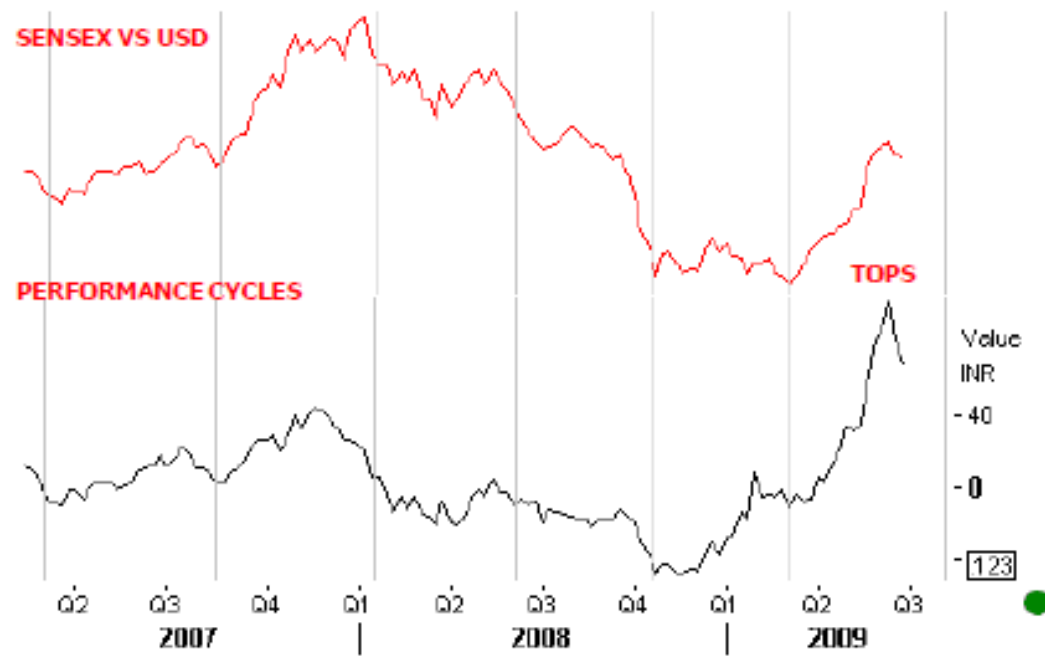
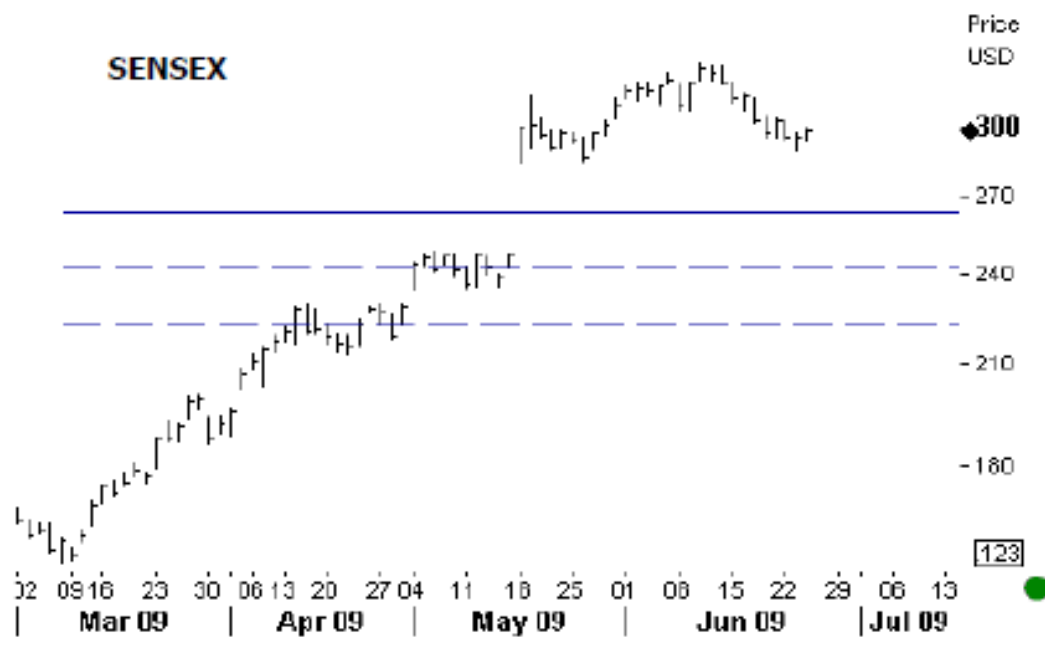
The question of when DOLLAR strengthening against SENSEX will start or vice versa is more important than the obvious fact that dollar strengthening affects Sensex inversely. SENSEX pushed 17% higher in dollar terms compared to INR. This was a result of INR weakness against the dollar that was reflected in Sensex returns.

According to performance cycles the Sensex has reached a performance high against USD. This means that it is time that SENSEX starts underperforming Dollar Index well into next quarter. This validates our view that DOW should also outperform SENSEX, as a local currency strength does reflect in its equity.

In continuation of the above view we continue to look lower on SENSEX. The current downmove looks like an impulse which should push prices back till open gap levels.

We highlighted a Head and Shoulders pattern on SENSEX and Double Top pattern on NIFTY and BSE OIL. The current report also carries ANTICIPATED AND HAPPENED cases on NIFTY, CNXIT and BSE REALTY, as well as time oscillators updates. Our overall Indian market view remains negative.

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# WHY DO BANKS FALL?

This question may have many answers based on when you ask it. The question may have no meaning if it was asked at the market top at BSEBANK 12,678 (20 Jan 2008). It may evoke a shrug if asked at Oct 2008 lows (BSEBANK 3,601). Now that BSEBANK has retraced almost 61.8% of the losses from historical highs (29 Jun 2009 8,575) the answer may at best be mixed.

Performance cycles on the other hand can give an answer at all times. BANKS can underperform NIFTY, means fall against NIFTY cyclically. For example NSEBANK fell against NIFTY three times since July 2007 for an average 140 days. If you zoom in a bit more coming from weekly to daily charts, the number of times NSEBANK underperformed NIFTY or fell against NIFTY increases by a factor of three to nine times with an average time period of 46 days. There is another interesting thing that happened during this time when BANKS were underperforming NIFTY, broad markets were falling or stagnating on all the three occasions. What does this mean? This means that if we study performance cycles (TIME FRACTALS) we can not only isolate performers but we can also understand when the broad market might be ready to turn.

NSEBANK seems ready to underperform again against NIFTY. Empirically this means that chances of a broad market stagnation or negativity might be in. We have illustrated here the pair performance cycles (INTERMEDIATE and MINOR) between NIFTY and NSEBANK. Both time frames suggest an impending cycle low which could mean the end of NIFTY's underperformance against banks. A clear turn from respective lows should see NSEBANK underperforming NIFTY for more than a few months. This also means that LONG NIFTY- SHORT NSEBANK could be an interesting pair to watch for the next 140 or 40 days. Now 140 days is a long time which takes us well into the final quarter of 2010.

Financials react fast to economic changes and hence carry clues for market perspective. This validates our overall negative view on the Indian market, which would be challenged only if prices move above the highlighted key resistances. We have carried Elliott updates on the main indices and ANTICIPATED AND HAPPENED cases on BSE REALTY and BSE POWER.

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