PREDICTING PRICE MOVEMENTS USING SUPPORT AND RESISTANCE IN BSE BANKING SECTOR

[1]Ms. Jyotsna Vishwambhar Torane and [2]Dr. (CA) Mahesh Bhiwandikar
[1]Research Scholar, K. M. Agrawal College of Arts, Commerce and Science
[2]Research Guide, K. M. Agrawal College of Arts, Commerce and Science, Kalyan (W)

ABSTRACT

The BSE, a base of India's financial environment, significantly contributes to the nation's economic expansion, with the banking sector serving as its primary engine. This study examines the predictive power of resistance and support levels in forecasting price movements within the BSE banking sector by analyzing data from the top five Indian banks during the preceding five years (2020-2024). Employing Analytical tools like Fibonacci levels, Moving Averages, Horizontal Lines, Trend Lines, and Chart Patterns, the research identifies key support and resistance levels to define whether daily final prices of these stocks differ and to assess their predictive value in price movements. The results strongly suggest a covariation between these levels and ensuing cost trends, provide practical knowledge for short-term trading strategies. However, the study's analytical design is limited to banking stocks and relies solely on published secondary data from the BSE, with potential market anomalies posing additional constraints.

Keywords: BSE, Support and Resistance Level, Banking Sector, Technical Analysis.

INTRODUCTION

During the age of world wideization, stock markets have developed into vital indicators of the state of the economy in emerging economies. The BSE and NSE are leading stock exchanges located in India. The BSE features a strong banking sector comprising both private and public institutions, with prominent players such as HDFC Bank, ICICI Bank, and SBI Bank. This banking sector includes integral to the financial India's system and play a vital part in shaping key indices like the BSE SENSEX. The RBI reported on December 31, 2024, that the gross Net Performing Assets ratio for Indian banks was 2.6%. During September of 2024, with projections suggesting a possible rise to 3% in March 2026 under baseline scenarios. Investment analysts leverage historical data and technical indicators, including Support and Resistance, to identify market behavior in stock price movements. The Resistance and Support tool helps pinpoint market levels at which stocks tend to hold or revert their trends, with support levels indicating strong demand preventing price declines, and levels of resistance reflecting selling pressure that caps price increases. These instruments guide traders to forecast price trends, optimize trade timing, and manage risks effectively.

The stock portfolio is extremely volatile, making it appear risky for investors, with banking stocks traditionally considered a safer investment due to their limited price sensitivity. However, recent trends exhibited a fall in banking stock prices despite satisfactory financial performance, raising concerns about the reliability of traditional assumptions. This paper focused on to address this issue by analyzing market trends in the BSE banking sector using support and resistance levels, providing a systematic approach, offering a systematic framework to understand and predict these fluctuations Within an uncertain market environment.

REVIEW OF LITERATURE

According to Enow (2023), the Dow Theory suggests that volume and the number of shares traded should confirm price movements. Throughout a bull market, rising volume alongside price increases indicates strength, while falling trading activity during price drops suggests weakness. Conversely, in bearish markets, increasing heavy selling pressure reflects intense selling pressure, whereas falling volume at the time of price rises implies reduced selling pressure. The theory claims that a trend is likely to persist until clear indicators of a trend change, such as breaches of support or resistance levels confirmed by volume patterns, emerge. Central to the Dow Theory is the assumption that all relevant market information is reflected in price averages, as market participants incorporate available data having a substantial impact on their decision-making, consequently making it difficult to consistently outperform the market. Additionally, behavioral finance Highlights the psychological elements that impact support and resistance trading.

Enow (2022) highlights the support and resistance method as a key tool in price action analysis, focusing on critical price points at which historical Investor behavior dictates market trends. This strategy predicting price trends through historical price analysis actions and trends, with evidence showing varying effectiveness across international markets. It has demonstrated notable success in markets like the JSE and DAX, outperforming the long-term investment strategy by improving portfolio returns. The strategy is particularly useful for pinpointing entry and closing signals, managing risk with stop-loss orders, and capitalizing on price reversals and breakouts.

However, its efficacy is influenced by market-specific dynamics and external variables, such as volatility, which can cause false breakouts, especially during crises like the coronavirus outbreak. Despite these limitations, the strategy remains a valuable tool for sound judgment when paired with strong risk management and market understanding.

Garzarelli et all. (2014) analyzed the chance of recovery support and resistance (SR) levels in tick data for nine stocks on the London Stock Exchange in 2002, finding that prices are more likely to show signs of revival than cross identified SR levels. Building on their evaluation framework, this research highlights a heuristic sequential algorithm for detecting SR levels (Section 2), examines the temporal impact of these detected levels (Section 4), and explores whether the results align with the behavior of a theoretically efficient market (Section 5). The paper concludes in Section 6, offering a summary and directions For further investigation.

Osler (2000) defined support and resistance as technical analysis tools used to determine exchange rates where price movements are obstructed. The study examined analytical value of support and resistance indicators using data on the yen, mark, and pound relative to the dollar. These levels were used as criteria to offer expanded knowledge of the FX market, highlighting price fluctuations. The research indicated that rate trends were influenced by support and resistance levels more frequently than anticipated, with similar results observed across all six companies were examined, lasting for approximately one week.

SCOPE OF STUDY :
The focus of the study is to examining the underlying trends of HDFC Bank, SBI Bank, ICICI Bank, Kotak Bank Ltd., and Axis Bank, all publicly traded at the BSE through technical analysis. The analysis spans a 5 year timeframe from January 1, 2020 to 31st December, 2024, utilizing the concept of support and resistance levels.

RESEARCH OBJECTIVES
- ➢ To determine the BSE banking sector's levels of support and resistance.
- ➢ To analyze the association between these levels and subsequent price movements.
- ➢ To analyze support and resistance levels for buy/sell decisions in chosen stocks.
- ➢ To offer suggestions for investors to make better trading decisions.

RESEARCH METHODOLOGY
This study adopts an analytical approach to evaluate the progress of five prominent Banking companies listed on the Bombay Stock Exchange: ICICI Bank , HDFC Bank, SBI Bank, Kotak Bank Ltd., Axis Bank. It leverages existing daily closing prices from 1st January, 2020 to 31st December, 2024, instead of generating new data. By utilizing technical tools like Support and Resistance, the study aims to identify in these companies' performance. This valuable information can then be used by investors to make sound choices about future stock movements, while the Banking sector itself can gain deeper insights into these companies' strengths and limitations, ultimately helping both make better choices for continued growth and success.

TECHNICAL TOOLS AND METHODS OF DATA ANALYSIS

SUPPORT AND RESISTANCE IDENTIFICATION TECHNIQUES

The following techniques are used to recognize support and resistance levels:

1. **Horizontal Lines**: Horizontal lines in price action analysis identify price levels where past price action has shown significant support (buying pressure) or resistance (selling pressure).

2. **Trend Lines**: Trend lines form a series of chart patterns to identify support (where prices tend to find a floor) and resistance (where prices tend to stall) levels, indicating trend momentum and direction.

3. **Moving Averages**: Short- and long-term averages are analyzed to identify potential support and resistance.

4. **Fibonacci levels**: As a tool in technical analysis, Fibonacci levels, depending on a series of mathematically derived ratios, are utilized to recognize potential areas of support and resistance for price movements Within the financial markets.

5. **Chart Patterns**: Patterns such as "M" tops, "W" bottoms, and trendlines are analysed.

DATA COLLECTION AND ANALYSIS

HDFC BANK

Figure 1. Support and Resistance

Figure 1 illustrates the horizontal support and resistance levels for HDFC Bank stock, spanning the period from January 2020 to December 2024 Green lines signify support levels, showing zones of strong buying interest consistently emerged, offering multiple buying opportunities around ₹1300 and ₹1350. Red lines represent resistance levels, marking zones areas of strong selling pressure was observed, with multiple selling opportunities around ₹1700. A key observation is the transformation of the previous resistance level around ₹1300 at a support level following a price breakout, reflecting a shift in market sentiment. Traders can leverage this pattern by strategically Support and Resistance trading utilizing these levels to determine ideal entry points and closing points for their trades.

SBI BANK

Figure 2. Support and Resistance

Figure 2 depicts the price chart for SBI Bank from May 13, 2022 to February 1, 2023 showcasing a distinct ascending channel. Within this channel, traders could exploit multiple trading opportunities presented by horizontal support and resistance levels. The bottom line, depicting support, marked zones of strong demand emerged, as observed during price dips on June 15, 2022, October 17, 2022, and January 1, 2023, offering favorable buy entry points. Conversely, the highest point, acting as resistance, indicated areas of high selling interest was encountered, evident in multiple sell entries during price peaks on August 4, 2022, September 15, 2022, November 14, 2022, and January 17, 2023. These levels served as valuable guides for traders, enabling them to time buy entries near support and sell entries near resistance within the confines of the ascending channel.

ICICI BANK

Figure 3. Support and Resistance

Figure 3 illustrates the price graph for ICICI Bank from December 4, 2023 to December 31, 2024 displaying a clear upward trend contained within a channel defined by price support and resistance zones. The lower trendline, representing support, provided 6 buy entries, indicating price points consistently encountered demand. Notably, the use of moving averages provided valuable assistance in pinpointing optimal entry points before the price approached the support level. The upper trendline providing resistance, marked zones of selling pressure, with 7 repeated sell entries observed near the channel's upper boundary. By accurately identifying the best times to purchase near support and sell close to resistance, these levels enabled traders to profit from the market's growth.

KOTAK BANK LTD.

Figure 4. Support and Resistance

Figure 4 illustrates the price chart for Kotak Bank Ltd., where horizontal resistance and support levels were obtained from Fibonacci retracements drawn between a low of Rs. 1678 and a high of Rs. 1805. A significant support area emerged near Rs. 1741, corresponding to 50% retracement level. A "Buy Entry" is marked at this crucial support level, where the price experienced a rebound, signifying strong underlying demand. The overall price action suggests a trading strategy focused on buying at the 0.50 Fibonacci support level.

AXIS BANK

Figure 5. Support and Resistance

Figure 5 illustrates the price chart for Axis Bank, highlighting key horizontal support and resistance levels marked by significant price reactions patterns such as a "M" top and "W" bottom. The resistance level, marked near the M top formation, signifies a zone where the price repeatedly failed to achieve, making it an ideal point for initiating sell entries. Contrarily, the W bottom region represents a strong support area, where the price consistently rebounded, indicating a favorable opportunity for buying. While the chart depicts one sell entry and one buy entry, sequential buys can be strategically executed near the double bottom level as the price approaches support, and multiple sell entries can be initiated at resistance levels such as the double top following price rejection. These levels present reliable trading systems with clearly defined risk avoidance methods.

FINDINGS

➢ HDFC Bank confirmed a significant price breakout, turning ₹1300 from resistance to support, indicating a shift in market sentiment.

➢ SBI Bank's ascending channel provided consistent stock trading opportunities along the trendline boundaries

➢ ICICI Bank exhibited a strong upward trend with moving averages reinforcing support and repeated buy/sell entries within the channel.

➢ Kotak Mahindra Bank's price rebound at the 50% Fibonacci retracement (₹1741) highlighted the significance of Fibonacci levels in trading.

➢ Axis Bank's M-top and W-bottom patterns underscored reliable horizontal support and resistance areas for trading setups.

SUGGESTIONS

➢ HDFC Bank use resistance-to-support transitions like ₹1300 for identifying long-term bullish opportunities.

➢ Trade as prices rise like SBI Bank's by timing entries near support and exits at resistance.

➢ ICICI Bank combine channel trends with moving averages to refine trade signals.

➢ Incorporate Fibonacci retracements for identifying Important price zones, as seen with Kotak Mahindra Bank.

➢ Monitor chart patterns (double top/bottom) for high-probability entries with defined risk, exemplified by Axis Bank.

LIMITATIONS

➢ This research will solely explore BSE trading approaches based on Support and Resistance patterns in one sector.

➢ The study is related to a time frame for 5 years.

➢ The study mostly depends upon secondary data.

➢ Sometimes Mixed signals are produced by market analysis which leads to indecision in buying and selling of securities.

CONCLUSION

The Banking System in India, comprising prominent players such as HDFC Bank, SBI, and ICICI Bank, exhibits distinct price patterns on the BSE. This study analyzed the predictive accuracy of Resistance and Support levels for these stocks from 2020 to 2024. The findings demonstrate that these analysis tools can produce deep knowledge of the market behavior. Key observations include the transformation of resistance levels into support levels in HDFC Bank, the consistent trading opportunities during periods of upward movement for SBI Bank, the effectiveness of smoothed averages in refining entry points for ICICI Bank, the significance of Fibonacci retracements in identifying support levels for Kotak Bank Ltd., and the utility of chart patterns like double tops and bottoms in identifying trading signals for Axis Bank. While these findings provide crucial findings, it's crucial understand the limits of this research, such as its focus solely on BSE trading and the reliance on past data. Additionally, the inherent challenges in technical analysis, such as mixed signals, necessitate a cautious and informed approach to trading.

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