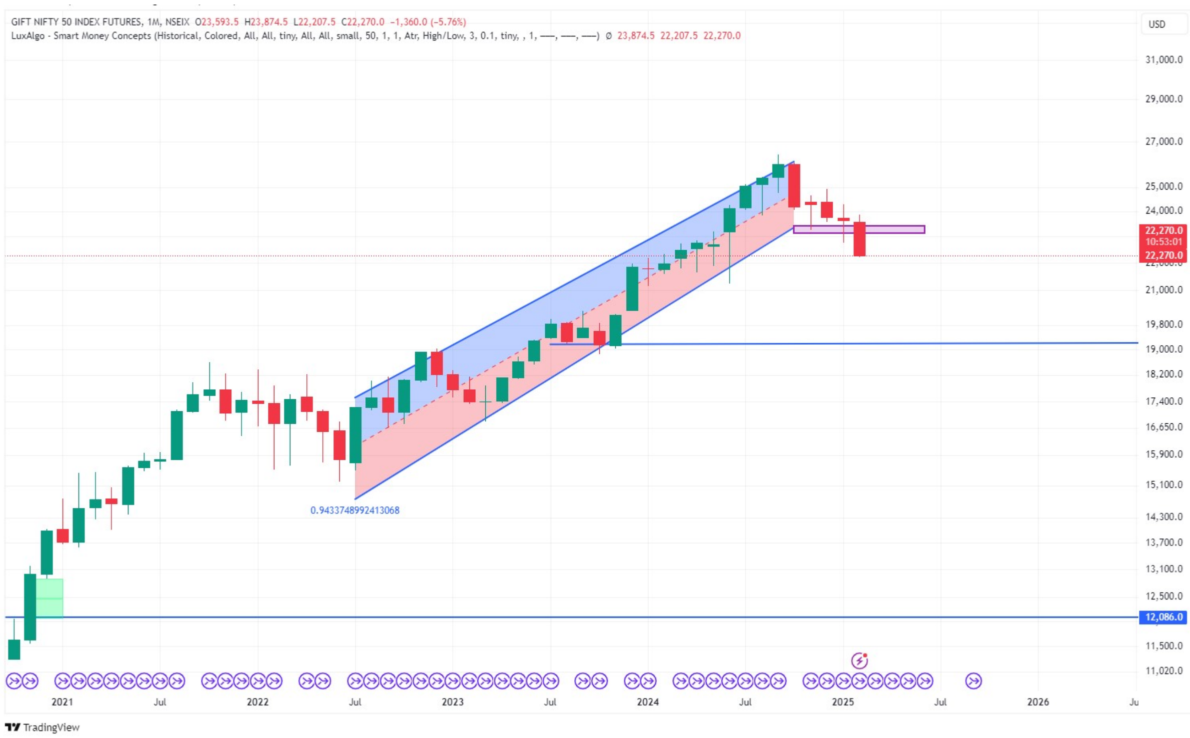
# Correction or Crash? NIFTY Final Destination 12,500?




Nifty 50 has been falling steadily since its all-time high in October 2024 and has already dropped more than **15%**. The most important thing to note is that **on February 28th, which is both the weekly and monthly closing day, Nifty broke below a rising channel on the weekly chart**. This is a strong bearish signal, meaning that the upward trend has been broken, and further downside is likely.

Right now, there is **no strong support visible before the 19,000 – 19,500 range**, which means Nifty could fall further before finding a level where buyers step in. When a rising channel breaks down, the price usually moves toward the nearest support level, and in this case, that level appears to be near 19,000.

Another reason for the fall is that **Foreign Institutional Investors (FIIs) are selling Indian stocks** and pulling their money out of the market. This is happening because global economic conditions are uncertain, and investors are moving their funds to safer assets like U.S. bonds, which are offering higher returns. When FIIs sell in large amounts, it puts pressure on the market and pushes prices down.

If selling pressure continues, Nifty is likely to test **19,000 – 19,500 in the coming weeks**. A bounce or recovery may only happen once the index reaches this level and buyers start stepping in again. For now, the overall market sentiment remains **bearish**, and traders should be cautious about expecting any quick recovery.

## Disinvestment of 47,349 crores of FII in the month of February

Foreign Institutional Investors (FIIs) have been aggressively selling Indian equities in recent weeks, contributing significantly to Nifty 50's downturn. Recent developments in the **U.S. economy**, including strong GDP growth, persistent inflationary pressures, and a hawkish stance from the Federal Reserve, have led to a rise in **U.S. bond yields**. As a result, global investors are reallocating funds from emerging markets like India to **U.S. treasury securities**, which are now offering attractive risk-free returns.

In February 2025, **Donald Trump introduced a "gold card" visa program** to attract rich foreign investors to the U.S. economy. This new plan lets individuals and companies get **U.S. residency and a path to citizenship** if they invest at least **$5 million**. It replaces the old EB-5 investor visa, which had a lower investment limit but faced fraud issues and delays.

The goal of this program is to bring in **wealthy individuals who can contribute through taxes and job creation**. The U.S. government has said that only **"high-quality global citizens"** will qualify, meaning there will be a strict selection process. While the full details are still pending, this scheme has already caught the attention of **major investors worldwide**, making the U.S. an even more attractive place for capital inflows.

Since this program encourages the movement of **big money into U.S. assets**, it is adding to the demand for **U.S. stocks, bonds, and real estate**, further strengthening the **U.S. dollar**. As a result, many global investors, including **Foreign Institutional Investors (FIIs), are shifting money out of emerging markets like India and moving it into the U.S.**, which is one of the reasons behind the sharp fall in Indian markets.

This sustained FII selling has led to increased volatility in Indian equity markets, with **large-cap stocks witnessing heavy outflows**. The lack of domestic institutional buying at the same scale has further weakened Nifty 50, increasing the probability of a deeper correction. Unless there is a shift in global liquidity flows or a clear reversal in FII sentiment, the bearish pressure on Indian equities is likely to persist.

## USD Appreciation against INR

The **double bottom** visible on the USD/INR chart suggests a bullish breakout for the **U.S. dollar against the Indian rupee**. If the breakout follows through and the price reaches the **88.7 – 88.8** level, it will indicate further rupee depreciation. This movement directly impacts the Indian stock market in several ways:

1. **FII Outflows Intensify**: A weaker rupee reduces the value of foreign investors' holdings in India when converted back to U.S. dollars. This makes Indian equities less attractive, leading to **higher FII selling**, which puts downward pressure on Nifty.
2. **Higher Import Costs & Inflation Risks**: A rising USD/INR means India has to pay more for imports like crude oil, electronics, and raw materials. Higher import costs contribute to inflation, forcing the **RBI to maintain or hike interest rates**, further tightening liquidity in the market.
3. **Negative Sentiment for Growth Stocks**: Companies that rely on foreign debt or imports will see increased costs, reducing their profit margins. This negatively impacts high-growth sectors like technology, pharmaceuticals, and manufacturing, pulling Nifty down.
4. **Dollar Strength & Risk-Off Sentiment**: If the dollar keeps strengthening, global investors will prefer holding U.S. assets instead of emerging market equities. This shift in sentiment could drive more money out of India, worsening the market downturn.

Overall, if **USD/INR breaks out and sustains above 88.7 – 88.8**, it will add to the ongoing bearish momentum in Nifty.

## Is this the biggest crash?


Historically, whenever Nifty has broken out of a rising channel, it has witnessed a significant correction, often reaching around **40% from its peak**. This pattern suggests that if the current breakdown follows the same trajectory, we could see a substantial decline in the coming months.

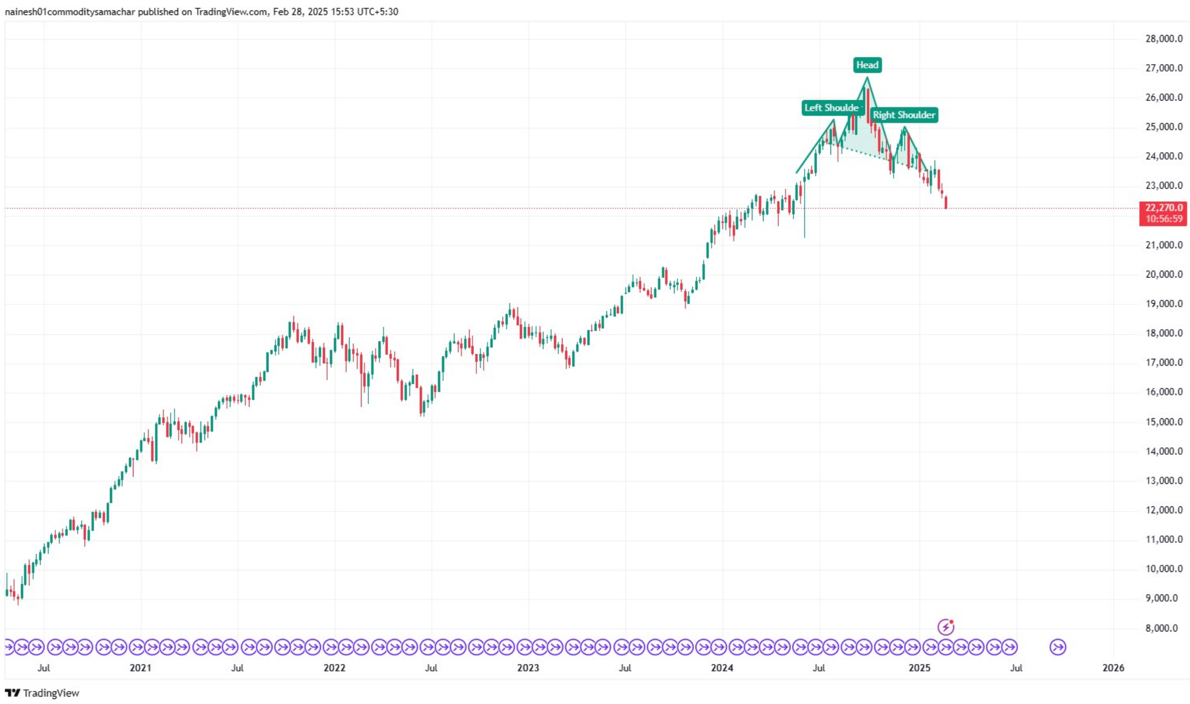
At present, **the 19,000 – 20,000 zone is a key support level**, meaning that if the market holds above this range, it could stabilize or even bounce back. However, if this support fails, the correction may deepen further.

In such a scenario, the next **major support lies between 15,000 – 15,750**, which could act as a temporary halt for the downtrend. If Nifty respects this zone, we may see some buying interest emerge.

However, another important factor to consider is the **fair value gap around 12,500**, which remains unfilled. According to the **Gap Filling Theory**, markets tend to revisit such unfilled gaps before resuming their trend. If Nifty continues to weaken and breaches all key supports, it may attempt to fill this gap, increasing the probability of a **steep decline**.

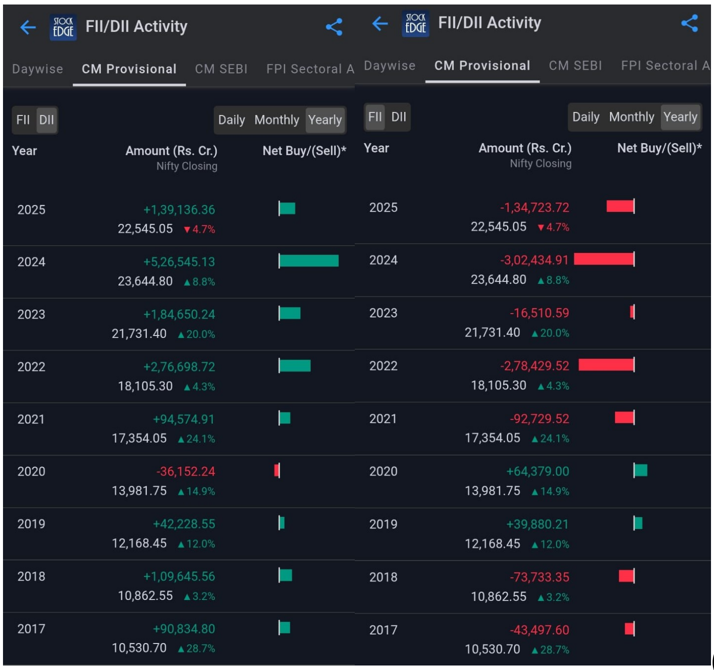
Given these factors, if history repeats itself, Nifty could experience a **major correction before any recovery takes place**, with 15,000 – 15,750 being a critical level to watch before further downside potential.

## Is breakout of rising channel enough of a reason for a correction?




In the **weekly Nifty chart**, we clearly see this pattern forming, indicating a possible **trend reversal**. The breakdown suggests a further fall, aligning with the **broader correction trend** we have observed historically. If Nifty fails to hold key support levels like **19,000–20,000**, it could move towards **15,000–15,750**, and possibly even fill the **fair value gap at 12,500**, as seen in past market cycles.

However, it's important to note that **the change for this pattern remains above the right shoulder**. If the market reverses and breaches this level, it could **invalidate the bearish structure for time being and could possibly retest 25000 levels**. This makes risk management crucial for traders.



FII/DII Activity

Daywise | CM Provisional | CM SEBI | FPI Sectoral A

FII | DII — Daily | Monthly | Yearly

| Year | Amount (Rs. Cr.) Nifty Closing | Net Buy/(Sell)* |
|---|---|---|
| 2025 | +1,39,136.36<br>22,545.05 ▼4.7% | |
| 2024 | +5,26,545.13<br>23,644.80 ▲8.8% | |
| 2023 | +1,84,650.24<br>21,731.40 ▲20.0% | |
| 2022 | +2,76,698.72<br>18,105.30 ▲4.3% | |
| 2021 | +94,574.91<br>17,354.05 ▲24.1% | |
| 2020 | -36,152.24<br>13,981.75 ▲14.9% | |
| 2019 | +42,228.55<br>12,168.45 ▲12.0% | |
| 2018 | +1,09,645.56<br>10,862.55 ▲3.2% | |
| 2017 | +90,834.80<br>10,530.70 ▲28.7% | |

FII/DII Activity

Daywise | CM Provisional | CM SEBI | FPI Sectoral A

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| Year | Amount (Rs. Cr.) Nifty Closing | Net Buy/(Sell)* |
|---|---|---|
| 2025 | -1,34,723.72<br>22,545.05 ▼4.7% | |
| 2024 | -3,02,434.91<br>23,644.80 ▲8.8% | |
| 2023 | -16,510.59<br>21,731.40 ▲20.0% | |
| 2022 | -2,78,429.52<br>18,105.30 ▲4.3% | |
| 2021 | -92,729.52<br>17,354.05 ▲24.1% | |
| 2020 | +64,379.00<br>13,981.75 ▲14.9% | |
| 2019 | +39,880.21<br>12,168.45 ▲12.0% | |
| 2018 | -73,733.35<br>10,862.55 ▲3.2% | |
| 2017 | -43,497.60<br>10,530.70 ▲28.7% | |

*(source:stockedge)*

For the first time in many years, Domestic Institutional Investors (DIIs) have outperformed Foreign Institutional Investors (FIIs) in Indian markets. While FIIs have been net sellers amid global uncertainties, DIIs—driven by strong SIP inflows and retail participation—have absorbed the selling pressure, providing market stability. This shift highlights the growing influence of domestic money in Indian equities, reducing reliance on foreign capital.

## Scenarios for DII Behavior Amid FII Selling

### Scenario 1: DIIs Continue Strong Inflows

- Market remains stable despite FII outflows, reducing volatility.
- Retail and domestic investors gain confidence, further strengthening liquidity.
- Reduced foreign dependency makes markets more resilient to global shocks.
- Nifty could sustain or rally despite FII exits.

### Scenario 2: DIIs Panic & Start Disinvesting

- Increased selling pressure could trigger sharp market corrections.
- Liquidity crunch may lead to a bearish phase, impacting retail sentiment.
- Foreign investors may take advantage of lower valuations to re-enter.

- Sectors with high DII exposure (like banking, FMCG) could witness sharper declines.

## “Across brokers there’s more than 30% drop in activity…”

Nithin Kamath, the owner of Zerodha (one of India's biggest brokerage firms), highlights a **sharp decline in market activity** due to a combination of **market correction** and **SEBI’s stricter regulations**. Trading volumes have dropped by over **30%**, leading to the first business degrowth in 15 years. SEBI’s **"true-to-market"** rules have made trading **safer and more transparent** by preventing **fake pricing, excessive leverage, and artificial volumes**. While this has reduced participation, it has also **cleaned up the market**, ensuring only serious traders remain. If the trend continues, the government’s **Securities Transaction Tax (STT) collection** could fall by **50%** in FY 25/26, affecting revenue. While participation has dropped, these changes make the market **healthier and more stable** in the long run. *(source: twitter)*

In a recent discussion, Anil Singhvi, the Managing Editor of Zee Business, highlighted a significant market pattern: the Nifty 50 index has experienced its fifth consecutive monthly decline, a phenomenon last observed 28 years ago in 1996. During that period, from July to November 1996, the Nifty plunged by approximately 29%. In the current scenario, the index has decreased by nearly 13%. Singhvi emphasizes that such recurring patterns, though rare, are noteworthy and warrant close attention from investors *(source: zee business)*

## Is This the End of the Market?

#### Definitely Not!

Looking at **historical trends on the monthly chart**, every time Nifty has faced a major correction, it has **eventually rebounded and made a new all-time high**—often **doubling its previous peak**.

- **2008 Crash:** Nifty corrected **over 50%**, dropping from **6,300 to 2,500**, but later **rallied past 12,000** in the following bull run.
- **2020 COVID Crash:** The index fell from **12,000 to 7,500**, only to **skyrocket to 18,000+** in the next two years.
- **Current Breakdown:** If this correction plays out similarly, a strong rebound is expected after the dust settles.

## What Should Investors Do in This Panic?

The market is **not crashing—it's correcting**, and corrections are **healthy** because they allow new investors to enter. **No market can sustain a rally forever without corrections**, as fresh liquidity is required to fuel higher highs.

## SIP – The Best Friend of an Investor in a Falling Market

For long-term investors, **Systematic Investment Plans (SIPs)** remain the most powerful tool.

### How Does SIP Work in a Falling Market?

1. **Rupee Cost Averaging:** As markets correct, every SIP instalment buys units at a lower price, which reduces the average cost per unit.
2. **Compounding Effect:** Over time, as the market recovers and moves to new highs, the accumulated units generate exponential returns.
3. **Market Cycles Favour SIP:** Past trends show that SIP investors who continued investing during corrections (2008, 2013, 2020) saw **significant wealth creation** when markets recovered.

## Best Strategies for Investors Right Now

- **Stay Invested:** Panic selling leads to regret when the market rebounds. If you hold good assets, continue holding.
- **Increase SIP Allocations:** If you have spare capital, consider **increasing SIP contributions** while markets are lower.
- **Focus on Defensive Sectors:** Sectors like **FMCG, Pharma, and IT** tend to perform better in volatile times.
- **Diversify Globally:** Global ETFs or international stocks help hedge against local volatility.
- **Keep a Long-Term View:** Corrections are short-term; **growth is long-term**. Historically, investors who stayed invested always benefited.

## Conclusively…

- **Head and Shoulders Pattern** seen on the **weekly Nifty chart**, indicating a potential bearish reversal.
- **Support levels** at **19,000–20,000**; if breached, expect a fall towards **15,000–15,750**.
- **Fair value gap at 12,500** remains unfilled, aligning with historical corrections (~40%).
- **Past corrections have always led to strong bull runs**, with markets eventually doubling from lows.
- **Change of trend above the right shoulder**—a breakout could indicate a reversal towards new highs.

For investors, **SIP remains the best strategy**, as every correction invites new entrants, fuelling future rallies. **Panic selling is unnecessary**—markets need healthy corrections to sustain long-term growth. Stay patient, stay invested.

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Chandni Kapoor

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