INDIA'S KONDRATIEFF CYCLE : *by Rohit Srivastava*

And its impact on the Indian Stock markets and Asset markets. The 70 year financial cycle surrounding business cycles.

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The Kondratieff [Kf] cycle or waves are the brainchild of **Nikolai Dmyitriyevich Kondratyev.** www.kwaves.com is a good site with several links to writings on the theory. Ian Gordon is the most active follower of the Kf cycle on the US markets and his writings are free to all at www.longwavegroup.com . To simply read the basics about the theory visit http://www.kondratyev.com/reference/theory_explained.htm

Ever since I started studying the wave theory I have been exposed to the Kf cycle. It has taken me long to understand the context in which the cycle is to work because originally it appeared more like a study of inflation and deflation, and most of us think inflation is defined as a rise in prices. EWI and Robert Pretcher have made the point amply clear enough that changes in prices of goods and services is a by-product of inflation and deflation. Inflation refers to the expansion of monetary supply through printing of currency or through the expansion of credit or debt in the economy. Deflation therefore is the reduction of credit and debt or money supply. Before I shows you some charts here is some background.

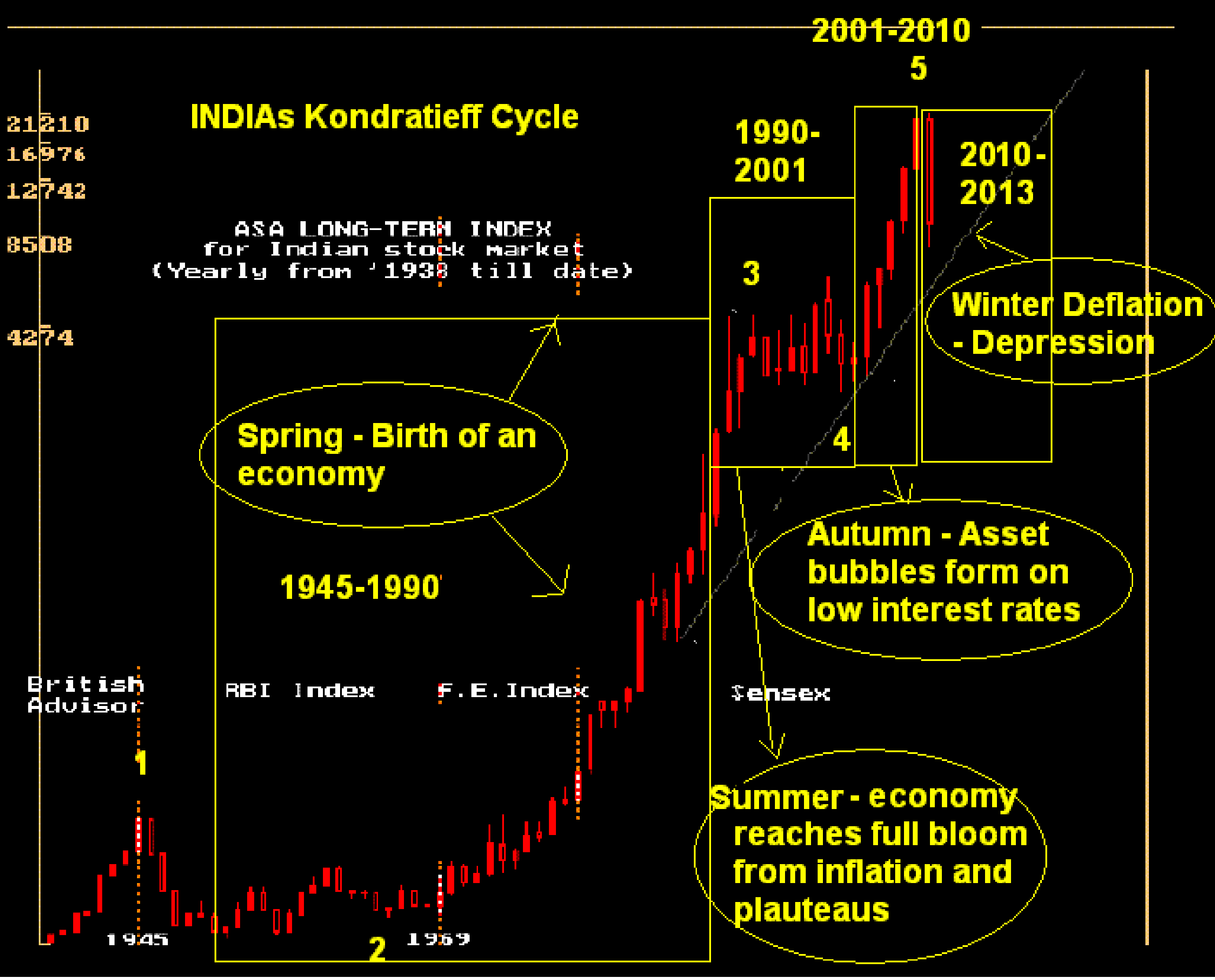
N.D.Kondratyev noted that once economic activity stats expanding the financial system starts to expand. Business ideas needing to grow look out for funding or money for their activities and this forms the beginning of the Kf cycle. Credit is used to fund expand and grow business existing and new. But as the need to grow and compete grows man starts using debt to profit from the expansionary trends rather than new ideas. This greed causes bubbles. At some time debt becomes so big that it cannot be financed or serviced any more and defaults start to happen and a deflationary cycle starts. Deflation continues to most credit is destroyed and it takes years to restore confidence for the whole cycle to start again. The expected time span of the cycle is between 60-70 years. However its not a time cycle.

This cycle has become the object of concentration of many of the prophets of doom since the 90s as they have been predicting the end of a 70 year cycle that started for the US in 1935-49 after its last known deflationary depression. That its such a long term cycle many were too early to predict it and this bubble ended up being bigger than many in the past. The reason for this is that a bubble in credit/debt can continue as long as there is cheap finance available to keep funding or refinancing the existing debt. Also inflation needs to stay under control as long as monetary expansion continues. Once a lot of debt has already been built up to avoid the unwinding process you would always try to hang onto it by finding new financing options. The bursting of a bubble would occur due to natural consequences once options run out as they did in 2007 for the US, but they can also be burst by social or ecological factors like war, famine, earthquakes, volcanoes or something that is big enough to overwhelm the current level of economic activity making debt default the only option. So the US went into deflation in 1929 when its debt to GDP ratio was 140-160%, in 2007 it went up to 400%. Different countries around the world have deflated at different levels of debt, and a lot depends on the domestic and external environment. Today India's debt to GDP is above 150%[public +private] and not many want to accept the possibility of deflation in India because we believe that debt can be refinanced from the high savings like Japan has done for years, to keep the deflation from causing an economic depression. However the global economic environment is not favorable anymore and its effects in a globalised economy cannot be ignored. If savings are diverted to finance credit of the government than industry might get started and vice versa. If interest rates are lowered a lot then inflation becomes a risk, unless cheaper imports are available [read strong currency]. So lots of room for imbalance.

The Kf cycle also has been often misunderstood as a time cycle so the exactness with time i.e. 50-70 years is not exacting however history has seen these cycles hover around this time frame. The essence of the cycle lies in the flow of events from one to the other with the same results. Being a generational event that is its size is similar to mans life expectancy the next generation does not relate with its presence that easily and it continues to repeat with the same manifestations as long as we follow the existing economic models. The US is in its 4th Kf cycle since the 18th century.

The Kf wave also needs to be read in the context of the Elliott Wave Principle, the 5-3 pattern at that degree of trend. Recent research by EWI on socionomics shows how the wave patterns of the stock market are associated with social trends. And it is the social mood that determines whether economic activity will expand or contract as people feel better or worse about themselves. So the Elliott wave pattern reflects economic activity that is the lifeblood of an expanding or contracting Kf cycle over 70 years. Therefore a deflation becomes more severe once it starts as social mood turns negative and social behavior forces us deeper into a corrective mode. It forces new change to correct the mistakes of the past before another positive cycle can emerge and it shows up in a bear market in the form of a 3 wave decline.

Now that's a lot of theory so here are some charts. And what is happening to India!



The first chart I am showing is that of the Sensex picked up from Vivek Patil's reports as it back dates the Sensex based on the RBI index and the FE index. This chart gives us more than 70 years of data to fit the Indian Kf cycle. Since India started its first cycle post independence it may be fair to assume that we are in wave 1 of a supercycle degree bull market and the coming bear market will be wave 2 of supercycle degree. The Kf cycle discussed by Ian Gordon is often discussed in the form of 4 seasons to explain how it is unfolding, and they are like this.

The Kondrateiff seasons and India

Kf Spring - Spring represents the birth of an economy which for India would have started a little before or around Independence. Spring is the bull market during which the economy grows on new found growth prospects to exploit all its resources. Interest rates start on a low base and trend higher as demand for money grows to fund growth. Prices of assets commodities and labor expand. For India the time up to 1990 would represent such a period. GDP compounded at 6% during this period.

Kf Summer - Summer is when the economy reaches full bloom. All resources are being exploited and the expansionary phase of the past results in visible price inflation catching up with wages. To control it, interest rates move up substantially often slowing down the economy. By the end of Spring price inflation will eventually appear to have been controlled and interest rates can go lower again. 1994-2001 represents such a period in India. 1966-1981 represents the same for the US. For those who have been following the market for the last decade you will remember how analysts were often comparing the 70's Dow chart with the 90's India chart to predict how the Dow then took off later and went up 10 fold over the next 20 years [during the Kf Autumn]. Well India went up 8 times since 2001 in 7 years. What I want to highlight is that in terms of the Kf cycle they were comparing the same state of markets [Kf summer]. The outcomes therefore were also similar, but time wise one lasted much longer. There is a belief therefore that India's bull market that started in 2001 is going to last for decades and we are seeing a temporary halt right now, however the size of the bull market is often ignored. Time was smaller in India because we quickly went from a closed to open economy and are doing a very fast catch up job with lost time. In terms of wave structure too if you see the chart above wave 3 was the longest however wave 1 was a small bull market relatively, and therefore wave 5 equals wave 1 in size and that is good enough. India's debt to GDP was just over 50% by the end of the Summer].

Kf Autumn - The myth that inflation is under control is what kicks off the Autumn. This feeling of control allows for monetary action to start again. Note that this is the only time when lower interest rates are associated with rising asset prices. During spring interest rates start on a small base and expand slowly as the economy expands, demand for finance leads interest rates. During Autumn rates are lowered to kick start economic activity and the belief that prices can be kept under control allows for credit based bubbles to reach full scope. Falling rates push all asset prices up from equities bonds and real estate to possibly commodities and wages. As credit levels expand exponential nurturing debt with cheap finance is the essence of keeping the Autumn bubbles alive. But as discussed above they will eventually burst. 2001-2010 is the Autumn for India. In terms of credit 2010 appears like the right time of the cycle to end, though from a stock market perspective it can be debated whether the 5th wave based on Elliott waves ended in 2008 or 2010. It differs between Sensex and Nifty. India's debt to GDP had crossed 135% and is now close to 140% This excludes items like NBFCs, non banking FDs, non banking corporate debt, derivatives markets and other lenders and borrowers. Bank credit and Govt debt along add up to close to 140%. If we put everything together it could shoot past 150%

Kf Winter - As always winter will come. The most painful period as bubbles burst causing economic upheavals and hardship. Fear and distrust force reduced lending activity despite lower interest rates. Quality debt is back in vogue. The process of unwinding of debt before another cycle starts can take from a few years to decades depending on the degree. The U.S. deflation from 1929-1949 took 15 years for debt, but stock markets bottomed in 1934, i.e. in 4 years. However a grand super cycle occurs when a 5 wave rally of one larger degree occurs. This means after 3 consecutive Kf waves in a country it completes a larger degree 5 wave rise lasting 210 years and will correct/consolidate for a longer period. In the U.S. 1720-1784 is shown as the Grand-Supercycle degree wave 2 by Robert Prechter in his book "Prechter's Perspective". That was 50-60 years of depression/consolidation. Since then US has been in a Grand supercycle degree wave 3 till year 2000. Wave 4 could potentially be as large in time. But for countries like India that are in their first Kf cycle since independence and things are not so bad. Yes I think India will see its own Kf winter, i.e. deflation or depression, however after 2-3 years once it completes a supercycle degree wave 2 correction, a larger degree supercycle wave 3 bull market lasting 70 years can emerge. This is when decoupling will happen for India and maybe China. The recent 2010 Indian budget has started talking about reducing the fiscal deficit and that is a deflationary trend signal. How debt gets reduced may vary from cycle to cycle. Bubbles can be pricked internally through tightening or externally through events not in our control.

Now that I have given enough perspective to the Kf cycle and where India is placed within it lets discuss the impact on India and the stock market. it is my belief that India will find it hard to escape the Kf winter that is likely to follow. As India was late to enter the Global Kf-Autumn, it will has taken time to enter the Kf winter. One of the reasons that India's cycles are years apart from the west is that we were a closed economy but since the 80's we started the process of opening up. In 1991 we jumpstarted the process with reforms and have been catching up very fast with the world cycle. So while the Indian Summer occurred 10 years after the US summer ended, our winter is now starting 3 years later. 2010 shall mark the beginning of India's Kf winter of deflation and depression as the external environment starts to worsen. Attempts to finance its own fiscal deficit internally might stress the economy and attempts at price inflation will lead to dumping of goods by other nations or social revolt. Raising interest rates will lead to reduced lending and if we try diverting savings to finance the government the corporate sector will starve. So we are walking a tight rope which will break more due to external factors than domestic ones. Non financial problems like the one with our neighbors can also be a hidden trigger. Basically our high fiscal deficit and 140% debt/GDP is now exposed to various external risks that can stall further monetary expansion and thus force a period of deflation before we can start growth all over again.

India's biggest strength that will eventually bring us out of this mess is our demographics. A young population is willing to take hard steps and suffer the pain needed to quickly move ahead. Ageing populations in the west and Japan prefer not to suffer pain and postpone it as far as possible which will make them take much longer [20 years for Japan already]. Now here is a look at the current picture of the Elliott Wave structure for the Sensex for the last decade

Elliott Waves and the Markets

If you have watched the economy since the 90's you will appreciate why 94-01 was a Kf summer. The business cycle turned down when India's debt to GDP was only 50%. So overcapacity in some sectors was enough to plague us for years. Interest rates for lower rated corporates were over 20%, and the FD market exploded due to the cash crunch. It took years before interest rates fell again and inflation was controlled and a new business cycle emerged. Also note how social mood turned down, from the music industry losing its charm to coalition governments becoming the norm were changes in social trends. During this phase you had sector bull runs from time to time but no broad based bull market. While the Sensex remained above 2800 stocks lost upto 50-80% due to the contraction. Defensives [fmcg and pharma] and technology stocks were the best performers.

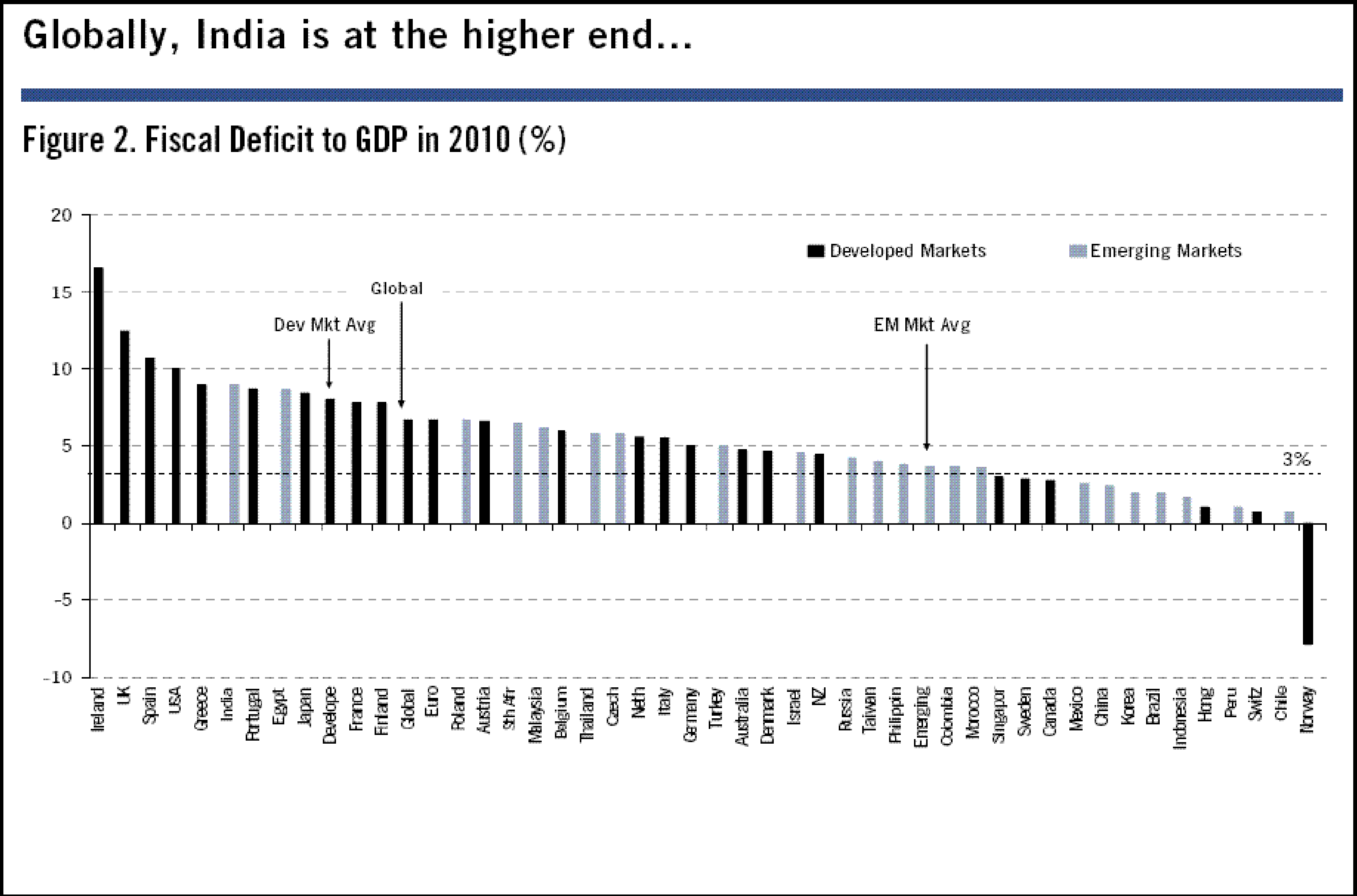
I have already explained that 2001-2010 was the Kf Autumn, within this the 5th wave of the stock market advance from 2001 ended in 2008 after which it is technically in a bear market. However some sectors like Autos and IT are completing their 5th waves in 2010 as the B wave in the Sensex is forming. If you have been an Indiacharts follower then you would know that I was originally counting the fall in 2008 as a 5 wave decline. At some point I choose to follow the W-X-Y-X-Z structure as it allowed me to truncate the bear market at 8000 on low sentiment readings. My expectation then was of an X wave upto not more than 12500. However we have a B wave that is much larger. That alternate played its role then and allowed me time to judge whether my original counts that have longer term bearish implications are valid and whether economic behavior is fitting. Now its more clear that decoupling is a fad. Its possible only after a deflation. It takes a new model of growth to emerge may be new technologies that solve the worlds problems or make it more productive. All said and done the original wave structure of counting the 2008 bear market as a wave A decline has not been violated and the falling volumes and bubble in small caps is a clear signal that the recent Nov'2010 high is a wave B top of a supercycle degree bear market. Wave C of the bear market therefore will be a 5 wave decline and has already started. Wave C has already begun and is splitting. Wave C would be at least equal to wave A giving the Sensex a target of 7627. Alternatively its possible for a mutiyear bear market to unfold in a complex W-X-Y-X-Z format with each bear market being a W/Y/Z and each bear market rally an X lasting for years. The choice of pattern will depend on how we choose to unwind our past excesses slowly and painfully or fast and quickly. Demographics can offer a hint here. A young population like that of India would like to take the hit and get on with it and that is what our government or RBI should let happen. Trying to slow down the pain will only prolong it. I am not sure how demographics play a role here because out leaders are always in the higher age bracket, the only reason could be that governments mostly implement that which the public at large demands no matter how absurd, its not their role to do what they think but what the people agree to. For this reason blaming the government for everything that does not work is a false approach in market analysis though very tempting. But my point here was that chances of a deep correction quickly and unwinding of excess debt in the system is a higher possibility for us than a long extended multiyear pattern of range bound moves with big bull runs as X waves in between. Its also what I would like to see so that we can quickly get on with it to the next supercycle bull market. A prolonged consolidation would not only hurt business but also be frustrating for a young population and could lead to social unrest.

These predictions may sound impossible today as known fundamental theory practiced cannot predict it as it does not encompass socionomics [or socio-economics], mass psychology and social mood, or financial cycles based on macroeconomics like the Kf wave. However wave theory states that bear markets often travel up to the wave 4 low of the previous bull market at one lower degree under consideration. 2001-2008 involved an extended 5th so wave IV of the 5th wave hit a low of 8800 a point we have already visited once, however wave 4 of the 2001-2008 bull market was at 4227, and wave 4 of the 70 year bull market shown in the first chart above is at 2596. These targets appear absurd today but coincide with C=A [7627], 1.618 times A [at 5545] and 2.618 times A [at 3842] as potential targets if C was extended.

I don't know whether to say we should expect such low levels but the Elliott Wave Principle suggests it and till the market proves it wrong it might be better to be prepared for the above scenario till a better one is clearly emerging. Right now investors should be holding cash and protecting their cash in safe banks FDs or Central government securities. Buy dollars to hedge against a depreciation of the rupee if you have access to currency futures. And wait for a great investment opportunity that lies at the end. If you are a trader capable of building shorts they would be profitable. At some point of time once gold prices are much lower you might want to also own gold. At some point in future the governments around the world will again attempt to spend their way out of deflation and those attempts at inflation can cause commodity prices to rise or hyperinflation in some economies. Then one should own some gold. But right now its too early to buy.

Alternative and More thoughts : based on feedback

Now like I said the forecast even at A=C is bad enough and frankly for most readers hard to believe. So lets discuss what alternates have been thrown at me. The most common one is that India because of its high savings rate and public sector will be able to keep fueling its expansion for several years and we may get a few more bubbles to possibly new highs before we can enter a corrective Kf winter like period. Before I discuss this lets look at this chart taken from Citigroup Global markets Asia Pacific report.



Now let me be very clear that I am not being an economic analyst. Technical analysis and the Elliott Wave theory form the basis of any forecast. So what is the role of the Kondratieff wave? While studying supercycle degree Elliott wave counts, the knowledge of the Kf wave allows for economic forecasting based on a non linear model. So what I am most convinced about is the wave Count discussed above and that the Kf cycle of 70 years coincides with the 5-3 supercycle trend of markets. Based on this typically the Kf summer coincides with a wave 4 formation at supercycle degree. And wave 5 up with the Autumn bull market. In this context what I would expect is that attempts to reflate the economy with spending could slow down Wave C into a larger time wise 5 wave decline where wave 2 of C would be another strong rally that will try to retest the recent highs. But since wave B is over its going to be difficult to do more than that. Extending the Kf Autumn into more bubbles is theoretically possible but needs a positive external environment and no external shocks, and a solution to inflation and interest rates as they come back to haunt you at the end of an Autumn bull market. If by some means we are able to solve the inflation/ interest rate puzzle then an Autumn bull market can bubble away for longer than normal to all time highs. This has been seen to happen only for countries with huge economic power like US in the current period. So for all our strengths and better demographics we are weak in many areas such as technology, food security, dependence on rain gods, threatening neighbors and a non-global currency. One look at the chart above tells you that in a world that is already in trouble over debt we rank only next to Greece. OUCH! but economists will tell you its not that bad because we have domestic savings to finance it. All the same we need to service our debts and that's a cost that will slow us down. Our Debt to GDP ratio was over 100% two years back based on rough estimates. It is now close to 140%, excluding items where data is not available. Government debt including states and external debt is close to 70% and banking sector credit to commercial sector is at over 65% so that adds up to 135%+. In Greece the problem is not just savings but that its part of the Eurozone and cant do the kind of creative financing we still can. So just the idea that we can take the risk of growing on debt is not good enough anymore the question is whether its worth the risk and will it bear fruit before some external threat pricks it. Right now the wave structure tells me that it shall not be possible to extend this debt cycle any further. I have also been questioned about the 70 year period. Its not an exact period but its between 50-70 years that in the past has taken for the full Kf cycle to play out. You have to study the stages of the credit cycle in more detail to figure that out. Also stock market peaks and troughs will not occur exactly at the end of a Kf Autumn/Winter based on economic data, there are lead lags. Again is it still possible that we are only in wave 2 bear market of a multi year bull market that wont go below 11500? Its possible but till there is evidence of that, the risk of a Kf winter is worth keeping note of and waiting for it to be ruled out.

NEW additions - 14/07/2011

Kf cycle extentions and Global Headwinds

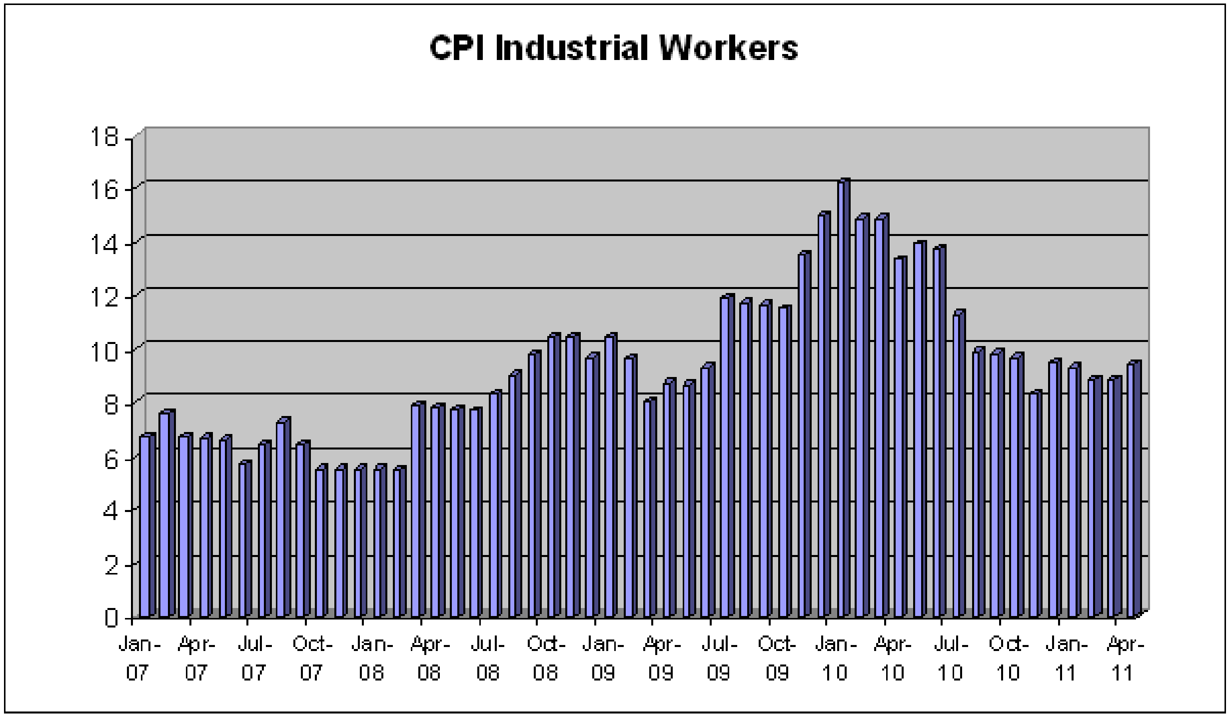
In my lifetime I am experiencing the first Kf inflection point from an Autumn to a Winter, so for all the theory and the gut feel from the data above that we are where we are, my experience is limited to this one time event and phenomena, and its going to make a lifetime of a difference to my investment payoff for an entire generation. Maybe that is the one reason this cycle works it occurs only once in your lifetime and its expectation can never become a mass phenomena. And since no one has any living experience of it its hard to believe and digest for most as it forecasts changes of large financial magnitude that will affect lives for years ahead.

This is why I have to be careful and admit that Kf Autumns can extend under certain circumstances. But are there many examples in history? No! Some people say Debt in India is not a problem but still the US with only 135% debt to GDP in 1929 underwent the great depression. That raises the question did the US face a Kf winter in the 1930's of its own doing? It was not because of their economy sinking but because global forces were at work back then too. The Economic power house of the period before the 30's was Europe and that got into trouble. The cycle then too was global. Economists who have studied high levels of debt do not define any particular level of debt from where an economy gets into trouble, it happens once the level is high enough that servicing it is difficult from GDP growth. The Kf cycle that measure the expansion of debt along with interest rates and inflation allows us to see the point where the secondary bubble in debt develops after a Kf summer [Summer is when interest rates drop along with inflation and all seems to be under control]. The Elliott wave theory allows us to identify the Summer as a wave IV at supercycle degree and the start of the Autumn speculative bull market. Once the Autumn is over as bubbles are already in place its a collapse that inevitably follows.

Because of the great depression the efforts of governments to not repeat the follies of the past have now tried to postpone the eventuality of a debt collapse through the use of financial institutions designed to prevent or postpone a collapse of the system till a solution is found. As discussed an Autumn bull market builds on the back bone of two things low interest rates and low inflation. As long as this is true debt levels keep going up till a bubble develops in some part of the system. Active management can ensure that bubbles don't develop but then at some point servicing debt that is high requires an expanding GDP that can service it, Productivity gains and technological advancement have played that role in the past and for the US the debt is now close to 380% of GDP. The US with its knowledge of the past was able to keep inflation low through what I may call a global arbitrage, In other words Globalisation was used to arbitrage cost of production in industrial goods and then in services [manpower]. This globalisation of the Kf cycle allowed it to extend for another 15 years beyond the normal time period of the average cycle. This allowed the US in a unique position as the owner of the reserve currency system to keep interest rates low and service its expanding debt. In the 1920's one can draw the same analogy with the high debts in Britain during the peak of its empire as it colonised the world. While world trade did exist back then globalisation and single currencies had still not been explored. So when debts hit the cealing even the US that was best positioned as an economy at higher levels of debt was pulled down in a depression with the rest of the world. Its supremacy as the largest creditor nation did not become an advantage till its own Kf cycle started once again from the Spring, a new 70 year period of prosperity. I am explaining this in detail because many predictions for the US Kf Winter have gone wrong as they were made ahead of time and no one anticipated the above possibilities to an extension of the Autumn bull market that was also aided by huge technological advancements. I have seen reports that show that productivity gains from tech were actually nominal since the 90s, so more of the gains were from globalisation/arbitrage.

This discussion is important as India nears a debt level of 140% to GDP. At the end of a Kf Autumn the question is can the Autumn extend. Many fundamentally think that India and maybe even China can keep going. But Kf analysts would have to see it differently. That we as an economy have triggers for a bright future we are at levels where an extension in the Kf Autumn requires low interest rates and low inflation both to persist. Along with that as we have opened up our economy to globalisation we also need a sound global economic environment. Our situation and even more that of China therefore today is like that of the US in 1929, growth economies rearing to go, the biggest creditor nation [China] but a global Kf Winter headwind from the US and Europe and Japan. Like US had to pay the price of a depression before it could grow exponentially from 1940-2000 [stock market 1932-2008], we might also have to first pay the price of a Winter so that we can Spring into a period of undeterred growth. But to allow the intellectuals an opportunity on a extended bull market in India I want them to ponder on how under this environment can we keep both inflation and interest rates low for an extended period of time. If financial markets detect unabated demand for commodities from emerging markets they will drive up those prices for economic profit. Since we are the cheapest producers of the world we have no where else to go to do our own industrial or economic arbitrage. We dont own the worlds reserve currency or have an unlimited market for our debt to finance our long term needs. Thus our dependence on global money in the form of FDI/FII remains. The argument that a weak global economy would bring down commodity prices and lower our inflation is a flawed argument in a global market place. The impact of a global slowdown or recession on India would be significant as many of our companies are now global, and our finances are global.

The only middle path I can see is that of a muddle through global economy, that does not fuel demand too much neither slows down dramatically but allows us to keep expanding. That then leaves us with the basic domestic question about our own ability to absorb the huge amounts of money in our economy without price controls or currency controls. Blaming all inflation on global commodity prices appears like the easy way out. When the CRB index was at its lowest levels in 2009 CPI-UW was in double digits as shown in the chart below. There is no correlation between the two. Domestic inflation has been a function of nothing other than our own monetary phenomena. So expansionary policy at the current levels of economic activity going forward will continue to attract the wrath of price inflation. Without a solution to that interest rates cant be held far behind as we saw in the last financial year. It almost appeared that RBI would keep rates low for the sake of growth but was eventually forced to act. At 140% debt to GDP high interest rates will not allow the economy to sustain and attempts to keep growth high will result in high nominal GDP growth [read Real GDP+inflation], boosting tax revenues on the incremental gains but not offering any real growth. That leaves one argument from the bulls, "Indian are mature enough to accept higher inflation for the sake of higher growth". Really? I actually heard some of that a year back.



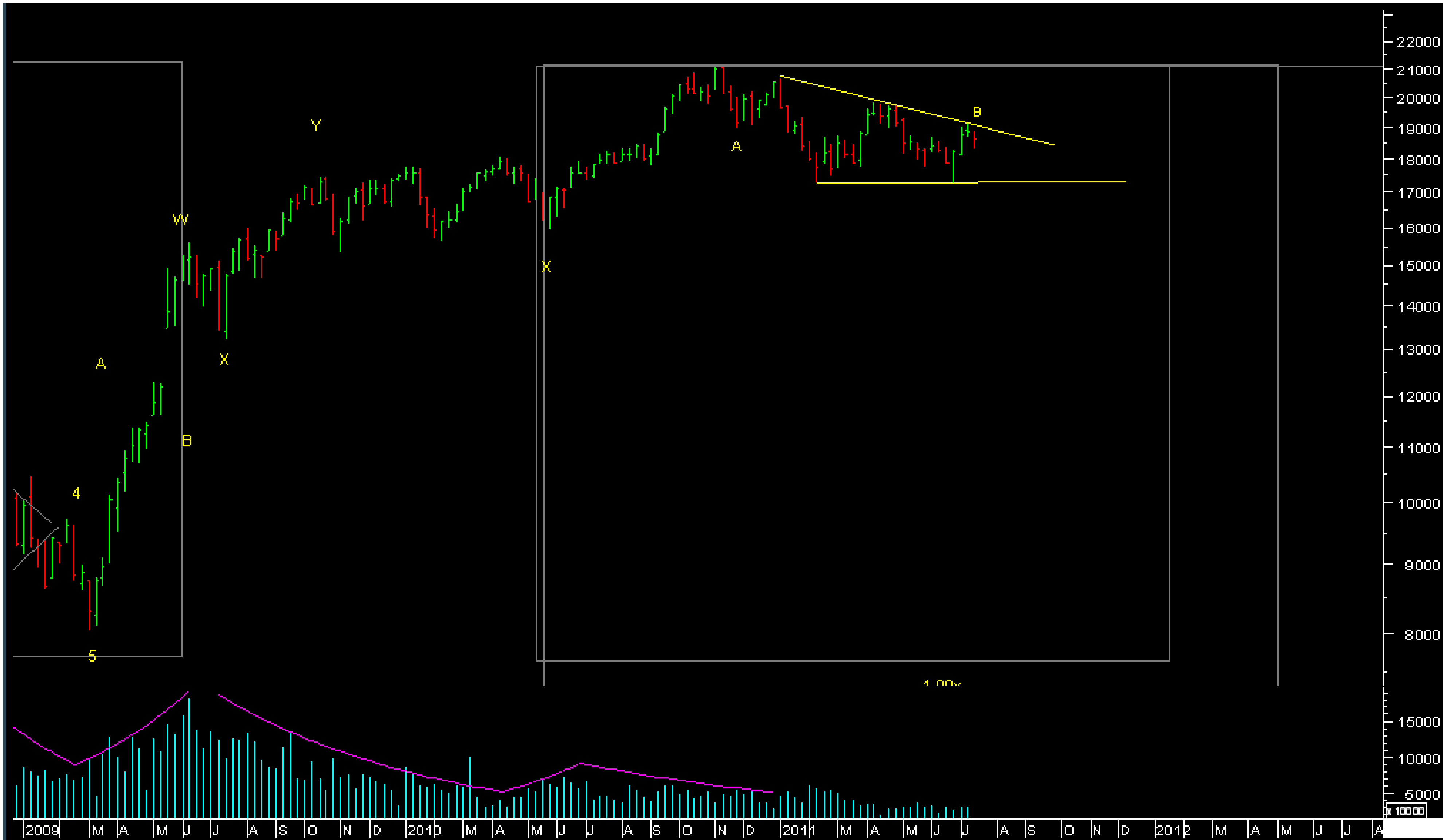
In other words in the past we have only seen Autumns extended by the dominant economy of the world, by means that few others can adopt. Japan managed a muddle through economy because it could choose a soft landing in the case of extended growth in other parts of the world. Today with most global triggers used up we would need a miracle to keep an Indian Autumn bull market going on for ever without an economic Winter of our own. Yes the day you can clearly see our ability to keep interest rates low, inflation low, and be unaffected by a global recession that day it will be possible. It might also be possible if we choose to inflate the economy anyway and let people pay the price of inflation through a rising cost of living. I hope I Have made my point.

India's supercycle Bull market?

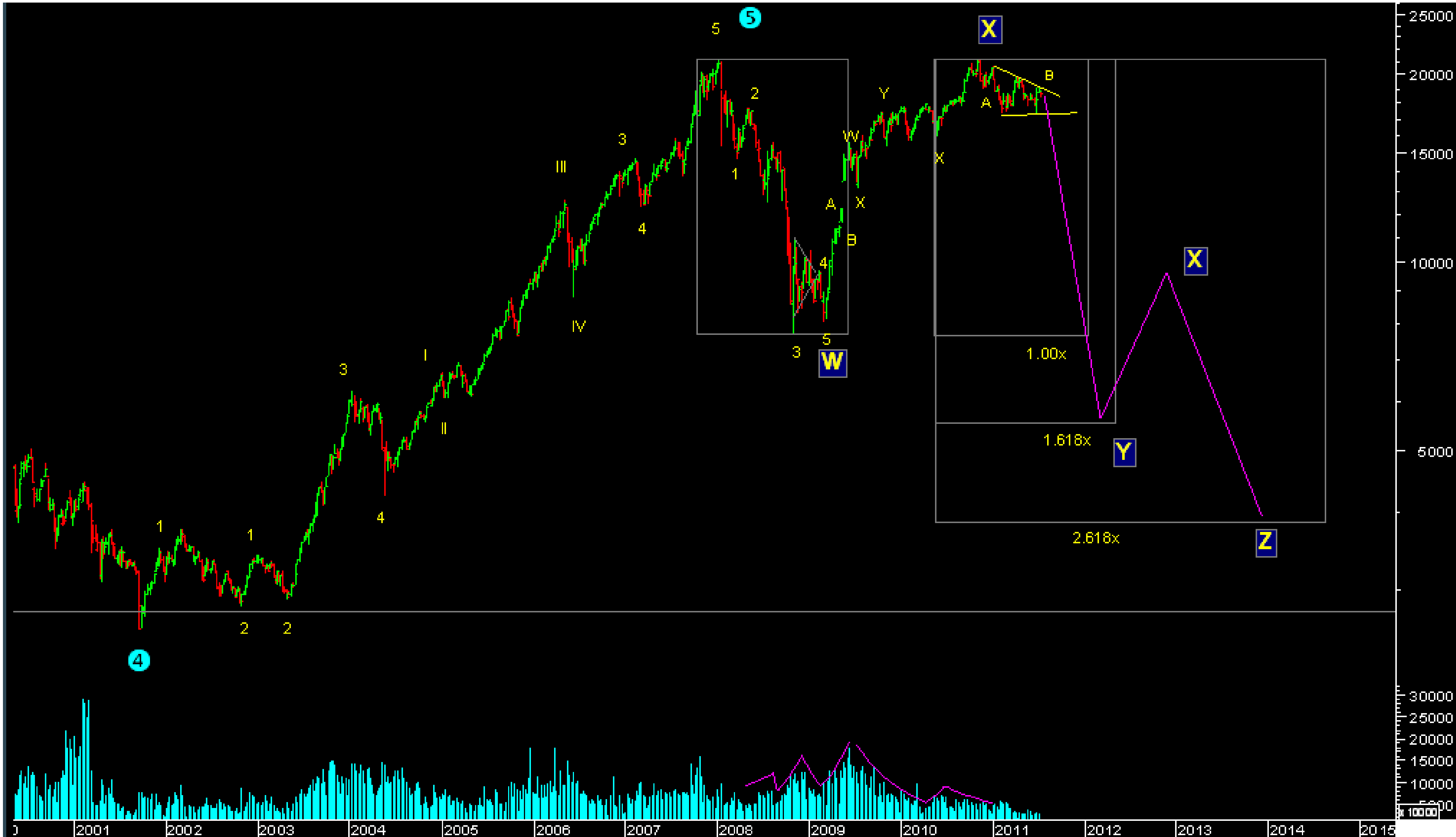
India will actually witness a supercycle bull market only after it does a supercycle bear market along with the rest of the world. Only after that would it enter a 70 year bull market period when targets like a Sensex 50000+ would become an economic reality but till then we have to suffer the pain first is my best bet. By when would we see this bear market end and the next leg up begin. I will need to go into an updated wave count for India and time projections for that so here it is.

Updated long term wave count

I first thought of updating the chart above but then let me use a new one altogether so that you can see how patterns change in the use of Elliott waves in real life. In my original wave count I was considering the entire post 2009 rally as a wave B but now I am changing it to X. The characteristics remain the same but it opens up more possibilities. Here is why I considered it. The chart below shows what I expect to be a triangle formation since the high of Jan 2011. Now if the 2010 top was wave B wave C down after that would be a 5 wave decline. In that case we would now be in wave 2 sideways. But wave 2 is rarely a triangle, triangles are most often found in wave B. What does it mean?



It means that the 2008 low is W and the 2010 top is X and next leg down would be Y. Now a bear market can end in Y but larger degree bear markets I have always seen completing in Z so it could be a long drawn affair going all the way into 2016, with Y ending somewhere in 2012-13. Now the size of each leg may also wary and need not look exactly like below. Y could be smaller and Z bigger and X a triangle of some kind etc. But that the current decline is wave Y is now clearly forming as an A-B-C. This allows for more complex bear market formations than simple 5 down expected earlier. Would wave Y itself become a more complex pattern with more subdivisions?, it obviously could. Now lets see why the year 2016 is important.



I have done very little work on time cycles so I will refer to experts. I have read a few pieces that point to 2016 and here is the best of them from ***Robert Prechters May 2011 Elliott Wave theorist, from Elliott Wave International***. In that report he shows that not only does the 7 year cycle but the 33 and 16.9 year cycles also point to the year 2016. This is where a meaningful bottom would occur for that market. Now that since the US will get there in 3 more waves down [waves 3-4-5 of a 5 wave decline] it is possible that an inter market divergence occurs. It is possible that when wave 3 down bottoms India completes its bear market and when wave 5 down in panic is forming India is in wave 2 of a new supercycle bull market already. I have seen such divergences of US v/s India before. An example at cycle degree is when India bottomed after 9/11 at its lowest level in Sep 2001, the US completed wave Y of its post Y2K bear market and continued to fall in wave Z into Oct 2002 to new lows when India was making wave 2 of a its Kondratieff Autumn bull market. This phenomena can again repeat at a larger degree between 2013-2016. Otherwise we all bottom together in 2016 anyway. I think 2016 should be the outer time frame for any Indian supercycle degree bear market at this juncture, with possibility of it completing as early as 2013.

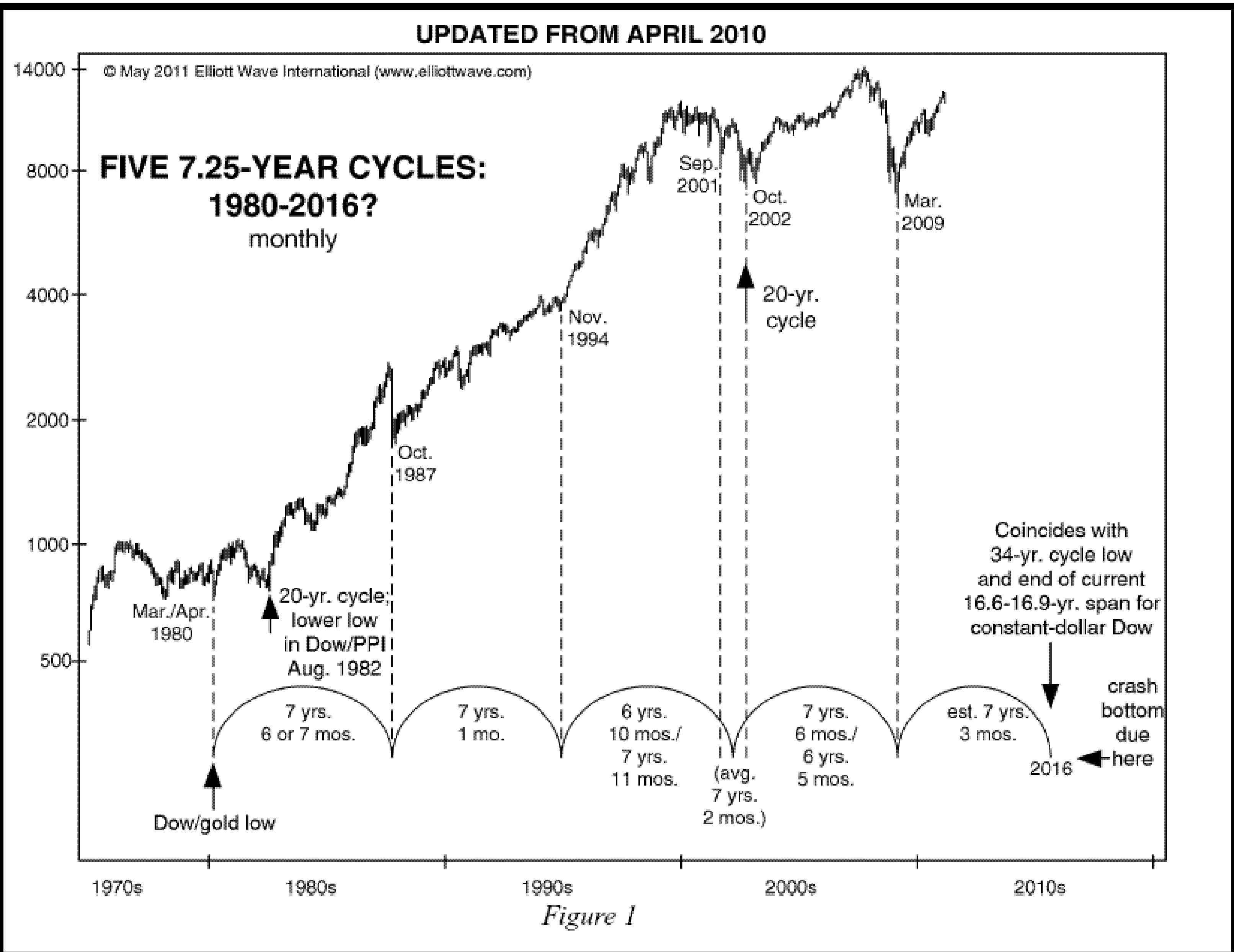


Figure 1

With this analysis I have given a price and time dimension to the India's Kondratieff winter bear market that we have already entered. The updated wave counts take into account the changes in the fractals of the market as they have unfolded up to now. My disbelief about how our inflation interest rate scenario can be managed at the current global debt to GDP ratios. And the need to trade the market accordingly.

Market Type and Seasonality for Traders

A little more on the last sentence. That I have established we are in a trading market and not a trending one. Even the bear market itself is unfolding in pieces as small as they get. This may be the reason why IVs are low and maybe they stay there for a prolonged period of time. In other words a slow and gradual unfolding of a downward trend can occur with lots of intermittent rallies and a larger X wave bull market period similar to that from Mar09- Nov10 at some point. We have already seen that a large part of this period involved markets moving not more than 5-8% in any direction so once you identify the market type and trade with tools needed for such a market and avoid being a buy and hold or sell and hold kind of trader you might do better, A few bigger moves may come once a year but if you take it in pieces you will put together the big one too. The technical tools for trending markets v/s trading ones vary, the same indicators work differently and sometimes you have to act on simple readings of extreme sentiment or over bought over sold to keep the profits. The markets move swiftly in your favor and then quickly against you again giving you no second chance to take an exit with a confirmed reversal. Once you get used to this market type it will come easily, the difficulty will be when the market type changes again. But I believe that wont be any time soon but that day we will miss the first big move before knowing what has happened. No trading system has been able to capture a change in market type and that will keep us from being gods and only playing with the odds.

Finally a word on seasonality. During the 90s, the Kf summer I noticed that markets followed a budget top, and October bottom cycle for years, but in 2002 something changed for the first time markets topped in Jan. Since then as the Kf Autumn began seasonality shifted to a Jan top to a May bottom with a temporary halt in Oct. This seasonality remained till 2009. Since 2009 as we enter the Kf winter I have now witnessed a new change, an Oct/Nov top and April/June bottoms, and a 2 month up down cycle at play. This new cycle should remain in play till the Kf Spring the next bull market emerges. Once should know that seasonality does invert between the bullish and bearish periods at times when a trend extends however the time periods remain. So today from June 2011 we should be in a bullish season like last year except if the trend down from Nov 2010 extends further time wise then we would remain in a downtrend till Oct/Nov 2011 and so on.

Rohit Srivastava: ' This is a free update on the markets for public reading. My views are based on my analysis of the markets after years of such analysis, since 1991. Investment decisions made on the above analysis would be at your own risk and I take no responsibility for your decisions based on the above analysis.'