

Pair Strategy

August 26, 2011

Long Axis Bank & Short Bank Nifty

Over the past two weeks, a sell-off in the Indian market has resulted in a breakdown in the co-relation between Axis bank and Bank Nifty, thus widening the historical price ratio relationship to Upper Band 2 at 8.96* (mean+2 standard deviation).

One year co-relation between Axis Bank and Bank Nifty is above 90% (strong co-relation), while standard deviation at 0.25 is slightly on the higher scale. Axis bank being one of the major constituents of Bank Nifty with 8.34% weightage is expected to revert back to the mean.

We recommend traders to go long on Axis Bank and short Bank Nifty at price ratio of 8.96-9.05 with Stop loss placed at 9.10 for target of 8.80-8.75.

*(8962/1000=8.962 – price ratio)

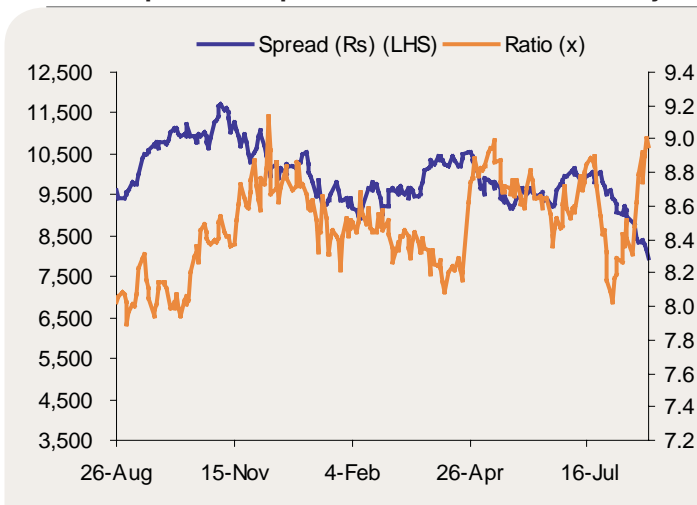
Recommendation*	Price	Qty	Fut lots
Long Axis Bank (Sept Futs)	799	250	1
Short Bank Nifty (Sept Futs)	5,237	50	1

*~Outflow(₹0.6lacs), Time horizon - 30days, Expected return 5-10%

Spread Summary	1-Year	60 Days	21 Days
Last	8.96	8.96	8.96
Mean	8.48	8.10	8.13
Off Mean	0.48	0.87	0.84
Median	8.48	8.06	8.06
Standard Dev	0.26	0.13	0.14

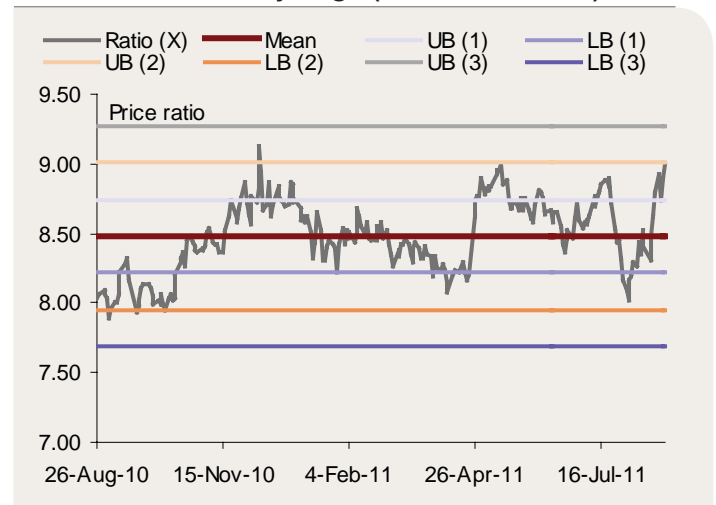
Spread Summary	1-Year	60 Days	21 Dawys
Correlation	0.94	0.96	0.86

Absolute spread and price ratio - Axis vs Bank Nifty



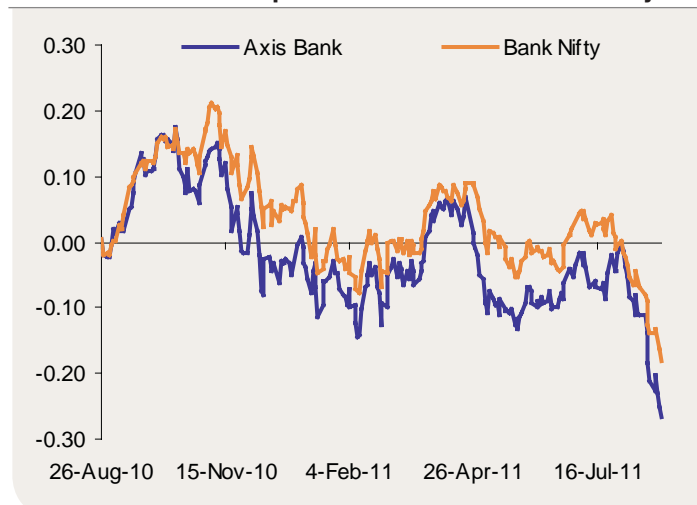
Source: India Infoline Research

Price ratio close to 1yr high (Mean + 2Std Dev)



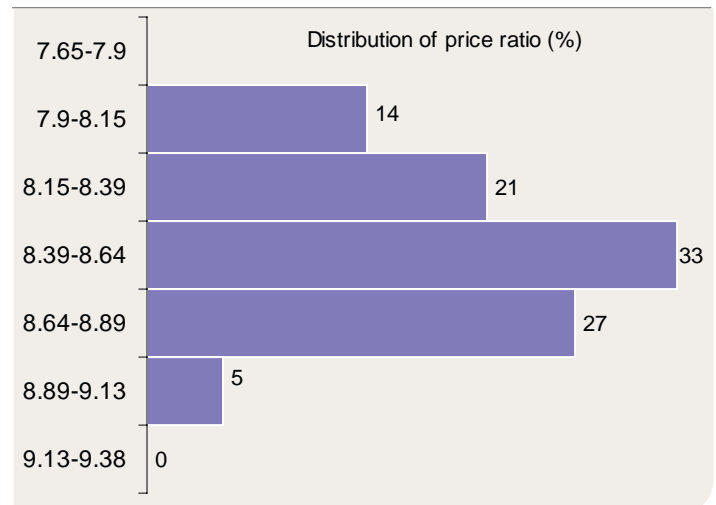
Source: India Infoline Research

Axis Bank has underperformed vis-à-vis Bank Nifty



Source: India Infoline Research

Maximum occurrence between 8.39-8.64



Source: India Infoline Research

India Infoline Weekly Wrap

Market Outlook

Another bad week has been wrapped up with a feeling that hopefully the next one could be a better one. Indian equities underperformed global markets this week, which is a cause for concern.

The turnaround in the sentiment could come from any positive development on the Lokpal Bill over the weekend. The parliament is set to debate the Lokpal Bill without vote on Saturday. So, keep your fingers crossed.

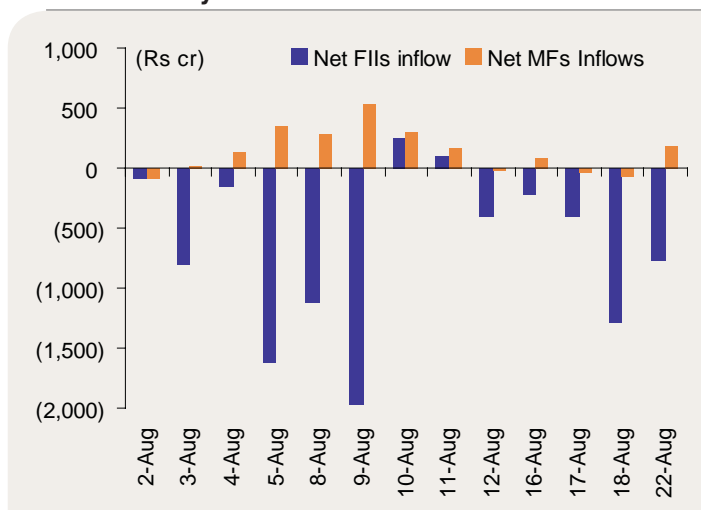
Federal Reserve chairman Ben Bernanke's speech at Jackson Hole is keenly awaited by global investors. Much of world markets' mood on Monday will hinge on what Bernanke says or doesn't say.

The positive thing is that FIIs were not heavy sellers on Friday. The Indian market can stage a comeback if FII outflows reverse.

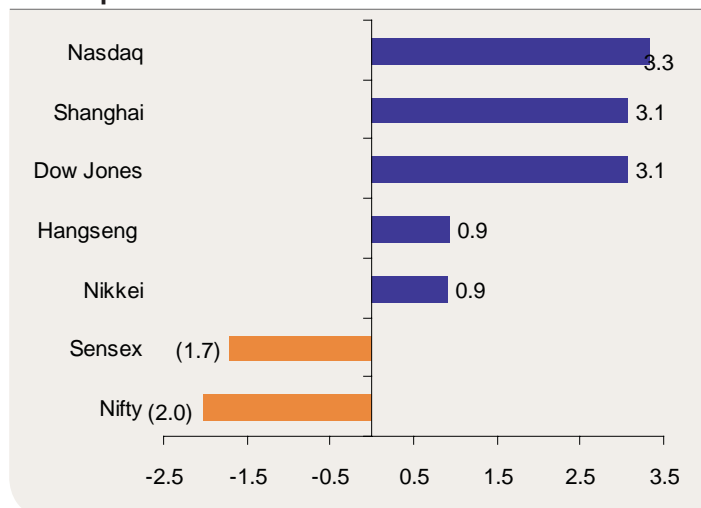
Overseas markets also need to rebound and stay up for a while to boost investor confidence.

Next week is truncated and data heavy. India's Q1 GDP will be out as well. So, trade carefully and beware of sudden spikes.

FIIs/MFs activity



Global performance



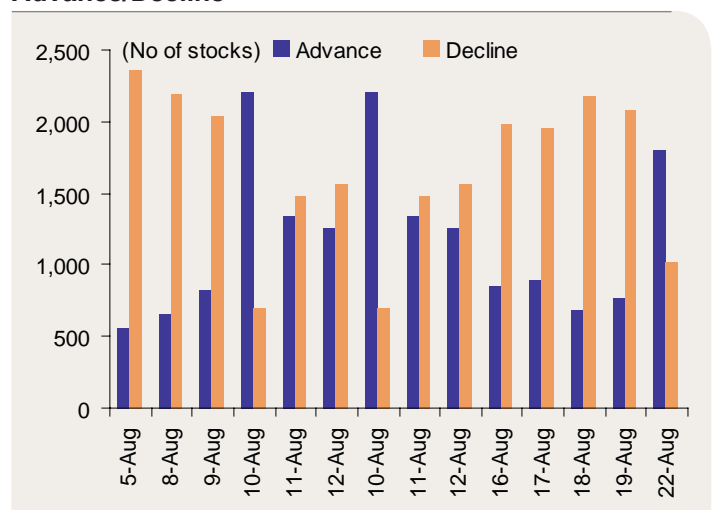
Technical View

The view for Nifty from current levels remains neutral, especially after five weeks of decline and closing near the 38.2% Fibonacci support zone of 4874. Current closing level also coincides with rising support line on quarterly chart on a semi log scale extended from the troughs of 2003 levels. Hence with confluence of multiple support levels and completion of 'falling wedge' pattern on daily chart, a breakout above 4850 will ensure a swift rally towards 5150.

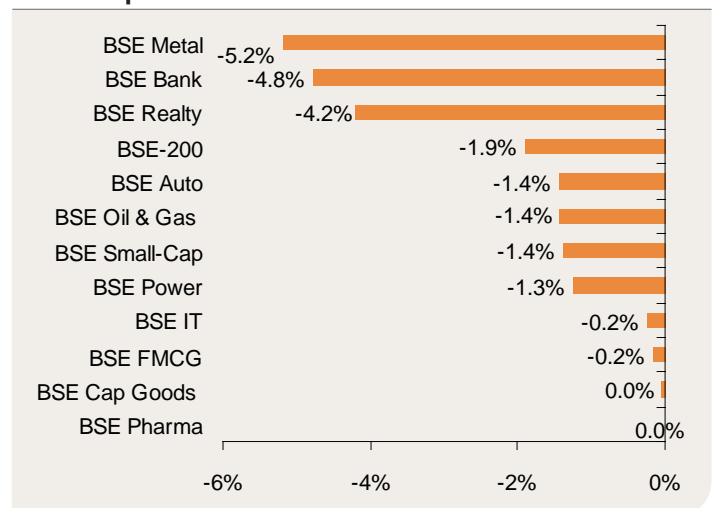
F&O View

The nifty expiry was at 4839.60. Majorly short rollovers were witnessed in Bank Nifty, Realty and Auto sector. FII selling in Cash was at around Rs100bn, whereas in Index Future they were net seller worth ₹14bn. The highest put OI was in 4800 and Calls in 5000 CE. Huge put writing was witnessed in 4600 and 4500 for this month making it possibly the bottom for the month. We feel VIX might trade in range of 24-38 levels for September.

Advance/Decline



Sectoral performance



India Infoline Weekly Wrap

Technical Check

Nifty 50 & CNX 500 top 10 gainers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
Bajaj Auto	1,493	4.6	Advanta India	336	12.0
Bharti Airtel	400	4.2	Bannari Amman	561	18.8
BHEL	1,744	3.7	Inox Leisure	41	14.4
Dr Reddy'S Labs	1,454	2.9	Ks Oils	10	11.8
TCS	950	2.3	Gtl Infra.	12	1.6
HUL	320	1.3	Uflex	179	10.8
ONGC	277	0.3	Koutons Retail	20	9.6
Sun Pharma	468	0.2	Dcw	9	9.0
-	-	-	Sterling Biotech	71	8.6
-	-	-	Hathway Cables	85	8.0

Nifty 50 & CNX 500 top 10 Losers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
Reliance Cap.	343	(11.5)	Jet Airways	251	(15.3)
PNB	906	(8.6)	NB Ventures	166	(13.2)
Tata Steel	421	(8.4)	Dynamatic Tech	1,000	(13.0)
Sesa Goa	204	(8.3)	Oswal Chem.	60	(11.8)
JP Associates	55	(7.7)	JP Power	32	(11.6)
HCL Tech	363	(7.4)	Reliance Cap	343	(11.5)
SBI	1,892	(7.1)	Nagarjuna Fert	23	(11.2)
Axis Bank	999	(6.6)	Mercator Lines	22	(10.7)
Maruti Suzuki	1,083	(6.6)	Educomp Sol.	198	(10.0)
Cairn India	252	(6.5)	Auro Pharma	123	(9.9)

Technically strong

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
ABB	816	788	0.1	0.1
Dabur India	108	104	0.9	0.8
Ultratech Cem.	1,059	1,025	0.3	0.1
Lupin	454	447	0.8	0.6
Bharti Airtel	399	395	3.0	2.8

Technically weak

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Divi Labs	698	729	0.2	0.1
Andhra Bank	121	127	0.6	0.6
Infosys	2,205	2,315	3.1	1.9
Power Grid	97	102	3.4	2.3
Reliance Ind	720	756	7.6	5.9

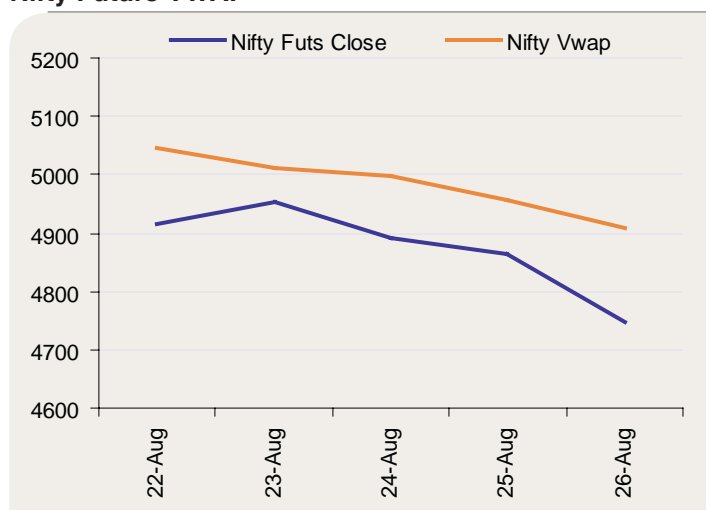
Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
24-Aug	Axis Bank	Kemrock Indus	B	1.2	515.9
24-Aug	Credit Suisse	Madhucon Proj	B	8.9	72.5
24-Aug	Sundaam BNP	Suprajit Eng	S	27.2	16.8
25-Aug	Deutsche Sec	Core Projects	S	7.8	311.6
25-Aug	Merrill Lynch	FSL	S	22.0	11.9

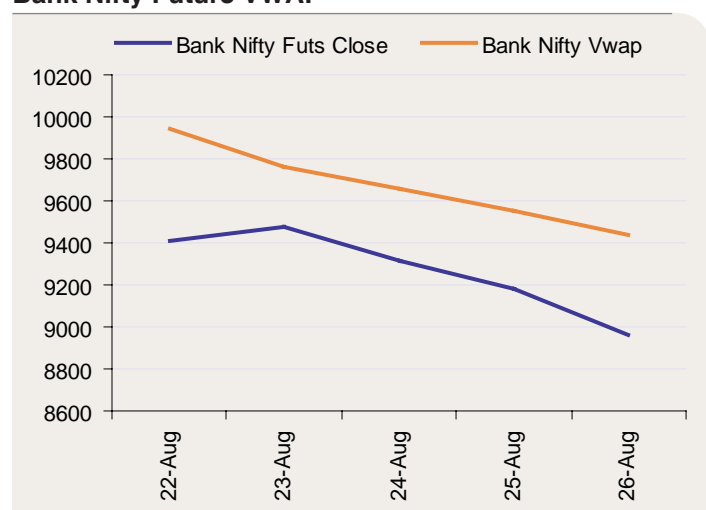
Book closure and record date

Company	Date	Purpose
Bajaj Steel	30 Aug 2011	Dividend
Gayatri Proj	30 Aug 2011	Dividend
Gujarat State Fert	30 Aug 2011	Dividend
IDBI Bank	02 Sep 2011	Dividend
NHPC	02 Sep 2011	Dividend
Sun Pharma	02 Sep 2011	Dividend

Nifty Future VWAP



Bank Nifty Future VWAP



India Infoline Weekly Wrap

Commodity Corner

Base metals

Base metals, barring nickel moved higher this week, underpinned by anticipation regarding Federal Reserve to drop hints on another round of quantitative easing to stimulate the US economy at the much awaited Jackson Hole Symposium, where Fed Chairman Ben Bernanke will deliver a speech today. Strong monthly US durable goods orders also helped the upside in the complex. Copper prices were underpinned by supply issues in Chile and pick-up in Chinese imports for refined copper in July. Meanwhile, Aluminium prices are expected to derive support from power rationing in China's western provinces, which will affect the ramp-up of spare smelting capacity. Nickel prices are persistently constrained by weak growth in global stainless steel output.

One needs to exercise caution in light of the uncertainty regarding Chairman Bernanke's speech. If the Fed asserts that the US economy is dangerously close to recession and fails to provide the extra stimulus that the markets are anticipating for, then it may imply a sell-off for a next few trading sessions. However, if Fed assuages market apprehensions by projecting a measured approach, stating that the US economy is capable of recovering on its own and the previous rounds of quantitative easing is still percolating in to the economic system and will take the desired effect; the markets could witness a relief rally.

Note: This market commentary is written at 12:30 PM IST

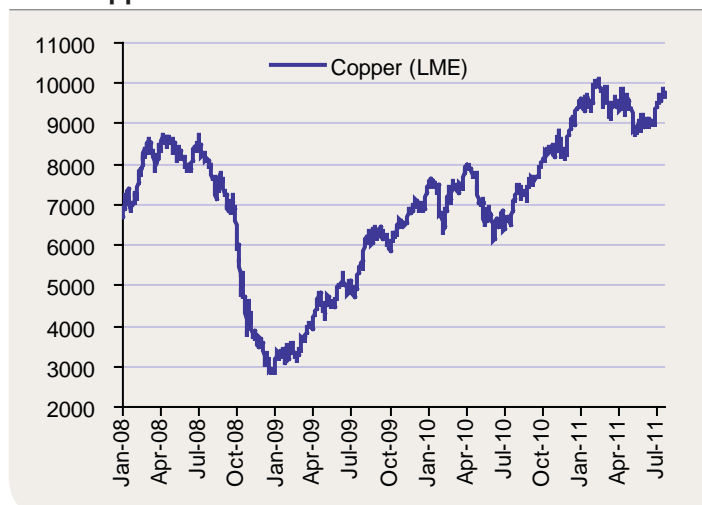
MCX prices

Base Metals	High	Low	LTP*	Chg (%)
Copper	416	398	415	3.1
Nickel	991	941	971	(0.5)
Zinc	102	97	101	2.0
Aluminium	109	106	108	1.1
Lead	112	104	111	4.5

Precious Metals	High	Low	LTP*	Chg (%)
Gold	28,284	25,512	26,723	(4.3)
Silver	66,625	58,882	61,632	(3.4)

* Last Traded Price

LME Copper



Precious metals

Precious metals witnessed extreme volatility this week, with the complex ending lower impacted by hike in trading margins by CME. CME has raised initial margins on COMEX Gold by 27%. The initial-margin requirement that speculators must keep on deposit, has risen to US\$9,450 per 100-ounce contract from US\$7,425. The maintenance margin also rises 27% to US\$7,000 from US\$5,500. Volatility was characterised with COMEX Gold hitting a high of US\$1917.9/ounce and a low of US\$1705.4/ounce. Similarly, Silver prices registered a high of US\$44.3/ounce and low of US\$38.8/ounce.

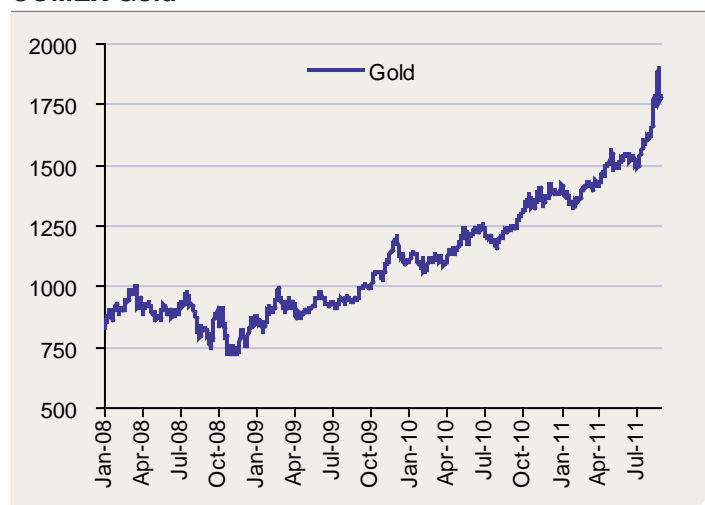
On physical front, gold demand soar to its second-highest quarterly level in Q2 2011, as China and India led purchases totalling US\$45.5bn during the quarter, according to the World Gold Council. The global growth rate for gold demand was 7% in Q2 2011, as compared on yoy basis. India saw a 38% growth rate yoy and China registered 25% growth.

On the price front, we continue to remain bullish on Gold prices in spite of the current drastic retracement. We deem it as a healthy correction, which would effectively propel the jewellery fabrication demand in India, especially considering the fact that we are at the onset of festive and wedding season in India during the next few months.

Weekly inventory update

	Tons	Abs Chg.	Chg (%)
Copper (LME)	463,300	(175)	(0.0)
Nickel (LME)	104,010	798	0.8
Zinc (LME)	863,450	(9,225)	(1.1)
Aluminium (LME)	4,654,275	(15,575)	(0.3)
Lead (LME)	314,000	(4,050)	(1.3)
Tin (LME)	22,560	(865)	(3.7)
Shanghai Copper	102,258	(9,756)	(8.7)
Shanghai Zinc	417,784	(3,408)	(0.8)
Shanghai Aluminium	124,808	(15,885)	(11.3)

COMEX Gold



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Mutual Fund Round-up

India Infoline picks

Mutual Funds	Assets (₹ Cr)	NAV (₹)	Absolute return (%) as on August 26, 2011							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200 Fund (G)	11,065	184.8	(0.5)	(12.3)	(9.0)	(5.7)	(11.0)	16.6	45.1	95.5
ICICI Prudential Dynamic - (G)	3,814	94.3	0.4	(13.1)	(10.5)	(7.6)	(7.9)	21.5	32.9	78.2
IDFC Small & Midcap Fund (G)	1,155	17.4	1.5	(9.1)	(2.6)	4.0	(7.7)	36.6	90.6	-
Fidelity Tax Advantage (G)	1,239	19.9	0.3	(10.1)	(6.7)	(3.8)	(9.1)	26.7	45.8	89.7
HDFC Prudence Fund (G)	6,407	202.1	(0.2)	(7.9)	(3.1)	1.1	(3.5)	35.9	68.9	108.9
Reliance equity opportunities(G)	3,032	32.7	(1.3)	(12.0)	(6.4)	(0.1)	(9.6)	42.1	64.0	83.3
IDFC Premier Equity-A(G)	2,411	32.1	0.9	(4.5)	1.7	9.3	(4.2)	44.5	70.9	199.0

Funds this week: HDFC Top 200 Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Prashant Jain	Equity	92.0
Latest NAV	₹184.76	Debt	2.5
NAV 52 high/low	₹236/187	Cash/call	5.5
Latest AUM (cr)	₹11,065	Top 5 holdings (%)	
Type	Open-ended	State Bank Of India	6.9
Class	Equity - Diversified	ICICI Bank Ltd.	6.4
Options	Growth & dividend	Infosys Ltd.	5.9
Min investment	₹5,000	ITC Ltd.	4.6
Benchmark	BSE 200	Reliance Industries Ltd.	4.1
No. of stocks	66	Top 3 sectors (%)	
No. of sectors	30	Banks	23.1
Expense ratio	1.8%	Consumer Non Durables	11.1
Exit load	1% before 1 year	Software	10.8

Reliance equity opportunity fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Viral Belawala	Equity	93.3
Latest NAV	₹32.67	Debt	-
NAV 52 high/low	₹39.86/31.80	Cash/call	6.7
Latest AUM (cr)	₹3,032	Top 5 holdings (%)	
Type	Open-ended	Divi'S Laboratories Ltd.	5.1
Class	Equity - Diversified	Aventis Pharma Ltd.	4.8
Options	Growth, Dividend & Bonus	Infosys Technologies Ltd.	6.7
Min investment	₹5,000	ICICI Bank Ltd.	5.9
Benchmark	BSE 100	HDFC Bank	4.3
No. of stocks	34	Top 3 sectors (%)	
No. of sectors	21	Banks	22.1
Expense ratio	1.85%	Consumer Non Durables	10.8
Exit load	1% before 1 year	Software	9.9

NFO update

Fund Name	Close	Type	Class
Axis hybrid series 2	30-Aug	CE	Hybrid-Debt
ICICI Prudential Multiple yield Fund Plan D	2-Sep	CE	Hybrid-Debt
SBI Gold	5-Sep	OE	Gold:ETF
HDFC Fixed Maturity Plans - Series XVIII	12-Sep	CE	Debt - FMP

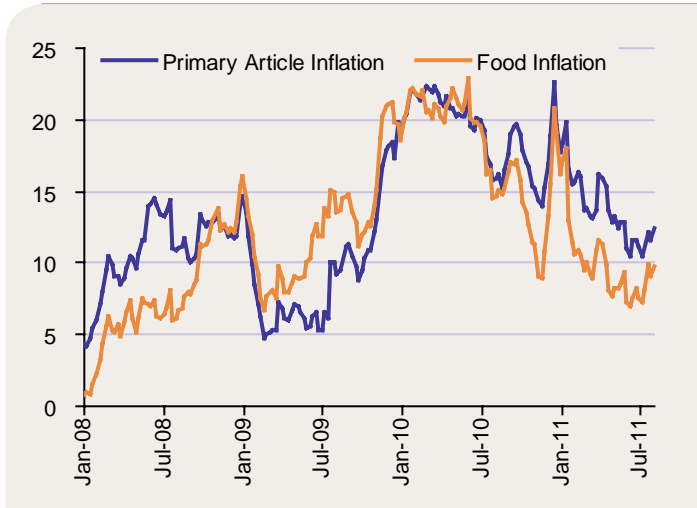
Dividend update

Mutual Fund	Dividend %	Record date	Class
ICICI Pru Dynamic	5.0	30-Aug	Equity

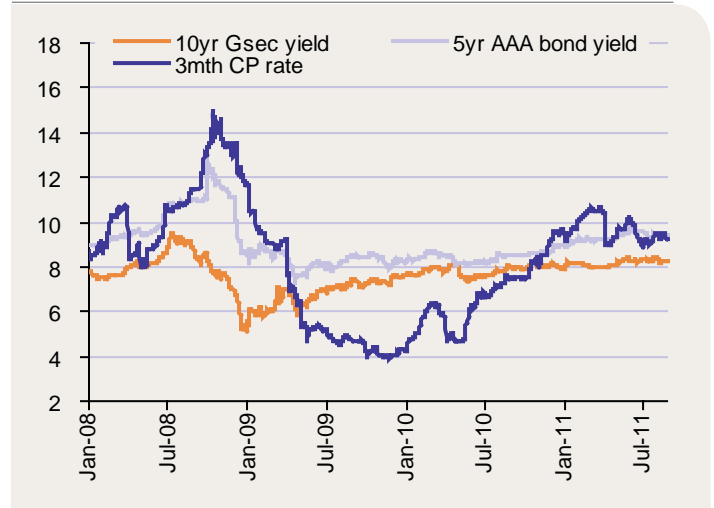
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Chartbook

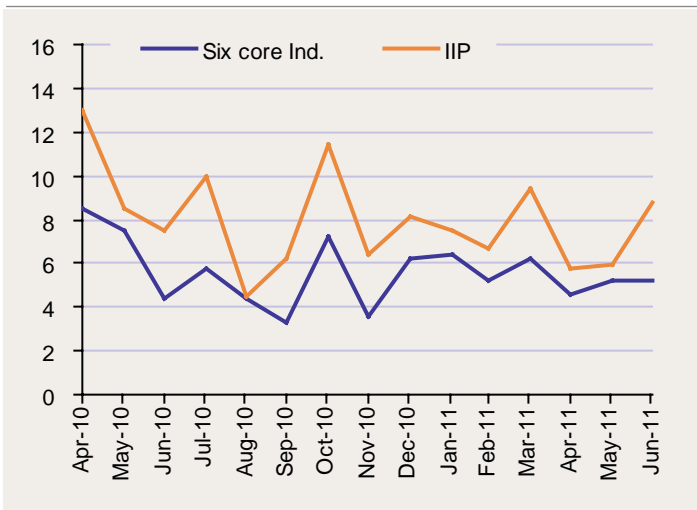
Weekly Inflation



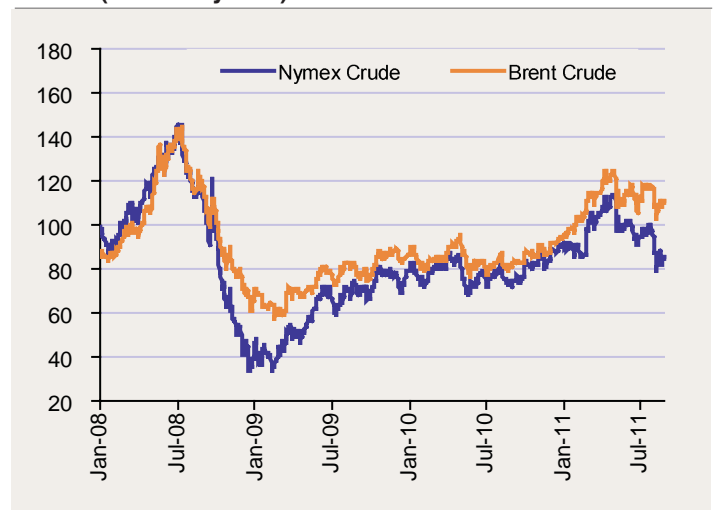
Interest Rate



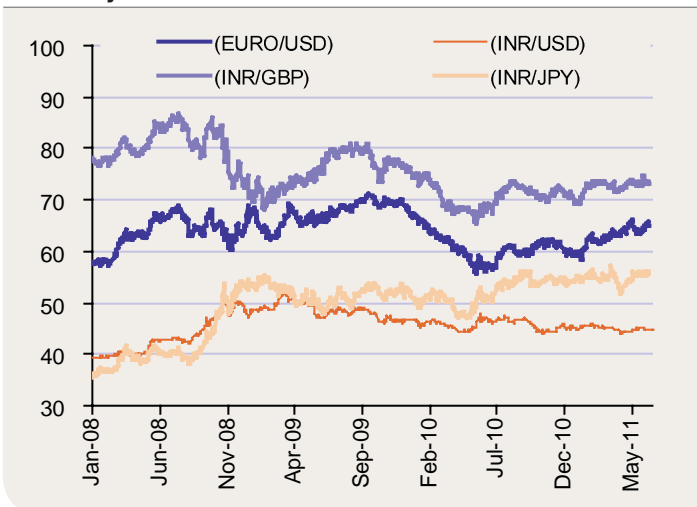
IIP and Six core Industries



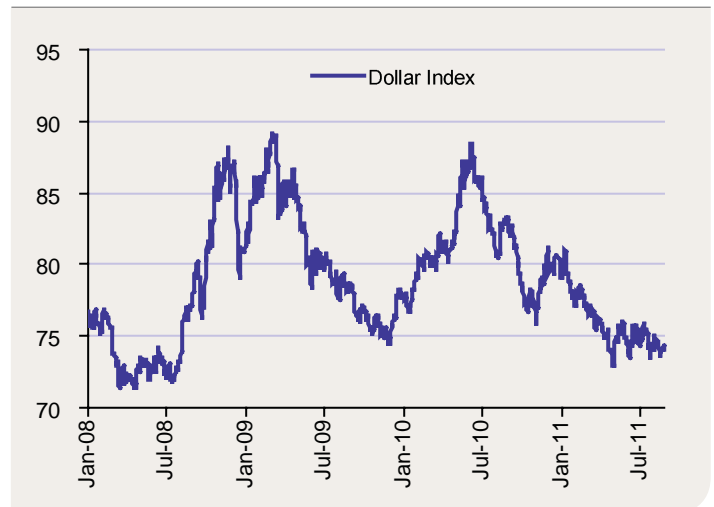
Crude (Brent/ Nymex)



Currency Movements



Dollar Index

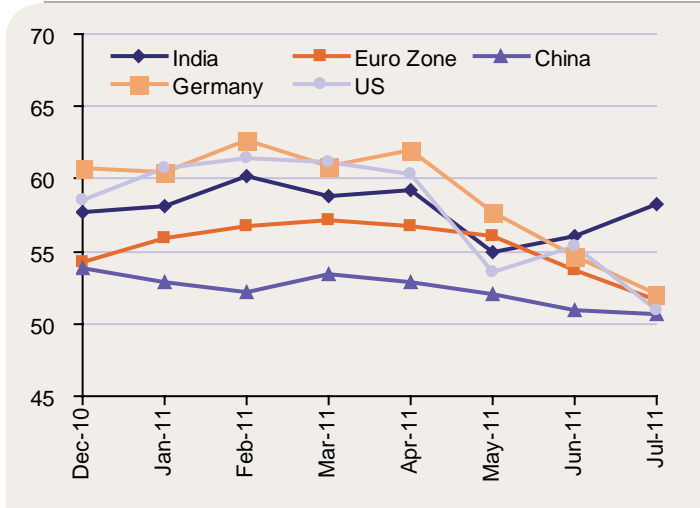


Source: Bloomberg

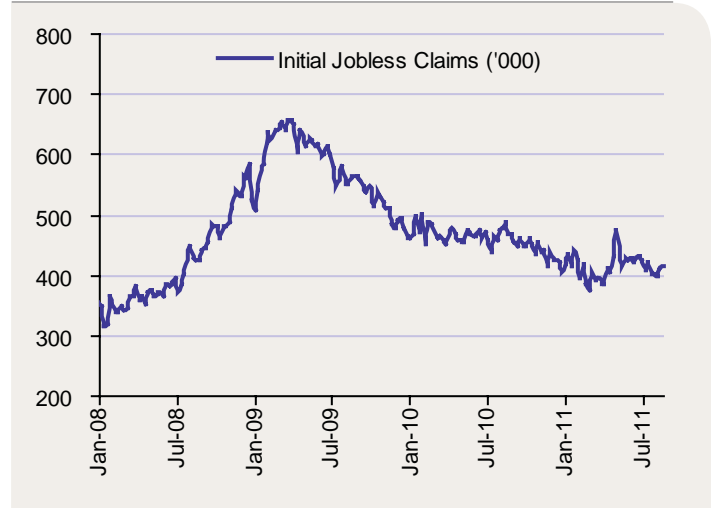
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Chartbook...

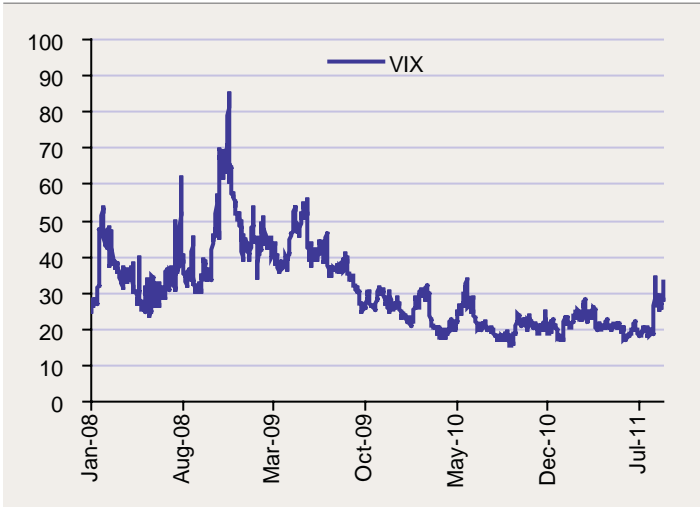
PMI



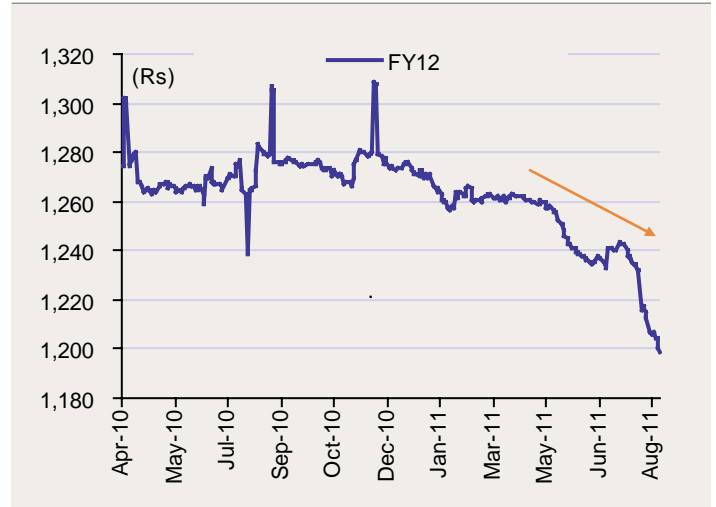
US Initial Jobless Claims



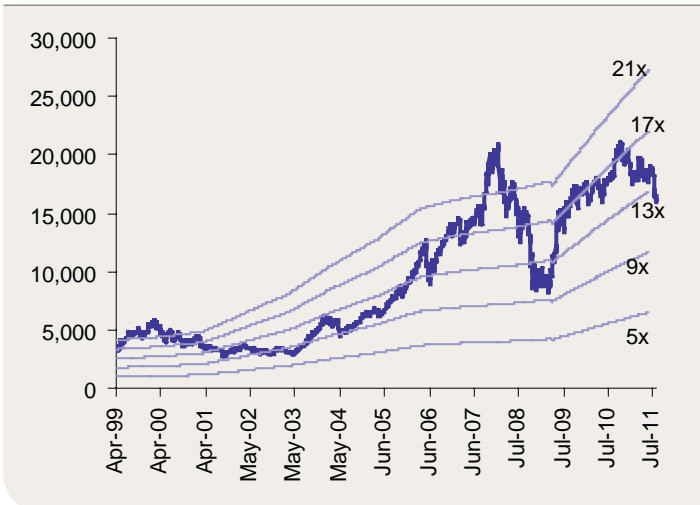
Volatility Index



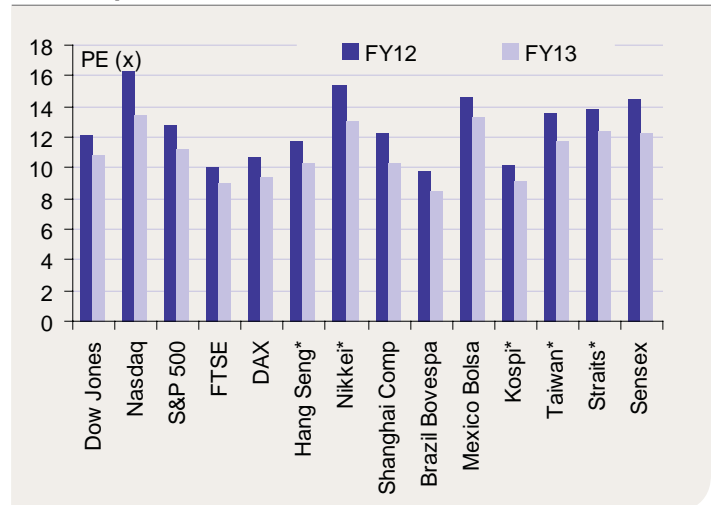
Sensex Earning Estimates



Sensex PE Band



PE Comparison



Source: Bloomberg

India Infoline Weekly Wrap

News Recap

Lokpal logjam continues amid hectic parleys

Anna Hazare led nationwide anti-corruption agitation continued unabated, and any settlement between his lieutenants and the Government remains elusive. The Prime Minister reached out to the anti-corruption crusader twice in the week. In fact, the parliament also requested Anna to break his hunger strike, citing his fragile health. Sonia Gandhi also sent a personal message to him, urging him to give up his protest. All efforts were on by the Centre to get Anna to end his 11-day public fast but Team Anna stood firm on its stance. Reports said that the parliament could debate all versions of the Lokpal Bill.

World equity markets recover...All eyes on Bernanke

Global stocks recovered from the recent bloodbath, with US and European indices leading from the front. However, the rally appeared to halt on Thursday, as investors remained wary about the fragile health of the US and eurozone economies. The dollar fell on Friday amid uncertainty over a new economic stimulus from Federal Reserve Chairman Ben Bernanke. He was to speak later at a Fed conference in Jackson Hole, Wyoming.

Monsoon 8% below normal in week through Aug. 24

India's monsoon rains were 8% below normal in the week ending Aug. 24, as opposed to 26% above normal in the previous week, the Indian Meteorological Department (IMD) said. The weather bureau said that rains could return to normal next week. The below normal rains come after two successive weeks of substantially heavy showers and are not a cause for concern, BP Yadav, a director at the IMD was quoted as saying.

Steve Jobs calls it a day

Steve Jobs resigned as the CEO of Apple Inc. It is believed the Jobs stepped down due to pancreatic health problems. The news of Jobs's departure sent Apple shares falling but they recovered later. Job's successor, former COO Tim Cook, is highly respected. Many analysts believe Apple remains in safe hands. Cook has been running Apple since the start of 2011, when Jobs took his third period of medical leave. He was diagnosed with pancreatic cancer in 2004. Jobs will stay on as Apple's chairman.

Event Calender

Period : 29th Aug - 2nd Sept

US

- ⊕ Aug Consumer Confidence (30 Aug)
- ⊕ July Factory Orders (31 Aug)
- ⊕ Q2 Nonfarm Productivity (1 Sept)
- ⊕ Aug Total vehicle sales (2 Sept)
- ⊕ Aug Unemployment rate (2 Sept)

India

- ⊕ July Exports YoY% (1 Sept)
- ⊕ July Imports YoY% (1 Sept)
- ⊕ Food Articles WPI YoY (1 Sept)

China

- ⊕ Aug PMI Manufacturing (1 Sept)

Euro Zone

- ⊕ Aug Euro-Zone Consumer Confidence (30 Aug)
- ⊕ Aug Euro-Zone Economic Confidence (30 Aug)
- ⊕ July Unemployment rate (31 Aug)
- ⊕ Aug PMI Manufacturing (1 Sept)

Period : 5th - 9th Sept

US

- ⊕ Aug ISM Non-Manf. Composite (6 Sept)
- ⊕ Initial Jobless Claims (8 Sept)
- ⊕ Jul Trade Balance (8 Sept)
- ⊕ Jul Consumer Credit (9 Sept)
- ⊕ Jul Wholesale Inventories (9 Sept)

India

- ⊕ Food Articles WPI YoY (8 Sept)
- ⊕ Fuel & Power WPI YoY (8 Sept)
- ⊕ Primary Articles WPI YoY (8 Sept)

China

- ⊕ Aug Non-manufacturing PMI (3 Sept)
- ⊕ Aug HSBC Services PMI (3 Sept)

Euro Zone

- ⊕ Jul Euro-Zone Retail Sales MoM (5 Sept)
- ⊕ Q2 Euro-Zone GDP YoY (6 Sept)
- ⊕ ECB announces interest rates (8 Sept)

IIFL, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013

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