

Market update: More pain left

October 06, 2008

Next Nifty support at 3,650

The last nine months have been an extremely painful period for the market. From the highs of 6,350 in January 2008, the Nifty has been on a continuous downtrend; a clear bearish signal. After several unsuccessful attempts to form a base around 4,280 (38.2% retracement from the previous high on monthly charts) in July and August, the Nifty slid to new lows of 3,715 in September. Every attempt at a recovery has been futile due to sustained selling from FIIs.

Friday's session (October 3, 2008) was no different and the Nifty closed lower by 3.4% at 3,818. In the near term, a lot will depend on the developments over the weekend in the US with respect to their bailout package. However, there is every chance of the Nifty sliding to 3,650, which seems to be the next support. This is the 50% retracement level and coincides with the support of the long term trendline at 931 levels from May 2003. Even if the bailout does go through, any sentimental upmove would be short-lived and the Nifty would struggle to sustain a level higher than 4,200-4,250.

World indices performance

World Indices	YTD (%)	Fall from 52-week high (%)
Dow Jones	(21.0)	(26.2)
Nasdaq	(25.5)	(30.9)
Hang Seng	(35.9)	(44.2)
Nikkei	(28.5)	(37.5)
Shanghai	(56.4)	(62.6)
Nifty	(37.8)	(39.9)

Source: Bloomberg

The big bailout: But will it work?

The US\$ 700 billion bailout, the US government claims, is essential to revive the economy. While the long term impact will have to be seen, the near term impact will be nothing more than a short term reprieve for the market which would fade away quickly.

The bailout package will put pressure on the Dollar's exchange rate and cause inflationary trends in the US economy. A look back at bailouts elsewhere reveals that such measures haven't exactly proved to be the best medicine. In 1980s, the economies of Sweden, Norway and Finland had expanded drastically due to deregulation and low interest rates. With the burst of reality and stock market bubble a high debt burden was becoming difficult to sustain in the three economies. Measures similar to the Fed's were taken but proved unsuccessful.

For example the Swedish government raised a US\$14bn restructuring fund to guarantee bank obligations and created an organization to buy assets at a discount. Norwegian government took over the three largest banks while the Finnish government merged 40 banks into one entity. The moves by the three countries failed to yield immediate results as consumer spending fell and banks reduced lending. In fact, Swedish and Finnish economies shrunk for three consecutive years. The US is facing a once in a century crisis, which will not vanish overnight.

A rate cut might not help US

The subprime scenario was a result of lending credit to people who were not worthy of it. Even if rates are cut further, poor credit ratings will make it difficult to refinance loans at significantly lower rates and prepayment penalties would negate the benefits of any cut.

Top 4 Nifty gainers and losers on YTD basis

Gainers			Losers		
Company	CMP (Rs)	YTD Chg	Company	CMP (Rs)	YTD Chg
Hero Honda	892	27.7	Unitech	113	(77.6)
Sun Pharma	1,477	23.3	DLF	336	(68.6)
HUL	256	17.4	Reliance Infra	757	(66.8)
Cipla	225	6.6	Suzlon	146	(62.6)

Source: India Infoline Research, Bloomberg

The market is yet to find its bottom

In our opinion, two major factors that will largely govern the movement of Indian indices are performance of global equities and corporate performance in India.

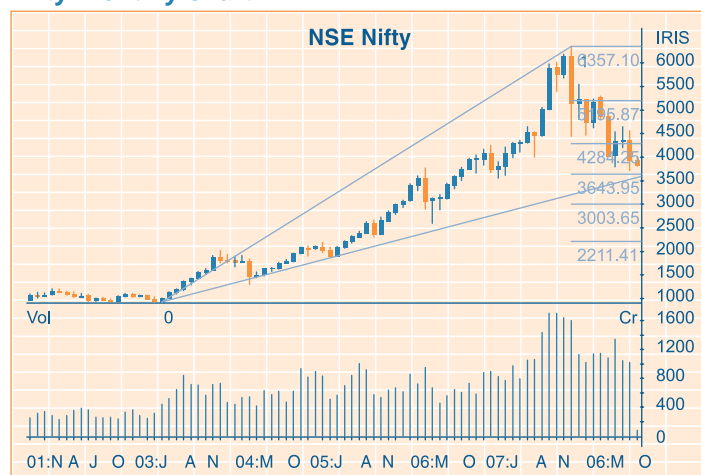
All of America's problems are still not known. Credit card debt, student loans and auto loans are some of the other devils that could haunt the financial markets; as far as Europe is concerned, the lava is yet to erupt. Charts suggest that the Dow Jones has entered a bearish territory, now that the crucial support of 10,600 has been breached. While it might be a little premature to say this, but there is a strong chance that the Dow will drift to 9,000 in the coming year. Back home, corporate performance in Q2, Q3 and Q4 FY09 is expected to be muted due to high interest rate regime. We are therefore, of the view that the Indian stock market is yet to find the bottom in terms of price. Once it does, a time wise correction will occur, market will be in oversold mode, valuations will be dirt cheap and then the upmove will resume. For now, capital is turning risk averse with FIIs selling at every high. Mutual Funds too, can face redemption pressure sooner or later. Weekly charts are forming lower tops and lower bottoms. Once 3,650 is broken on the downside, the Nifty may drag further to levels of 3,300.

Nifty levels

Particulars	Supp 1	Supp 2	Res 1	Res 2	50 DMA	200 DMA
Levels	3,640	3,265	4,000	4,280	4,296	4,823

Source: India Infoline Research

Nifty monthly chart

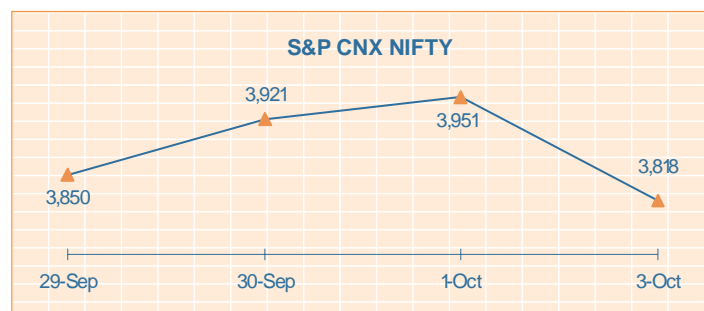


Source: India Infoline Research, IRIS

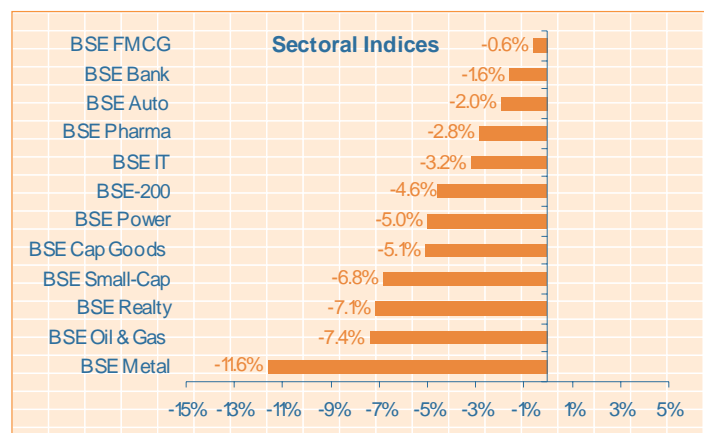
India Infoline Weekly Wrap

Market review

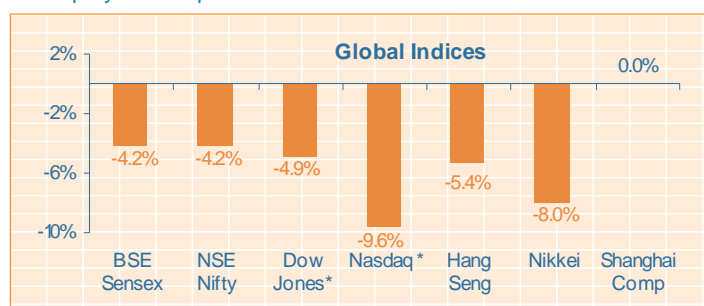
Nervousness and uncertainty over the approval of the bailout package by US House of Representatives kept the market on tenterhooks. Continuous selling in index heavyweights by the FIIs further contributed to the gloom. During the week, the NSE Nifty touched a fresh 2008 low of 3,715. Even the soothing words from the Finance Minister, RBI and SEBI could not calm the markets. Finally, the Nifty closed at 3,818, down by 4.2% and the benchmark BSE Sensex closed at 12,558, down by 4.2%.



Metal stocks were the worst hit during the week following reports that major steel companies were considering a cut in their output as also prices, to counter slowing demand and falling international prices. Heavy bout of delivery-based selling in RIL during the last day of the week brought the oil & gas index lower by over 7%. Realty stocks continued their underperformance due to concerns over dwindling demand and falling prices.



Global equity markets had a rough ride as more western banks collapsed amid continuing turmoil in financial markets. The anxiety over the fate of the Bush Government's financial rescue plan continued to weigh on the sentiment. Wells Fargo agreed to buy Wachovia, which had earlier done a deal with Citigroup. European regulators too swung into action to rescue banks like Dexia, Fortis and Bradford & Bingley. Rising jobless claims and slumping factory orders revived recession fears in the US ahead of the monthly unemployment report.



*As on Thursday

FII & MF activity

(Rs cr)

Date	FII Net Investment	MF Net Investment
25-Sep	(704)	379
26-Sep	(604)	(67)
29-Sep	387	(35)
30-Sep	84	402
Total 2008	(39,797)	12,660

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Dr Reddy's Labs	550	6.7	TVS Motors	36	11.4
Hero Honda	888	4.6	BPCL	373	11.2
SBI	1,484	3.4	Lupin	770	7.4
HDFC Bank	1,276	2.5	MRPL	55	6.7
ACC	625	1.9	Pfizer	580	6.5

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Tata Steel	393	(14.9)	JSW Steel	411	(28.4)
Reliance Infra	741	(12.8)	Raymond	121	(19.8)
Tata Motors	331	(11.8)	Glenmark	459	(19.6)
Tata Power	887	(10.3)	Indiabulls Fin	146	(19.0)
RIL	1,761	(10.3)	Aban Offshore	1,745	(17.1)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
1-Oct	Goldman Sachs	XL Tele	B	3.6	137
1-Oct	India Emerging	Kaveri Seeds	B	1.6	176
1-Oct	Morgan Stanley	Country Club	S	2.8	258

Stocks in No-Delivery period

Company	From	To
Madras Cem.	1-Oct-08	8-Oct-08
AIA Eng.	13-Oct-08	17-Oct-08
Areva T&D	21-Oct-08	28-Oct-08

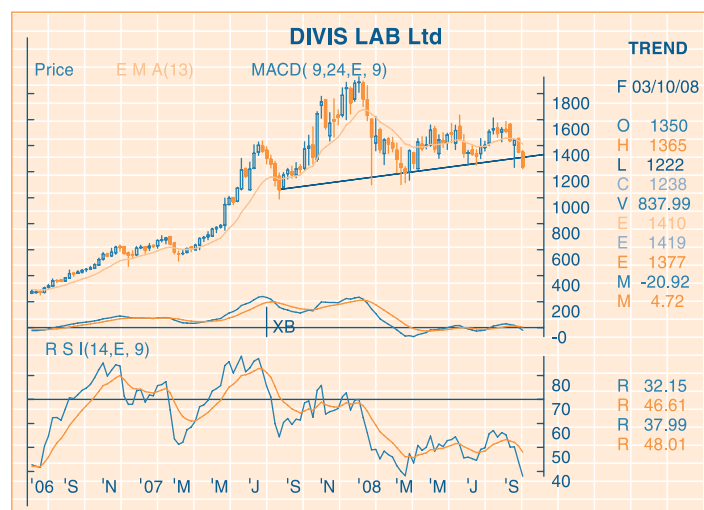
Insider trades

Company	Name	B/S	Qty ('000)
Bharti Airtel	Vijaya Sampath	S	1.0
MindTree	Ashok Soota	B	6.6
Varun Shipping	Arun Mehta	B	20.0
Bil Power	Suresh Choudhary	B	14.6
HCL Infosystems	Devinder Puri	B	21.7

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Technical ideas

Divis Lab **SELL**
CMP Rs1,236

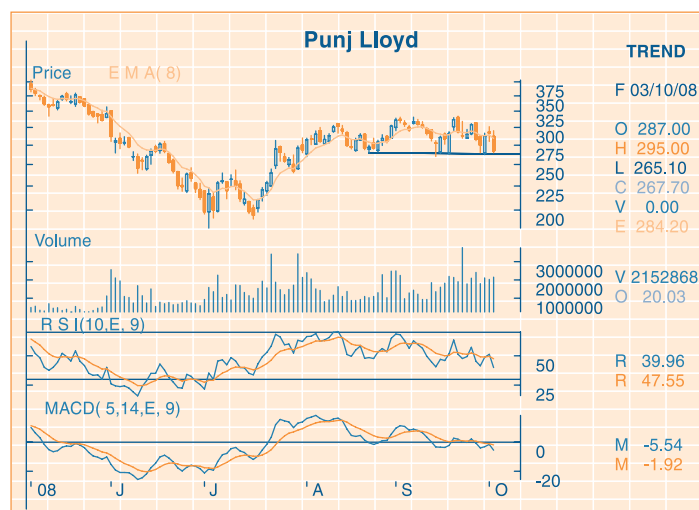


The stock saw a bull market high of Rs1,930 in January 2008. Since then, the market wide correction dragged the stock to a low of Rs1,100 in March 2008.

Thereafter, it rallied onto a high of Rs1,635 in June 2008. The adjoining Weekly candlestick chart highlights the precarious position of the stock near the crucial trendline support in the Rs1,220-1,240 range. The price movement since June 2007 till date appears to have taken the shape of a bearish Head & Shoulders formation with a rising neckline. A break below the Rs1,200 levels will confirm a breakdown from this bearish pattern.

In view of the above mentioned technical evidences, we recommend traders to sell the stock at current levels and on rallies to resistance of Rs1,290-1,320, for a minimum target of Rs1,100-1,130. A stop loss of Rs1,361 is recommended on short positions.

Punj Lloyd **SELL**
CMP Rs268



The market-wide correction has seen the stock correcting to a low of Rs183 in July 2008. Thereafter, it rallied to a high of Rs317 in September 2008.

The daily MACD is exhibiting negative divergences along with a crossover sell signal. This suggests that the trend is weakening. A break below Rs260 levels will see the stock correcting for potential target of Rs230 and Rs210 levels.

The stock has been consistently closing below its short and near term averages for the past few sessions which suggest that the stock is set to break below the 260 support levels. Keeping in mind the above mentioned technical evidences, we recommend traders to sell the stock at current levels and on rallies to resistance of Rs276-280 levels for target of Rs210. A stoploss above Rs286.5 is recommended on all short positions.

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (Lacs)	10 days Average Traded Qty (Lacs)
Dabur	90	89	11.8	6.1
IOC	401	394	8.0	5.3
ITC	190	191	130.5	86.7
CESC	287	283	5.5	4.5
HPCL	242	235	11.6	10.6

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (Lacs)	10 days Average Traded Qty (Lacs)
Corp Bank	262	272	0.2	1.0
Vijaya Bank	35	36	4.1	15.4
Allahabad Bank	62	64	5.0	11.1
MTNL	84	88	2.5	8.1
GNFC	86	94	1.1	1.9

Buzz on the street

Government may not allow **RIL** to supply KG basin gas to **RNRL** and **NTPC** in violation of the gas utilization policy.

Aditya Birla Group may pick half of **Hindalco's** rights issue by buying the unsold shares.

Tata Group retail venture **Trent** may tie up with Spanish apparel brand Zara.

NMDC may raise iron ore prices by 50-55% for long-term contracts .

NHPC may delay its initial public offer due to market turmoil.

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Mutual fund round-up

India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on October 01, 2008							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Growth (G)	1,025	55.2	(2.3)	(9.0)	3.7	(11.8)	(15.7)	27.8	74.6	285.0
HSBC Equity Fund (G)	1,249	75.3	(2.5)	(10.8)	(6.3)	(14.9)	(17.4)	20.2	57.4	301.6
ICICI Pru Dynamic Plan (G)	1,543	63.3	(6.0)	(11.2)	1.3	(12.3)	(18.8)	13.8	63.1	282.9
Kotak 30 (G)	744	72.7	(4.5)	(9.2)	1.2	(14.2)	(18.3)	19.3	63.9	314.3
UTI Dividend Yield Fund (G)	1,006	17.7	(1.5)	(8.4)	3.2	(8.9)	(17.4)	17.4	47.5	-

Fund this week: HDFC Growth Fund

Fund snapshot		Asset allocation (%)	
Fund manager	Srinivas Rao Ravuri	Equity	92.2
NAV - October 01, 08	Rs55.2	Debt	0.0
NAV 52 high/low	Rs82/51	Cash / call	7.8
AUM - August 29, 08	Rs1,025cr	Top 5 holdings (%)	
Type	Open-ended	Reliance Inds	7.9
Class	Equity - diversified	ICICI Bank	5.5
Options	Growth & dividend	Bharti Airtel	5.5
Min investment	Rs5,000	ONGC	4.8
Entry load	2.25%<Rs5cr	SBI	4.8
Exit load	1%<Rs5cr<1yr	Divis Labs	4.7
Registrar	CAMS	ITC Ltd	4.6
Benchmark	BSE Sensex	HDFC	4.2
No. of stocks	38	Crompton Greaves	3.7
Expense ratio	2.1%	Suzlon Energy	3.4

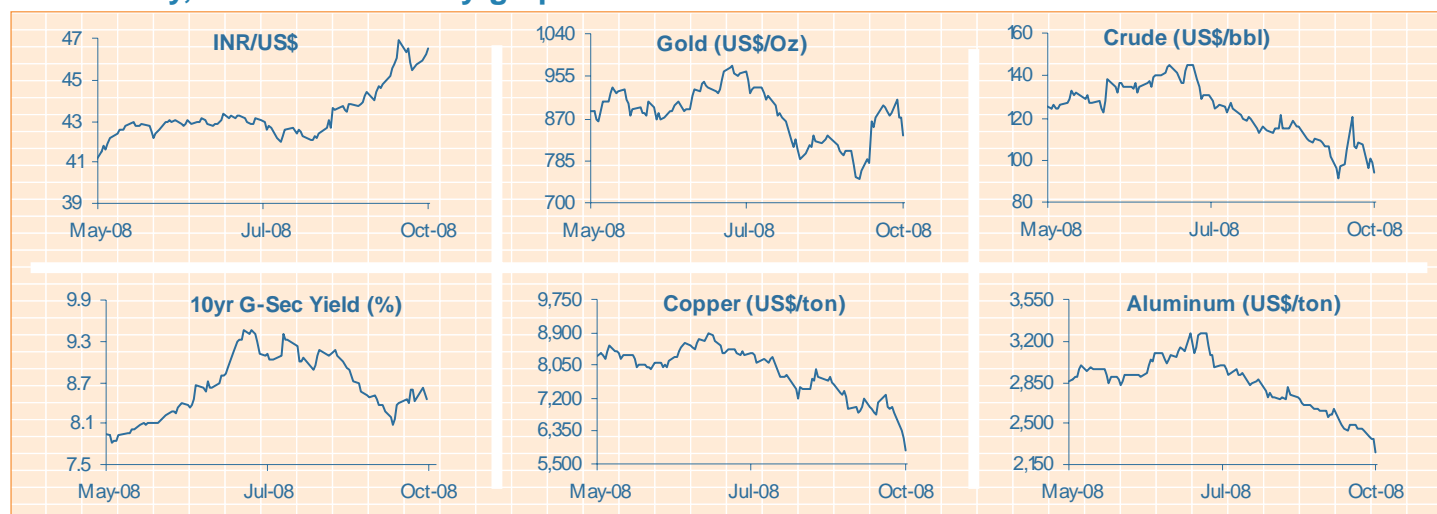
NFO update

Fund Name	Close	Type	Class
HDFC FMP90D Sep08 S8 (4)	6-Oct	CE	Debt - FMP
IDFC FMP NMS - 1 (19mth)	7-Oct	CE	Debt - FMP
Principal Emerging Bluechip Fund	10-Oct	OE	Equity - Div

Dividend update

Mutual Fund	Dividend %	Record date	Class
ICICI Pru Annl Intrvl Plan II	100.0	6-Oct	Debt - Intv
Reliance FHF VIII - Sr - 9	100.0	6-Oct	Debt - FMP
UTI Short Term Sr I - I (90D)	100.0	7-Oct	Debt - FMP

Commodity, debt and currency graphs



Closing as on Thursday

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