

Pair Strategy

September 02, 2011

Long HDIL & Short DLF

Over the last one month, negative sentiment towards rate sensitive sectors and sell-off in the Indian market has resulted in a breakdown in the price ratio between HDIL and DLF, thus widening the historical price ratio relationship to Upper Band 3 at 1.92 (mean+3 standard deviation). We believe that the breakdown in the price ratio is temporary and expect the price ratio relationship to be restored i.e retrace back to its mean at 1.46 .

One year co-relation between HDIL and DLF is ~95% (strong co-relation). We expect that HDIL may outperform DLF in the short term. This is an ideal scenario where traders can go Long on HDIL Sep Fut and Short on DLF Sep Fut at price ratio of 1.935-1.94. Target for the strategy would be at 1.85-1.86, whereas stop loss should be placed at 1.98.

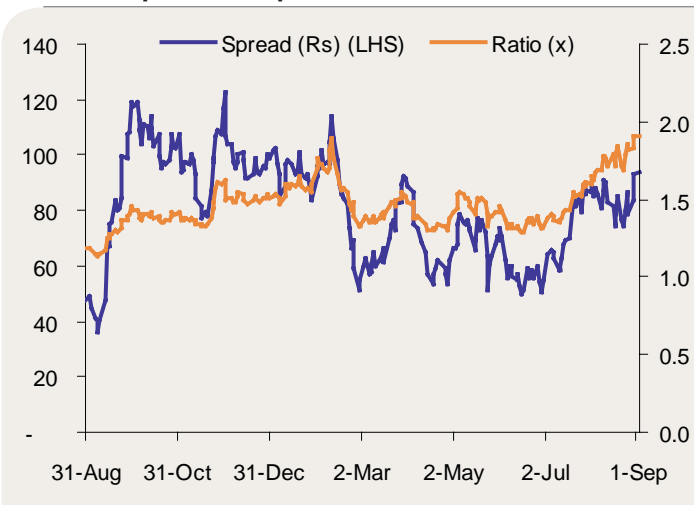
Recommendation*	Price	Qty	Fut lots
Long HDIL (Sept Futs)	105.5	2000	1
Short DLF (Sept Futs)	204.5	1000	1

*~Outflow(Rs1.2lacs), Time horizon - 30-45days, Expected return 5-10%

Spread Summary	1-Year	60 Days	21 Days
Last	1.938	1.938	1.938
Mean	1.463	1.317	1.394
Off Mean	0.474	0.621	0.544
Median	1.430	1.362	1.393
Standard Dev	0.149	0.099	0.028

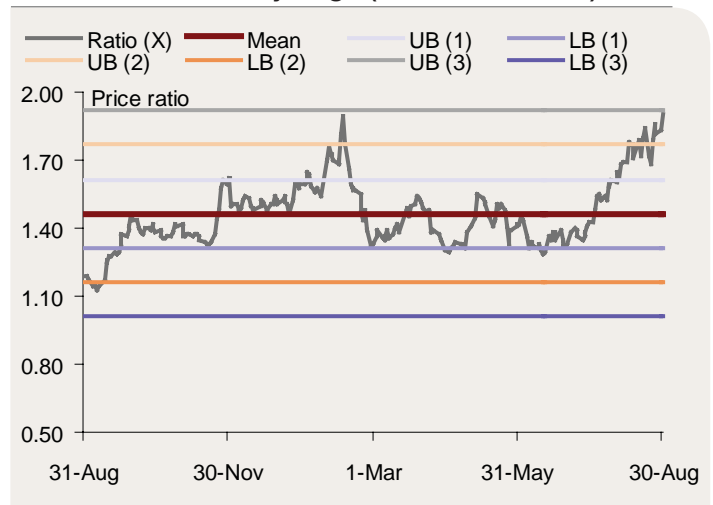
Spread Summary	1-Year	60 Days	21 Dawys
Correlation	0.95	0.29	0.69

Absolute spread and price ratio - HDIL vs DLF



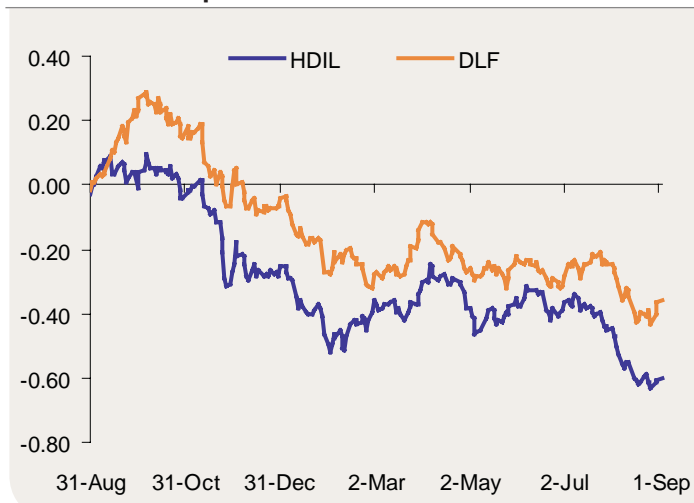
Source: India Infoline Research

Price ratio close to 1yr high (Mean + 3Std Dev)



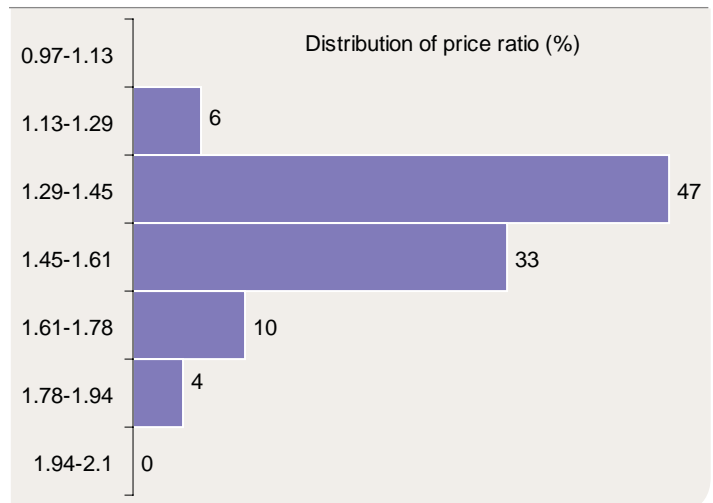
Source: India Infoline Research

HDIL has underperformed vis-à-vis DLF



Source: India Infoline Research

Maximum occurrence between 1.29-1.44



Source: India Infoline Research

India Infoline Weekly Wrap

Market Outlook

Finally, Indian markets managed to break the sequence of five straight weekly losses, thanks to pick-up in FII flows and firm global markets. The gains could have been much more but for the couple of public holidays. In fact, the Indian market out-performed its overseas counterparts on Friday, with the Nifty closing above the psychologically important 5,000 mark.

Friday's US jobs data will have a sentimental effect but if FII flows remain healthy, India can continue the current upswing. Food inflation spiking above 10% is a cause for concern. The RBI is likely to hike policy rates by another 25 bps on Sept. 16. The crucial thing for the markets would be to see if the RBI signals an end to its tightening cycle or not. If it does, the markets may rejoice.

Another catalyst could come in the form of positive policy action from New Delhi and sustained gains in the overseas markets. But, the ride from here on won't be smooth. There will be a few obstacles along the way. So, be careful and vigilant.

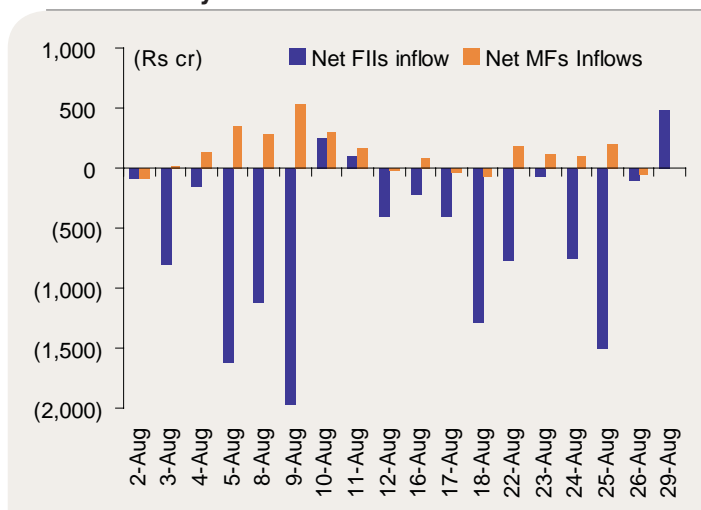
Technical View

The breakout from falling wedge above 4850 levels assured smooth rally in Nifty towards 5100 levels in a truncated week, and that too without any major hindrances. The rally was witnessed across sectors with major out performance seen from highly beaten down metals sector. On Friday, Nifty was struggling to sustain above 5070, hence in coming week there could be a round of profit booking in form of a Fibonacci retracement which could extend towards 4960 before rallying back towards 5200 in near term.

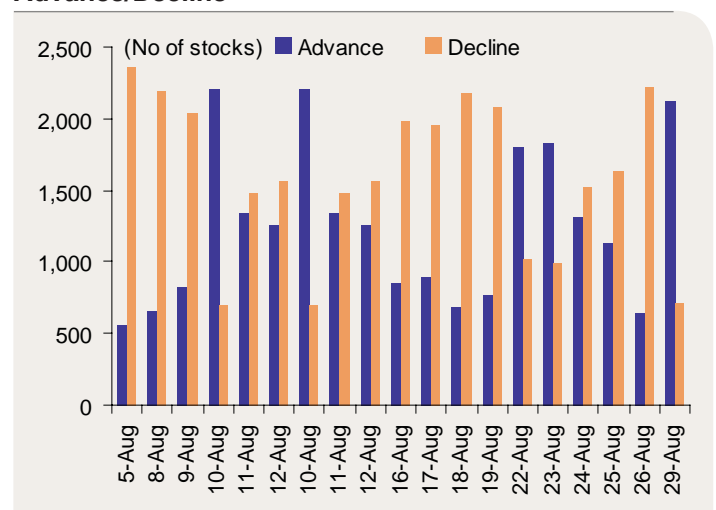
F&O View

The Vwap for Nifty is at around 4925 for current month. The huge short position in Bank Nifty which got rolled into the current month has still not seen short covering. From around 9000 levels in Bank Nifty some parallel long positions had been seen. Call writing is seen in 5100 & 5200 strike. Nifty might trade in range of 4900-5150 in short term. The VIX has broken down from triangle pattern and is likely to trade in range of 21-29 for this fortnight.

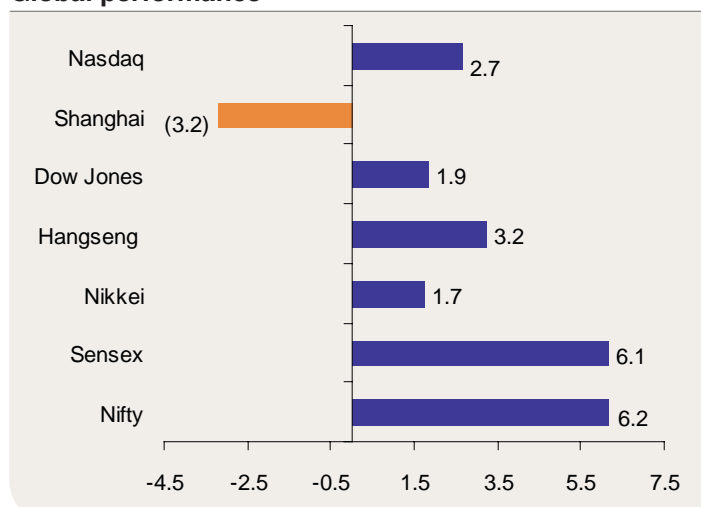
FII/MI activity



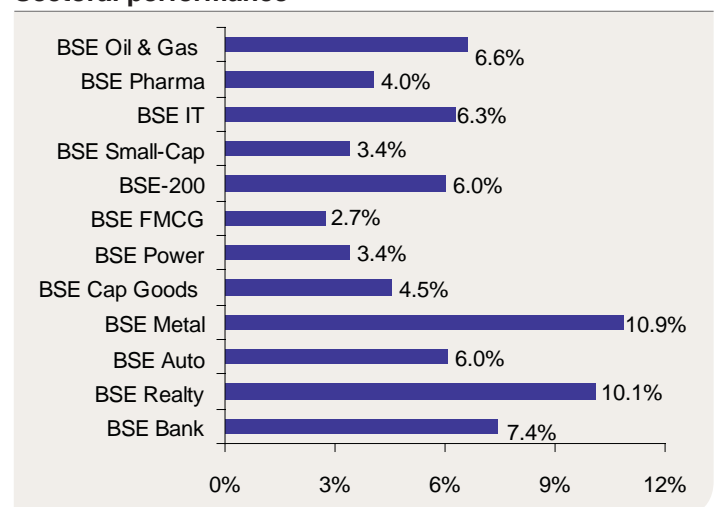
Advance/Decline



Global performance



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
Reliance Capital	408	18.4	Karuturi Global	9	12.0
DLF	208	18.0	Shree Ashtavinay	5	24.1
Rcom	85	17.3	Jsw Steel	723	18.7
Tata Steel	490	16.1	DLF	208	18.0
Sesa Goa	232	14.1	Parsvnath	54	17.8
Jindal Steel	526	13.7	RCOM	85	17.3
JP Associates	62	13.3	Mirc Electronics	19	16.7
Cairn India	285	12.9	Tata Steel	490	16.1
RIL	805	12.0	Chambal Fert	113	16.0
Hindalco	155	11.1	Cox & Kings	215	15.9

Nifty 50 & CNX 500 top 10 Losers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
ONGC	264	(5.1)	JB Chems	85	(15.8)
Maruti	1,079	(0.4)	Simplex Infra	233	(8.4)
-	-	-	Amtek India	111	(6.3)
-	-	-	Chennai Petro	202	(6.3)
-	-	-	ONGC	264	(5.1)
-	-	-	Carol Info	217	(3.8)
-	-	-	Uflex	172	(3.5)
-	-	-	Marico	149	(3.4)
-	-	-	Apollo Hosp	524	(3.3)
-	-	-	KEC Intl	60	(3.2)

Technically strong

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Bharat Electron	1,587	1,576	0.0	0.0
ITC	203	201	4.2	4.0
Wipro	334	330	1.3	1.3
ACC	1,015	1,002	0.5	0.4
Essar Oil	88	86	3.8	3.4

Technically weak

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Cipla	280	283	1.1	1.1
BHEL	1,737	1,748	0.8	0.7
Adani Ent	532	538	0.5	0.4
Educomp Sol	197	218	10.5	9.9
PNB	913	972	0.5	0.4

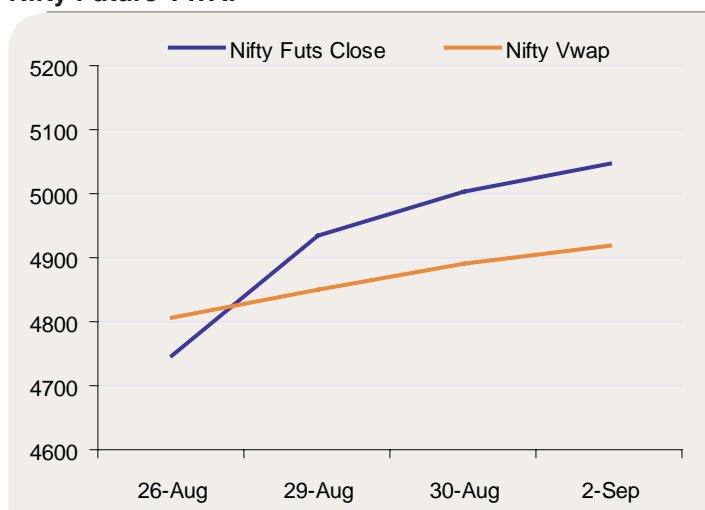
Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
29-Aug	Silverdale Fund	Neha International	S	1.2	98.5
29-Aug	Silverdale Fund	Neha International	S	1.2	98.5
30-Aug	Lazarus Invst	Essel Propack Ltd.	S	25.0	36.2
30-Aug	JPMSL Cophthall M	NCC Limited	S	36.0	53.5
-	-	-	-	-	-

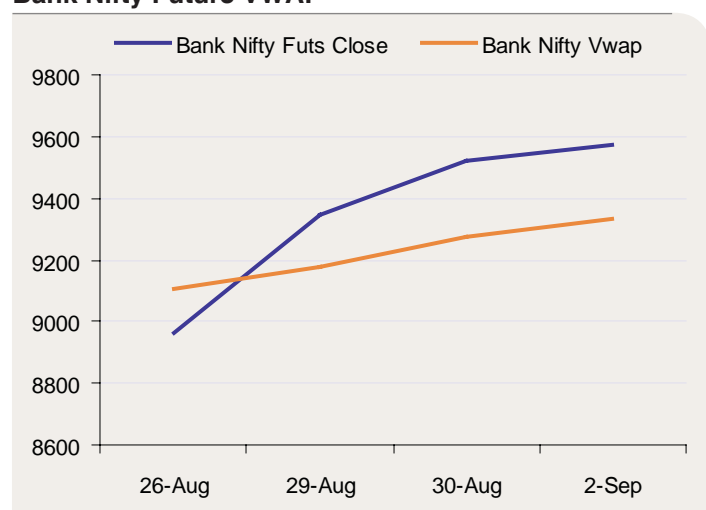
Book closure and record date

Company	Date	Purpose
BPCL	05 Sep 2011	Dividend
Power Grid Corp	06 Sep 2011	Dividend
Simplex Infra	07 Sep 2011	Dividend
Bhushan Steel	08 Sep 2011	Dividend
Coal India	08 Sep 2011	Final Dividend
HPCL	08 Sep 2011	Final Dividend

Nifty Future VWAP



Bank Nifty Future VWAP



India Infoline Weekly Wrap

Commodity Corner

Base metals

MCX base metals, barring zinc moved moderately higher this week, supported by supply issues in Chile and Indonesia. However, soft manufacturing numbers on the global front restricted the upside in the complex. On China front, the country's factory activity (PMI) marginally rose to 50.9 in August, as compared with 50.7 in July. However, the reading is still close to contraction, as a number below 50 denotes declining manufacturing activity. The sub-index for new export orders dipped to 48.3 from 50.4, while the sub-index for overall new orders was at 51.1, unchanged from July. On the US front, ISM purchasing manager index came at 50.6 in August, as compared with 50.9 in July. On the European front, numbers were dismal, with manufacturing PMI dipping to 49 in August, as compared with 49.7 in July. Copper prices derived support from the probability of a strike at Freeport McMoRan Copper & Gold's Grasberg mine in Indonesia, where workers have threatened to put down tools. Moreover, threat of strike at Collahuasi copper mine in Chile still looms.

On the price front, supply issues may underpin base metals prices to an extent, however gloomy macroeconomic concerns continue to overshadow the constraints on the production front. We remain wary and refrain buying at current levels, considering the bleak global economic backdrop.

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

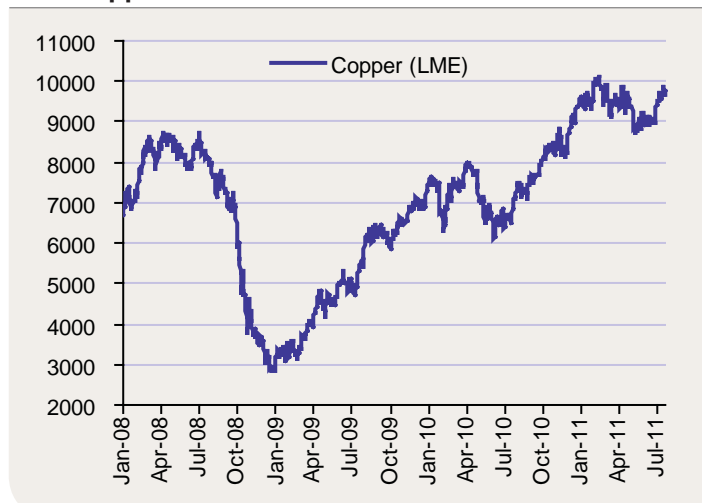
MCX prices

Base Metals	High	Low	LTP*	Chg (%)
Copper	427	412	420	1.0
Nickel	1,021	960	994	(0.2)
Zinc	106	100	102	(1.2)
Aluminium	112	107	111	2.8
Lead	118	110	116	0.9

Precious Metals	High	Low	LTP*	Chg (%)
Gold	27,777	26,423	27,592	2.6
Silver	64,150	60,670	63,170	1.7

* Last Traded Price

LME Copper



Precious metals

Precious metals recouped previous losses, with prices trading higher this week. Volatility was witnessed, with gold prices registering a high of US\$1,842.7/ounce and a low of US\$1,778.1/ounce during this week. Silver prices registered a high of US\$41.85/ounce and a low of US\$40.35/ounce. The complex derived support, as Federal Reserve procrastinated discussions pertinent to economic easing measures until a policy meeting in late September. However, the upside in gold prices was moderate, as a stronger tone in global equities led to diversification of funds in other classes. Financial markets did react favourably to news that two major Greek banks were merging. Meanwhile, market participants will keep an eye on much awaited US non farm payroll numbers, which are scheduled to be released today. Market consensus conveys addition of 74,000 jobs in August, as compared with 117,000 jobs added in July. The employment scenario in US would act as a trigger (upside/downside) for the complete commodity complex.

We tend to be bullish on the yellow metal, with the near term radar clearly on US\$1,900/ounce. We anticipate the job numbers for August in US to be on the lower side, which would augment safe have appeal for the precious metal. Moreover, other economic indicators on the global front also portray a strong upside probability for the precious complex.

Weekly inventory update

	Tons	Abs Chg.	Chg (%)
Copper (LME)	464,625	(300)	(0.1)
Nickel (LME)	104,502	(516)	(0.5)
Zinc (LME)	855,850	(7,600)	(0.9)
Aluminium (LME)	4,632,525	(16,475)	(0.4)
Lead (LME)	318,250	1,050	0.3
Tin (LME)	22,645	(65)	(0.3)
Shanghai Copper	107,790	5,532	5.4
Shanghai Zinc	415,445	(2,339)	(0.6)
Shanghai Aluminium	117,799	(7,009)	(5.6)

COMEX Gold



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Mutual Fund Round-up

India Infoline picks

Mutual Funds	Assets (₹ Cr)	NAV (₹)	Absolute return (%) as on September 02, 2011							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200 Fund (G)	11,065	188.9	2.2	(9.6)	(10.3)	(7.4)	(8.9)	20.2	46.2	96.1
ICICI Prudential Dynamic - (G)	3,814	96.7	2.5	(9.6)	(10.7)	(7.9)	(5.9)	24.3	35.6	81.8
IDFC Small & Midcap Fund (G)	1,155	17.6	1.8	(7.2)	(4.3)	3.4	(6.4)	38.6	98.3	NA
Fidelity Tax Advantage (G)	1,239	20.3	2.4	(7.0)	(7.3)	(4.7)	(6.6)	30.2	47.8	92.7
HDFC Prudence Fund (G)	6,407	204.7	1.3	(6.1)	(4.5)	0.0	(2.4)	38.1	68.8	108.3
Reliance equity opportunities(G)	3,032	33.6	2.7	(8.7)	(6.5)	(0.2)	(7.3)	46.4	66.9	86.5
IDFC Premier Equity-A(G)	2,411	32.3	1.1	(3.0)	(0.1)	7.2	(4.7)	44.4	69.3	200.1

Funds this week: HDFC Top 200 Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Prashant Jain	Equity	92.0
Latest NAV	₹188.86	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	₹33.56	Debt	0.0
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
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

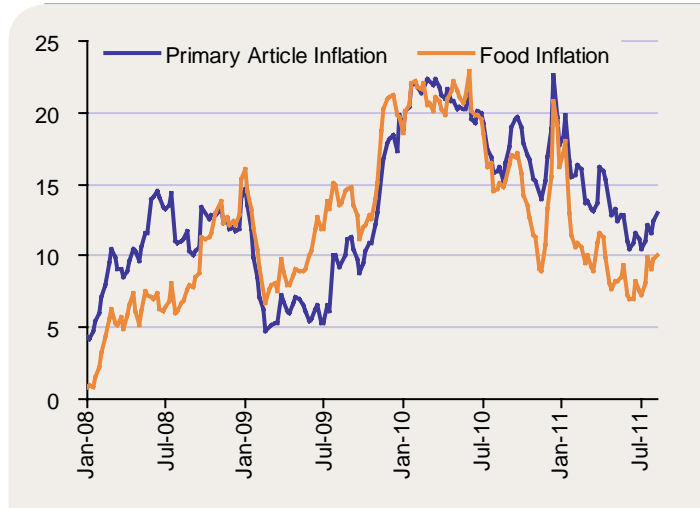
Dividend update

Mutual Fund	Dividend %	Record date	Class
ICICI Pru Balanced	5.0	2-Sep	Equity
ICICI Pru Eq & Der Volatility Advantage Ret	10.0	2-Sep	Equity

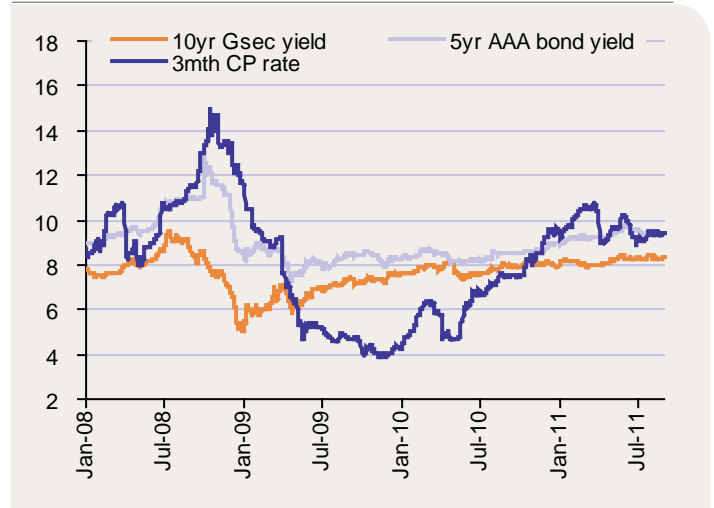
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Chartbook

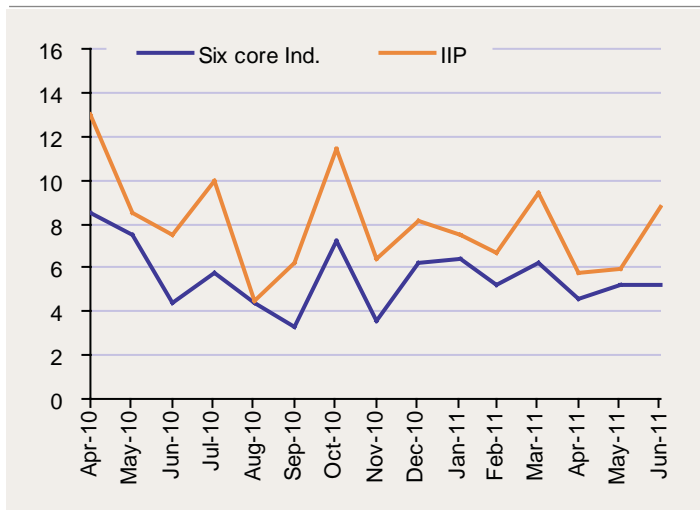
Weekly Inflation



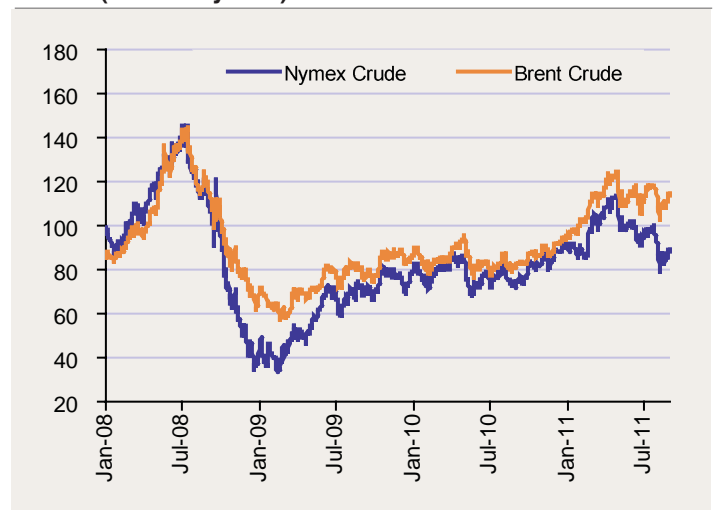
Interest Rate



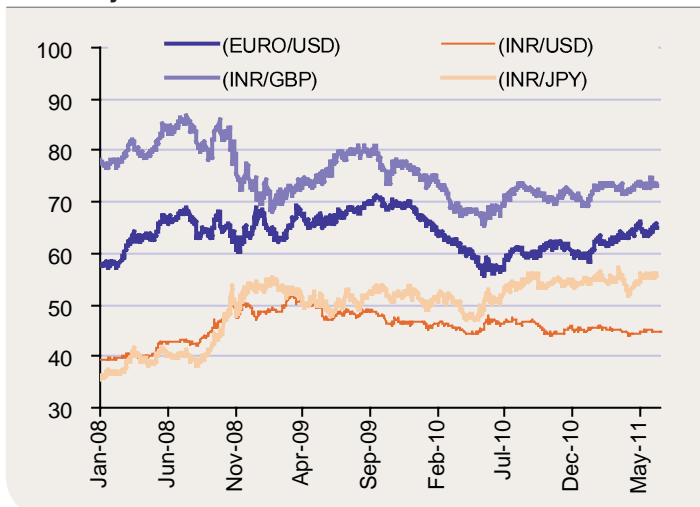
IIP and Six core Industries



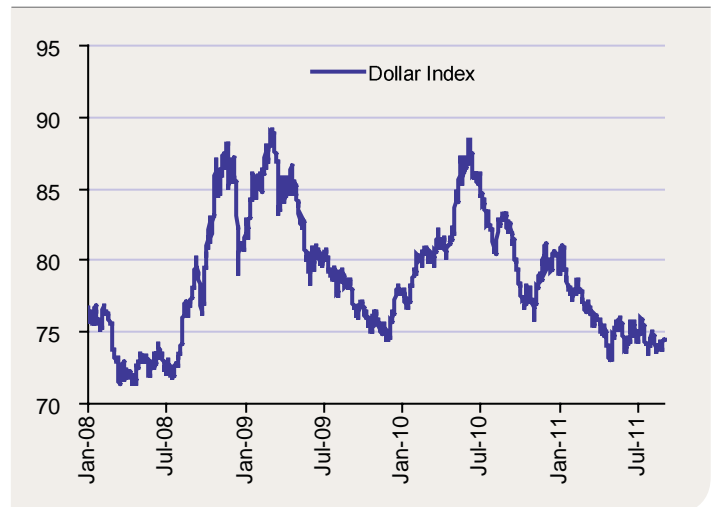
Crude (Brent/ Nymex)



Currency Movements



Dollar Index

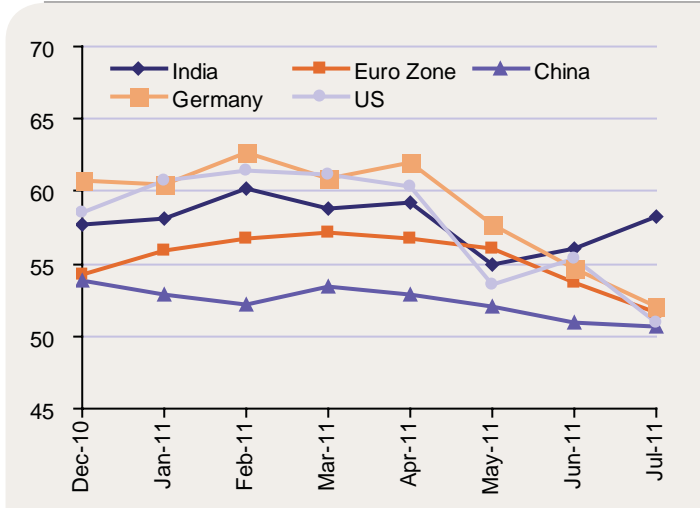


Source: Bloomberg

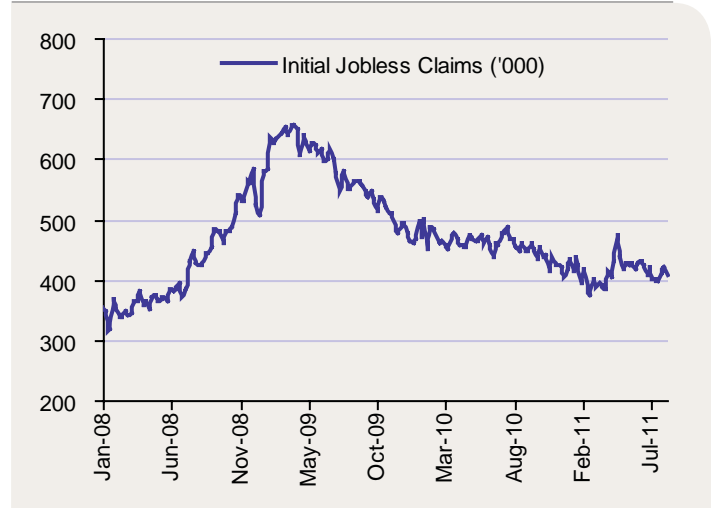
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Chartbook...

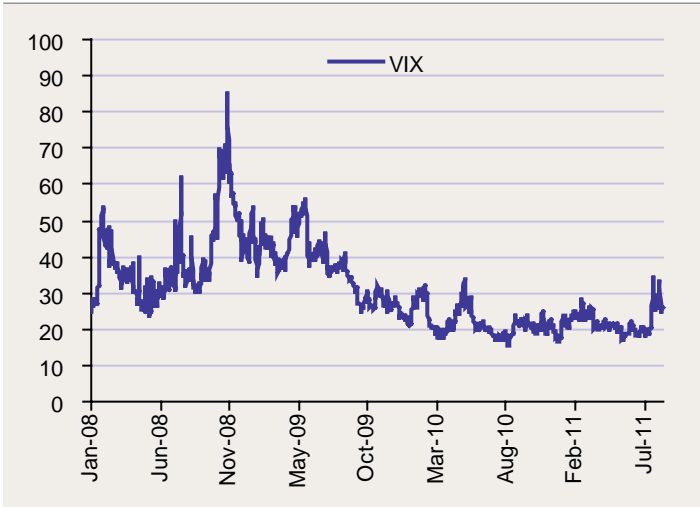
PMI



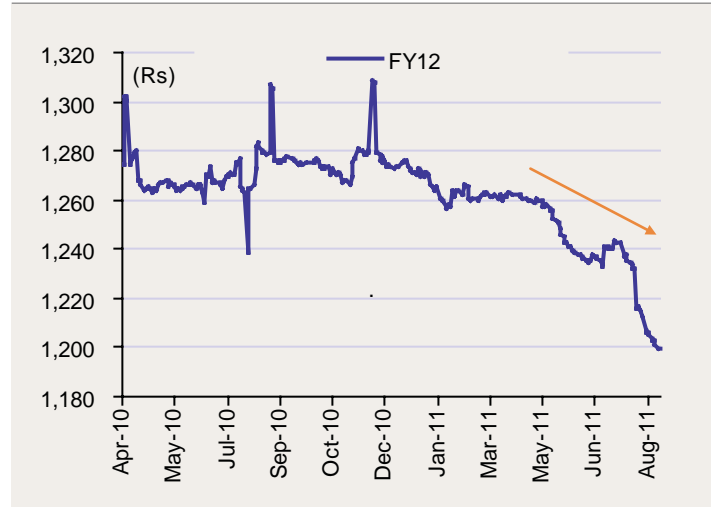
US Initial Jobless Claims



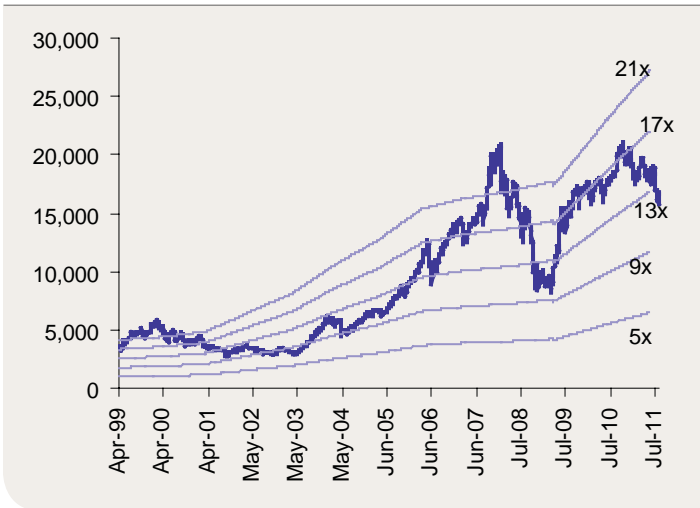
Volatility Index



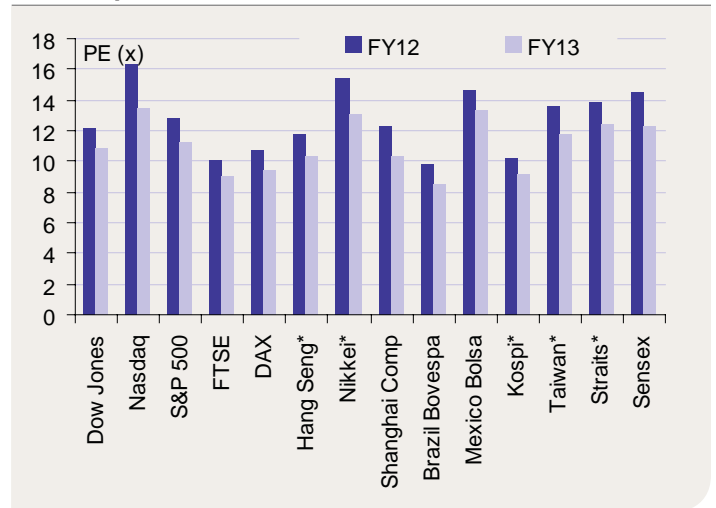
Sensex Earning Estimates



Sensex PE Band



PE Comparison



Source: Bloomberg

India Infoline Weekly Wrap

News Recap

India's GDP grows by 7.7% in Q1

GDP for the quarter ended June 30, 2011 grew by 7.7% as against expectations of 7.6%. That was lower than the 7.8% growth clocked in Q4 FY11 and a much stronger 8.8% expansion in the same period of the last fiscal year. Agriculture growth in Q1 stood at 3.9% versus 2.4% in the first quarter of FY11. Industry growth in the quarter under review stood at 5.1% versus 9.1% in the year-ago period. Services sector grew by 10% versus 10.4% in Q1 FY11.

India's manufacturing PMI hits 29-month low

Manufacturing output in India expanded at its slowest pace in 29 months, as slowdown in the global economy hit exports, a survey by HSBC Holding and Markit Economics showed. The HSBC Markit India Manufacturing PMI fell to 52.6 in August, its lowest since a sub-50 reading in March 2009. It came in below consensus estimate of 52.9 and was also lower than July's reading of 53.6.

Food inflation climbs above 10%; fuel inflation drops

Annual inflation in the Food Articles group rose to 10.05% in the week ended August 20, from 9.80% in the previous week, the Commerce & Industry Ministry said. Inflation in the Primary Articles group climbed to 12.93% in the week under review, from 12.40% in the week ended August 13. Inflation in the Fuel & Power group declined to 12.55% in the week ended August 20, from 13.13% in the previous week, the Government data showed.

Maruti output slides at Manesar due to fresh unrest

Production at Maruti Suzuki India's Manesar plant was badly affected, as workers protested against the management's move to have all employees sign a "good conduct bond". The workers went on strike after Maruti dismissed 5 workers, suspended 26 others and terminated the services of 18 technical trainees for allegedly sabotaging production. Production has not started in full swing yet, but there were indications that it will resume slowly with alternate arrangements like contract workers and hiring technicians.

Event Calender

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)

Period : 12th - 16th Sept

US

- ⊕ Aug Import Price Index yoy (13 Sept)
- ⊕ Aug Producer Price Index yoy (14 Sept)
- ⊕ Jul Business Inventories (14 Sept)
- ⊕ Aug IIP data (15 Sept)

India

- ⊕ July IIP data yoy (12 Sept)
- ⊕ Aug Monthly Wholesale Prices yoy (14 Sept)
- ⊕ Food Articles WPI yoy (15 Sept)
- ⊕ Primary Articles WPI yoy (15 Sept)

China

- ⊕ Aug Producer Price Index yoy (13 Sept)
- ⊕ Aug IIP yoy (13 Sept)
- ⊕ Aug Consumer Price Index yoy (13 Sept)

Euro Zone

- ⊕ July Euro-Zone Ind. Prod yoy (14 Sept)
- ⊕ Aug Euro-Zone CPI - Core yoy (15 Sept)
- ⊕ 2Q Eurozone Employment qoq (15 Sept)

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