

Pair Strategy

November 11, 2011

Long ICICI Bank & Short Bank Nifty

Over the past two weeks, a sell-off in the rate sensitive sector (banks) has resulted in a breakdown in the co-relation between ICICI bank and Bank Nifty, thus widening the historical price ratio relationship close to Upper Band 3 at 11.22* (mean+3rd standard deviation).

One year co-relation between ICICI Bank and Bank Nifty is above 98% (strong co-relation), while standard deviation at 0.28 is slightly on the higher scale. ICICI bank being the major constituents of Bank Nifty with 28.9% weightage is expected to revert back to the mean.

We recommend traders to go long on ICICI Bank (1 Lot December futures and 31 shares in cash) and short Bank Nifty (1 lot December futures) at price ratio of 11.22-11.30 with Stop loss placed at 11.45 for target of 10.90-10.93.

* $(9352/833=11.225 - \text{price ratio})$

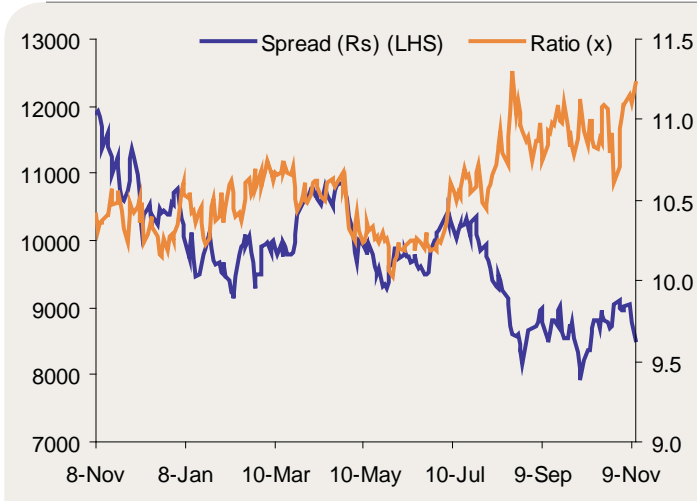
Recommendation*	Price	Qty	Fut lots
Long ICICI Bank (Dec Futs)	833	250	1
Short Bank Nifty (Dec Futs)	9,352	25	1
ICICI Bank (Cash Neutral)	821	31	-

*~Outflow(₹0.8lacs), Time horizon - 30days, Expected return 5%

Spread Summary	1-Year	60 Days	21 Days
Last	11.225	11.225	11.225
Mean	10.559	10.944	10.957
Off Mean	0.666	0.281	0.268
Median	10.534	10.931	10.966
Standard Dev	0.271	0.135	0.160

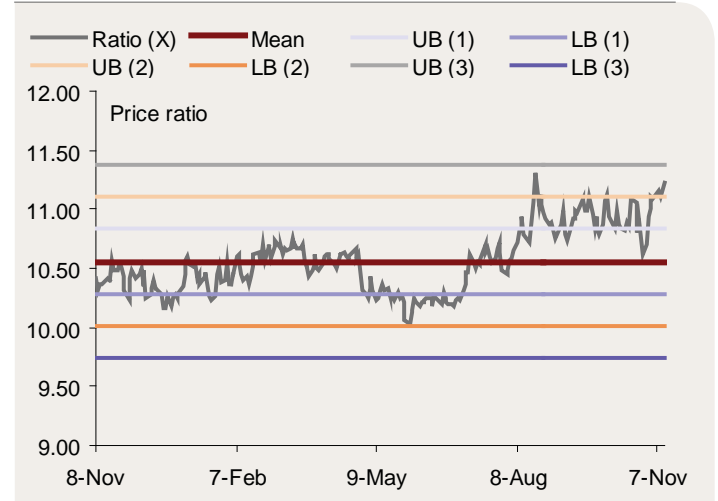
Spread Summary	1-Year	60 Days	21 Days
Correlation	0.98	0.95	0.88

Absolute spread and price ratio - ICICI vs Bank Nifty



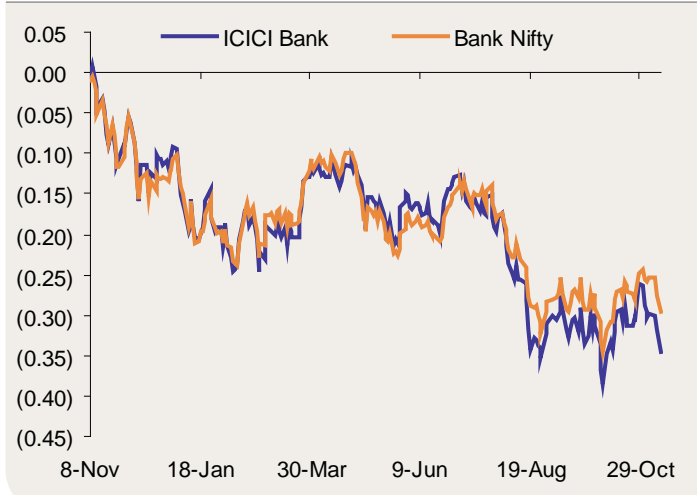
Source: India Infoline Research

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



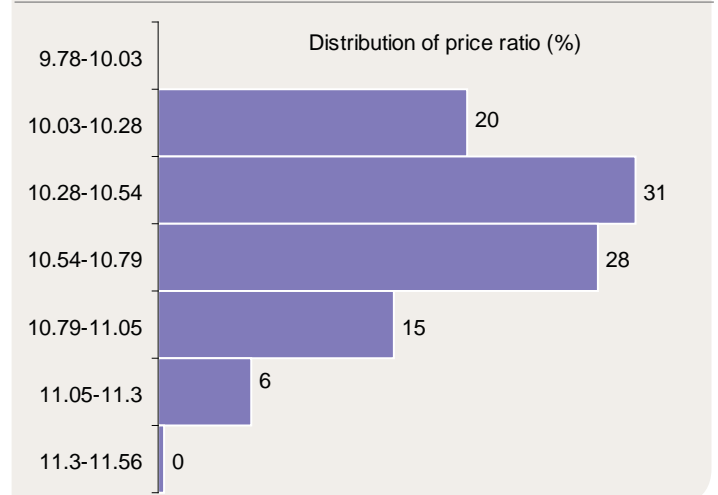
Source: India Infoline Research

ICICI has underperformed vis-à-vis Bank Nifty



Source: India Infoline Research

Maximum occurrence between 10.28-10.54



Source: India Infoline Research

India Infoline Weekly Wrap

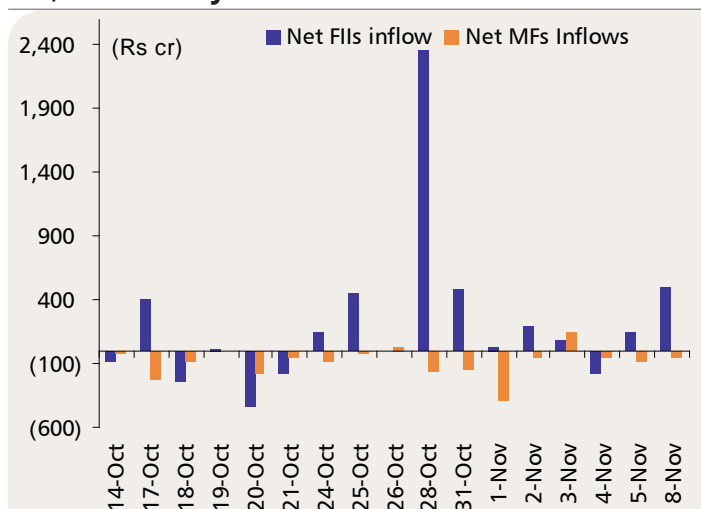
Market Outlook

After a truncated week, investors will look for some semblance in the Indian market too. There is nothing much domestically or globally to trigger a runaway rally. The Nifty is back near breakout levels of 'Double bottom formation' which happened during the Diwali trading session. The situation could worsen if Nifty breaches below the 5070 levels. For now the Nifty may remain in a narrow trading zone between 5070-5190.

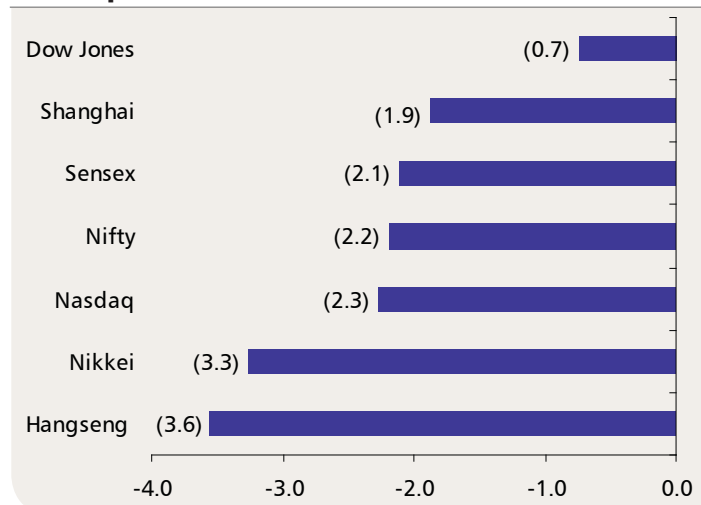
The global markets have had a choppy session with wild swings especially on Wednesday. After touching highs of 7.48% on Wednesday Italian bonds were back below the psychological level of 7%. The Italian Senate is expected to vote on Friday on a package aimed at reducing spending and spurring growth. Meanwhile, Lucas Papademos, a former banker and European Central Bank Vice President, was named the interim prime minister of Greece.

For the Indian market, the monthly inflation numbers will be closely eyed even as food inflation slipped to 11.43% yoy for the week ended October 22 (12.08% in the preceding week.) The overall direction will be driven by the developments in the Euro zone and immediate cues from global markets.

FII/MFs activity



Global performance



Technical View

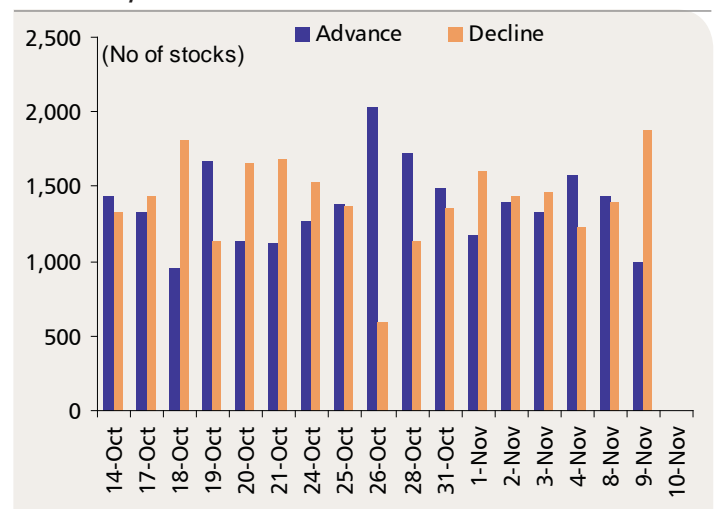
Nifty is back near breakout levels of 'Double bottom formation' which happened during the Diwali trading session. The first line of defense for the such 'Double bottom breakout' was the medium term average of 100 DMA of 5230 which till Tuesday was holding firm on closing basis but such violation has turned trend from positive to neutral.

The tide could swing in favor of bears in case Nifty breaches below 5070 levels so currently we may remain in no trading zone between 5070-5190.

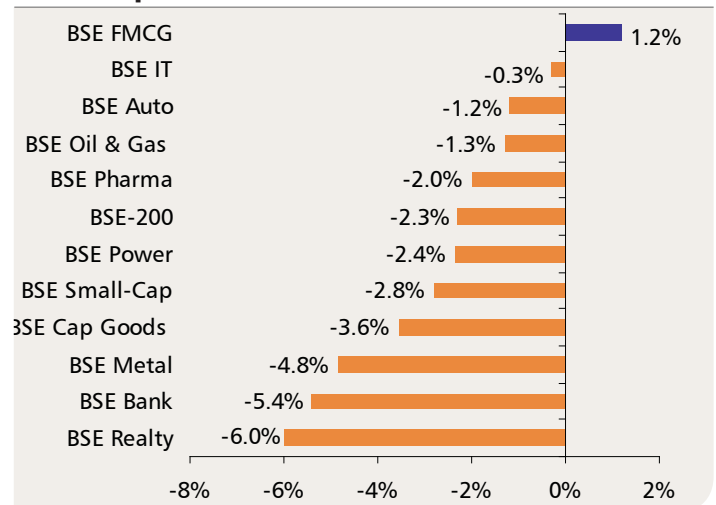
F&O View

Huge put unwinding was seen in Nifty Nov 5200 and Huge call writing in Nifty Nov 5300. Bank Nifty has seen huge shorts in last two days and can possibly sink to 9000 levels in short term. Nifty has its WAP at 5300 and Bank Nifty at 9850. Nifty can trade in 5100 -5200 in short term. Metals and Banking sector continue to see selling at every levels. VIX can be in range of 23-28 in short term.

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
HUL	396	4.2	Advanta India	450	12.0
TCS	1,131	2.8	Apollo Tyres	61	7.7
Hero Motocop	2,173	2.8	Glenmark	333	7.2
Wipro	382	2.8	Carborundum	168	7.1
Cairn India	315	2.7	Glaxosmithkline	2,658	6.4
Reliance Power	101	1.9	Oswal Chem	64	5.9
Power Grid	105	1.5	Sunteck Realty	379	5.6
Ambuja Cements	163	1.3	Astrazeneca	1,328	5.5
ITC	213	1.1	Jain Irrigation	117	5.0
Reliance Ind.	885	0.6	Tata Comm	196	4.6

Nifty 50 & CNX 500 top 10 Losers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
BPCL	559	(10.5)	Aurobindo	111	(13.3)
SBI	1,798	(8.5)	KS Oils	8	(13.0)
DLF	228	(8.1)	Motherson	165	(12.8)
Tata Steel	430	(8.0)	Anant Raj Ind	51	(12.3)
IDFC	119	(7.9)	Zydus Wellness	531	(11.0)
Hindalco Ind.	129	(7.6)	Pantaloon Retail	172	(11.0)
ICICI Bank	821	(7.2)	BPCL	559	(10.5)
Ranbaxy Labs	468	(7.1)	HDIL	91	(10.1)
Axis Bank	1,057	(6.3)	Gujarat Gas	395	(9.9)
Maruti Suzuki	1,060	(5.6)	Gujarat Nre	22	(9.8)

Technically strong

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Piramal Health	370	364	0.2	0.1
TCS	1,131	1,107	1.7	1.5
Jsw Steel	673	655	6.3	4.5
Wipro	382	372	3.7	1.9
Jet Airways	265	252	10.0	3.1

Technically weak

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Godrej Ind	199	202	1.7	0.7
JP Power	37	37	3.7	1.3
Opto Circuit	243	245	0.9	0.5
Pipavav	85	86	18.7	16.5
MRPL	63	63	0.9	0.7

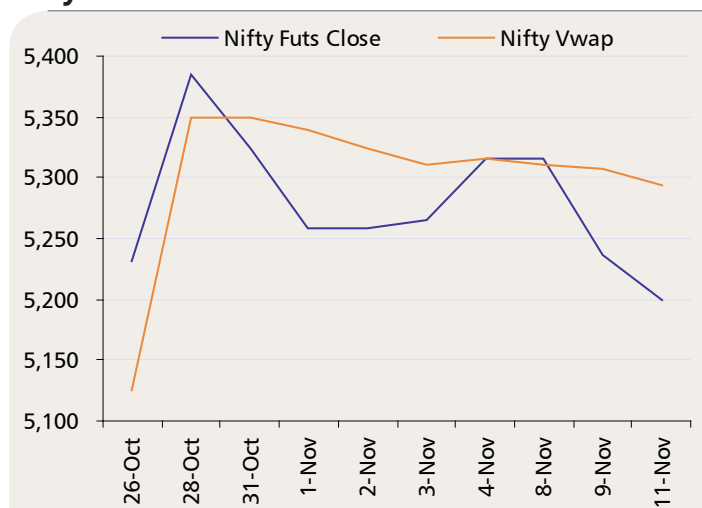
Bulk deals

Date	Institution	Script name	B/S	Qty (lacs)	Price
9-Nov	Nomura Mauritius	Aban Offshore	B	2.3	444.11
9-Nov	Credo Fund Mgmt	M&B Switchgears	S	1.0	160.36
-	-	-	-	-	-
-	-	-	-	-	-

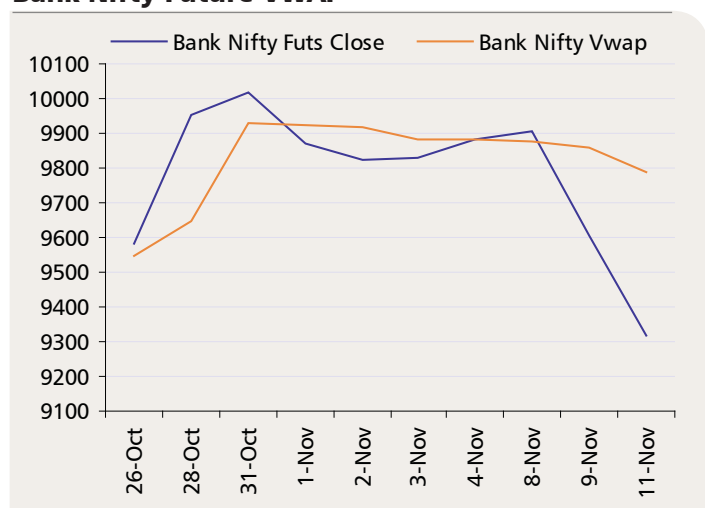
Book closure and record date

Company	Date	Purpose
GMM Pfaudler	16 Nov 2011	Interim Dividend
Allcargo Logistics	17 Nov 2011	Interim Dividend
Financial Tech	17 Nov 2011	Interim Dividend
NMDC	17 Nov 2011	Interim Dividend
PI Inds	17 Nov 2011	Interim Dividend
Prism Info	18 Nov 2011	Interim Dividend

Nifty Future VWAP



Bank Nifty Future VWAP



India Infoline Weekly Wrap

Commodity Corner

Base metals

LME base metals, barring Aluminium traded lower this week, adversely impacted by the looming uncertainty in the European region, where economic and political chaos in Italy threatens to spread the debt crisis in the region. Volumes on the LME have also been reported thin, as the debacle of LME ring member MF Global restrained build up in positions by the market participants. The complex was further suppressed by narrowing Chinese trade surplus and gloomy economic growth prospects in Europe. In this regard, European Commission has lowered GDP forecasts for the region to 1.5% in 2011 and 0.5% in 2012. On Chinese trade front, the country's October trade surplus came in at US\$17bn, much lower than the US\$24.9bn consensus forecast. Meanwhile, China's copper imports in October were up 0.8% from September, although Jan-Oct total remained 13.5% lower on a yoy basis. However, Aluminium prices traded firm, underpinned by surging crude oil prices. Aluminium is energy intensive metal, where energy costs constitute 40% of the total production costs.

On price outlook, we tend to remain bearish on the complex, barring metals like Aluminium and Zinc, where the prevailing price levels are at a proximity to the production costs. We reiterate that high Copper prices are not sustainable, considering the gloomy economic backdrop on the global front.

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

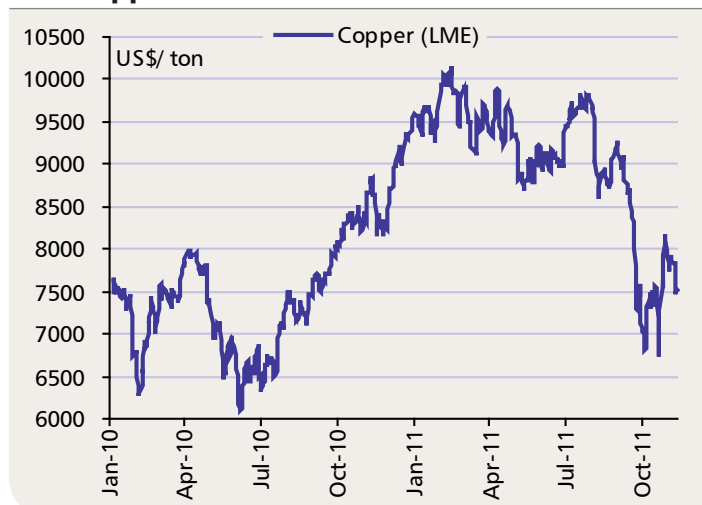
LME prices

Base Metals (US\$/ton)	High	Low	LTP*	Chg(%)
Copper	8,280	7,636	7,989	(2.3)
Nickel	19,995	18,197	18,652	(5.3)
Zinc	2,000	1,890	1,961	(1.2)
Aluminium	2,266	2,096	2,158	(3.8)
Lead	2,096	1,971	2,050	(1.9)

Precious Metals (US\$/ounce)	High	Low	LTP*	Chg(%)
COMEX Gold (US\$/ounce)	1,804	1,737	1,766	0.5
COMEX Silver (US\$/ounce)	35	33	34	(0.5)

* Last Traded Price

LME Copper



Precious metals

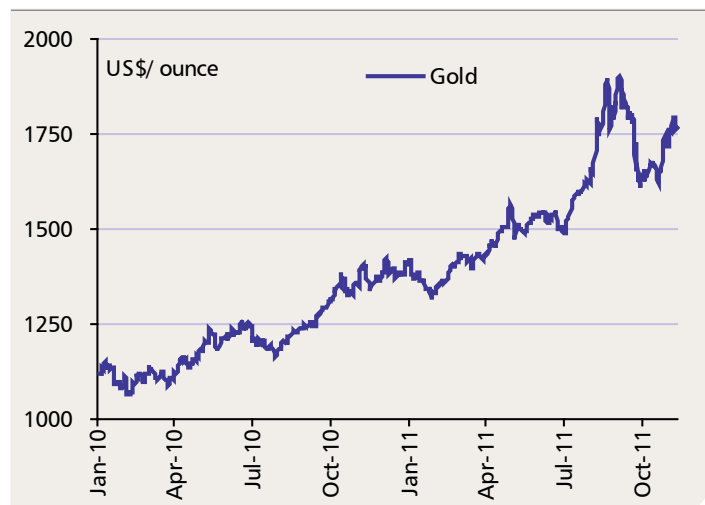
Gold prices managed to register gains this week, supported by lingering debt concerns on European front. Italian government bond yields soared to 15 year highs, despite endeavours by EU officials to avert the contagion. There was mounting pressure on Italian PM to resign, as his government has failed to adopt reforms to mitigate the prevailing debt crisis. In this respect, Italian PM has offered to step down as soon as Italy's Parliament approves austerity measures in a vote expected to occur next week. However gold prices pared gains at the end of the week, as concerns eased on the European front. Italian bond yields retreated from the unsustainable levels of 7%, with the auction of Italian government 10-year bills yielding 6.9%. Market participants anticipate yields on Italian bonds to go down to more than 6%, if the country rapidly elects a prime minister. In this regard, Mario Monti, former EU commissioner has emerged as the front-runner to succeed PM Silvio Berlusconi. On Greece front, main political parties have agreed to participate in a coalition government, with the former ECB Vice President Lucas Papademos elected as a new prime minister.

On price front, we reiterate with our bullish stance on the yellow metal, as the structural debt woes in Europe have not been resolved yet, which persistently augments the safe haven appeal fro the precious metals.

Weekly inventory update

	Tons	Abs Chg.	Chg (%)
Copper (LME)	407,700	(10,150)	(2.4)
Nickel (LME)	84,180	(1,296)	(1.5)
Zinc (LME)	752,725	(16,625)	(2.2)
Aluminium (LME)	4,533,675	(12,050)	(0.3)
Lead (LME)	376,850	(7,725)	(2.0)
Tin (LME)	14,580	(550)	(3.6)
Shanghai Copper	83,389	(479)	(0.6)
Shanghai Zinc	366,503	(3,998)	(1.1)
Shanghai Aluminium	139,013	17,070	14.0

COMEX Gold



India Infoline Weekly Wrap

Mutual Fund Round-up

India Infoline picks

Mutual Funds	Assets (₹ Cr)	NAV (₹)	Absolute return (%) as on Nov 11, 2011							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200 Fund (G)	10,692	193.97	(0.9)	5.4	(0.5)	(7.4)	(17.8)	11.2	104.6	82.6
ICICI Prudential Dynamic - (G)	4,130	99.83	(0.5)	6.1	0.4	(7.1)	(11.4)	18.1	101.3	64.9
IDFC Sterling equity Fund (G)	1,122	17.58	0.1	2.5	(1.9)	(4.4)	(15.9)	24.4	144.9	NA
Fidelity Tax Advantage (G)	1,247	20.89	(0.7)	4.8	1.7	(3.0)	(14.5)	21.4	109.1	78.2
HDFC Prudence Fund (G)	6,356	205.31	(0.7)	3.1	(0.8)	(3.3)	(10.2)	23.0	120.5	88.7
Reliance equity opportunities(G)	3,193	34.26	(0.8)	4.5	(0.6)	(3.5)	(14.1)	32.2	143.6	69.3
IDFC Premier Equity-A(G)	2,415	32.98	0.3	4.5	3.6	4.1	(9.9)	35.8	150.7	172.2

Funds this week: HDFC Top 200 Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Prashant Jain	Equity	94.9
Latest NAV	₹193.97	Debt	2.9
NAV 52 high/low	₹236/187	Cash/call	2.2
Latest AUM (cr)	₹11,065	Top 5 holdings (%)	
Type	Open-ended	State Bank Of India	6.7
Class	Equity - Diversified	Infosys Ltd.	5.4
Options	Growth & dividend	ICICI	5.4
Min investment	₹5,000	RIL	4.7
Benchmark	BSE 200	ITC Ltd.	4.7
No. of stocks	66	Top 3 sectors (%)	
No. of sectors	30	Banks	22.4
Expense ratio	1.8%	Consumer Non Durables	10.7
Exit load	1% before 1 year	Software	10.0

Reliance equity opportunity fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Shailesh Raj Bhan	Equity	88.6
Latest NAV	₹34.26	Debt	0.0
NAV 52 high/low	₹39.86/31.80	Cash/call	11.4
Latest AUM (cr)	₹3,032	Top 5 holdings (%)	
Type	Open-ended	Divi'S Laboratories Ltd.	4.7
Class	Equity - Diversified	Aventis Pharma Ltd.	5.2
Options	Growth, Dividend & Bonus	Infosys Technologies Ltd.	4.7
Min investment	₹5,000	Trent	4.4
Benchmark	BSE 100	Maruti	4.2
No. of stocks	34	Top 3 sectors (%)	
No. of sectors	21	IT	13.4
Expense ratio	1.85%	Auto	12.6
Exit load	1% before 1 year	Healthcare	12.2

NFO update

Fund Name	Close	Type	Class
Sundaram Capital Protection Oriented Fund 2 Years (Series 4)	14-Nov	CE	Debt-Hybrid
Axis capital protection oriented series 1	21-Nov	CE	Debt-Hybrid
Religare gold fund	29-Nov	OE	Gold:Fund
HDFC FMP 92 d Nov2011(1)series XIX	21-Nov	CE	Debt-FMP

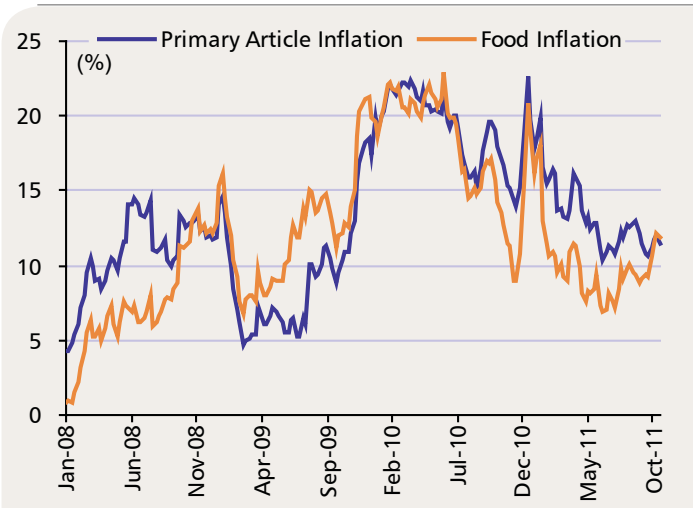
Dividend update

Mutual Fund	Dividend %	Record date	Class
Kotak Opportunities	5.00	11-Nov	Equity

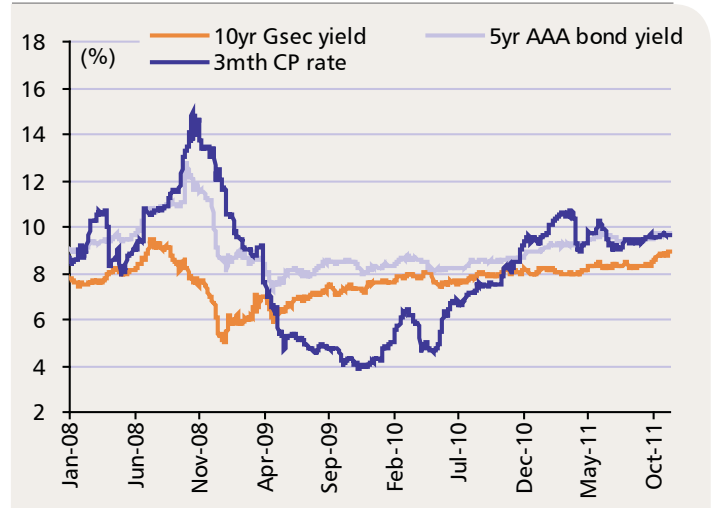
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Chartbook

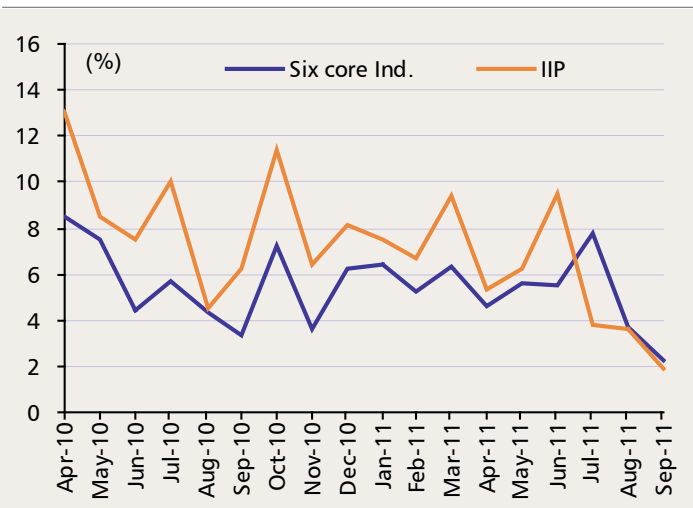
Weekly Inflation



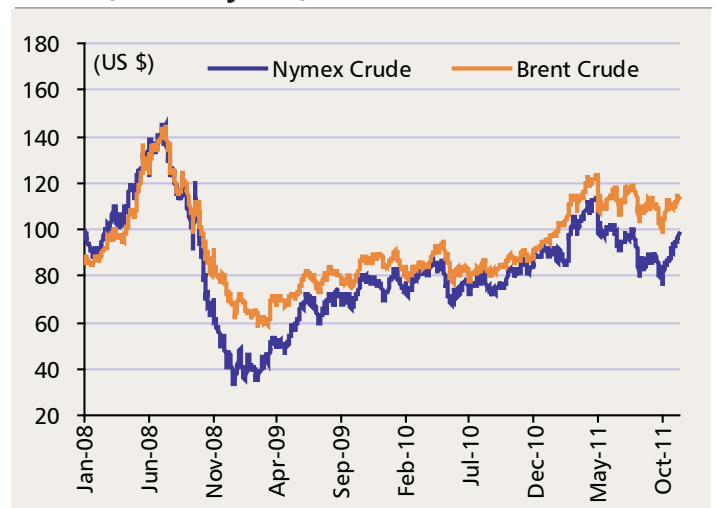
Interest Rate



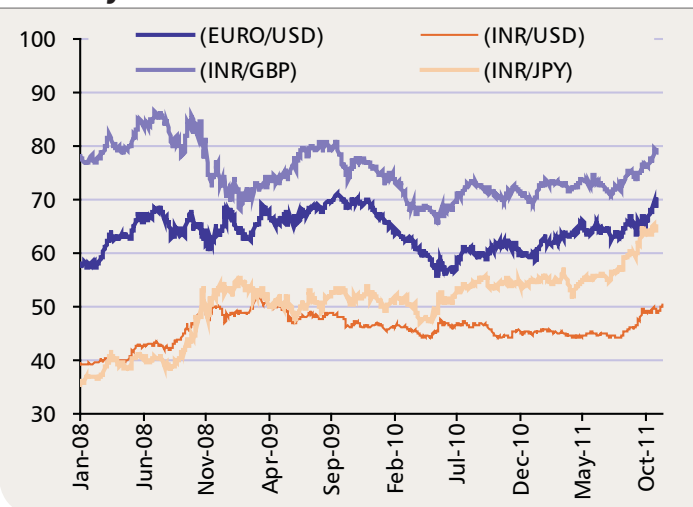
IIP and Six core Industries



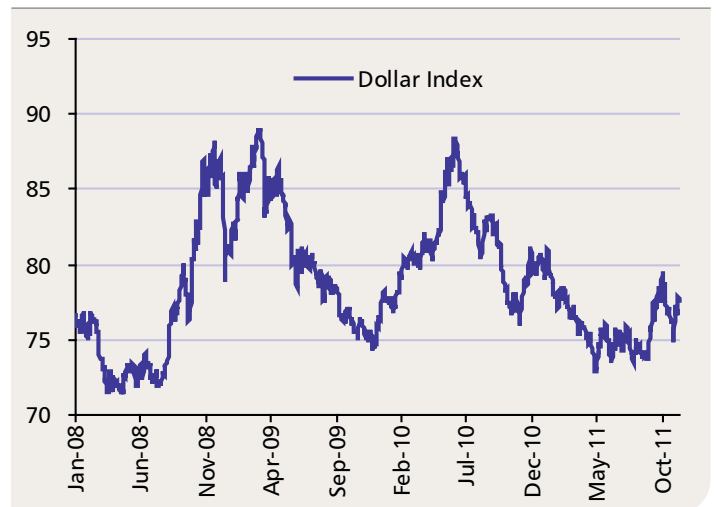
Crude (Brent/ Nymex)



Currency Movements



Dollar Index

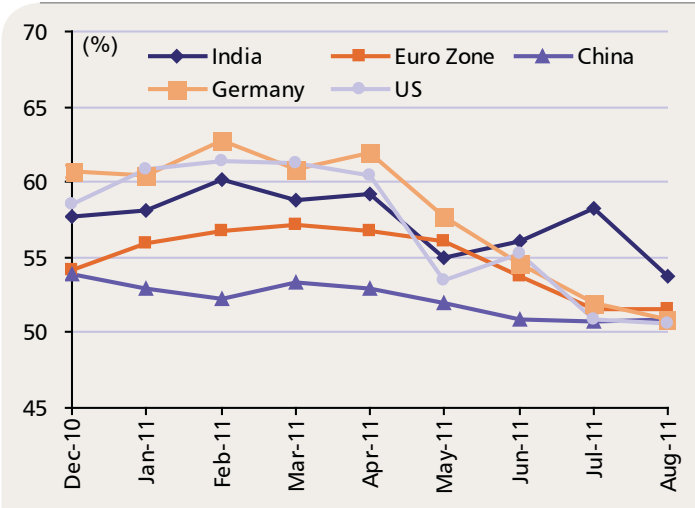


Source: Bloomberg

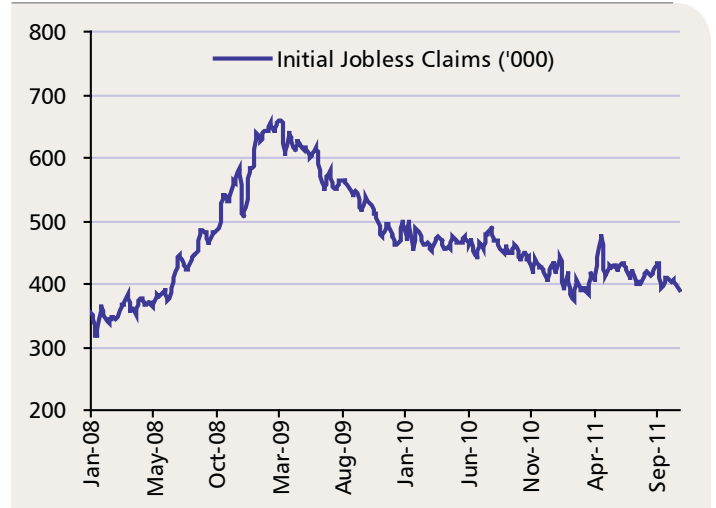
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Chartbook...

PMI



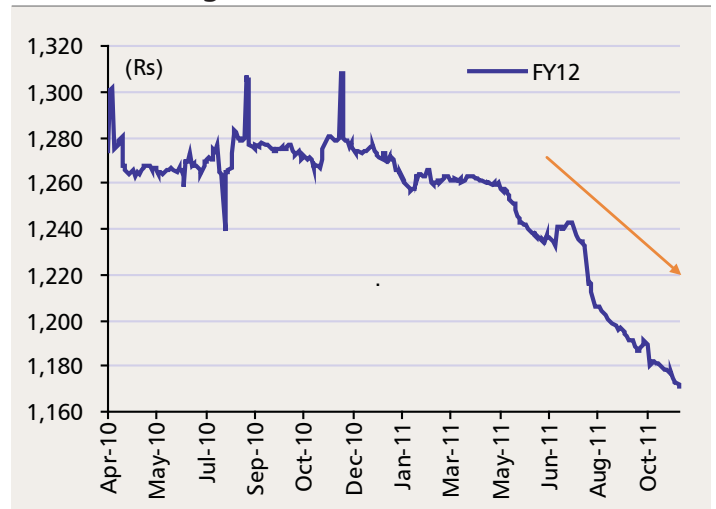
US Initial Jobless Claims



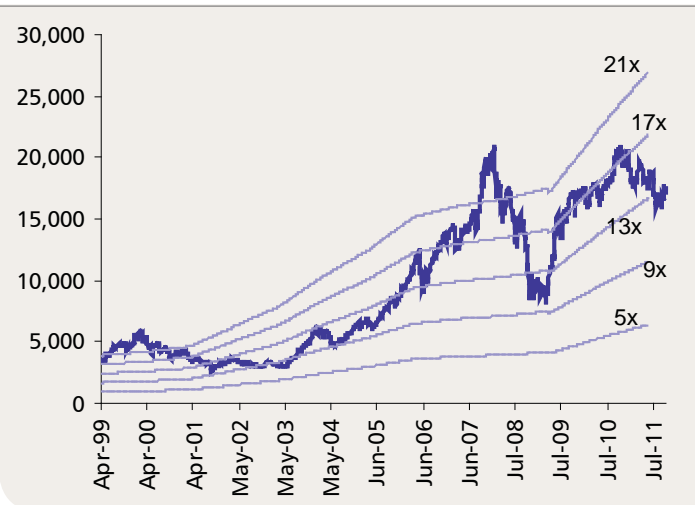
Volatility Index



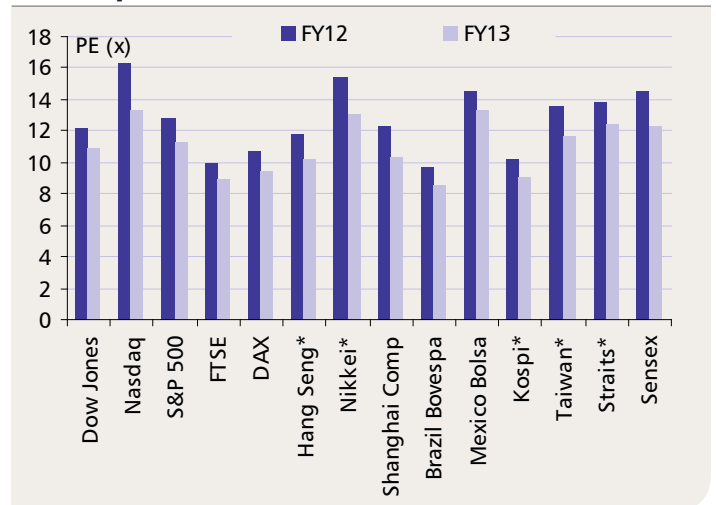
Sensex Earning Estimates



Sensex PE Band



PE Comparison



Source: Bloomberg

India Infoline Weekly Wrap

News Recap

IIP crashes to 1.9% September; Food inflation dips...

The industrial growth continued its dismal performance as IIP came crashing down to 1.9 per cent in September, mainly due to poor output from the manufacturing sector. Meanwhile, Food inflation rose to 11.43% year on year for the week ended October 22, compared with 12.08% in the preceding week.

Indian banks...a tale of Two ratings

Moody's Investors Service downgraded its outlook for India's banking system to 'negative' from 'stable' while Standard & Poor's has upgraded the sector. Moody's rates 15 commercial banks in India, which together account for about 66% of the system's total assets as of March 2011. S&P upgraded the Indian banking sector saying, "Banking regulations in India are in line with international standards and the RBI has a moderately successful track record." S&P upgraded the risk profile (BICRA) a notch higher to 'Group 5'.

TCS wins \$2.2 bn contract from Friends Life

Diligenta, a leading Business Process Outsourcing (BPO) provider in the UK and a subsidiary of Tata Consultancy Services has announced that it will assume administration responsibility for 3.2 mn policies for Friends Life, a provider of pensions, investments and insurance. The agreement, effective 1 March 2012 is worth \$2.2 bn (£1.37 billion) over 15 years.

Export grows 10.8% in October at US \$ 19.9bn : Dr Khullar

India's exports have registered a growth of 10.8% during October 2011, at US \$ 19.9bn. Imports in October 2011 stood at 39.5bn US\$ registering a growth of 21.7%. Balance of Trade for the period was (-) 19.6bn US\$. Cumulative Export figures for the period of April to October 2011 stood at 179.8bn US\$ registering a growth of 46%. Imports for the same period stood at 273.5bn US\$ registering a growth of 31%. Balance of trade for the period stood at (-) 93.7bn US\$.

Euro Zone...new PM for Greece, Italian bonds hit highs

Lucas Papademos, a former banker and European Central Bank vice president, was named the interim prime minister of Greece. Meanwhile, After touching highs of 7.48% on Wednesday following clearing firm's LCH Clearnet's margin raise, Italian bond yields were back below the psychological level of 7% buoyed by rumours that the European Central Bank had purchased Italian bonds.

Event Calender

Period : 14th - 18th Nov

US

- ⊕ Q3 Mortgage Delinquencies (14-19 Nov)
- ⊕ Nov Empire Manufacturing (15 Nov)
- ⊕ Oct Producer Price Index YoY (15 Oct)
- ⊕ Sep Business Inventories (15 Nov)
- ⊕ Oct IIP data (16 Nov)

India

- ⊕ Primary Articles WPI YoY (14 Nov)
- ⊕ Food Articles WPI YoY (14 Nov)
- ⊕ Fuel Power Light WPI YoY (14 Nov)
- ⊕ Oct Monthly Wholesale Prices YoY% (14 Nov)

China

- ⊕ Oct Money Supply M1, M2 (11-15 Nov)
- ⊕ Oct New Yuan Loans (11-15 Nov)

Euro Zone

- ⊕ Q3 Euro-zone GDP YoY (15 Nov)
- ⊕ Sept Euro-Zone Trade Balance (15 Nov)
- ⊕ Oct Euro-Zone CPI YoY (16 Nov)

Period : 21st - 25th Nov

US

- ⊕ Q3 GDP QoQ Annualized (22 Nov)
- ⊕ Oct Durable Goods Orders (23 Nov)
- ⊕ Oct Durables Ex Transportation (23 Oct)

India

- ⊕ Primary Articles WPI YoY (24 Nov)
- ⊕ Food Articles WPI YoY (24 Nov)
- ⊕ Fuel Power Light WPI YoY (24 Nov)

China

- ⊕ Oct Leading Index (25-28 Nov)

Euro Zone

- ⊕ Sept Euro-Zone Current Account (21 Nov)
- ⊕ Sept Industrial New Orders NSA YoY (23 Nov)