

## Outlook for Week Ahead

August 14, 2010

With the Q1 June 2010 corporate result season almost over, fund flows are likely to dictate the near-term trend on the bourses. On tap at the onset of next week is data on headline inflation for July 2010. Investors will also closely watch the progress on the proposed tax reforms, such as the introduction of the goods and services tax (GST) and the proposed overhaul of the direct tax regime. According to reports, the current monsoon session of Parliament is likely to be extended by a week. As per earlier schedule, the session, which started on 26 July 2010, was to be concluded on 27 August 2010.

Investors will also closely watch the progress of the monsoon rains. While India is progressing well on its growth path, rising interest rates, fund flows and global risk appetite will be key for the markets to continue to rise from here on. Global cues turned sour last week with most markets ending sharply lower. However, the Indian markets outperformed and closed marginally higher while the broader markets gained more. This out performance could be difficult to sustain without support from global markets. Activity in the midcap and smallcap space could continue to be healthy.

## The Week Gone By

August 14, 2010

### Indian Markets

Key benchmark indices eked out marginal gains in the week ended Friday, 13 August 2010 as select pivotals surged after reporting upbeat earnings. Sustained buying by foreign funds supported the market. The first quarter results were a mixed bag. The combined net profit of a total of 2,965 companies fell 8.4% to Rs 68,344 cr on 19.8% rise in sales to Rs 8,29,064 cr in Q1 June 2010 over Q1 June 2009. The BSE Sensex rose 23.04 points or 0.13% to 18,167, in the week ended 13 August 2010 while the S&P CNX Nifty rose 12.85 points or 0.23% to settle at 5,452. The BSE Mid-Cap index gained 1.43% and the BSE Small-Cap index advanced 1.32%. Both these indices outperformed the Sensex. Star performers of the week amongst index stocks were SBI (up 8.76%) and Tata Motors (up 13.71%).

**Monsoon progress** – The vital monsoon rains were 26% below normal in the week to 12 August 2010, the first weekly fall in three weeks. The rains were 16% above normal in the week to 4 August 2010 and 38% above average in the week to 28 July 2010. The cumulative rainfall during the period from 1 June 2010 to 12 August 2010 was 5% below normal. Rainfall over the country as a whole for the second half (August to September) of the 2010 southwest monsoon season is likely to be normal, according to the India Meteorological Department (IMD). Quantitatively, rainfall for the country as a whole during the period August-September 2010 is likely to be 107% of long period average (LPA) with a model error of plus/minus 7%, according to the weather office.

There are concerns about scanty rains in the eastern parts of the country. Large swathes of farmland in Gangetic West Bengal, Bihar, Jharkhand, eastern Uttar Pradesh, Assam and eastern Madhya Pradesh have received very little rainfall so far. Until last week, paddy (de-husked rice) sowing was down by about 10.43% in West Bengal - the country's largest rice producing state and down by around 5.19% in Bihar, reports suggest. The monsoon deficiency in the East is, however, unlikely to have an impact on total kharif paddy output in the country, and procurement is good, reports suggest. Production in Punjab, Haryana and southern India, coupled with huge rice stocks estimated to be in excess of around 25 million tonnes, would help cap any price flare-up or shortages in supply, reports suggest.

**Foreign fund flows good so far** - Foreign funds have bought equities worth a net Rs 4,066 cr in the first few trading days this month, till 13 August 2010, absorbing selling of Rs 2,315 cr from domestic funds.

**Inflation** - On the macro front, the latest data showed the food price index rose 11.40% in the year to 31 July 2010, while the fuel price index climbed 12.66%. Food inflation accelerated from the previous week's annual rise of 9.53% while fuel inflation eased from the week-ago reading of 14.26%. The primary articles index rose 15.66% compared with the previous week's reading of 14.36%.

**IIP – signs of slowdown or just base effect?** The industrial output rose 7.1% in June 2010 compared with revised 11.3% rise in May 2010, the latest data showed. Manufacturing grew 7.3%, mining sector grew 9.5%, consumer goods sector rose 8.3%, capital goods sector expanded 9.7% and electricity generation rose 3.5%. Industrial production growth for May 2010 was revised slightly downwards to 11.3% from 11.5%. Planning Commission deputy chairman Montek Singh Ahluwalia on 12 August 2010, said industrial production growth is expected to remain in high single digits in the current fiscal year.

**Minimum public shareholding rule relaxed for PSUs** - The government has relaxed the requirement of a minimum 25% public shareholding for listed state-run firms. The new rule had raised concerns there will be a deluge of share sales from government-owned firms to meet the minimum 25% public shareholding requirement. As per the relaxed norms, listed state-owned

## Weekly Statistics

Key Indices	Aug 13	% Chg
Sensex	18167	+0.13
Nifty	5452	+0.24
DJIA	10303	-3.29
Nasdaq	2173	-5.02
FTSE	5275	-1.07
DAX	6110	-2.38
Hang Seng	21072	-2.80
Shanghai	2607	-1.94
Nikkei	9254	-2.96
Bovespa	66264	-2.69
Indonesia – Jakarta	3053	-0.25
Singapore – Strait	2940	-1.84
MSCI Emerging Markets*	980	-3.01
MSCI World*	1104	-4.23

\*= Data in US\$

Metals (USD)	August 12	% Chg
Aluminum	2137	-3.61
Copper	7198	-3.12
Zinc	2039	-4.41
Tin	20000	-3.85
Lead	2060	-5.94
Gold*	1215	+0.96

\* =% Chg calculated from Friday to Friday, for rest calculated from Friday to Thursday

Interest Rates		Chg bps
MIBOR	6.67	0.00
10 yr bond yield	7.81	-1.00
LIBOR – UK	0.74	0.00
LIBOR – USA	0.41	-4.00
LIBOR – Europe	0.83	0.00

Exchange Rates	Value	% Chg
USD/INR	46.76	+1.30
USD/EURO	0.78	+4.19
USD/YEN	86.21	+1.38
USD/POUND	0.64	+2.26
.DXY	82.92	+3.12

Other	Value	% Chg
RJ/CRB Index	268.79	-2.15
Crude Oil (\$ / Barrel)	75.39	-6.58
Baltic Dry Index	2468.00	+21.58

Turnover (Rs. Bn)	Week Aug 13	Week Aug 06	% Chg
BSE	274.6	223.4	+22.92
NSE	763.4	632.1	+20.77
Futures	1616.5	1165.9	+38.65
Index Options	2355.2	1806.7	+30.36
Stock Options	300.0	151.6	+97.90

Net Flows (Cr)	FII	MF
Aug 06 - Aug 12	2344.4	-611.6
Previous Week	2710.8	-382.0

Volatility Index (ViX)	Nifty	CBOE
Aug 13	16.74	26.24
% Chg w-o-w	-3.63	+20.70

companies that have less than 10% public stake will have to reach that threshold over a period of three years. The modified rules also give a breather to the private sector companies. While they will have to comply with the minimum 25% public float within three years, they now have the flexibility to do it at any time within three years vs the earlier stipulation of annual increase of 5%.

**JNPT accident – minimal impact expected** - There will be a minuscule impact on the economy due to the shutdown of India's busiest port following a collision between two cargo ships late last week, according to Moody's Analytics, a unit of global credit rating agency Moody's. The collision, which triggered an oil slick, has hit operations at the Mumbai port and the neighbouring Jawaharlal Nehru Port after about 300 containers fell into the shipping channel used by the ports. Mumbai's two ports account for around 40% of India's exports, so the total value of outbound shipments in August could be marginally lower, according to Moody's Analytics.

#### US Markets

The US Markets closed the week ended 13 August 2010 on a down note. The losses were more prominent in the tech heavy Nasdaq (some analyst downgrades on stocks like Intel and Advanced Micro Devices, Cisco missed meeting analyst revenue expectation), which lost 5% during the week while the Dow closed lower by 3.3%. Dour economic reports in the retail and consumer sectors, job concerns, widening of the trade gap, a bearish outlook by the Fed and growth concerns weighed on stocks during the week. After slight gains Monday, all three stock indexes closed lower from Tuesday to Friday. Further, August is a month when traders are on vacation and hence a low volume season so stock market reactions could be magnified. As stocks sank in the past week, the dollar shot higher and bond yields continued to wither. Gold gained while oil fell.

**Retail takes a hit** - The Commerce Department said that July retail sales gained 0.4%, just missing economists' forecasts. Retail shares felt an extra blow when several companies released disappointing reports. JC Penney forecast a full-year profit below Wall Street expectations. Nordstrom fell as its earnings report showed higher inventories.

**Business Productivity** - Business productivity unexpectedly fell by 0.9% in the second quarter, marking the first decline in 18 months. Economists expected an increase of 0.1%, according to Briefing.com

**Consumer Sentiment** - The University of Michigan Consumer Sentiment Index for early August rose to 69.6 from 67.8 the previous month, just missing expectations.

**Widening trade deficit – poor demand for American goods?** – The government reported that the trade deficit widened in June to \$49.9 billion, much more than economists had expected. This foreign data cast doubt on overseas demand for American goods.

**The Fed is Bearish?** – On Tuesday, the central bank said it would leave its short-term interest rates unchanged in a range between 0% and 0.25%. But the Fed gave its most bearish outlook in more than a year, saying the economic recovery is weakening. The Fed also said it plans to reinvest its debt into longer-term Treasury securities. Economists had been anticipating the Fed would start unwinding its purchases by the end of this year. The Fed's cautious tone on the economy and its announcement that it would resume quantitative easing helped push buyers into bonds on fears the recovery is faltering. The U.S. 10-year was yielding 2.690 percent, and in a dramatic flattening, the gap between the yields of the 10-year and 2-year reached 2.13 bps Friday, the tightest level of the year. The 2-year was yielding 0.545 percent.

**Jobless Claims** - Initial jobless claims jumped unexpectedly to 484,000 last week. That's the highest number in five months.

**Week ahead** – A smattering of secondary economic reports and several big retailers' earnings fill what could otherwise be a quiet week, in which markets sort out big moves in interest rates and currencies. Housing news will be of interest with housing starts, home builders sentiment and a Treasury Department summit Tuesday on the future of housing finance. Retailers Wal-Mart, Home Depot, Lowe's and Target report earnings, as do computer makers Hewlett-Packard and Dell. The tone in the stock market has become decidedly more negative, now that the earnings season is winding down and economic worries are rising. The Fed's actions in the past week heightened market expectations for a double dip recession, a concern that was fading not too long ago.

#### Other Markets

Markets across the globe mostly ended lower for the week ended 13 August 2010. The FTSE and DAX closed lower by 1.07% and 2.38% respectively, while the Shanghai and Hang Seng closed lower by 1.94% and 2.8% respectively. Global cues were largely negative with economic activity in China showing signs of slowing down and the Fed ringing alarm bells on the pace of economic recovery in the US.

**Europe** - Euro zone industrial production declined in June, with output in France and Germany falling sharply. Output fell 0.1% month-on-month, figures released by Eurostat showed, and rose

#### Sensex



Weekly Gainers	CMP (Rs)	% Rise
Raymond	374.90	55.08
Himachal Futuristic	12.57	24.95
Vascon Engg	170.00	22.39
Tata Communication	330.20	20.12
Anant Raj Inds	137.70	19.01

Weekly Losers	CMP (Rs)	% Fall
Cals Refinery	0.30	11.76
MMTC	1395.70	11.45
Sterlite Inds	160.70	8.93
Finolex Inds	78.35	8.90
Aban Offshore	831.55	8.16

8.2% year-on-year, although the drop followed sharp increases in April and May. Euro zone gross domestic product grew at its fastest pace in more than three years in the second quarter, boosted by a strong performance by Germany and France, but concerns remain that the rebound could falter. European Union statistics agency Eurostat said GDP in the 16-nation currency zone expanded by 1% in the second quarter from the first, and by 1.7% versus the second quarter of 2009. The latest data showed the German economy, Europe's biggest, grew by 2.2% in the second quarter compared with the previous three-month period.

Latvia's economy, one of Europe's most troubled, posted its second straight quarter of growth in the April to June period, the nation's statistics office announced on Monday. Economic activity in the second quarter increased a slight 0.1% compared with the first three months of the year. However, on an annual basis the economy fell 3% as the construction and services sectors continue to languish, the statistics office said.

**China** - A raft of data from China reflected a dour July - inflation rates missed expectations, industrial production eased to the lowest level this year and retail sales slowed. Data out from China showed a wider-than-expected trade surplus in July with a 38.1% hike in exports and a weaker-than-expected 22.7% rise in imports. China's July crude oil imports were 19 million metric tonnes, or 4.5 million barrels a day, much lower than the record 22.27 million tonnes recorded in June and 3.1% off the 19.6 million tonnes from last July. China is the world's second-largest crude oil consumer after the US.

China's industrial output grew the least in 11 months in July as the government cracked down on real-estate speculation, curbed credit and closed factories to meet energy-efficiency targets. Production rose 13.4% from a year earlier, as per the statistics bureau. Inflation quickened to 3.3%, the fastest in 21 months, boosted by a low year- earlier base for comparison and rising food costs. The spike in consumer inflation was caused by severe floods that affected many area of the country.

China's retail sales rose 17.9% year-on-year, slowing from June's 18.3% rise and below market expectation of a rise of more than 18%. Urban fixed-asset investment growth for the January-July 2010 period was up 24.9%, easing from the 25.5% growth reported last month for January-June 2010 period. Other data showed Chinese banks issued 533 billion yuan (\$78 billion) in new loans during the month, down from the 603 billion yuan in June. Mortgage related lending, indicated by medium-to-long-term loans, fell to 126 billion yuan for the month, down from 142 billion in June and 192 billion in May.

#### Commodities

Copper lost 3.1% this week on speculation the world economic recovery may slow, prompting investors to trim purchases in industrial metals. The U.S. trade gap widened 18.8 percent in June, suggesting U.S. second-quarter economic growth was weaker than previously thought. China's copper imports rose 4.5 percent month-on-month in July, the first increase in four months, in what could signal a pickup in demand ahead of the anticipated peak in consumption in September. Copper demand may outstrip supply in 2011 for the first time in four years as China, the world's biggest consumer, sustains purchases and as ore grades decline. With few new large-scale mines on the horizon and stagnation at existing facilities, price direction will be upwards given the approach of multiyear deficits.

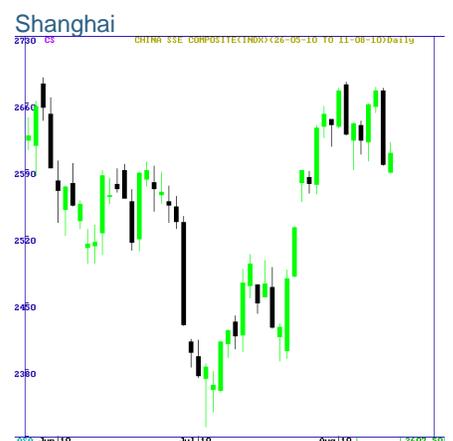
BDI, which tracks rates to ship dry commodities rose by 21.6% for the week ended August 13, 2010 to 2,468. The Baltic Dry Index, a measure of commodity shipping costs, jumped as iron ore demand strengthened. Demand to load capesizes in both the Atlantic and Pacific Oceans had a very active start to the week. Brokers said a wheat export ban in Russia could also potentially boost freight rate activity with buyers having to source supplies from other origins including the United States. Capesize rents jumped 20 per cent, the most in 31/2 months, to US\$29,022 a day, extending August's gain to 94 per cent.

Crude Oil prices fell by 6.6% this week as economic reports renewed worries about the ability of the global recovery to support oil demand. The International Energy Agency warned oil demand could take a substantial hit should economic growth falter. The report followed the Federal Reserve's decision Tuesday to take additional measures to support the sluggish recovery in the U.S. While the central bank's decision initially sparked a rally across several markets, downbeat comments from the Fed eventually weighed on investor optimism. Crude-oil inventories are expected to fall by 2 million barrels, according to a survey of 14 analysts by Dow Jones Newswires. Gasoline inventories are expected to remain unchanged, while stocks of distillate, which include heating oil and diesel fuel, are seen rising by 1.6 million barrels. It also fell as investors mulled over dismal economic news from China, a bearish forecast from the Federal Reserve and a stronger dollar.

#### Currencies

US Dollar appreciated against the euro by 4.2% this week. Euro hit a fresh three-week low as persistent concerns about slowing economic growth reduced demand for riskier assets. Strains in euro-area government bonds and in the region's banks had melted into the background as fears of a fresh round of recession in the U.S. emerged as the market's key driving force.

### Global Indices Charts



Reports suggested that the Irish government may pump EUR10 billion more funds into Anglo Irish Bank Corp. Peripheral euro-zone sovereigns have been hardest hit, with Ireland in focus over worries about the cost of bailing out its banking sector, while spreads on Greece credit default swaps--a form of insurance against default--widened more than 30 basis points after Greek gross domestic product fell by 1.5% in the second quarter compared with the first. U.S. data, including consumer price index, retail sales and a key consumer sentiment index all posted slight increases, but failed to provide any lasting lift to investor sentiment.

The USD has appreciated by 2.3% against the Pound. The pound fell against the dollar to its lowest level in more than a week after data signaled Britain's economic recovery may be slowing. A U.K. housing- market gauge showed the first decline in prices in a year in July, while a separate survey said stores posted slower sales growth last month. While the U.K. economy expanded at the fastest pace in more than four years in the second quarter, Bank of England Governor Mervyn King said last month there are risks from a possible slowdown in the euro-area. The Bank of England said inflation would fall well below its 2 percent target in two years' time and left the door open to more quantitative easing. The dovish BoE report followed an acknowledgement by the U.S. Federal Reserve that the U.S. economic recovery had slowed, while it reiterated its pledge to hold benchmark interest rates at record lows for an extended period.

.DXY rose by 3.1% and headed for its strongest weekly performance in almost two years against a basket of currencies after lackluster results in an Italian bond auction weighed on the euro. The greenback had been under heavy selling pressure since early June as investors increasingly focused on deteriorating economic conditions in the United States. But the currency rebounded sharply this week on a growing view that if the U.S. economy is slowing materially, it is not alone. Worries about the strength of the global economy fed short-covering and safe-haven demand for the greenback. That was the biggest weekly gain since it rose nearly 5 percent in the week ended Oct. 26, 2008.

## Sectoral Analysis

**August 14, 2010**

BSE 30-share Sensex gained merely 0.1% to 18,167 for the week ended August 13, 2010. S&P CNX Nifty also ended the week higher by merely 0.2% to 5,452. BSE Mid-Cap index rose by 1.4% and was at 7,642, while BSE Small-cap index gained 1.3% to 9,710. The sectors ended on a mixed note. Major gainers were Realty, Consumer Durables, Bankex and Auto, which gained 6.6%, 4.4%, 3.4% and 2.9% respectively. The major sectoral losers were IT and Healthcare, which lost 2.2% and 1.4% respectively.

### Realty

The major gainers in the pack were Indiabulls Real Estate, HDIL and DLF, which rose by 14.4%, 7.4% and 4.8% respectively. Realty stocks rose on frenzied buying by funds, driven by good first quarter earnings. Indiabulls Real Estate's group firms bagged 8.3 acres of defunct National Textile Corporation mill land in the Worli area of Mumbai for Rs 1,505 crore. This is the second NTC mill plot that Indiabulls has won in as many auctions. It had won NTC's 2.3-acre Poddar Mill land last week for Rs 474 crore, paying almost double the reserve price of Rs 250 crore.

### Consumer Durables

The major gainers in the Consumer Durables index were Gitanjali Gems, Whirlpool, Titan Industries and Blue Star, which rose by 7.3%, 7.2%, 6.4% and 3% respectively. Gitanjali Gems sparkled on stellar results. Gitanjali Gems net sales were up 38% at Rs.1,866 cr versus Rs.1,352 cr. Net profit was up 71% at Rs.79 cr vs Rs.46 cr. EBIDTA margins stood at 7.3% vs 6.4%.

### Banking

The major gainers were SBI, PNB, ICICI Bank and Kotak Mahindra Bank, which registered a rise of 8.8%, 3.6%, 2.5% and 2.2% respectively. Shares of SBI hit a record high above Rs.2,800, post-result rally after the parliament approved a bill on Thursday enabling the government to reduce its holding in State Bank of India to 51% and help it raise capital. On a consolidated basis, SBI's net profit rose 22% to Rs.3,365.26 cr on 0.98% decline in total income to Rs.32,808.06 cr in Q1 June 2010 over Q1 June 2009.

### Auto

The major gainers in the Auto index were Tata Motors, Ashok Leyland, Bharat Forge and Maruti, which rose by 13.7%, 3.6%, 2.5% and 2.3% respectively. Tata Motors reported consolidated net profit of Rs.1,988.73 cr for the first quarter ended June 30, 2010, against a loss of Rs.328.78 cr in the corresponding quarter last year. Consolidated revenues grew 64.2% at Rs.27,055.57 cr from Rs.16,472.97 cr in the same quarter of the previous year, with strong volume growth globally in all major markets. After registering a strong quarterly profit on the back of higher sales and improved profitability of its Jaguar and Land Rover unit, Tata Motors is now planning to expand its commercial vehicles business in India.

## Weekly Statistics

Sectoral Index - BSE	Value	% Chg
BSE Sensex	18167	+0.13
BSE Midcap	7642	+1.43
BSE Smallcap	9710	+1.32
BSE 500	7349	+0.61
BSE Auto	8776	+2.86
BSE Bankex	12196	+3.42
BSE Capital Goods	14690	+0.01
BSE Consumer Durable	5706	+4.44
BSE FMCG	3279	-0.16
BSE Health care	5517	-1.36
BSE IT	5514	-2.22
BSE Metals	15338	-0.85
BSE Oil and Gas	10138	+0.20
BSE Power	3122	-0.11
BSE PSU	9675	+1.06
BSE Realty	3675	+6.58
BSE Teck	3442	-1.71

Sectoral Index - NSE	Value	% Chg
S&P CNX Nifty	5452	+0.24
CNX Nifty Junior	11884	+1.68
S&P CNX 500	4576	+0.79
Bank Nifty	10737	+3.40
CNX IT	6617	-2.28

**IT**

Major losers in the IT index were Wipro, Infosys and TCS, which lost 4.4%, 2.9% and 1% respectively.

**Healthcare**

Major stocks dragging the index were GSK Pharma, Dishman Pharma and Jubilant Organosys, which dropped by 2.8%, 1.7% and 1.1% respectively. Dishman Pharmaceuticals and Chemicals Ltd has posted a 30 percent erosion in its PAT for the quarter ended June 30, on the back of a dip in sales. The consolidated turnover of the company stood at '201.88 crore, down by 11 per cent from '227.21 crore in the same period last fiscal.

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