

Pair Strategy

February 17, 2012

Long HPCL & Short BPCL

Over the last 6 months; Strong positive news flow (in BPCL) has resulted in a breakdown in the co-relation between BPCL and HPCL, thus widening historical price ratio relationship close to Upper Band 3 at 2.15* (mean + 3rd standard deviation).

One year co-relation between HPCL and BPCL is ~90% (strong co-relation), while standard deviation at 0.12. With the business of the two companies almost identical we expect such deviation from the mean to be temporary.

We recommend traders to go long on HPCL (1 Lot March futures and 59 shares in cash) and short BPCL (1 lot March futures) at price ratio* of 2.12-2.15 with Stop loss placed at 2.18 for target of 1.95.

*(627/296=2.12 – price ratio)

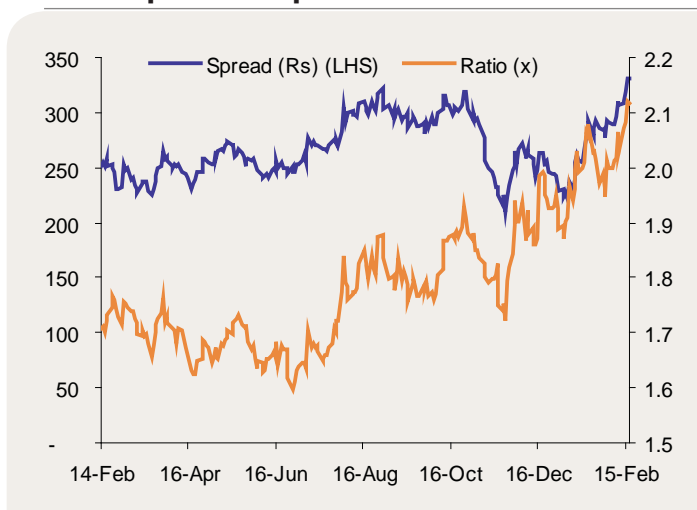
Recommendation*	Price	Qty	Fut lots
Long HPCL (March Futs)	296	1,000	1
Short BPCL (March Futs)	627	500	1
BUY HPCL (Cash Neutral)	290	59	-

*~Outflow(Rs1lac), Time horizon - 30days, Expected return 5-7%

Spread Summary	1-Year	60 Days	21 Days
Last	2.116	2.116	2.116
Mean	1.789	1.951	2.025
Off Mean	0.328	0.165	0.091
Median	1.769	1.951	2.021
Standard Dev	0.123	0.079	0.040

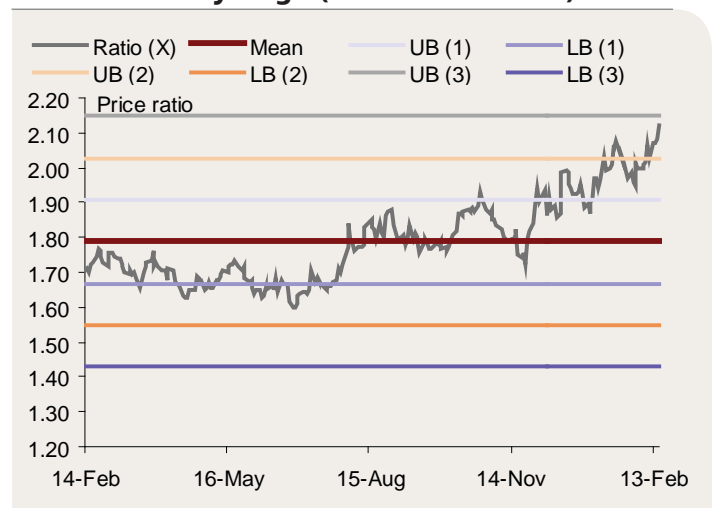
Spread Summary	1-Year	60 Days	21 Days
Correlation	0.90	0.83	0.86

Absolute spread and price ratio - HPCL vs BPCL



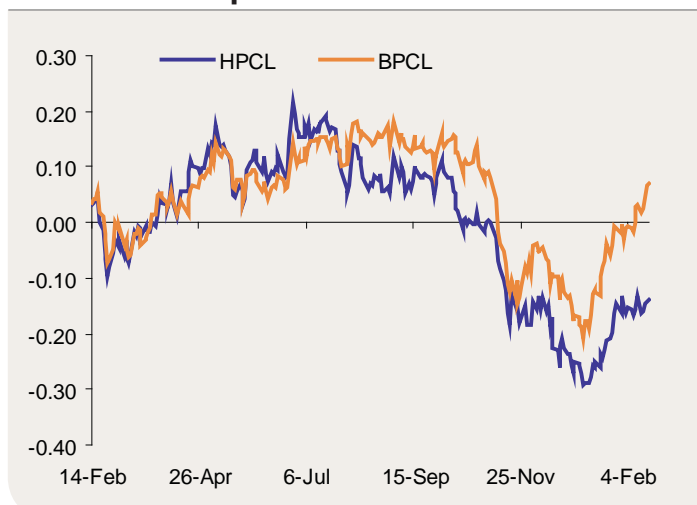
Source: India Infoline Research

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



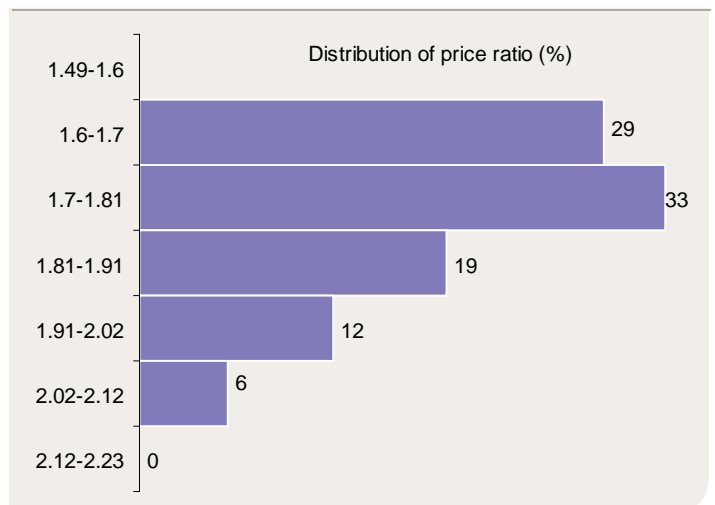
Source: India Infoline Research

HPCL has underperformed vis-à-vis BPCL



Source: India Infoline Research

Maximum occurrence between 1.7-1.8



Source: India Infoline Research

India Infoline Weekly Wrap

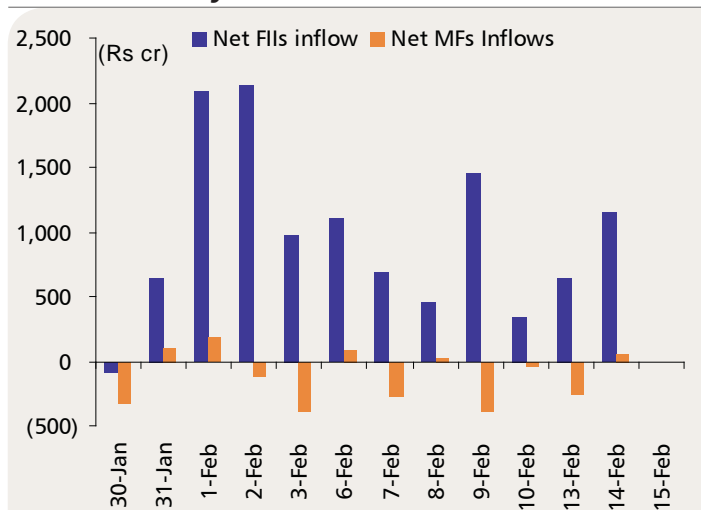
Market Outlook

With the liquidity flow continuing relentlessly, indices have no other way but to look up. The truncated week could see some wild swings though. The left out feeling is there in some quarters and a few are wary of the sudden rise and may prefer to sell into the strength. The week will give some opportunities to get in as the global macro factors could cause a temporary cooling.

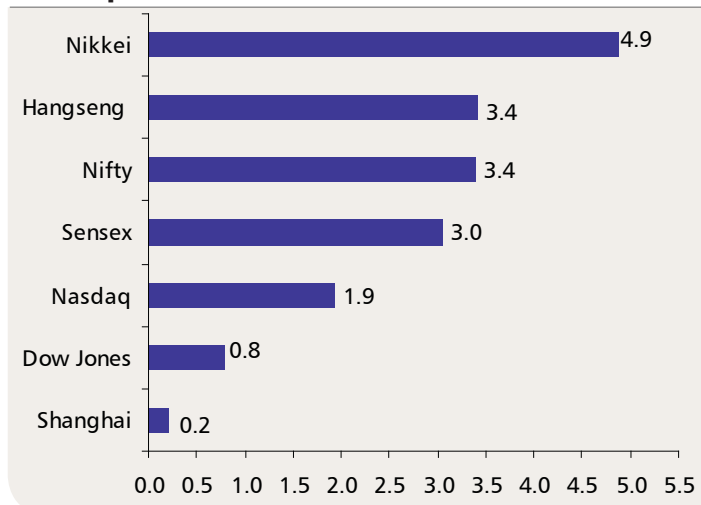
Among the global factors to watch out for there is Greece which is showing signs of pressure as the country faces a March 20 bond redemption totaling 14.5 billion euros (\$19 billion). While the nation's political leaders have signed up for fiscal retrenchment and detailed 325 million euros in new budget cuts for this year, euro-area governments have yet to approve a second bailout of 130 billion euros. Also, ECB's second tranche of the LTRO is due at the end of February and many see at least a similar take-up of funds as was seen in December. More than 500 banks across Europe borrowed €489bn from ECB at 1% in December

On the domestic front, the Govt will announce GDP data for the fiscal third quarter. The F&O expiry on Thursday will ensure that the week sees the indices swinging in and out of negative zone. Ride with caution.

FII/MFs activity



Global performance



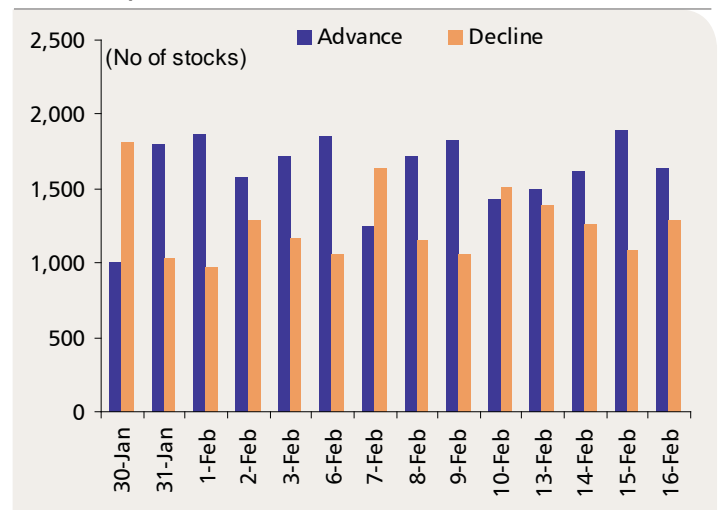
Technical View

Markets for week surprised with breakout above 5430 levels and closed comfortably above resistance levels of 5550. This up move happened despite initial jitters from global markets. The 'spinning top formation' on Fridays trading session displays indecisiveness amongst the traders but any positive opening on Tuesday would be suffice to extend the rally in Nifty beyond 5700 levels. The sentiment suggests that there is lot of left out feeling in market and every one is waiting for dip to enter the long positions.

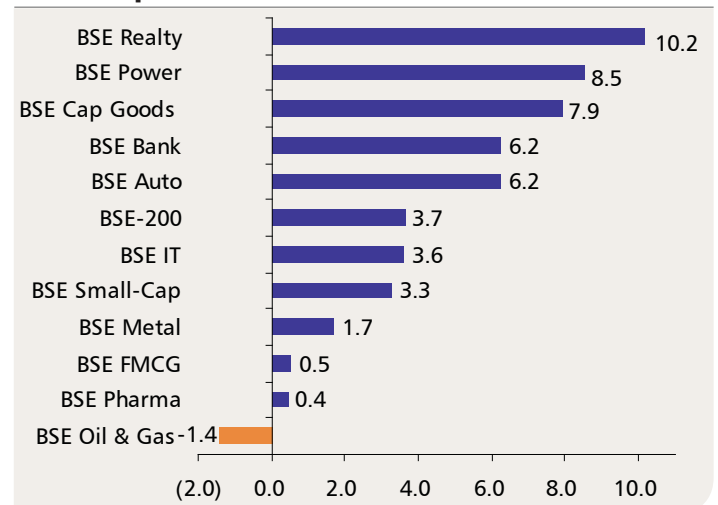
F&O View

Long build up was seen in nifty future which added ~10% in today's trade. On option side, 5600 call which has highest OI is witnessing unwinding of short position. In addition, 5600 put we had witnessed huge put at an average price of Rs50. With FIIs on buying streak, we feel every dips should be use as buying opportunity. With long rollover seen in Nifty and Bank nifty, we believe expiry will be above 5480 level.

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
Reliance Power	126	19.7	Bgr Energy	339	33.4
BHEL	304	16.5	Indiabulls Finan	236	31.6
Axis Bank	1,278	14.3	HDIL	123	27.2
SBI	2,417	11.3	Aksh Optifibre	9	26.4
RCOM	104	10.7	Simplex Infra	248	22.5
IDFC	148	10.5	Jain Irrigation	118	21.9
JP Associate	84	10.3	IRB Infra	208	21.3
DLF	254	10.0	NCC	63	19.2
Reliance Capital	444	8.6	Db Realty	93	19.0
M & M	749	8.2	Orbit Corp	63	18.5

Nifty 50 & CNX 500 top 10 Losers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
Cipla	322	(8.0)	Hathway Cable	168	(9.0)
Reliance Ind	818	(3.0)	Cipla	322	(8.0)
SAIL	112	(1.5)	Alok Ind	22	(7.7)
Gail India	381	(1.3)	Federal-Mogul	304	(5.7)
Hindalco Inds	151	(1.3)	Kemrock Inds	503	(5.7)
HUL	385	(0.6)	West Coast	55	(5.6)
TCS	1,229	(0.4)	Tulip Telecom	104	(5.4)
ONGC	281	(0.2)	Sun Tv	323	(5.1)
Wipro	449	(0.1)	Sundaram Fin.	612	(5.0)
Bharti Airtel	350	(0.1)	Panacea Biotec	84	(4.8)

Technically strong

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Adani Ent.	415	397	8.8	8.7
NTPC	188	179	4.4	1.7
Petronet Lng	175	167	7.3	2.6
Mphasis	399	376	1.4	0.4
Punj Lloyd	63	59	16.6	14.8

Technically weak

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Reliance Ind	818	841	15.5	7.3
Idea Cellular	91	93	4.5	3.7
GSPL	83	85	4.7	3.3
United Spirits	678	691	3.5	3.3
Gail India	381	388	1.8	1.0

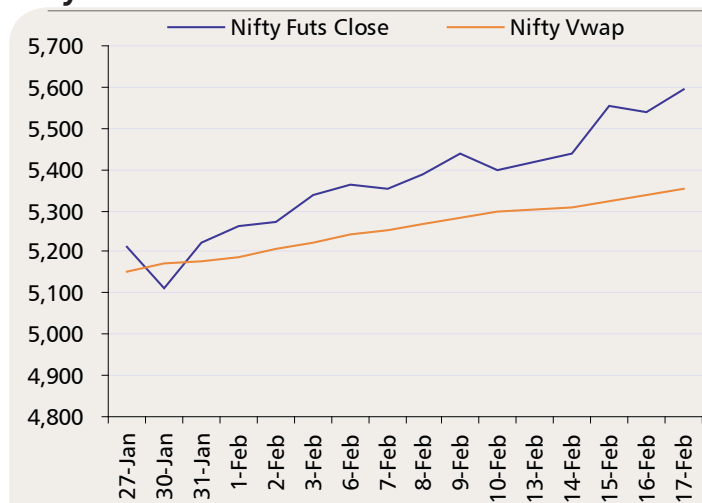
Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
16-Feb	Norges Bank A/C	IVRCL Infra	S	15.9	59.0
16-Feb	Ruane Cunniff & Goldfarb	Network18 Media	S	14.6	42.0
15-Feb	Tree Line Asia Master Fund (Singapore)	Sunteck Realty	B	7.0	353.0

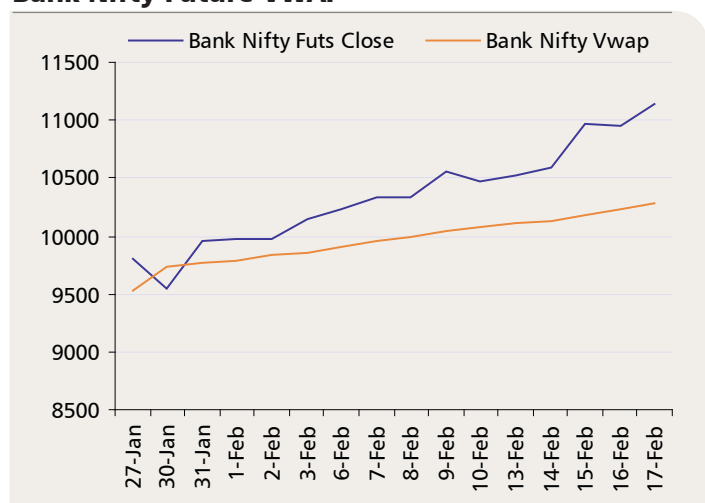
Book closure and record date

Company	Date	Purpose
Cummins India	21 Feb 2012	Interim Dividend
Great Eastern Sh	22 Feb 2012	Interim Dividend
OIL India	22 Feb 2012	Interim Dividend
Natco Pharma	22 Feb 2012	Interim Dividend
SRF	23 Feb 2012	Interim Dividend
Zodiac Cloth	24 Feb 2012	Interim Dividend

Nifty Future VWAP



Bank Nifty Future VWAP



India Infoline Weekly Wrap

Commodity Corner

Base metals

LME base metals traded fragile this week, suppressed by gloomy Greece backdrop and emasculating economic activity in Europe. The complex is deprived of any substantial trigger on the upside. On production front, Codelco reported that its Chuquibambilla copper mine in Northern Chile is returning to normal operations and the Radomiro Tomic copper mine is back online after heavy rains halted operations. On demand side, market focus was also accentuated on the demand activity in China, as high copper prices have dissuaded Chinese buyers from stocking the material. On physical front, WBMS reported that global copper market is expected to be in a surplus of 69,100 tons in 2011, compared with a deficit of 175,000 tons in 2010. Similarly, global aluminum market was reported in a surplus of 1.2mn tons in 2011, compared with a surplus of 1.05mn tons the year before.

Metal prices could drift monotonously for next few days, until something positive emerges on the Greece deal. Moreover, market participants will keep an eye on the bifurcation of Chinese trade data, which is scheduled next week. Of specific interest, is the quantum of Chinese refined copper imports in January, considering the prevalence of relatively high copper prices?

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

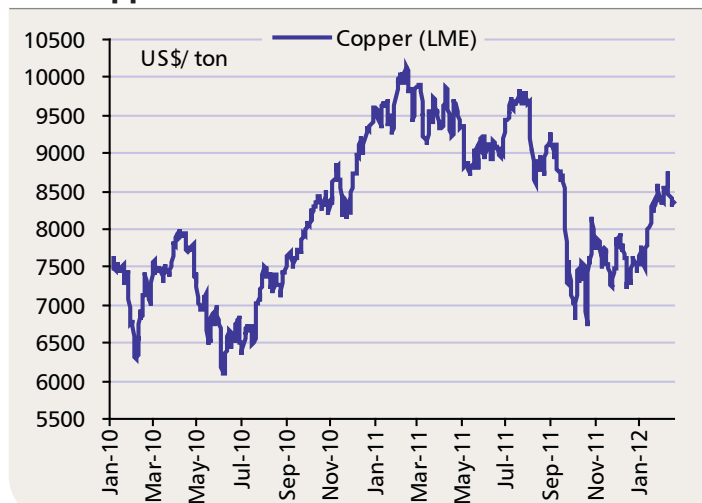
LME prices

Base Metals (US\$/ton)	High	Low	LTP*	Chg(%)
Copper	8,711	8,205	8,350	(1.5)
Nickel	21,700	19,764	20,014	(3.3)
Zinc	2,153	1,956	1,978	(4.8)
Aluminium	2,286	2,148	2,169	(3.3)
Lead	2,223	2,002	2,029	(5.0)

Precious Metals (US\$/ounce)	High	Low	LTP*	Chg(%)
COMEX Gold	1,737	1,706	1,731	0.4
COMEX Silver	34	33	34	(0.3)

* Last Traded Price

LME Copper



Precious metals

Gold prices traded relatively firm this week, however the upside was constrained by the deadlock on Greece bailout. Greek politicians had approved fiscal cuts equivalent to 3.3bn euro, a 22% reduction in the minimum wage and 150,000 public sector lay-offs. Conversely, rumour mills were churning that Germany and other European nations are not prepared to fully approve a 130bn euro (US\$172.1bn) bailout for Greece, as they remain unconvinced whether Greece would effectively implement austerity measures. Aggravating the woes, Moody's Investors Service has lowered ratings on Italy, Portugal, Slovakia, Slovenia and Malta by one notch and reduced Spain's sovereign rating by two notches. However by the end of this week, EU officials have softened their stance, as the idea of postponing the Greek bailout has been discarded. Market participants anticipate a high probability of European counterparts approving the monetary aid by the next week. However, there will be stringent controls on Greece's ability to spend it.

On price front, different schools of thought may materialize in regard with the manner which European officials would precede. Although we anticipate that the monetary aid to Greece will eventually be approved. Ascertainment of such deal will definitely enable gold prices to register a move moderately higher.

Weekly inventory update

	Tons	Abs Chg.	Chg (%)
Copper (LME)	306,375	(6,375)	(2.0)
Nickel (LME)	97,218	2,730	2.9
Zinc (LME)	850,250	11,800	1.4
Aluminium (LME)	5,120,650	93,200	1.9
Lead (LME)	379,800	(2,800)	(0.7)
Tin (LME)	9,995	845	9.2
Shanghai Copper	217,142	18,940	9.6
Shanghai Zinc	378,713	4,126	1.1
Shanghai Aluminium	312,097	5,278	1.7

COMEX Gold



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Mutual Fund Round-up

India Infoline picks

Mutual Funds	Assets (₹ Cr)	NAV (₹)	Absolute return (%) as on Feb 17, 2012							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200(G)	10,692	208.6	14.6	12.3	8.3	2.1	21.4	136.5	85.2	2.1
ICICI Pru Dynamic(G)	4,130	107.5	12.7	11.2	9.6	2.0	19.7	120.4	59.3	2.0
IDFC Sterling Equity(G)	1,061	18.0	13.8	6.9	1.3	3.5	19.1	144.0	-	3.5
Fidelity Tax Advdt(G)	1,203	21.5	11.6	6.7	4.9	1.6	22.3	125.7	65.7	1.6
HDFC Prudence(G)	6,356	218.4	11.6	10.7	4.6	6.4	26.6	146.6	88.4	6.4
Reliance Equity Oppor-Ret(G)	3,193	37.0	15.4	12.7	8.0	8.8	30.2	183.6	68.4	8.8
IDFC Premier Equity-A(G)	2,345	33.5	11.0	6.5	2.4	10.8	27.5	167.4	136.6	10.8

Funds this week: HDFC Top 200 Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Prashant Jain	Equity	99.7
Latest NAV	₹208.6	Debt	0.0
NAV 52 high/low	₹218.7/168.1	Cash/call	0.2
Latest AUM (cr)	₹10,537	Top 5 holdings (%)	
Type	Open-ended	State Bank of India	6.7
Class	Equity - Diversified	Infosys Ltd.	6.5
Options	Growth & dividend	ITC Ltd.	5.3
Min investment	₹5,000	ICICI Bank Ltd.	5.2
Benchmark	BSE 200	Tata Consultancy Services Ltd.	4.4
No. of stocks	66	Top 3 sectors (%)	
No. of sectors	30	Banks	22.9
Expense ratio	1.8%	Software	11.9
Exit load	1% before 1 year	Consumer Non Durables	10.5

Reliance Equity Opportunity Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Shailesh Raj Bhan	Equity	95.3
Latest NAV	₹37.0	Debt	0.0
NAV 52 high/low	₹37.7/29.3	Cash/call	4.7
Latest AUM (cr)	₹3,159	Top 5 holdings (%)	
Type	Open-ended	Infosys Ltd.	6.6
Class	Equity - Diversified	Aventis Pharma Ltd.	5.8
Options	Growth, Dividend & Bonus	Divis Labs	5.8
Min investment	₹5,000	SBI	4.1
Benchmark	BSE 100	Trent	3.9
No. of stocks	34	Top 3 sectors (%)	
No. of sectors	21	I.T.	16.9
Expense ratio	1.85%	Healthcare	16.8
Exit load	1% before 1 year	Auto	10.4

NFO update

Fund Name	Close	Type	Class
SBI Tax Advantage Series II	21-Mar	CE	ELSS
Tata Fixed Maturity Plan Series 39 Scheme C	27-Feb	CE	Debt
UTI - Fixed Term Income Fund (FTIF) - Series X - IX	23-Feb	CE	Debt-Income
DSP BlackRock FMP - Series 36 - 12M	28-Feb	CE	FMP

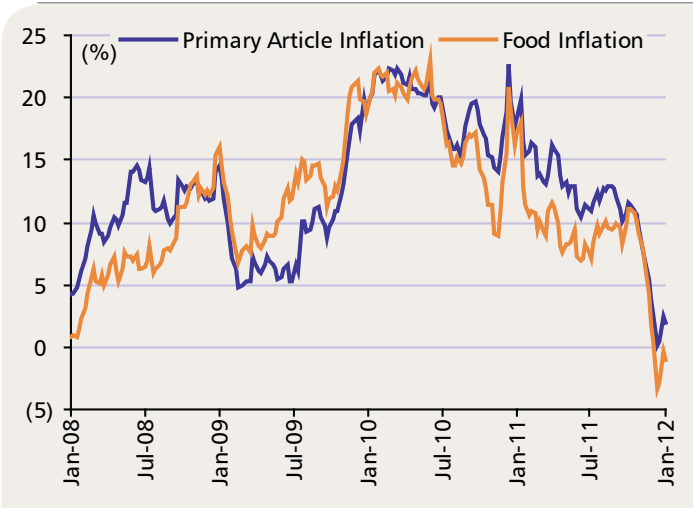
Dividend update

Mutual Fund	Dividend %	Record date	Class
ICICI Prudential Interval Fund-Quarterly Interval Plan-I.	0.17	22-Feb	Debt - Money Market
ICICI Prudential Monthly Income Plan-Quarterly Dividend option	0.37	22-Feb	Debt - Income

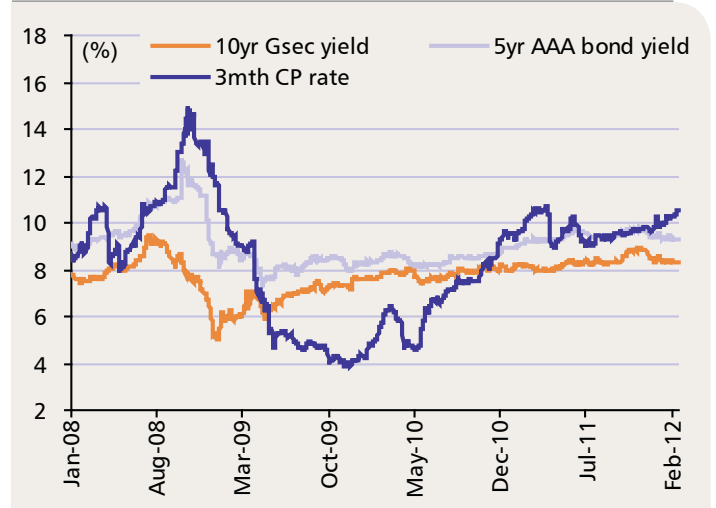
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Chartbook

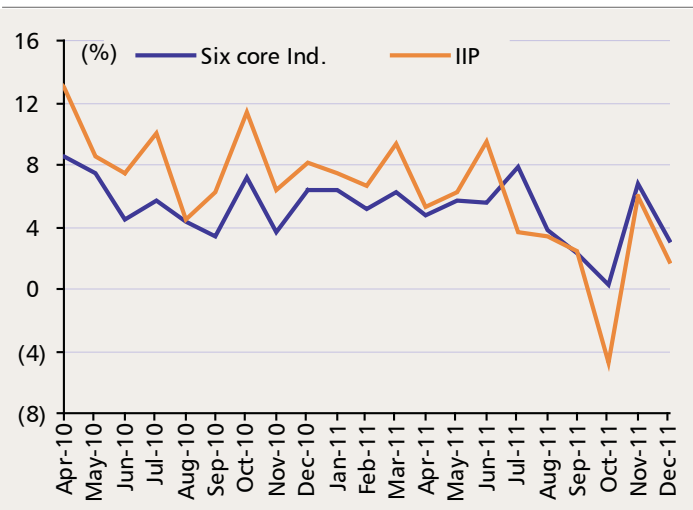
Weekly Inflation



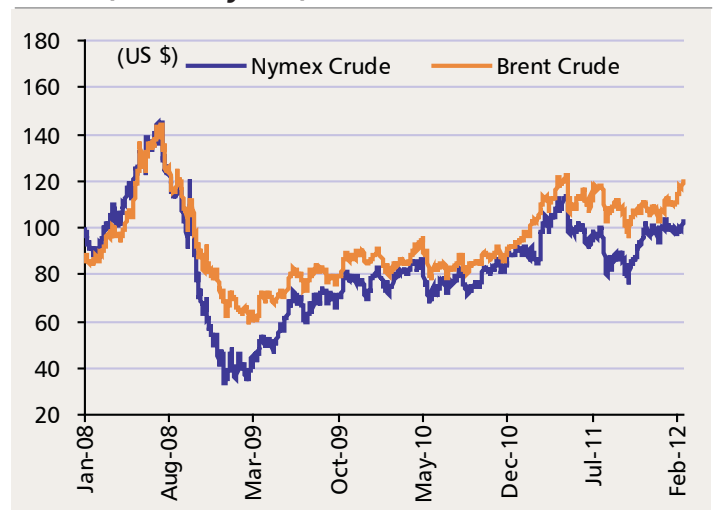
Interest Rate



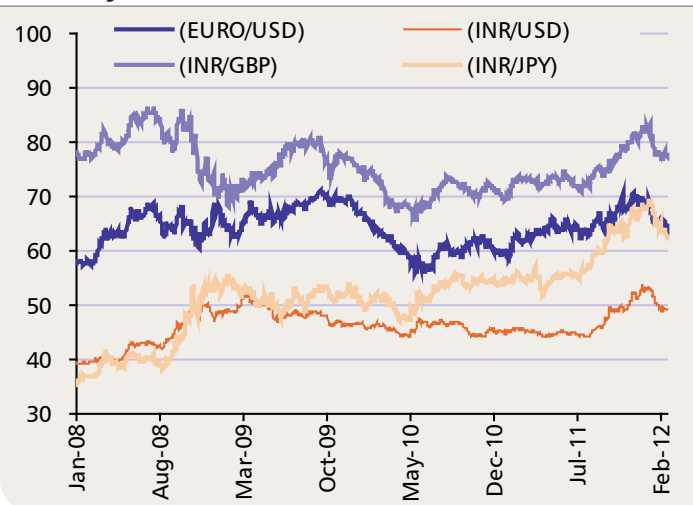
IIP and Six core Industries



Crude (Brent/ Nymex)



Currency Movements



Dollar Index

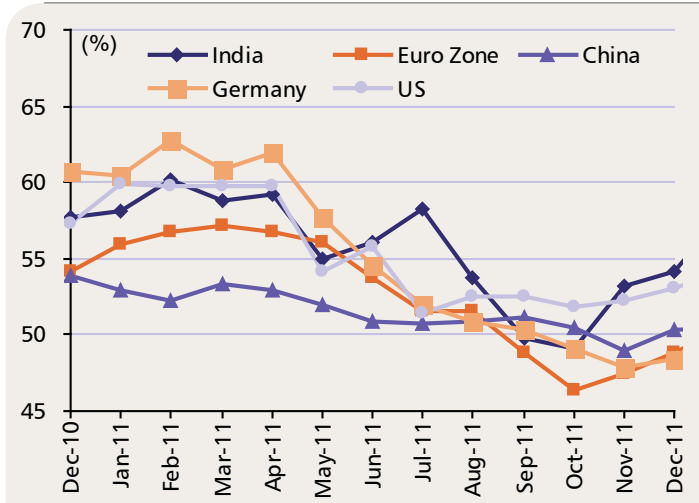


Source: Bloomberg

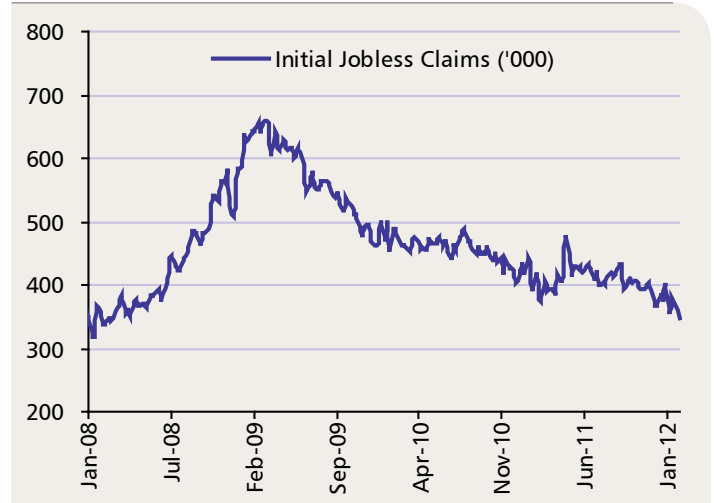
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Chartbook...

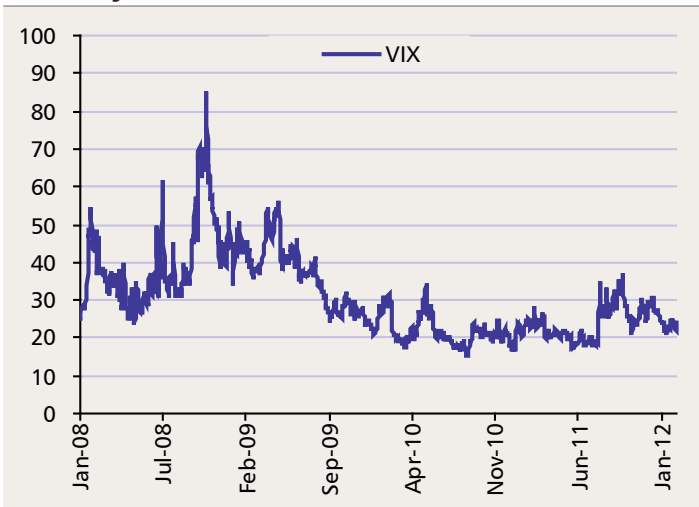
PMI



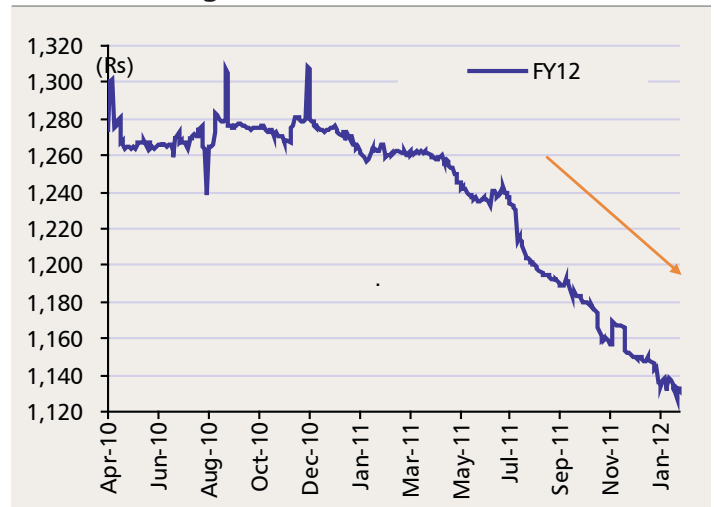
US Initial Jobless Claims



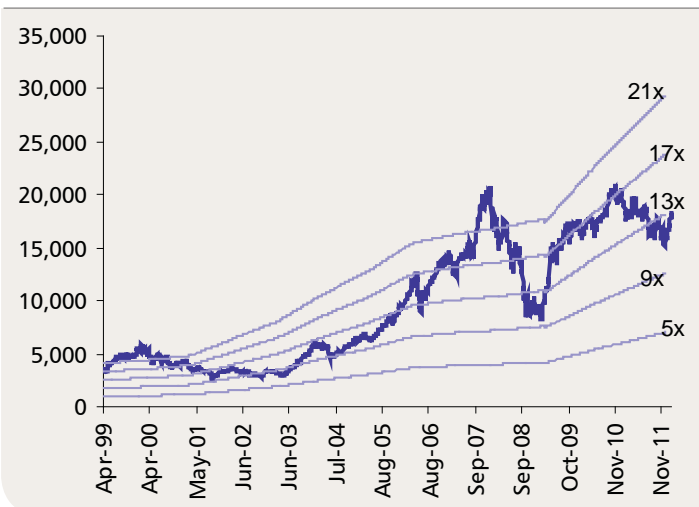
Volatility Index



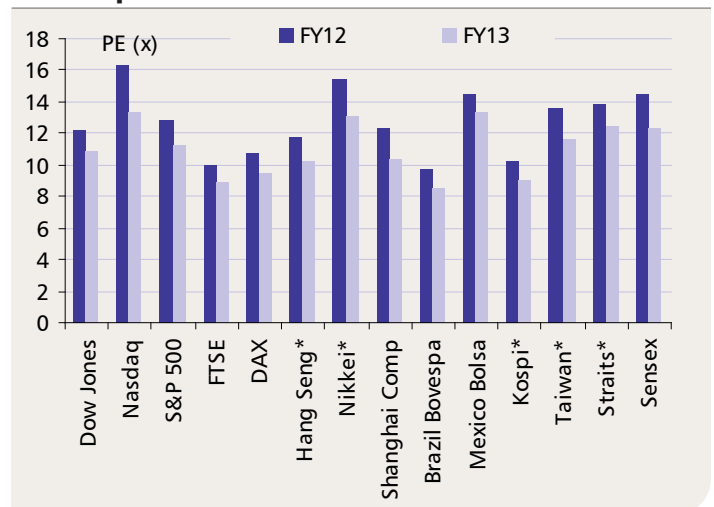
Sensex Earning Estimates



Sensex PE Band



PE Comparison



Source: Bloomberg

India Infoline Weekly Wrap

News Recap

15 major projects of 1,547 km of Roads and Highways

On the direction of the Prime Minister Dr. Manmohan Singh, the Ministry of Road Transport and Highways has assured that 15 major projects of 1,547 kilometers of Roads and Highways will be awarded within this financial year. Another 11 projects for 1,731 kms of Roads will be considered by the Public Private Partnership Approval Committee, next week for speedy approval. This will ensure that the target for the current financial year of 7,999 kms is met on time.

Inflation falls below 7% in January

India's annual inflation fell sharply in January from the previous month, data released by the Government showed on Tuesday. The headline WPI inflation for January fell below 7%, raising hope of more easing in the RBI's hawkish monetary policy going forward. Inflation, as measured by the wholesale price index (WPI), was at 6.55% in January as against 7.47% in December, the Union Commerce & Industry Minister said.

EGoM clears ONGC disinvestment; Stake sale in BHEL deferred

The Empowered Group of Ministers approved the disinvestment of Government stake in oil & gas major ONGC while deferring a move on a stake sale in state-run power equipment maker BHEL. Other PSU companies in which the Government is looking to sell shares include SAIL, National Buildings Construction Corp Ltd. and steelmaker Rashtriya Ispat Nigam Ltd.

KG-D6 output to fall 40% in FY14: RIL

Oil ministry officials reportedly said that Reliance Industries had written to the government that gas output from its D6 block was expected to drop by about 40% to 22.60 million standard cubic meters per day in 2013-14.

Tata Motors Group global wholesales up 21%

The Tata Motors Group global wholesales, including Jaguar Land Rover, were 119,799 nos., in January 2012, higher by 21% over January 2011. Cumulative sales for the fiscal are 985,260, higher by 13% compared to the corresponding period in 2010-11.

Moody's reviews ratings of global I banks

Moody's Investors Service has announced a review of 17 banks and securities firms with global capital markets operations. Underpinning this review is Moody's view that these firms face challenges that are not fully captured in their current ratings. Capital markets firms are confronting evolving challenges, such as more fragile funding conditions, wider credit spreads, increased regulatory burdens and more difficult operating conditions.

Greece bailout talks remain in a limbo

Greek stocks slid on Wednesday on media reports that the debt-strapped eurozone nations' second bailout might be postponed until after the scheduled national elections in April. Eurozone finance ministers may delay part or all of a €130bn (US\$171bn) bailout package for Greece, reports said.

Event Calender

Period : 20th Feb - 24th Feb

US

- Jan Existing Home Sales MoM (22 Feb)
- Initial Jobless Claims (23 Feb)
- Q4 House Price Purchase Index QoQ (23 Feb)

India

- Fuel Power Light WPI YoY (23 Feb)
- Food Articles WPI YoY (23 Feb)
- Primary Articles WPI YOY (23 Feb)

China

- Feb HSBC Flash China Manufacturing PMI (22-25 Feb)
- MNI February Business Condition Survey (24 Feb)

Euro Zone

- Feb Euro-Zone Consumer Confidence (21 Feb)
- Feb PMI Manufacturing (21-24 Feb)
- Dec Industrial New Orders NSA YoY (22 Feb)

Period : 27th Feb - 2nd Mar

US

- Pending Home Sales MoM (27 Feb)
- Durable Goods Orders (28 Feb)
- Consumer Confidence (28 Feb)

India

- Qtrly GDP YoY (29 Feb)
- Manufacturing PMI (1 Mar)
- Exports YoY% (1 Mar)

China

- Leading Index (27-29 Feb)
- HSBC Manufacturing PMI (1 Mar)

Euro Zone

- Euro-Zone Consumer Confidence (28 Feb)
- Euro-Zone CPI (29 Feb)

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

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