Weekly Market Wrap

HDFC securities

Outlook for Week Ahead — July 31, 2010

Stock-specific activity is likely to continue next week based on Q1FY11 result announcements for companies that are yet to come out with results. Many front line companies such as State Bank of India, Bharti Airtel, Tata Motors, GAIL, IDFC, Power Grid and Tata Steel, are still to announce their results. The results announced so far have been a mixed bag. The combined net profit of a total of 1,085 companies declined 12.6% to Rs. 472.8 bn on 23.1% increase in sales to Rs. 6093.7 bn in Q1FY11 over Q1FY10. Auto and cement stocks will be in focus early next week as companies announce sales volumes for July 2010. On the macro front, HSBC's manufacturing Purchasing Manager's Index (PMI) for July 2010 will be out on August 02, 2010. The index had declined to 57.3 in June 2010, from 59 in May 2010. During the week ahead, HSBC will also unveil the services sector PMI for July 2010. The index, which shows business activity in the services sector, had reached a two-year high of 64 last month.

There are concerns of sharper monetary action going ahead following hawkish comments by a central bank official on Thursday, July 29, 2010. An RBI official said that the current interest rates would not tame inflation and aggressive action was needed. The RBI at its Q1 monetary policy on July 27 raised its key short-term interest rates for the fourth time this year to curb surging inflation. The central bank also raised its economic growth and inflation forecasts. On the flip side, the revival of monsoon rains in the crucial sowing month of July 2010 augurs well for the Indian economy, which is driven by strong domestic demand. The annual monsoon rains were 38% above normal in the week to July 28, 2010, bouncing back from a 17% deficit in the previous week.

The Week Gone By — July 31, 2010

Indian Markets

Stocks lost ground during the week ending July 30, 2010 as the central bank increased interest rates to control inflation. However, sustained buying by foreign funds, revival of monsoon rains and latest data showing easing of food inflation prevented a sharp decline. The BSE Sensex & Nifty ended lower by 1.5% each for the week. However, BSE Mid-cap & Small-cap indices both outperformed the Sensex falling by 0.3% & 0.9% respectively. Some key events, which took place during the week, are given below as follows:

Inflation in the Food Articles group stood at 9.67% in the week ended July 17 vs. 12.47% in the previous week, thus falling to single digit levels for the first time in many months, while inflation in the Fuel & Power group rose to 14.29% from 14.27% in the preceding week. Inflation in the Primary Articles group also fell to 14.5% vs. 16.48% in the week ended July 10

The infrastructure sector output grew 3.4% in June Y-o-Y, slower than the annual growth of 5% in May. This was the lowest performance in 10 months, prompting economists to hint that robust industrial expansion may drop to single digit. The infrastructure sector accounts for 26.7% of India's industrial output.

The RBI at its Q1 monetary policy on July 27, 2010, raised its key short-term interest rates (repo and reverse repo by 25 & 50 bps respectively) for the fourth time this year to curb surging inflation. It also raised its economic growth and inflation forecasts. The RBI raised GDP forecast to 8.5% for FY11, from 8% with an upside bias earlier. The central bank said the upward revision in growth forecast is primarily based on better industrial production and its favourable impact on the services sector and also giving due consideration to the global scenario. The RBI also signaled its strong preference for tight liquidity, saying it would ensure that excess liquidity in the system doesn't dilute the effectiveness of policy-rate actions. The FM welcomed RBI's decision to keep the CRR unchanged at 6%. He said that the successful auction of 3G spectrum has created some strain in liquidity and under these circumstances, not tightening credit by direct quantitative measures like CRR (hike) shows sophisticated thinking.

Moreover, the central bank raised the baseline projection for inflation based on wholesale price index for March 2011 to 6% from 5.5% indicated in the April 2010 policy statement, taking into account the emerging domestic and external scenario. The RBI said its outlook on inflation would partly be shaped by the distribution of monsoon rains and their impact, as the agricultural harvest will be crucial to easing currently high food prices in the country.

During the week, the Commerce Ministry indicated that it would give more incentives to struggling export sectors such as textiles, readymade garments, leather and handicrafts. At the same time, some sectors that are doing well on the export front including petroleum, engineering and chemicals may lose sops that they are getting at present. The Ministry said that it is expected to announce the FTP supplement in August by fine-tuning the incentives.

Forex reserves were up $1.037 bn to $282.938 bn for the week ended July 23, on account of revaluation gains. This is the seventh consecutive week during which the reserves have risen.

Weekly Statistics

Key Indices	July 30	% Chg
Sensex	17868	-1.45
Nifty	5368	-1.50
DJIA	10466	+0.40
Nasdaq	2255	-0.65
FTSE	5258	-1.03
DAX	6148	-0.30
Hang Seng	21030	+1.03
Shanghai	2648	+2.96
Nikkei	9537	+1.13
Bovespa	67515	+1.80
Indonesia – Jakarta	3069	+0.90
Singapore – Strait	2988	+0.48
MSCI Emerging Markets*	991	+1.02
MSCI World*	1125	-0.30

*= Data in US$

Metals (USD)	July 30	% Chg
Aluminum	2097	+3.66
Copper	7232	+3.02
Zinc	1996	+3.96
Tin	19500	+4.31
Lead	2028	+3.84
Gold*	1171	-1.37

* =% Chg = Data calculated from Friday to Friday, rest calculated from Friday to Thursday

Interest Rates		Chg bps
MIBOR	6.60	+11.00
10 yr bond yield	7.80	+12.00
LIBOR – UK	0.73	0.00
LIBOR – USA	0.49	-4.00
LIBOR – Europe	0.82	+8.00

Exchange Rates	Value	% Chg
USD/INR	46.40	-1.15
USD/EURO	0.77	-1.14
USD/YEN	86.47	-1.13
USD/POUND	0.64	-1.68
DXY*	81.64	-0.99

* =% Chg = Data calculated from Friday to Thursday,

Other	Value	% Chg
RJ/CRB Index	274.35	+2.90
Crude Oil ($ / Barrel)	78.95	-0.04
Baltic Dry Index	1967.00	+7.72

Turnover	Week	Week	% Chg
(Rs. Bn)	July 30	July 23	
BSE	201.7	208.8	-3.40
NSE	703.0	626.3	+12.25
Futures	2360.5	1604.8	+47.09
Index Options	2956.7	2767.7	+6.83
Stock Options	198.2	167.1	+18.61

Net Flows (Cr)	FII	MF
July 23 – July 29	2430.1	-1790.8
Previous Week	1816.1	-994.7

Volatility Index (ViX)	Nifty	CBOE
July 30	18.94	23.50
% Chg w-o-w	-1.56	+0.13

US Markets

The US markets ended on a mixed note for the week ending July 30, 2010. While Dow Jones ended higher by 0.4%, Nasdaq & S&P ended the week with losses of 0.7% & 0.1% respectively.

The indices rallied on Monday after FedEx's improved forecast and better-than-expected housing market report tempered worries about the economic outlook. Dow Jones rose 1%, while Nasdaq & S&P gained 1.2% & 1.1% respectively. New home sales rose to a seasonally adjusted annual unit rate of 330,000 in June, bouncing from a revised 267,000 unit rate in May, the lowest reading on record, dating to 1963. While the pace was an improvement from the previous month, it was still the second lowest on record, reflecting the end of the homebuyer tax credit.

The stocks churned on Tuesday, losing steam after a three-session run, after a big drop in consumer confidence offset better-than-expected profit growth from DuPont, UBS and others. Dow Jones rose marginally by 0.1%, while Nasdaq & S&P ended lower by 0.4% & 0.1% respectively. Consumer confidence declined in July falling to 50.4 from an upwardly revised 54.3 in June. The report served to underscore the weak outlook for consumer spending heading into the fall, and caused stocks to erase early gains. BP posted a huge quarterly loss of $17.2 bn due to costs connected to the Gulf of Mexico oil spill. The Case-Shiller 20-city home price index rose 1.3% in May versus April and up 4.6% from a year earlier, suggesting pricing has stabilized.

The markets fell on Wednesday as a worse-than-expected report on durable goods orders (which fell 1% in June after dropping 0.8% in May) & weaker quarterly results from Boeing and others added to concerns about the pace of the economic recovery. Dow Jones lost 0.4%, while Nasdaq & S&P ended lower by 1% & 0.7% respectively.

Sentiments continued to remain negative on Thursday as the stocks slid, although they finished off their session lows, as investors weighed cautious comments from a regional Fed Reserve president about the health of the economy and a mix of quarterly profit reports. Dow Jones lost 0.3%, while Nasdaq & S&P ended lower by 0.4% & 0.3% respectively.

Friday's session was choppy, as investors weighed mixed reports on U.S. economic growth, consumer confidence and regional manufacturing activity. The Dow Jones fell marginally by 0.1%, while S&P closed almost flat. However, Nasdaq reported marginal gains of 0.1%. US GDP rose at a 2.4% annual rate in Q2, down from an upwardly revised 3.7% in the Q1. Economists had expected GDP to show an annualized rate increase of 2.5%. Separately, the Reuters-University of Michigan Consumer Sentiment index fell to 67.8 in July from 76 the month before. The Chicago PMI, a regional reading on manufacturing, rose more than expected in July. The index rose to 62.3 this month from 59.1 in June. Companies like Chevron & Merck reported better than expected Q2 numbers.

The US equities could remain volatile in a range in the coming week. The July unemployment rate, to be released next Friday, is expected to tick up to 9.6% from 9.5% in June. Automakers and major retailers will release July sales figures on Tuesday and Thursday respectively. Further, three Dow Jones Industrial Average components and a fifth of the companies in the S&P 500 Index will report Q2 results next week in the final "peak" week of earnings season.

Other Markets

Asian stocks rose for the fourth consecutive week, their longest winning streak in four months, as company earnings reports boosted confidence in the strength of the global economy. The MSCI Asia Pacific Index rose 1.4% this week to 119.11 and climbed 5.6% this month, its first monthly increase since April and the biggest gain since March. Nikkei gained 1.1%, while Hang Seng & Shanghai rose 1% & 2.6% respectively during the week. Given below are some key events, which took place during the week:

European confidence in the economic outlook rose to the highest in more than two years in July (to 101.3 from 99 in June) and German unemployment declined for a 13th month (fell a seasonally adjusted 20,000 to 3.21mn) as exports sustained a recovery in the region.

South Korea's current-account surplus widened to a one-year high in June to $5.04 bn from a revised $3.82 bn in May as the global recovery supported demand for the country's cars and semiconductors. The economy grew 1.5% in Q2 from three months earlier, beating estimates and adding to evidence that Asia is weathering global risks.

The Chinese government's fiscal revenue rose 27.6% in H1CY10 to 4.3 trillion yuan. Fiscal spending for H1CY10 rose 17% to 3.4 trillion yuan. The Citigroup Inc. said during the week that China's stock market, the worst performer in Asia this year, is "near the bottom" and may rally as much as 14% as policy tightening concerns ease amid slowing economic growth.

Hong Kong's exports rose a more-than-estimated 26.7% in June Y-o-Y to HK$267.6 bn ($34.4 bn) buoyed by demand within Asia. The reports showed that Hong Kong, like regional peers such as South Korea, Singapore and Taiwan, is reaping the benefit of faster Asian growth that's fueling trade in the region.

Sensex

Weekly Gainers	CMP (Rs)	% Rise
Kalyani Steel	125.85	23.50
3M India	3497.65	21.88
Balkrishna Inds	667.25	12.68
IRB Infra	292.85	12.50
D B Realty	425.15	12.04

Weekly Losers	CMP (Rs)	% Fall
Gulf Oil	94.65	18.93
Everest Kanto	117.15	13.00
Maruti Suzuki	1198.15	11.79
Nesco Ltd	632.35	11.47
Tanla	30.95	10.94

Japan's exports rose faster than economists estimated by 27.7% in June Y-o-Y sustaining a boost to the recovery that may diminish as global growth cools and the yen strengthens. While exports have climbed for seven straight months, June's gain was the weakest this year as demand from China and Europe waned. The yen reached a 7-month high vs. USD this month, prompting officials to warn that its rise may hurt the economy.

Commodities

Copper prices rose 3.0% for the week ended 30 July 2010 to USD 7232. This month's gain were the first since March and the biggest since July 2009. Copper prices have fallen 23% from their April highs but have since made tentative moves higher in the month of July along with other industrial metals on signs of strong demand and expectations for growth in China, and reached to its highest level in three months. The higher expectations of China's growth and the International Energy Agency (IEA) announcement for China as world's largest energy consumer leaving behind the U.S were the major driving force for the rise in Copper prices.

The Baltic Exchange's main sea freight index - BDI, which tracks rates to ship dry commodities rose by 7.7% for the week ended 30 July 2010 to 1967. The index primarily gauges the cost of shipping commodities including iron ore, cement, grain, coal and fertilizer. This week's gain registered by the index has come after the longest consecutive slide in the past. The key reason listed for the rise in the index could be attributable to the rise in cargo movement. However the rise could be modest until a pick up in demand especially in the iron ore is seen. While freight rates could rebound from the current levels, the upside to the BDI is likely capped near-term. A weaker than- expected economic recovery and excess shipping capacity argue for low spot freight earnings relative to historical levels, at least for the next 6 months. The sharp reduction of China's iron ore imports has been weighing on freight prices. Iron ore imports into China fell by 15% YoY in June, relative to 80% yearly growth last December. This demand slowdown is not just confined to China only. Therefore though the BDI has registered a rise for the week the under current seems to be weak, at least for the near future.

Gold prices registered a fall of 1.37% for the week ended 30 July 2010 to USD 1171 per ounce. Towards the end of week the prices have shown signs of cooling off on the back of the easing pressure of the European debt crisis, which sapped the metals safe heaven allure. With the panic out of the markets and signs of global economic recovery and stable foreign exchange rates, the lure of gold is less bright. This coupled with the seasonally slow period and many Europeans being out of the picture because of August vacations, the path of least resistance is down. As per a statement from Barclays "Further net redemptions are likely to weigh upon gold prices, while physical buying in the seasonally slow summer months is likely to provide a soft floor,"

Currencies

The USD depreciated by 1.13% for the week ended 23 July 2010 against Japanese Yen. This was on account of disappointing US economic data combined with a lackluster Federal Reserve report on the economy to stoke concerns that the U.S. recovery was losing steam. The Yen rose for the third consecutive month against the Dollar and reached a new 2010 high. USD/JPY fell more than a hundred pips from last Friday's close and ended the week around 86.40 (lowest monthly close since June of 1995). Greenback lost momentum during the week affected by weak economic data and falling Treasury yields, that triggered the demand for Yen.

The Euro has appreciated against the USD for the week ending 30 July 2010 by 1.14%. The euro rallied against the dollar as concern eased regarding the 16- nation region's sovereign-debt crisis worsening any further. The European data released during the week suggest positive signs and a robust surprise for the Euro. Sweden's krona was the best performer among major currencies in July, appreciating 8.1 percent to 7.2104 versus the dollar and climbing 1.3 percent to 9.4113 against the euro. On the other hand a report from the Federal agencies suggest a lower growth rate for the US. Cumulatively this resulted in the Euro appreciating against the USD.

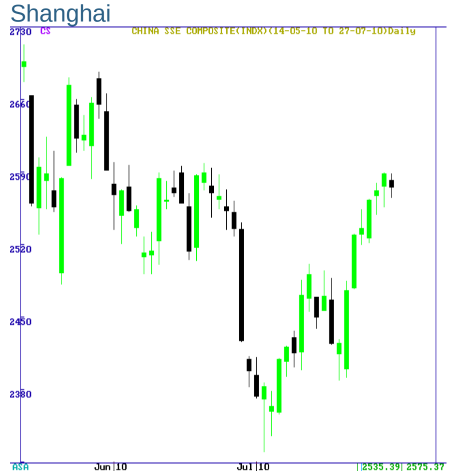
The USD has depreciated by 1.68% for the week ending 30 July 2010 against the GBP. Weak U.S. economic data and a better outlook for the U.K. economy are the reasons for the strength in the Sterling. While the U.S. is still on a spending spree, the U.K. has been busy implementing austerity measures while reading for tax hikes. There is optimism that these two factors are good for the economy but there are concerns regarding spending cuts and tax increases that would curtail the economic recovery. Comments from the Bank of England this week seem to suggest that it remains cautious about the economy and is willing to continue to provide stimuli if and when necessary. Recently it was reported that the U.K. GDP rose more than expected. This provided some lift to the market but poor housing numbers seem to indicate that the central bank is still far from hiking rates.

Global Indices Charts

Dow

FTSE

Shanghai



Sectoral Analysis July 31, 2010

BSE 30-share Sensex dropped by 1.45% to 17,868 for the week ended July 30, 2010. S&P CNX Nifty also ended the week lower by 1.5% to 5368. BSE Mid-Cap index lost 0.34% and was at 7,407, while BSE Small-cap index dropped by 0.96% to 9,349. Most of the sectors ended the week in red. Major gainers were PSU, Banks, Consumer durables and FMCG, which gained 0.53%, 0.42%, 0.46% and 0.42% respectively. The major sectoral losers were capital goods, Oil & Gas, Realty and power, which lost 4.82%, 3.49%, 3.23% and 1.81% respectively.

Banking
The BSE Bankex gained 0.42% for the week to close at 11540. The rise in the index was fuelled by a strong buying interest in the stocks due to the policy measures announced during the week. The major gainers were HDFC Bank , Bank Of India and SBI, which registered a rise of 4.3%, 1.7% and 0.3% respectively for the week ended 30 July 2010. The banking stocks rebounded due to the on the expected line policy action by the RBI. Buoyed by the RBI move to leave the cash reserve ratio, which is the amount of funds banks have to park with the sectoral regulator, unchanged boosted the Bankex.

Consumer Durables
The BSE Consumer Durables index gained 0.46% for the week ended 30 July 2010 to end at 5294. The major gainers in the Consumer Durables index were VIP industries, Gitanjali Industries and Titan Industries, which rose by 8.9%, 2.9% and 1.3% respectively. An apparent key driver of the consumer durables index was VIP industries. During the week the company reported its results for the quarter. The Company reported a strong growth in PAT of ~ 60%. Also the company has announced certain new initiatives like introduction of new product lines and entry in new markets like semi-urban markets.

Capital Goods
Capital goods index lost 4.82% for the week ended 30 July 2010 to close at 14591. Major stocks dragging the index were L&T, Crompton Greaves and Thermax, which dropped by 7.2%, 4.2%, and 2.4% respectively. During the week Engineering major L&T declared a decline PAT for the quarter. The profit fell to Rs 6,661.70 million from Rs 15,982 million, which included exceptional gain of Rs 10,200 million, in the prior year period. In the same period, total income of the company was at Rs 81,120.70 million, a rise of 6.27% over the prior year period. Crompton Geaves saw a correction after a strong rally in the previous week

OIL & Gas
The BSE Oil & Gas index dropped by 3.49% for the week to close at 10166. The major losers in amongst the pack were GAIL, RIL, and ONGC, which lost 5.6%, 4.7% and 1.2% respectively. Most of the companies announced their results during the week. ONGC announced a dip of 24% Y-o-Y in its profits to Rs 36610 mn The drop in profits could be attributable to the sales discounts offered by the company. RIL's profits were as per street expectations but gross refining margins dropped sequentially to USD 7.3 per barrel. In addition to the results four Indian companies Oil India, ONGC, Indian Oil Corp and GAIL would jointly bid for BP PLC's energy assets in Vietnam. The bid would likely be for BP's share in Gas block, pipeline and Power plant.

Realty
The BSE Realty index dropped by 3.23% to end at 3373 for the week ended 30 July 2010. The major losers in the pack were DLF, Unitech and HDIL, which fell by 6.5%, 3.6% and 1.5% respectively. The realty space in general witnessed a profit-booking rally ahead of the July series expiry. Also the results for DLF were not good which drove the stock down by 6.5% for the week. The realty sector seems to be weak after a strong performance in the past one month.

Weekly Statistics

Sectoral Index - BSE	Value	% Chg
BSE Sensex	17868	-1.45
BSE Midcap	7408	-0.34
BSE Smallcap	9349	-0.96
BSE 500	7205	-0.98
BSE Auto	8424	+0.13
BSE Bankex	11540	+0.42
BSE Capital Goods	14592	-4.82
BSE Consumer Durable	5295	+0.46
BSE FMCG	3230	+0.42
BSE Health care	5597	-0.57
BSE IT	5475	+0.03
BSE Metals	15400	-0.75
BSE Oil and Gas	10166	-3.49
BSE Power	3110	-1.81
BSE PSU	9577	+0.53
BSE Realty	3373	-3.23
BSE Teck	3401	-0.55

Sectoral Index - NSE	Value	% Chg
S&P CNX Nifty	5368	-1.50
CNX Nifty Junior	11564	-0.10
S&P CNX 500	4475	-1.10
Bank Nifty	10161	+0.70
CNX IT	6087	-0.20

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