

Outlook for Week Ahead

Sept 10, 2011

A slew of micro and macro data and the Reserve Bank of India's (RBI) mid-quarter policy review make next week an eventful one for the financial markets. Investors will keenly watch data on second quarter September 2011 corporate advance tax payments due on Thursday, 15 September 2011, which may provide cues on Q2 September 2011 results.

On the economic front back home, rising interest rates is taking toll on the growth story. According to Montek Singh Ahluwalia, Deputy Chairman, Planning Commission there is more downside to 8 per cent GDP growth than upside. He sees April-September growth below 8 per cent.

There have been speculations that the Reserve Bank of India at its meeting on Sept 16 may not increase rates further as it is impacting growth negatively. There are also reports suggesting that the central bank may cut CRR or SLR to infuse some liquidity.

However, IIP and inflation data hold the keys to RBI's move and will drive the market.

The Week Gone By

Sept 10, 2011

Indian Markets

The market nudged higher for the second consecutive week as world stocks rose. Good rainfall also boosted sentiments on expectations that higher rural farm incomes and increased spending on consumer goods will have a favourable impact on the wider economy. Further return of risk appetite across the globe also helped. Small-Cap and Mid-Cap indices on BSE outperformed the Sensex by gaining 2.4% and 1.8% respectively. A sell-off on Friday however wiped out a good portion of the gains seen during the week. This led to the Sensex/Nifty closing with marginal W-o-W gains of 0.3%/0.4%. Friday's decline came after three days of strong buying and it has virtually undone all the gains witnessed earlier during the week. Effectively, the market is back to levels at which it started the week.

Some key highlights during the week

- Food inflation fell to a single-digit at 9.55% for the week ended August 27 after breaching the double-digit mark in the previous week, with prices of all items, barring pulses and wheat, going up on an annual basis.
- The government has envisaged an investment of more than Rs 22,000 crore for setting up nine new major ports in the country over the next five years.
- Demand for cars in India is expected to slow more than predicted as rising interest rates and vehicle costs prompt a pull-back in spending in the world's second-fastest growing auto market after China.
- India's steel consumption grew by a mere 1.3 per cent in the first five months (April-August) of this financial year, at a time when spending on infrastructure development is given more emphasis.
- The domestic Moody's Investors Services affirmed its Baa3 rating for India's foreign currency government debt and its Ba1 rating for local currency debt in an annual credit analysis. The ratings firm assigned a positive outlook to India's rupee-denominated bonds, saying it will consider a unified Baa3 rating for all bonds if India improves its fiscal position and its commitment to strengthening the domestic market. The outlook for foreign-currency debt is stable.
- India's services sector grew at its slowest pace in more than two years in August 2011, throttled by feeble expansion in new business as a faltering global economy and tight domestic monetary conditions weighed.
- India's manufacturing activity in August 2011 slowed to a 29-month low as exports took a beating amid the lingering uncertainty in the global economic environment.
- The seasonally adjusted HSBC Purchasing Managers' Index, fell to 52.6 in August from 53.6 in July. The pace of new order flows in August decelerated to the slowest in 29 months as export orders contracted at the sharpest rate since the series was started.
- India's merchandise exports for August grew 44.2 per cent to reach \$24.3 billion while imports increased 41.8 per cent to \$ 38.4 billion.
- A sharp jump in refunds eroded the Centre's net direct tax collections by 3.4 percent during April-August 2011.

US Markets

US stocks started the short week on Tuesday lower following a major sell-off in Europe on Monday. Stocks ended sharply lower on Friday, as bad news out of Europe kept piling up. The sell-off triggered the sixth weekly decline in seven weeks for the Dow and S&P 500. The Dow declined more than 2%, the S&P fell by 1.7% and the Nasdaq slipped by 0.5%. President Obama had hoped to lift some of the economic gloom with his speech to Congress on Thursday night promoting a \$447-billion economic stimulus plan that would cut taxes and increase spending on infrastructure. The speech, though, was immediately met with questions about whether it could pass a Republican-controlled House of Representatives, and whether it was big enough to have an effect if it did pass. Investors had also held out hope that Federal Reserve

Weekly Statistics

Key Indices	Sept 9	% Chg
Sensex	16867	+0.27
Nifty	5059	+0.39
DJIA	10992	-2.21
Nasdaq	2468	-0.50
FTSE	5215	-1.46
DAX	5190	-6.29
Hang Seng	19867	-1.71
Shanghai	2498	-1.21
Nikkei	8738	-2.38
Bovespa	55778	-1.33
Indonesia – Jakarta	3999	+3.42
Singapore – Strait	2825	-0.63
MSCI Emerging Markets	992	-2.89
MSCI World	1135	-3.45

Metals (USD)	Sept 8	% Chg
Aluminum	2404	-1.39
Copper	9061	-0.12
Zinc	2219	+0.02
Tin	24400	+0.85
Lead	2404	-4.03
Gold*	1860	-0.93

*Data for Sept 09

Interest Rates		Chg bps
MIBOR	9.41	-6.00
10 yr bond yield	8.31	-3.00
LIBOR – UK	0.90	+6.00
LIBOR – USA	0.33	+5.00
LIBOR – Europe	1.48	-3.00

Exchange Rates	Value	% Chg
USD/INR	46.38	+1.06
USD/EURO	0.73	+3.73
USD/YEN	77.77	+1.32
USD/POUND	0.63	+1.88
.DXY	77.20	+3.33

Other	Value	% Chg
RJ/CRB Index	334.24	-1.13
Crude Oil (\$/ Barrel)	87.24	+0.91
Baltic Dry Index	1838.00	+5.63

Turnover (Rs. Bn)	Week Sept 9	Week Sept 2	% Chg
BSE	135.5	66.3	+104.29
NSE	604.7	340.1	+77.77
Futures	1318.6	754.3	+74.81
Index Options	3418.2	1988.7	+71.88
Stock Options	165.1	78.3	+110.80

Net Flows (Cr)	FII	MF
Sept 2 – Sept 8	2276.3	-700.1*
Previous Week	1069.1	264.5

*From Sept 2 – Sept 7

Volatility Index (ViX)	Nifty	CBOE
Sept 9	28.15	38.52
% Chg w-o-w	+7.90	+13.56

Chairman Ben S. Bernanke would provide some hope for stimulus in a speech he gave Thursday, but he stepped back from making any firm commitments. All these factors too led to a sell-off during the week.

Key Highlights during the week:

- President Obama unveiled a stimulus plan on Thursday night that he says will boost hiring and provide a jolt to the stalled economy if it becomes law. A mix of \$253 billion in tax cuts and \$194 billion in new spending, the total bill for the plan is \$447 billion. Given staunch Republican opposition to most new spending, the measure has almost no chance of passing the House in its current form. But select parts of the bill could become law, and provide a measure of support for an economy at risk of falling into another recession.
- Filings for first-time unemployment benefits rose 2,000 to 414,000 in the week ending Sept. 2, the Labor Department reported on Thursday. That was up from the 409,000 claims filed the week before, and worse than the 400,000 claims economists surveyed by Briefing.com had expected.
- The U.S. trade gap narrowed to \$44.8 billion in July, led by a surge in exports. Trade balance figures were expected to show the deficit widened to \$51.5 billion in July, from \$53.1 billion in June.
- The Institute for Supply Management's services report for August came in at 53.3, up from July's reading of 52.7.
- In the Federal Reserve's Beige Book report, a reading of the economic situation from the regional Fed banks, the central bank said "economic activity continued to expand at a modest pace," though some of the Fed's 12 districts noted "mixed or weakening" activity.

Week Ahead

Investors will grapple with more turbulence surrounding Europe's deepening debt problems next week and the prospect of another round of dismal data on the faltering U.S. economy. More volatility is almost guaranteed after the top German official at the European Central bank quit and rumors circulated throughout global markets that Greece will default this weekend. Also next week several important economic reports are due that could shed additional light on the mood of the battered U.S. consumer. Data targeting inflation and retail sales are also due.

The IBD/TIPP Economic Optimism Index for September will be released on Tuesday ahead of the more widely watched Reuters/University of Michigan Consumer Sentiment Index, which is due on Friday. Stubbornly high unemployment and fears that the economy is heading into another recession have pushed consumer confidence to its lowest levels since 2009. Initial jobless claims for the prior week are due on Thursday and the widespread impact of Hurricane Irene, which shuttered businesses up and down the East Coast, is expected to push the numbers a bit higher.

Other Markets

Most of the Asian indices ended in the red this week, except Indonesia, which posted a rise of 3.4%. Asian stocks fell this week, snapping a fortnight of advance, as exporters dropped on speculation the world's largest economy is headed toward recession and banks slid amid concerns Europe may fail to contain its sovereign debt crisis. Also declines by Japanese machinery makers and a report that a Chinese province defaulted on its debt pushed the stocks lower. Nikkei, Hang Seng and Shanghai dropped by 2.4%, 1.7% and 1.2% respectively. The German index DAX slipped by 6.3% this week following reports that the chief economist of the European Central Bank was due to resign. German stocks slumped to a two-year low on Friday as three coalition officials said Angela Merkel's government is preparing plans to shore up the nation's banks in the event that Greece defaults. The index fell this week extending the drop since the 2011 high on May 2 to 31 percent amid growing concern that growth in the global economy is slowing as Europe's debt crisis spreads.

Key Highlights during the week:

- Australian employers unexpectedly cut workers for a second month in August, sending the nation's currency and bond yields lower as investors added to bets the central bank will reduce interest rates. The number of people employed fell by 9,700, after a revised 4,100 drop in July, the statistics bureau said in Sydney. That compares with economists' median estimate for a gain of 10,000 workers. The jobless rate rose to 5.3 percent, the highest since October, from 5.1 percent.
- South African mine production fell 5.1 percent in July from a year earlier.
- Canada unexpectedly lost jobs for the first time in five months in August, led by goods-producing industries such as construction and natural resources. Employment fell by 5,500 after rising by 7,700 in the previous month.
- China's inflation eased in August from a three-year high and industrial output growth moderated, adding to evidence that higher interest rates and lending curbs are cooling the world's second-biggest economy. Consumer prices rose 6.2 percent from a year earlier.
- Inflation in Germany, Europe's largest economy, slowed less than initially projected in August, as energy costs increased. The inflation rate, calculated using a harmonized European Union method, fell to 2.5 percent from 2.6 percent in July.
- Italy's economic growth remained sluggish in the second quarter on slowing exports and weak domestic demand, adding to concerns that austerity measures aimed at taming the debt are

Sensex



Weekly Gainers	CMP (Rs)	% Rise
GTL Ltd	70.00	40.56
Allied Digital	31.90	27.86
SKS Microfinance	265.70	27.59
IVRCL Inf	44.50	24.48
BF Utilities	529.15	20.32

Weekly Losers	CMP (Rs)	% Fall
Everonn	255.80	27.22
Prranet Ind	25.45	26.45
Tele Eighteen	62.05	9.15
Jubilant Food	149.95	7.04

straining the economy. Gross domestic product rose 0.3 percent from the first quarter, when it grew 0.1 percent

- U.K. output prices increased the least in a year in August as a drop in energy costs eased pressure on manufacturers margins. Prices charged at factory gates rose 0.1 percent from July, when they gained a revised 0.3 percent, the Office for National Statistics said.
- Peru's central bank kept its benchmark lending rate unchanged for a fourth month and indicated its readiness to cut borrowing costs to protect the country's economy from a global slowdown. The seven-member board, led by central bank President Julio Velarde, held the overnight rate at 4.25 percent.
- Japan revised down its April-June gross domestic product Friday, registering a 0.5% contraction during the quarter compared to a 0.3% fall in the preliminary reading.

Commodities:

The Baltic Dry Index (BDI) rose 5.6% in the week to close at 1,838 levels. In the last few weeks, the BDI has risen more than 20% after hitting a one year low of 1,253 on August 2. However, the index has only reached a high of 1,585 this year, which is still a long way from the peak of 4,100 reached in 2010, let alone the 2008 high of around 11,700. This week, October-to-December capesize [vessels] contracts were trading lower for the first time in 12 sessions, after gaining 16% over the last week. With the re-entry of Chinese traders for procuring raw materials, the freight rate for iron ore has rapidly recovered and gone up to USD 12 to USD 13 a tonne from USD 8 a tonne since the beginning of this month, depending upon the size of ship. China has started silently building inventory of raw material for use in post monsoon manufacturing of finished goods.

Metal prices were mixed in the week ended 8th Sept 2011. Tin gained 0.9% in the week to Thursday while Zinc remained flat. Aluminum, Copper, Lead and Nickel fell 1.4%, 0.1%, 4.0% and 0.2% respectively

Gold fell 0.9% in the week to close at \$1859.5. Gold fell sharply (3.0%) on Wednesday (7th Sept 2011) as global equity markets bounced back after several weeks of negativity. However, on Thursday, equity markets fell again, leading to demand of gold as a safe investment, thereby retracing a significant part of its drop. Gold futures rose after Wednesday as renewed concern that the Greek debt crisis will worsen and signs of a slowing global economy spurred demand for the metal as a store of value.

Crude prices rose 0.9% in the week to close at \$87.2. Oil prices fell in the week after rising from last Friday's low as the euro tumbled against the dollar on concern that Greece's deteriorating debt crisis will lead to a default. Oil fell after the Euro declined to a six-month low and European bank and sovereign credit risk surged to all-time highs. Oil rose from last week as the National Hurricane Center forecast that Tropical Storm Nate would move toward the Mexican coast, missing the biggest U.S. oil-producing region in the Gulf or Mexico. Companies including BP Plc evacuated staff in the Gulf of Mexico, home to 27% of U.S. oil output.

Currencies:

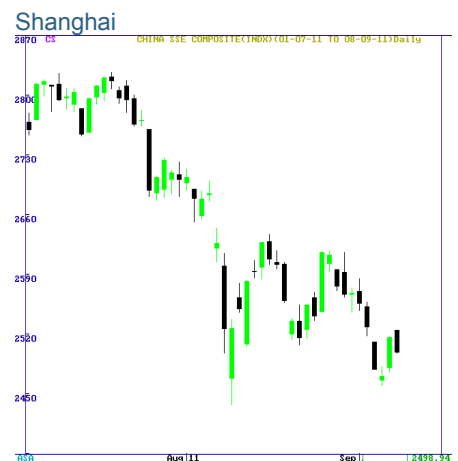
The dollar rose against all 16 of its most-traded counterparts after President Barack Obama detailed his \$447 billion plan to boost hiring in a Sept 8 address to Congress. The U.S. economy slowed to 1 percent annual growth rate in the second quarter and the unemployment remains at 9.1 percent in August.

The euro had its biggest loss against the dollar in more than a year on speculation the European Central Bank will cut interest rates amid record Greek bond yields and the region's deepening debt crisis. The euro hit 6-1/2 month lows against the U.S. dollar on nervousness over the outcome of a Greek debt swap deal and on jitters fueled by the planned resignation of Juergen Stark, the top German on the European Central Bank's board, in protest over its controversial bond-buying program. European Central Bank President Jean-Claude Trichet said "downside risks" to the region's economy have intensified. The ECB left its benchmark rate at 1.5% and cut its 2011 and 2012 growth forecasts at the Sept. 8 policy meeting in Frankfurt. The implied yield on Euribor futures for June slid four basis points to 0.98 percent on Sept. 9, showing traders were adding to wagers for lower borrowing costs. The USD/Euro appreciated 3.7% in the week.

Asian currencies fell this week, led by slides in the Singapore dollar and India's rupee, as a faltering U.S. recovery and Europe's debt crisis prompted investors to favor safer bets than emerging-market assets. The USD/INR rose 1.1% in the week ended 9th Sept 2011.

The yen strengthened against most of its major peers as Group of Seven finance ministers and central bankers met in Marseille, France. The Bank of Japan kept monetary policy unchanged Sept.7 and said it would gauge the effects of adding 10 trillion yen (\$130 billion) stimulus last month on the yen near a postwar high. The ECB, the Bank of Japan and the Federal Reserve may implement coordinated monetary-policy easing to tackle weak growth. Despite growing against most of its peers, the JPY depreciated against the USD by 1.3%.

Global Indices Charts



The Dollar Index rallied to its strongest weekly result in 13 months as investors sought safety, pushing yields on the 10-year note to a record low before the Federal Reserve holds a policy meeting Sept 20 and 21. The Dollar Index rose 3.3% in the week.

Sectoral Analysis

Sept 10, 2011

Both the key benchmark indices, the BSE Sensex and the S&P CNX Nifty, rose in the week ended 10th Sept 2011. They rose 0.3% and 0.4% respectively as world stocks rose and good rainfall instilled positive sentiments on expectations of higher rural incomes. Further return of risk appetite across the globe also helped.

Foreign institutional investors (FIIs) have resumed buying this month. FIIs inflow in September 2011 totaled Rs 2276.30 crore (till 8 September 2011) after an outflow of Rs 9637.3 crore in August 2011.

The week started on a week note as data showing a slowdown in the services sector growth in August 2011, US recession worries and the ongoing euro-zone debt crisis offset Moody's Investors Services' positive outlook on India's rupee-denominated bonds and expectations of increase in rural income due to good rains. However, a recovery in global markets and good rainfall quickly resuscitated the Indian markets. A slew of upcoming micro and macro data and Reserve Bank of India's mid-quarter policy review linger over investors' minds.

The Sensex rose 0.3% to 16,867 in the week ended Friday, 10th Sept 2011. The S&P CNX Nifty rose 0.4% to 5059. The BSE Mid-Cap index and the BSE Small-Cap index outperformed the sensex, rising 1.8% and 2.4% respectively to 6,435 and 7,304 level respectively. The sectoral indices sentiments were mixed with the BSE Consumer Durables, BSE Capital Goods and BSE Auto being the largest gainers while the BSE TECK, BSE Metals and BSE IT indices were the largest losers.

Consumer Durables (CD):

The BSE CD index was the largest gainer in the week, rising 5.0% to close at 6721 levels. Among the heavyweights in the industry, Titan and VIP Inds rose 7.5% and 8.5% respectively while Videocon and Rajesh Exports fell 1.1 and 0.2% respectively. VIP Inds rose to a new high on hopes of improvement in margins due to a fall in crude oil prices and the consequent decline in plastic prices. New designs and network expansion and the possibility of a sooner breakeven in the eyewear division boosted investor sentiment in Titan Inds. Good rainfall indicated higher rural income and increased spending on consumer durables.

Capital Goods (CG):

The BSE CG index was the second largest gainer in the week rising 3.4% to close at 12,436 levels. L&T, BHEL and Crompton Greaves rose 5.0%, 0.1% and 0.5% respectively while Siemens fell 2.1%. L&T won an order from Reliance Power for executing a part of the 100 MW solar PV plant at Pokaran in Rajasthan. L&T is also in the process of restructuring its businesses to achieve maximum value and there are several reports stating the possibility of a minor stake sale in its electrical and electronics business. Moreover, several fund and brokerage houses have recommended purchasing L&T.

Auto:

The BSE Auto index rose 2.1% to close at 8,754 levels. M&M, Tata Motors, Bajaj Auto, Hero Moto Corp and Maruti, all the heavyweights of the industry, were gainers, rising 3.3%, 1.1%, 0.1%, 7.1% and 2.0%. Hero Motor has been performing consistently despite splitting from its partner, Honda. The company plans to alter its image to a more international looking motorbike to tap the vast domestic and export markets. The company also announced its foray into the hospitality business by setting up a Rs. 650 cr hotel in Gurgaon. M&M increased vehicle prices by ~2% across its product range to offset an increase in raw material prices. Auto sales numbers were good for the month of August, instilling confidence in the sector once again.

TECK:

The BSE TECK index was the largest loser in the week falling 1.1% to close at 3,154 levels. Among the heavyweights, Wipro was the only gainer, rising 1.0%. Infosys, TCS and Bharti Airtel, on the other hand, fell 1.9%, 0.6% and 2.0% respectively. Bharti Airtel fell despite receiving a license to offer second-generation and third-generation mobile services in Rwanda, taking its operations in Africa to 17 countries. Bharti Airtel plans to invest over \$100 million in its operations in Rwanda over the next three years. Rwanda is amongst the fastest growing telecom markets in Africa, with a mobile penetration of 38.4% as of July 2011. Infosys has been facing visa abuse issues in the US but the company claims its business has not been affected.

Metals:

The BSE Metals index was the second largest loser among the sectoral indices falling 1.0% to close at 12,306. Jindal Steel and Power was the gainer among the heavyweights, rising 2.8%. The other industry majors, namely Tata Steel, Coal India, Hindalco and Sterlite fell 2.4%, 1.5%, 2.6% and 2.2% respectively in the week ended 10th Sept 2011. Negative sentiments in metal

Weekly Statistics

Sectoral Index - BSE	Value	% Chg
BSE Sensex	16867	0.27
BSE Midcap	6435	1.75
BSE Smallcap	7304	2.39
BSE 500	6582	0.68
BSE Auto	8754	2.12
BSE Bankex	11098	1.35
BSE Capital Goods	12436	3.38
BSE Consumer Durable	6721	5.01
BSE FMCG	3960	-0.89
BSE Health care	5983	-0.77
BSE IT	4950	-0.91
BSE Metals	12306	-0.99
BSE Oil and Gas	8618	0.99
BSE Power	2206	-0.23
BSE PSU	7665	-0.01
BSE Realty	1776	0.37
BSE Teck	3154	-1.06

Sectoral Index - NSE	Value	% Chg
S&P CNX Nifty	5059	0.39
CNX Nifty Junior	10200	0.85
S&P CNX 500	4098	0.67
Bank Nifty	9679	1.02
CNX IT	5339	-0.83

stocks continue as institutions downgrade their views on the industry. Morgan Stanley downgraded Hindalco to 'underweight' cutting the price outlook to almost half of its previous value.

IT:

The BSE IT index fell 0.9% to close the week at 4,950 levels. As mentioned earlier, Infosys and TCS fell 1.9% and 0.6% while Wipro rose 1.0%. HCL Tech, the other heavyweight in the industry, rose 0.9% in the week.

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