

Outlook for Week Ahead

August 27, 2011

Bears are calling the shots on the bourses. A steep setback this month has pulled the market to 1-1/2-year low. Heavy selling by foreign funds this month has hit sentiment adversely. Multiple forces such as a standoff between the government and anti-corruption activist Anna Hazare over the Lokpal Bill, concerns about corporate earnings growth amid high interest rates, euro-zone debt worries, and concerns about a slowdown in the US, the world's biggest economy, are currently weighing on Indian shares.

Next week is a truncated trading week. The stock market remains closed on Wednesday, Aug 31, 2011, on account of Ramzan Id and again on Thursday, Sept 01, 2011, on account of Ganesh Chaturthi. Auto and cement shares will be in focus next week as companies from these two sectors start unveiling monthly sales for Aug 2011 data from Friday, Sept 02, 2011. Good rains this year may generate buying interest in shares of two-wheeler makers and consumer goods firms. There is also expectation of pick-up in sales of two-wheelers, cars and utility vehicles during the upcoming festive season (Onam, Ganesh Chaturthi in September & Diwali in October).

On the macro front, the government will unveil data on first quarter GDP growth on Tuesday, Aug 30, 2011, which may provide cues on the central bank's likely policy stance at its mid-quarter policy review on Sept 16, 2011. Shares of exporters and other Indian firms having an exposure to European and US markets such as Tata Steel and Tata Motors may continue to face further downward pressure amid a likely economic slowdown in the US and Europe.

The Week Gone By

August 27, 2011

Indian Markets

Sustained selling by foreign funds amid concerns about corporate earnings growth, worries over global economic growth and standoff between the government and anti-corruption activist Anna Hazare over the Lokpal Bill, pulled Indian shares lower for the 5th week in a row. The Sensex fell below the psychological 16,000 mark and the Nifty slid below 4,800 level. Reports that China had deployed more advanced nuclear missiles at Sino-Indian border as a 'deterrent posture' also weighed on investor sentiments. The BSE Sensex fell 292.8 points or 1.8% to 15,848.8 in the week ended Friday, Aug 26, 2011. The S&P CNX Nifty fell 97.9 points or 2% to 4,747.8. The BSE Mid-Cap index fell 1.5% and the BSE Small-Cap index fell 1.3%. Both these indices outperformed the Sensex.

Some key highlights during the week

- The Prime Minister said during the start of the week that current growth rate would make India the third largest economy in the world by 2025. He, however, cautioned that considering the global economic turmoil, achieving such a growth would not be easy. During his meeting with the Planning Commission on last Saturday, the PM had set a "very ambitious" target of 9% growth during the Twelfth Plan (2012-17). The RBI said that there is a need to rebalance demand from consumption to investment by stepping up savings in the economy. In order to achieve a 9% growth in Twelfth Five Year Plan (2012-17), the investment rate of 40.5% would be required if incremental capital output ratio remains unchanged from 4.5% during the Eleventh Plan.
- Rating agency Fitch said that the Indian banks are better prepared to face asset quality challenges arising from the economic slowdown compared to 2008. In a study, Fitch said that banks have higher tier-1 capital and improved loan-loss reserves at the end of June 2011 against 2008. The report said that though banks' OPM are likely to decline in FY12, the margins are likely to remain sufficiently robust to absorb credit costs for most banks.
- India's steel production grew by 6.3%, almost half the rate of global output, during July 2011, over the corresponding period last year. Steel production in India stood at 6.16 mn tonnes in July as against 5.79 mn tonnes same month last year, according to the World Steel Association.
- In its annual report for 2010-2011 released, RBI said that there is a need to step up savings in the economy. The current account deficit (CAD) that finances the saving-investment gap has averaged less than 1% of GDP over past two decades. Even assuming a higher a CAD/GDP ratio of 2%, gross domestic saving (GDS) rate need to be raised by about 5% from 33.7% in 2009-10. RBI said there could be some pressure on CAD if the global economy weakens significantly and affects exports.
- The food price index rose 9.8% and the fuel price index climbed 13.13% in the year to August 13, 2011. The primary articles index was up 12.4%. The RBI said that inflation is likely to remain high and moderate only towards the latter part of the year to about 7% by March 2012. It further said that the recent decline in global commodity prices has not been very significant. If the global recovery weakens ahead, commodity prices may decline further, which should have a salutary impact on domestic inflation, RBI said.
- As per the IMD, the rainfall deficit in the country had widened to 5% of the long-term average in July 2011, but a pickup in August helped narrow the deficit to 1% by August 24, 2011.
- India's forex reserves surged USD 1.615 bn to USD 318.22 bn on the back of a sharp rise in foreign currency assets for the week ended August 19.

Weekly Statistics

Key Indices	Aug 26	% Chg
Sensex	15849	-1.81
Nifty	4748	-2.02
DJIA	11285	+4.32
Nasdaq	2480	+5.89
FTSE	5130	+1.77
DAX	5537	+1.05
Hang Seng	19583	+0.94
Shanghai	2612	+3.07
Nikkei	8798	+0.90
Bovespa	53351	+1.72
Indonesia – Jakarta	3842	-0.03
Singapore – Strait	2748	+0.53
MSCI Emerging Markets	976	+0.59
MSCI World	118	+0.83

Metals (USD)	Aug 26	% Chg
Aluminum	2369	-1.50
Copper	8924	+1.09
Zinc	2214	+1.33
Tin	23450	-1.86
Lead	2391	+2.53
Gold*	1797	-2.96

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

Interest Rates		Chg bps
MIBOR #	9.48	+7.00
10 yr bond yield #	8.30	+4.00
LIBOR – UK	0.84	0.00
LIBOR – USA	0.28	0.00
LIBOR – Europe	1.51	0.00

= calculated from Thursday to Friday

Exchange Rates	Value	% Chg
USD/INR #	46.05	+0.97
USD/EURO	0.69	-0.68
USD/YEN	76.63	+0.12
USD/POUND	0.61	+0.58
.DXY	73.71	-0.38

= calculated from Thursday to Friday

Other	Value	% Chg
RJ/CRB Index	335.25	+1.75
Crude Oil (\$/ Barrel)	85.37	+3.78
Baltic Dry Index	1541	+5.40

Turnover (Rs. Bn)	Week 26-Aug	Week 12-Aug	% Chg
BSE	109.4	94.6	+15.61
NSE	530.5	431.8	+22.87
Futures	2142.5	1247.3	+71.77
Index Options	6095.9	4554.6	+33.84
Stock Options	163.4	158.4	+3.2

Net Flows (Cr)	FII	MF
Aug 18 – Aug 25	-4215.2	595.10
Previous Week	-1023.0	242.4

Volatility Index (Vix)	Nifty	CBOE
Aug 26	32.26	35.59
% Chg w-o-w	+4.48	+4.36

- The median forecast from a poll of 28 economists showed that the India's economy probably grew an annual 7.6% in the quarter through June, slowing from the previous quarter's 7.8% growth. The forecasts ranged from 7.0% to 7.8%. The actual data would be announced on August 30.
- As per a recent survey by a prominent investment bank, Corporate India will raise capital spending by tepid 10% in the year to March 2012 (FY 2012). Capital expenditure (capex) in FY 2012 will be concentrated on improving productivity rather than adding greenfield capacity, the investment bank said.
- Coal India will replace Reliance Capital in S&P CNX Nifty index from 10 October 2011, the National Stock Exchange said on Thursday, 25 August 2011.

US Markets

It was a solid week for Wall Street, with the Dow and the S&P gaining more than 4%, and the Nasdaq climbing 5.7%. It ends what had been a four-week losing streak for stocks. The markets seemed to have been sharply oversold. Further towards the end of the week, the markets reacted positively to comments from Fed Reserve chief Ben Bernanke, who at a conference in Jackson Hole, Wyo., said that the Federal Open Market Committee would consider its options on monetary policy at the next FOMC meeting in September.

Key Highlights during the week:

- Orders for durable goods rose 4% in July, after slipping 1.3% the previous month, according to a report from the Commerce Department. Excluding volatile transportation orders, durable goods orders rose 0.7%.
- While U.S. home prices climbed a seasonally adjusted 0.9% in June, they are down 4.3% on an annual basis, according to the Federal Housing Finance Agency index.
- The Congressional Budget Office (CBO) said during the week that the U.S. is on track to accrue a \$1.3 trillion deficit this year, marking the third straight year of \$1 trillion-plus deficits. CBO forecasts GDP at 2.4% for this year, 2.6% for 2012 and then an average of 3.6% for the next three years.
- First-time claims for unemployment benefits rose more than expected, as a dispute between Verizon Communications & its union employees caused thousands of workers to seek jobless benefits. Ongoing claims, which include people filing for second week of benefits or more, dropped to the lowest level since Sept 2008.
- The Commerce Department said that the U.S. economy grew at a revised annual rate of 1% during the second quarter, down from a previously reported 1.3%.
- The University of Michigan's consumer sentiment survey came in slightly better than expected at a reading of 55.7, up from the multi-year low of 54.9 reported two weeks ago.
- On Friday, Federal Reserve Chairman Ben Bernanke said in a speech that said the U.S. is headed for long-term economic growth. Bernanke did not announce any new economic stimulus measures, as some investors had hoped. He left open the possibility of more action if another recession seems likely.

Week Ahead

Almost as soon as the market opens on Monday, and faces the aftermath of Hurricane Irene, a slate of economic data will start coming out that is expected to have an impact on investors heading into the Labor Day weekend. And it will be the weekly & monthly jobs data that will get the most attention & have the biggest impact on investors' views about the health of the economy. On Wednesday, the ADP payroll results for August will come out, with anticipation that the numbers will improve over July's figures of 114,000 payroll additions. The U.S. unemployment report for August comes out on Friday and is forecast to remain at July's level of 9.1%. Other key data due next week include consumer spending figures for July and monthly motor-vehicle sales reports for August.

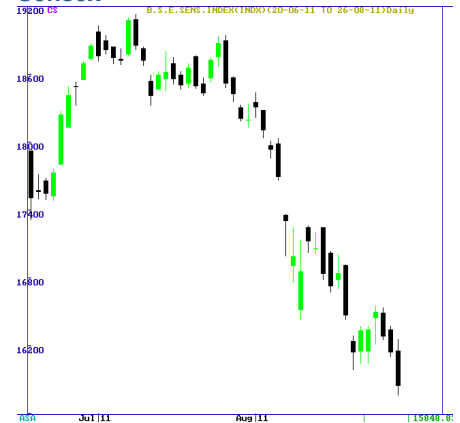
Other Markets

Asian stocks rose this week, snapping four weeks of losses, as exporters and commodity shares gained on speculation U.S. Fed Reserve Chairman Ben S. Bernanke would foreshadow measures to shore up the U.S. recovery. The MSCI Asia Pacific Index rose 0.7% this week to 120.3. While Nikkei & Hang Seng index gained 0.9%, Shanghai & Strait Times rose 3.1% & 0.5% respectively.

Key Highlights during the week:

- Hong Kong's exports grew by less than economists estimated by 9.3% in July Y-o-Y as a drop in sales to the U.S. countered higher shipments to Asian markets.
- Philippine economic growth probably slowed for a fourth straight quarter as government and consumer spending eased while faltering global demand hurt exports. GDP increased 4.1% in the three months through June from a year earlier.
- Nobel laureate Michael Spence said during the week that the global economy has a 50% chance of slipping into recession as Europe and the U.S. struggle to grow.
- A U.K. index of factory orders rose from a three-month low in August 2011. The gauge of orders climbed to 1 from minus 10 in July. A measure of export demand rose to zero from minus 8.

Sensex



Weekly Gainers	CMP (Rs)	% Rise
Kiri Industries	148.50	25.53
GTL Infrastructure	12.16	13.22
Madhucon Projects	75.50	12.86
Amtek India Ltd	119.05	12.52
KS Oils Ltd	9.55	12.35

Weekly Losers	CMP (Rs)	% Fall
Deccan Chronicle	49.90	24.62
SKS Microfinance	217.85	19.85
TV18 Broadcast	37.90	19.10
Jet Airways	253.10	14.85
Manappuram Finance	43.40	14.57

- Manufacturing indexes from America to Europe fell in July as Europe's sovereign debt-crisis, political haggling over the U.S. debt limit and monetary tightening in China combined to restrain the global economic recovery. The Bank of England kept its benchmark interest rate at a record low this month as the faltering recovery outweighed the risk from rising prices.
- German investor confidence fell more than economists forecast to the lowest in more than 2 1/2 years (to minus 37.6 from minus 15.1 in July) in August on concern that Europe's debt crises will curb growth.
- Spanish economic growth slowed to 0.2% in the second quarter as rising exports failed to offset a contraction in consumer spending amid austerity measures and tightening credit. Exports rose 8.4% from a year earlier.
- Brazil's unemployment rate fell to 6.2% in July, its lowest level this year, undercutting bets that policy makers will reduce borrowing costs.
- Japan's core consumer prices unexpectedly rose in July by 0.1% Y-o-Y. However, the economists said that these gains won't end the nation's fight against deflation.
- The flow of investors' money into emerging market fixed income continues unabated, with figures showing a net inflow into Emerging Markets (EM) local currency funds for the 22nd week in succession. According to figures published by EPFR, the research group, the net inflow into EM FI local currency funds was \$512m in the week to Wednesday August 24, up from \$273m in the previous seven days, and comfortably above the recent weekly average of \$421m. Developed markets (DM) equity funds reversed three weeks of outflows, which averaged \$10bn to see a \$4.2bn inflow. DM bond funds saw an inflow of \$740m, but the four-week total is still -\$15.3bn. EM equity funds lost a chunky \$2.1bn, but at least it was less than the \$2.8bn recorded the previous week, the \$3.4bn average outflow of the last month.

Commodities:

International crude oil prices (WTI) rose 3.78% for the week ended 26th August 2011 to close at USD 85.37 per barrel. During the week, crude oil prices exhibited an upward trend. Crude oil rose after Federal Reserve Chairman Ben S. Bernanke said growth will resume and the central bank had tools to stimulate the economy. U.S. crude oil futures edged up as supportive durable goods data lifted stock futures and weakened the dollar, helping boost oil prices. It also rose on the back of a broadly weaker dollar and amid expectations that it would take some time for Libya to resume oil production as fighting continued in the country's capital.

International gold prices fell 2.96% for the week to close at USD 1797.30 per ounce. During the week, gold prices exhibited a mixed trend. Gold plunged on speculation that financial markets may be stabilizing, eroding the appeal of the precious metal as a haven. Gold fell the most since 2008 and Treasuries dropped as U.S. stocks and the dollar gained after reports on durable-goods orders and home prices beat estimates. Profit taking ensued amid expectations that Federal Reserve Chairman Bernanke will do something to boost equity prices also played a significant part in yellow metal's downward slide. Gold dropped the most in a year as some investors sold the metal after signs of slowing growth spurred a rally to a record \$1,917.90 an ounce. Rising speculation of an imminent margin requirement hike from the CME Group, which owns Comex also proved bearish for gold.

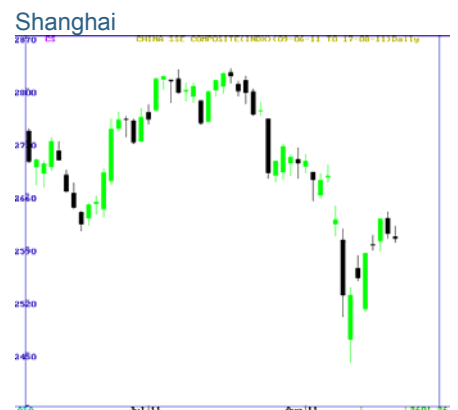
Metal prices were mixed with a positive bias in the week ended 26th August 2011. The largest gainers in the week to Thursday were Lead (2.5%), Zinc (1.3%), Copper (1.1%) and Nickel, Tin and Aluminum were the losers, falling 2.4%, 1.9% and 1.5% respectively. Copper rose on speculation the Federal Reserve will act to bolster the economy in the U.S., the world's second-biggest consumer of the metal. LME copper was steady as encouraging durable goods data from the United States brightened the demand outlook, while a rise in equities also supported sentiment. Copper jumped at a three-week high, as confidence in Asian economic growth prospects and speculation that the Federal Reserve could stand ready to support the ailing U.S. economy powered prices higher.

The Baltic dry index (BDI), which is a global index tracking the movement of cargo by the sea route has registered a rise of 5.40% for the week ending 26th August 2011 compared to a week ago and closed at 1541 levels. The Baltic Dry Index is more influenced by the movement of goods from / to China and primarily that of iron ore. The cost to hire capesize vessels that haul iron ore and coal climbed for an 11th consecutive day to the highest level this year as increased shipments pushed earnings for some cargoes over \$40,000 a day. Rents for the ships that account for 40 percent of dry-bulk fleet capacity have rallied this month as higher commodity exports helped relieve a vessel glut.

Currencies:

The USD depreciated against the Euro by 0.68% for the week ended 26th August 2011. In the Euro zone, the Euro made slim gains against the US dollar. Further German manufacturing data came in better than expected, but it was the weakest rate of expansion for the past two years. Concern over the European debt crisis is causing European banks to cut their workforces six times faster than their US counterparts. The euro strengthened also on the back of speculation ahead of Fed Chairman Ben Bernanke's speech – further monetary easing would see a flood of cheap US dollars being invested elsewhere. Weak European economic sentiment and manufacturing data constrained the euro's gains.

Global Indices Charts



The USD appreciated against the Japanese yen by 0.12% for the week ended 26th August 2011. The dollar hit its highest level against the Japanese yen in almost three weeks on Thursday, and the greenback could continue to gain if Federal Reserve Chairman Ben Bernanke refrains from signaling a new round of bond purchases to stimulate the economy. The US dollar gained slightly against yen driven by upbeat US manufacturing data, while the price of gold plunged from its record highs. The yen has fallen this week as traders become wary of attempts from Japan's Ministry of Finance to stem gains in its currency, which has been pushed to record levels as investors have sought a haven amid concerns over eurozone and US government debt and worries over global growth.

The USD appreciated against the Pound by 0.58% for the week ended 26th August 2011. The dollar gained against other major currencies after a federal durable goods report was more positive than expected. The British pound approached the weakest level in two weeks as data showed UK economic growth slowed and manufacturing shrank, strengthening the case for interest rates to stay at a record low. The pound has also been hampered by the market's view that UK interest rates are likely to be kept on hold through 2012, with some thinking more quantitative easing may be needed to support the British economy.

The US dollar appreciated against the rupee by 0.97% for the week ended 26th August 2011. The Indian rupee plunged to its weakest in more than 11 months tracking broad gains in the dollar as well as a rise in dollar demand from local oil companies for making month-end import payments and for clearing outstanding dues to Iran. Importers bought dollars for their month-end requirements, which put pressure on the rupee. Weak local equities markets also contributed to the weakening of the Rupee.

Sectoral Analysis

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Sustained selling by foreign fund amid concerns about corporate earnings growth, worries over global economic growth and standoff between the government and anti-corruption activist Anna Hazare over the Lokpal Bill, pulled Indian shares lower for the 5th week in a row. The Sensex fell below the psychological 16,000 mark and the Nifty slid below 4,800 levels. Reports that China had deployed more advanced nuclear missiles at Sino-Indian border as a 'deterrent posture' and data showing a rise in food inflation in mid-August 2011 also weighed on investor sentiment. Key benchmark indices slumped to 18-1/2-month lows on Friday, 26 August 2011.

The BSE Sensex fell 1.81% to 15,848.83 in the week ended Friday, 26 August 2011. The S&P CNX Nifty fell 2.01% to 4,747.80. The Sensex has tanked 16.01% in one month from a recent high of 18,871.29 on 25 July 2011. All indices were in the negative in the week ended 26th August 2011 except BSE Teck with a marginal gain of 0.03%. All indices ended the week in losses with Metals, Bankex, Realty, PSU and Auto being the largest losers each falling 5.29%, 4.81%, 4.01%, 3.40% and 1.70% respectively. FMCG was the least losing sector falling 0.15% in the week.

Metals:

The BSE Metal index fell 5.29% to close at 11145 levels in the week ended 26th August 2011. Among the heavyweights, Coal India, Tata Steel, Jindal Steel and Hindalco were losers, falling 8.6%, 8.0%, 4.7% and 0.2% respectively. Metal stocks declined on worries the global economic slowdown may crimp demand and as the Supreme Court suspended mining activities at Tumkur and Chitradurga districts of Karnataka. India's largest steel maker by sales Tata Steel declined on concerns the ongoing euro-zone debt worries will impact its European operations adversely. Coal India's stock fell as news of potential wage hikes and closure of its 22 mines in Jharkhand came in. The other issue the company has been facing pertains to impact of impending wage rises on earnings per share. Wage revisions are due from July and employees are demanding a 100 per cent rise. Apart from these issues, the company continues to be plagued by operational issues.

Bankex:

The BSE Bankex index was second largest loser in the week falling 4.81% to close at 10246 levels in the week ended 26th August 2011. Bank stocks extended recent steep losses triggered by concerns that elevated interest rates may restrict loan growth, with State Bank of India and ICICI Bank hitting 52-week lows. Among the heavyweights, SBI, Axis Bank, HDFC Bank and ICICI Bank were losers each falling 7.4%, 6.8%, 5.0% and 1.6% respectively. India's largest bank by branch network and net profit State Bank of India (SBI) dropped 7.41% to Rs 1888.75. The stock hit a 52-week low of Rs 1872 on 26 August 2011. SBI now has the lowest Tier-1 equity among big banks and could be facing a crisis in the next year. The bank's Tier-1 capital has gone below 8%. Even though the regulation says that the banks should maintain 9% as the capital adequacy, banks themselves maintain 12% or higher. Out of this the tier-1 is 8% while remaining 4% is Tier-2. To raise the Tier-1 capital, the bank is planning a rights issue where they expect the government to participate in. As another option, the bank could go for a bond sale to raise its capital adequacy in Tier-2 capital to continue lending. The management has stated that they cannot sustain without capital infusion from the government in long term.

Weekly Statistics

Sectoral Index - BSE	Value	% Chg
BSE Sensex	15849	-1.81
BSE Midcap	6035	-1.51
BSE Smallcap	6911	-1.33
BSE 500	6192	-1.89
BSE Auto	8049	-1.70
BSE Bankex	10246	-4.81
BSE Capital Goods	11532	-0.03
BSE Consumer Durable	6058	-1.06
BSE FMCG	3893	-0.15
BSE Health care	5820	-0.27
BSE IT	4720	-0.38
BSE Metals	11145	-5.29
BSE Oil and Gas	8024	-1.61
BSE Power	2158	-1.49
BSE PSU	7455	-3.40
BSE Realty	1608	-4.01
BSE Teck	3025	+0.03

Sectoral Index - NSE	Value	% Chg
S&P CNX Nifty	4748	-2.02
CNX Nifty Junior	9598	-2.70
S&P CNX 500	3852	-1.89
Bank Nifty	8975	-4.58
CNX IT	5089	-0.49

Realty:

The BSE Realty index fell 4.01% to close at 1608. Among the heavyweights in the industry, DLF, Unitech, HDIL and Indiabulls Real Estate fell 5.9%, 5.3%, 5.0% and 2.4% respectively. Realty stocks dropped on worries higher interest rates could dent demand for residential and commercial properties. The Competition Commission of India (CCI) has imposed a penalty of around 600 crore on realty major DLF for abusing its dominant market position. Levied by the anti-monopoly watchdog, the penalty was imposed after DLF was found guilty of violating the Competition Act, 2002. The fine amounts to 7% of the company's average annual turnover in the past three years.

PSU:

The BSE PSU index fell 3.40% to close at 7455. Coal India, SBI and NTPC fell 8.6%, 7.4%, and 4.7% respectively in the week ended 26th August 2011. As per a leading financial daily, NTPC has recently faced another roadblock from Union environment ministry. The latter has recommended to defer the environmental clearance for the company's Talaipalli coal mine in Chhattisgarh's Raigarh district. NTPC had applied for Environmental Clearance for ensuring a production capacity of 18.7 million tonne per annum and the output was to be used for the 4,000 MW Lara super thermal power project. Of the total project cost of Rs 6.7 bn, Rs 2.1 bn was to be utilised towards rehabilitation operations. The ministry has asked the company to furnish fresh latest details on the project which is worth Rs 7 bn. The coal ministry has already de-allocated five coal blocks given to the company prior to this development.

Auto:

The BSE Auto index fell 1.70% to close at 8049 levels. Among the heavyweights in the industry, Hero Honda, M&M and Tata Motors fell 2.1%, 2.0% and 2.0% respectively. Auto shares saw an across the board decline on concerns higher interest rates could crimp sales of automobiles.

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