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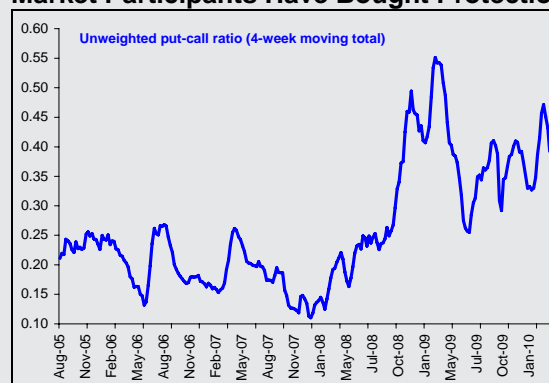
April 9, 2010

India Strategy

Chart Focus: The Tricky Short Term Call

In our view, the short-term call on the equity market seems tricky. Over the coming weeks, we expect Indian markets will be battling rising inflation, more rate hikes and the uncertainty of the monsoon but has tailwinds from an appreciating currency and the likely strong earnings season. FII flows have surged and that sometimes leads to tepid short-term returns. On the flip side, market participants seem to have bought significant protection (through puts) which usually prevents the market from falling. Indeed, the market is just above its 200 DMA which does not signal excessive price momentum. Global markets could hold the key to the near-term moves in the Indian equities and, to that extent, sovereign issues, growth debates, exit policy concerns and currency action suggest a hesitant interim period for Indian stocks. We continue to be bullish on Indian shares but the near-term call does appear more difficult than before. We continue to be buyers on dips with a 12-18 month view as growth dynamics remain favorable to equities, in our view.

Market Participants Have Bought Protection



Source ASA, Morgan Stanley Research

Strong FII flows Sometimes Signal Weak Markets in the Short Run

	FII Flows (US\$b)	30 Day BSE Sensex Performance
Jul-07	4.57	2.6%
Sep-07	4.73	14.5%
Oct-07	4.40	-1.8%
May-09	4.26	-1.3%
Sep-09	4.14	-7.2%
Mar-10	4.14	

Source SEBI, FactSet, Morgan Stanley Research

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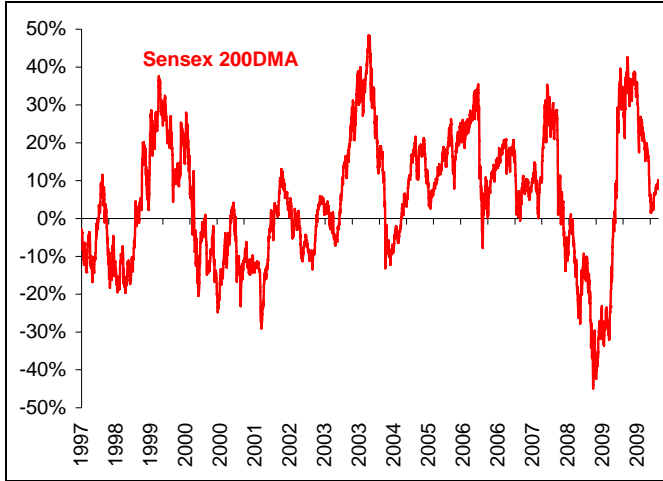
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April 9, 2010
India Strategy

Exhibit 1

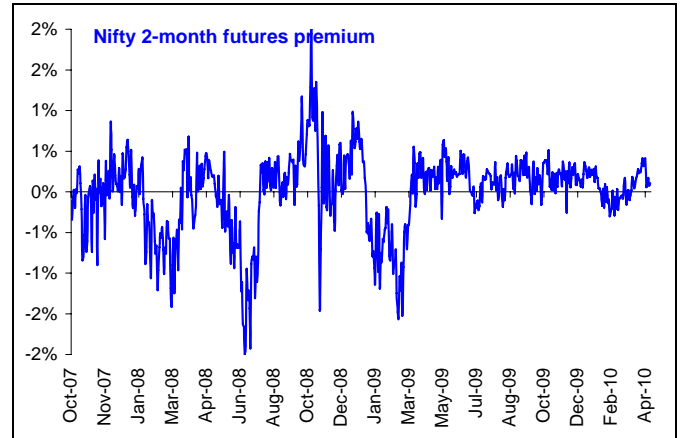
Sensex 200DMA Does Not Suggest Price Exuberance



Source: Bloomberg, Morgan Stanley Research

Exhibit 2

Nifty 2-Month Premium is Flat Suggesting Limited Shorts



Source: Bloomberg, Morgan Stanley Research

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(as of March 31, 2010)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
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Not-Rated/Hold	15	1%	4	1%	27%
Underweight/Sell	373	15%	87	11%	23%
Total	2,525		764		

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April 9, 2010

India Strategy

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