Weekly Market Wrap

HDFC securities

Outlook for Week Ahead — Feb 06, 2010

With Q3 results out of the way, and the Budget some time away (26 Feb 10), the Indian markets are expected to track global cues and developments in the week ahead. The mainline indices have broken key support levels, and while a bounce cannot be ruled out, the markets may extend losses on the back of weak global cues. Investors globally continue to worry that various euro-zone members will not be able to bring their budgets under control, jeopardizing its fragile economic recovery. Expectations that the dollar carry trade, which fuelled a rally in emerging market stocks in the past one year, may pause for a while or start reversing may further affect stocks (Rupee is at 5 week low against the USD). The CSO will release advance estimates of GDP growth for 2009-10 on Monday. Next, the government will announce the industrial output data for the month of Dec 09 on Friday. Heightened volatility (as measured by the VIX) and a rise in risk aversion could continue next week. FII flows continue to be negative, albeit on a smaller scale.

The Week Gone By — Feb 06, 2010

Indian Markets

The markets closed the week ended 5 February 2010, sharply in the negative. Europe's sovereign debt issues, indications of weak US jobs data and a crash in commodity and energy prices raised fresh concerns over the global economic recovery. The Sensex fell in 4 out of 5 trading sessions in the week. The Nifty and Sensex lost 2.70% and 2.36% respectively during the week to close at 4,767 and 15,916 respectively. The BSE Sensex fell below the psychological 16,000 mark.

Exit from fiscal stimulus - Chairman of the Prime Minister's economic advisory council C. Rangarajan said the government is no hurry to roll back economic stimulus measures in one go. He also said that efforts will be made in the budget later this month to lower the fiscal deficit. It has been pointed out repeatedly that the process of exit must be gradual, coordinated and must not be sudden and should not disrupt the economy.

Inflation & Capital Flows - Following rising prices of potato and pulses, food inflation rose to 17.56% in the week ended 23 January 2010 from 17.40% in the previous week. The inflation for primary articles, which include food and non-food items, marginally eased to 14.56% from 14.66% in the previous week. The fuel price index rose 5.88%. Reserve Bank of India (RBI) governor D Subbarao has for the first time, said the nation may have to take some measures towards capital control in the short term to avoid stark economic imbalances after acknowledging in the past the role played by fund flows in worsening inflation, boosting asset prices and destroying industry competitiveness.

Economic indicators point to growth – The business activity among Indian services companies expanded at its fastest pace in 16 months in January 2010, rising for a second straight month on sharp increase in new work orders. The HSBC Markit Business Activity Index, based on a survey of 400 Indian firms, rose to 58.96 in Jan 2010, it's highest since Sep 2008, after rising to 57.41 in Dec 2009. In the beginning of the week, another data showed that manufacturing activity grew at its fastest pace in almost 1-1/2 years in Jan 10, driven by a sharp rise in new export orders that are supporting a recovery in the industrial sector. The HSBC Markit Purchasing Managers' Index (PMI), based on a survey of 500 Indian companies, rose to 57.7 in Jan 2010, its strongest reading since Aug 2008 and up from 55.6 in Dec 2009.

Revival in exports, base effect in play - Exports continued to rebound, rising an annual 9.3% in Dec 09 to $14.6 billion, their second consecutive monthly rise, although the pace of annual growth was slower than the 18.2% registered in Nov. Imports increased by 27.2% in Dec from a year earlier to $24.75 billion while the trade deficit shrunk by a little over 28% to $76.24 billion for the April- December 2009 period.

IMF stance on India's recovery - India can gradually start raising interest rates as Asia's third-largest economy is among the first to recover after the global financial crisis, the International Monetary Fund (IMF) said in a report published on 4 Feb 10. The IMF sees the Indian economy coming back to potential by 2010-11 to log 8% growth from the current year's 6.75%. Still, the IMF's assessment of GDP growth for the current fiscal is in contrast to the government's projection of more than 7% and the RBI's latest forecast of 7.5%.

Divestment - NTPC's follow-on pubic offering (FPO) was fully bid on the last day of the issue on 5 Feb 10. The FPO was subscribed 1.19 times. As regards government's divestment plan, Rural Electrification Corporation will be the next Government- owned entity to come out with a FPO. Its 17.1 cr share FPO will open on 19 Feb 10 and will close on 23 Feb 10. This will be followed by NMDC's FPO. As per reports, in the next fiscal, the Government is likely to divest its stake in state-run firms such as Engineers India, Coal India, Power Grid and Sail.

Weekly Statistics

Key Indices	Feb 05	% Chg
Sensex#	15916	-2.70
Nifty#	4767	-2.36
DJIA	10012	-0.55
Nasdaq	2141	-0.29
FTSE	5061	-2.46
DAX	5434	-3.11
Hang Seng	19665	-2.27
Shanghai	2939	-1.83
Nikkei	10057	-1.38
Bovespa	62763	-4.04
Indonesia – Jakarta	2519	-3.52
Singapore – Strait	2684	-2.25
MSCI Emerging Markets*	898	-3.84
MSCI World*	1095	-2.15

*= Data in US$
#= Data as on Feb 06, 2010

Metals (USD)	Feb 05	% Chg
Aluminum	2077	-4.54
Copper	6590	-4.25
Zinc	2095	-12.19
Tin	16630	-1.53
Lead	2015	-8.22
Gold*	1054	-2.74

*Data for Gold is Friday to Friday

Interest Rates	3 month	Chg bps
MIBOR*	4.61	0.00
10 yr bond yield	7.67	-6.00
LIBOR – UK	0.61	0.00
LIBOR – USA	0.25	0.00
LIBOR – Europe	0.64	0.00

*= Data as on Feb 06, 2010

Exchange Rates	Value	% Chg
USD/INR	46.72	+1.21
USD/EURO	0.79	+1.39
USD/YEN	89.23	-1.14
USD/POUND	0.63	+1.61
. DXY	80.44	+1.21

Other	Value	% Chg
RJ/CRB Index	258.55	-2.65
Crude Oil ($ / Barrel)	71.19	-2.33
Baltic Dry Index	2715.00	-11.11

Turnover (Rs. Bn)	Week Feb 06	Week Jan 29	% Chg
BSE	241.3	212.5	+13.55
NSE	731.1	723.5	+1.05
Futures	1744.8	2471.1	-29.39
Index Options	2067.9	2514.7	-17.77
Stock Options	118.2	108.2	+9.24

Net Flows (Cr)	FII	MF
Jan 29 – Feb 04	-942.6	111.7
Previous week	-7358.4	937.2

Volatility Index (ViX)	Nifty	CBOE
Feb 05	30.07	26.11
% Chg w-o-w	+13.10	+6.05

US Markets
In comparison to the world markets, the US markets closed the week marginally lower. While the Dow lost 0.55%, the Nasdaq lost 0.29%. The US markets started the week on a positive note. On Monday, investors welcomed better-than-expected reports on personal income, manufacturing and Exxon Mobil's profit. The rally continued Tuesday, with the Dow posting its second straight triple-digit gain, as investors welcomed better-than-expected corporate results, signs of stability in the housing sector and solid auto sales. However, stocks slipped Wednesday, after a weak reading on the services sector of the economy and a mixed reading on the labor market unsettled investors. Thursday came the big sell off. Fears about the fallout from a growing debt crisis in Europe dragged on Wall Street, sending the market to its lowest close in three months, with stocks hit across the board. The Dow's decline marked the biggest one-day point loss since March 5 of last year. Debt woes propelled the dollar to a more than seven-month high versus the euro, which in turn pummeled dollar-traded commodities such as oil and gold. Treasury prices spiked, lowering yields, in a classic flight-to-safety move. On Friday, the markets managed small gains.

Personal income and spending - Personal income rose 0.4% in Dec 09, surprising economists who were looking for an increase of 0.3% on average, according to Briefing.com estimates. Income rose 0.5% in the previous month. Personal spending rose 0.2% after rising 0.3% in the previous month. Economists thought it would rise 0.3% in Dec.

Manufacturing, Construction & Services, **a mixed bag** -The Institute for Supply Management's manufacturing index rose to 58.4 in Jan 10 from 54.9 in Dec 09. Economists thought it would rise to 55.5. Construction spending fell 1.2% in Dec, worse than the drop of 0.5% economists were expecting. Spending fell 1.2% in Nov. Next, Dec factory orders rose 1% versus forecasts for a rise of 0.5%. Orders rose 1% in the previous month. Lastly, the Institute for Supply Management's services sector index rose to 50.5 in Jan 10 from 49.8 in the previous month. Economists had thought it would rise to 51.

Toyota - Toyota, announced plans to fix millions of gas pedals in recalled vehicles and said it has already shipped out parts to dealers. The fix eliminates the problem that caused pedals to stick, which prompted the recall of 2.3 million vehicles in the United States. Toyota also recalled over five million vehicles due to risks that floor mats could become stuck on floor pedals. The company is also now facing numerous complaints about brake problems in its 2010 Prius. The troubled company's chief executive apologized Friday for the recall of 8 million cars. However, he did not announce a new recall of the popular Prius Hybrid, despite reports of brake problems. Earlier, the company said it is also examining the brake systems of the Lexus hybrid vehicles since they used the same system as the 2010 Prius.

Jobs reports, a fall in the unemployment rate - Payroll services firm ADP reported that employers in the private sector cut 22,000 jobs in Jan following a revised loss of 61,000 jobs in Dec. Economists surveyed by Briefing.com had forecast a loss of 30,000. Meanwhile, outplacement firm Challenger, Gray & Christmas reported that announced layoffs in Jan rose to a five-month high of 71,482 from 45,094 in Dec. Next, the number of Americans filing new claims for unemployment rose to 480,000 last week from a revised 472,000 the previous week, the Labor Department reported. Economists surveyed by Briefing.com expected 455,000 new claims. Continuing claims, the number of Americans receiving benefits for a week or more, rose to 4,602,000 from 4,600,000 the previous week. Economists expected 4,581,000. Employers cut a bigger-than-initially reported 150,000 jobs from their payrolls in December. The January report had some positive signs, including an increase in the workweek and an increase in temporary agency employment - both of which are seen as leading indicators. But the report also showed that the impact of the recession on the labor market was far worse than initially reported - making the recovery process all the more arduous. The unemployment rate, generated by a separate survey, fell to 9.7% from 10% in December. Economists expected it to hold steady at 10%.

Wall Street will keep a cautious eye on Europe in the week ahead, as the global credit crisis proved it still carries a potent sting for markets. There is little U.S. economic data in the week ahead. The most important item on the calendar is retail sales for January. The Euro zone, however, will release fourth quarter GDP data Friday.

Other Markets
Fiscal woes in Europe pushed global equities sharply lower during the week, as the cost of insuring Greece, Spain and Portugal's debt against default rose sharply. While the FTSE and DAX ended the week lower by 2.46% and 3.11% respectively, the Nikkei, Hang Seng and Shanghai lost 1.38%, 2.27% and 1.83% respectively.

Fund flows - Emerging market equity funds lost $1.6 billion in weekly withdrawals, the biggest outflows in 24 weeks, as earnings and Greece's debt woes raised concerns that the global recovery may falter, the EPFR Global data indicated. Investors withdrew $516 million from Asian equities outside of Japan in the week ended 3 February 2010. Within Asia, China equity funds reported net outflows for the fifth time in six weeks while Indian funds lost $180 million, the most in 68 weeks.

Sensex

Weekly Gainers	CMP (Rs)	% Rise
United Breweries	179.80	21.69
P&G	1861.15	16.73
Titan Industries	1685.95	12.49
Prakash Industries	210.35	11.00
Vishal Retail	62.55	10.51

Weekly Losers	CMP (Rs)	% Fall
Simplex Construction	419.40	17.85
Jai Corp	259.35	13.59
ICSA India	139.65	13.23
Bajaj Hindusthan	176.10	13.02
Orbit Corp	255.60	12.75

Japan - In Japan, the share market tumbled to 7-week low, barely clinging to the 10,000 mark, on disappointing US jobs figures, escalating debt jitters in Europe, and a sharply strengthening yen. On the economic front, average monthly wages at Japanese companies with at least five employees fell 3.9% in 2009 from the previous year to 315,164 yen, the Health, Labor and Welfare Ministry said.

China - The stock market continued last weeks decline on heavy selling across the sectors triggered by mounting concerns over more tightening from the government to prevent the economy from overheating after the two separate survey data showed the country's economy sustained its manufacturing expansion in Jan as export orders jumped and inflation pressures grew. The falls was also fueled on fears that the stronger US dollar might trigger a capital exodus from emerging markets. On the economic front, the HSBC Purchasing Managers' Index of China's manufacturing sector stood at 55.8 in Jan, down 0.8 points from the previous month. Despite a moderate slowdown, the figure has been above 50 percent, the threshold indicating expansion for 11 consecutive months. On the economic front, sales of new homes, excluding those designated for relocated residents under urban redevelopment plans, plunged 51% to 700,000 square meters in Jan. The decline was due to sluggish buying momentum, which was affected by a series of government cooling measures that aim to curb property speculation.

Europe Debt Crisis - A debt crisis is rippling through the weak economies of Europe, eliminating any hope that Greece's financial woes can be boxed in and raising the likelihood that European growth forecasts will be trimmed. In spite of spending cutbacks announced by the Greek government, bond yields in Portugal and Spain shot up as investors, fearing default, unloaded their holdings. Europe's mounting debt woes put Jean Claude-Trichet, the president of the European Central Bank (ECB), on the defensive as he sought to reassure investors that the problems of a few small countries did not mean the euro zone as a whole was in trouble. The broad selloff in euro zone bonds and stock markets, and the plunging euro, suggested investors did not share his confidence and expect the debt crisis to deepen.

In Europe, Portugal took the worst hit. The cost to insure Portuguese bonds against default rose to a record high of more than 200 basis points or the equivalent of $200,000 (U.S.) for each $10-million in bonds. The yield spread between Portuguese bonds and benchmark German bonds widened by 10 basis points to 157 points, more than four times greater than their five-year average. Spanish bond yields and default insurance costs also climbed. The ECB on Thursday left its benchmark interest rate at a record low of 1% as the debt problems of the so-called PIIGS – Portugal, Italy, Ireland, Greece and Spain – pick up momentum and threaten to stall wider European economic recovery. As the debt crisis spreads, economists realize that forecasts for an economic rebound in the euro zone – the 16 EU countries that share the euro currency – might have to be scaled back. The unravelling of the small Greek and Portuguese economies alone wouldn't kill euro zone growth. But if Spain, where the jobless rate is about 20%, goes from recession to depression, the problem will deepen because the country accounts for a hefty 12% of euro zone GDP. According to the ECB's last forecast, in December, the euro zone economy will grow 0.8% this year and 1.2% in 2011. It probably contracted 4% last year.

Commodities
U.S. crude oil futures ended 2.3% lower this week due to a stronger dollar and weak U.S. oil demand that raised more worries about the sluggish economic recovery. Crude oil tumbled to a seven-week low as the dollar surged on speculation European efforts to reduce deficits will curb growth, prompting the sale of commodities. Oil dropped after the euro slipped to an eight-month low against the dollar as investors bet rising budget deficits in Greece, Portugal and Spain will hamper the economic recovery. The plunge in prices accelerated after the contract broke through support levels that technical traders look at for signals to sell futures. Crude oil may extend declines next week as supplies climb.

Gold futures extended three-month lows on Friday in a follow-through to large declines the previous session as investors continued to move away from perceived riskier assets. The metal has been trading as a risk play in recent months, moving higher when participants want riskier, potentially higher yielding, assets and selling off when they don't. In recent days, gold has been declining as the U.S. dollar has strengthened as a safe-haven buy. A stronger dollar often hurts dollar-denominated metals like gold by making them more expensive in other currencies. Gold futures fell as the dollar's rally reduced demand for the precious metal as an alternative investment. U.S. gold futures fell as a dollar rally driven by risk aversion and fiscal fears in some euro zone countries dampened sentiment.

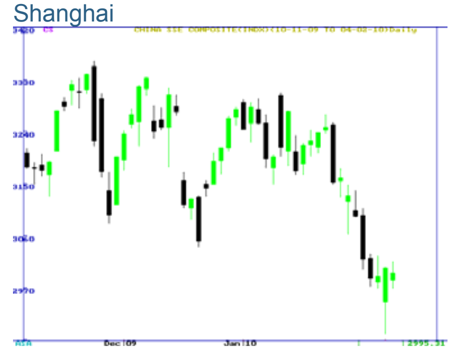
BDI fell by 11.1% this week as the freight rates slumped due to decrease in Chiense coal demand and the ongoing uncertainty in 2010 iron ore contract talks between Chinese mills and global miners. Rates fell as Chinese demand for coal began to decline as the worst winter for over 50 years began to pass, reducing the need for heating fuel and power.

Global Indices Charts

Dow

FTSE

Shanghai



Currencies

Euro finished the week substantially lower against the US Dollar on sharp declines in the US S&P 500 and broad deterioration in financial market risk appetite. The ongoing budget deficit crisis in Euro Zone member Greece grew beyond its borders, causing a substantial widening in sovereign bond yield spreads for countries such as Portugal and Spain. Arguably the worst crisis to threaten the stability of the European Monetary Union to date, market reactions only exacerbated losses and the Euro was especially weak against the resurgent US Dollar. Fears about euro zone fiscal deficits overshadowed a key U.S. non-farm payrolls report for January, which showed job losses of 20,000, but a drop in the unemployment rate to 9.7 percent from 10 percent in December.

Recent talk that a slowdown in Chinese bank lending will curb growth in China, boosted demand for the yen as a safe haven. The U.S. weekly jobless claims release, coming one day ahead of Friday's non-farm payrolls report, showed that new jobless claims increased last week by 8,000 workers a total of 480,000 unemployed workers. This also pushed the yen higher against the dollar.

The pound dropped to the lowest level in more than eight months against the dollar as a plunge in equities worldwide spurred demand for the perceived safety of the U.S. currency. The Bank of England voted against extending the value of corporate and government bonds at Thursday's monetary policy meeting announcing in its statement that it would instead leave the door open in the event that a weakening credit situation demanded further purchases going forward. The Bank of England also held interest rates steady at 0.5%, as expected. The pound weakened against the dollar after the Bank of England kept the door open to more asset purchases to safeguard the economic recovery. Sterling extended declines as concern that countries such as Greece, Spain and Portugal will struggle to fund their budget deficits spurred demand for the perceived safety of the dollar. U.K. policy makers paused their 200 billion-pound ($317 billion) bond-buying program

The dollar rose against most major currencies amid ongoing concerns about sovereign debt problems in Europe and a mixed report on the U.S. job market. In the United States, traders were on edge following a report that the number of Americans filing new claims for unemployment rose to 480,000 last week from a revised 472,000 the previous week. The dollar rose after upbeat reports, including data on U.S. manufacturing, added to recovery hopes. The Institute for Supply Management's manufacturing index rose to 58.4 in January from 54.9 in December.

Sectoral Analysis — Feb 06, 2010

The BSE 30-share Sensex closed in the red losing 2.7% to 15,916 in the week ended February 06, 2010. The S&P CNX Nifty too closed down 2.6% to 4,757. The BSE Mid-Cap index moved down 1.1% to 6,436, while the BSE Small-cap index too fell 0.4% to 8,198.

The sectoral indices traded in the negative during the week except Consumer Durables, which closed higher by 3.9%. The major losers were Realty, Bankex, Power and Oil & Gas, which fell 5.2%, 3.9%, 2.8% and 2.5% respectively.

Realty

The major losers in the Realty index were Indiabulls Real Estate, HDIL and DLF, which fell by 7.9%, 6.7% and 5.9% respectively. Realty shares dropped on fears of hike in interest rates.

Bankex

The major losers in Bankex were PNB, HDFC Bank and ICICI Bank, which fell 5.2%, 3.6% and 3.5% respectively. Rate sensitive banking shares declined on fears of a hike in interest rate following inflationary pressures in the domestic economy

Power

The major losers in the Power index were Nevyveli lignite, NHPC and Power Grid, which fell by 10%, 5.2% and 4.5% respectively. As per reports, in the next fiscal, the Government is likely to divest its stake in state-run firms through initial public offers (IPOs) and Power Grid and Sail through FPOs.

Oil & Gas

The major losers in the Oil & Gas index were BPCL, Aban Offshore, Tata Steel and Hindalco, which fell by 7%, 4.6%, 9.8% and 9.6% respectively. Kirit Parikh, a former Planning Commission member, in his report on sustainable fuel pricing that was submitted this week, had suggested freeing petrol and diesel prices and hiking cooking gas (LPG) and kerosene prices. Kirit Parikh's radical recommendations on fuel pricing may not fully find favour with the government, which is under fire over rising prices.

Consumer Durables

The major gainers in the Consumer Durables index were Titan Industries and Rajesh Exports, which rose by 13.5% and 8.9% respectively. Titan Industries is targeting 35% growth over the

Weekly Statistics

Sectoral Index - BSE	Value	% Chg
BSE Sensex	15916	-2.70
BSE Midcap	6436	-1.13
BSE Smallcap	8198	-0.42
BSE 500	6378	-2.02
BSE Auto	6864	-1.28
BSE Bankex	9275	-3.93
BSE Capital Goods	12911	-1.63
BSE Consumer Durable	3943	+3.79
BSE FMCG	2710	-0.56
BSE Health care	4753	-0.25
BSE IT	4846	-2.65
BSE Metals	15608	-2.22
BSE Oil and Gas	9694	-2.46
BSE Power	2974	-2.84
BSE PSU	9187	-3.02
BSE Realty	3320	-5.15
BSE Teck	3075	-2.43

Sectoral Index - NSE	Value	% Chg
S&P CNX Nifty	4757	-2.56
CNX Nifty Junior	9961	-0.25
S&P CNX 500	4067	-2.14
Bank Nifty	8275	-4.36
CNX IT	5502	-1.64

next two years. The company is focussing on watches and jewellery and is planning eight new watch collections next fiscal. It expects a turnover of Rs.4,700 crore this year, of which the jewellery segment would contribute Rs.3,500 crore.

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