

**WEEKLY INVESTMENT UPDATE**  
20<sup>TH</sup> August, 2010

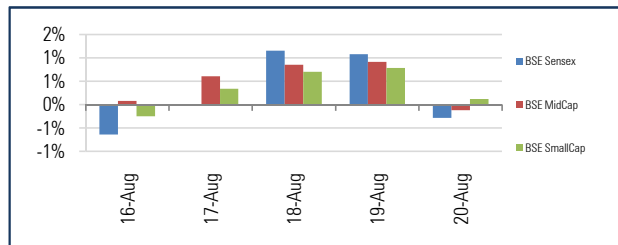
**Equity Markets**

Equity markets extended their gains for the third consecutive week on the back of sustained inflows of foreign funds and easing inflation. July inflation based on the wholesale price index eased to 9.97% as against 10.55% in June 2010, on account of moderating food inflation. The annual food inflation declined marginally to 10.35% for the week ended August 7 compared with 11.40% in the previous week on account of a stronger monsoon. Further, the Centre for Monitoring Indian economy (CMIE) forecasted an economic growth of 9% for FY11 which boosted the overall market sentiment. However, moderation in exports and weak economic data from US capped the gains for the market towards the end of the week. India's export growth moderated sharply in July due to weak consumer demand in its key markets such as the US and Europe. The exports grew by 13.2% - lowest in the past six months. On the other hand, imports grew at a faster rate of 34.3% to \$29.17 bn indicating growing manufacturing activity.

The BSE Sensex surged by 1.29% or 234 points to 18,401 points. Similarly the S&P CNX Nifty soared by 78.55 points or 1.45% to 5,530 points. Once again, mid-cap and small-cap stocks outperformed the large caps. The BSE Mid-cap and BSE Small-cap indices surged by 2.34% and 1.70% respectively.

In the BSE sectoral space, almost all the indices ended in green with FMCG and Banking stocks leading the pack. The BSE FMCG index grew by 2.92% closely followed by the BSE Bankex which grew by 2.72%. The BSE Healthcare, the BSE Capital Goods and the BSE Auto indices were among the other major gainers which expanded by 1.70%, 1.35% and 1.12% respectively. On the other hand, the BSE Consumer Durables and BSE Teck indices declined marginally by 0.25% and 0.34% respectively.

The week witnessed strong buying from foreign institutional investors (FIIs) who bought equities worth Rs 4,446 crores. Similarly they were net buyers to the tune of Rs 1,393 crores in the debt segment. Yet again, domestic institutions were net sellers to the extent of Rs 553 crores and Rs 696 crores in the equity and debt segments respectively.



Indices	Current Value	1 Week Return (%)	1 Month Return (%)	6 Month Return (%)	1 Year Return (%)
BSE Midcap	7821.2	2.3	5.8	21.6	42.8
BSE Smallcap	9875.8	1.7	4.7	20.4	55.3
S&P Nifty	5530.7	1.4	3.0	14.2	24.2
BSE 100	9850.8	1.4	3.2	14.1	25.6
BSE SENSEX	18401.8	1.3	2.9	13.7	22.6
<b>Sectoral</b>					
BSE FMCG	3375.0	2.9	6.4	22.6	35.6
BSE BANKEX	12527.5	2.7	10.1	31.0	53.9
BSE Healthcare	5610.7	1.7	-0.9	15.4	48.7
BSE Capital Goods	14887.7	1.3	-1.1	13.3	20.6
BSE Auto	8874.8	1.1	7.5	26.8	64.0
BSE Oil and Gas	10208.6	0.7	-2.3	5.7	9.2
BSE Metal	15426.3	0.6	3.1	-2.4	27.6
BSE PSU	9707.2	0.3	3.0	5.3	19.1
BSE IT	5517.0	0.1	1.6	8.6	42.1
BSE Cons. Dur.	5691.8	-0.2	10.8	39.5	87.5
BSE TECK	3430.3	-0.3	1.5	9.1	20.3

Figures in INR

Source: Morningstar Direct

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MFs Vs FIs	1 Week		Net Investments		
	Buy	Sell	1 Wk	MTD	YTD
<b>MFs</b>					
Equity	2497.8	3051.5	-553.7	-1482.2	-15610.4
Debt	3013.6	3710.1	-696.5	4164.3	119832.2
<b>FIs</b>					
Equity	16146.9	11700.1	4446.8	9963.8	23735.0
Debt	1942.1	548.8	1393.3	3264.2	18026.0

Figures in INR Crores as on August 20, 2010;

Source: SEBI

Indicators (Yield %)	Current Value	1 week	1 Month	6 Month	1 Year
Call Rate	5.7	4.8	5.5	3.1	2.8
90 Day T-Bill	5.9	5.9	5.4	4.1	3.4
5 Year Gilt	7.9	7.8	7.6	7.7	0.0
10 Year Gilt	8.0	7.8	7.7	0.0	0.0

Data as on August 20, 2010; T-Bill rate as on Aug 10th 2010

Source: Others

## Debt Markets

It was a bad week for debt market investors as government bonds fell sharply and closed in negative terrain. The deemed 10-Yr benchmark 7.80%, 2020 shed almost a rupee over the week, as its yield shot up by about 16 basis points (0.16%). Government bonds started the week on a positive note mainly on account of a sharp fall in the July headline inflation. This raised hopes among market participants that easing inflationary pressures might not warrant a drastic rate action by the Reserve Bank of India (RBI) in the mid-quarter policy review. As per the data released by the government on Monday (August 16, 2010), July inflation based on the wholesale price index (WPI) eased to 9.97%, venturing into single-digit territory for the first time in six months. WPI inflation in June was at 10.55%.

But after a good start, things turned grim for government bonds as the weekly auction scheduled on Friday started to weigh down the markets. Many market participants chose to trim their holdings ahead of the auction pulling down bond prices. Moreover, the prospect of obtaining bonds at higher yields at Friday's gilt auctions dissuaded buyers. The auction size this week was worth Rs 120 billion, which included – Rs 40 billion worth of the 7.46%, 2017 bond, Rs 50 billion worth of the 8.13%, 2022 bond, and Rs 30 billion worth of the 8.30%, 2040 bond. Some market participants sold their holdings after the fresh supply of bonds from the auction. As a result, government bonds ended the week on a dismal note. The deemed 10-Yr benchmark 7.80%, 2020 paper closed at Rs 98.80 or 7.98% yield as against previous week's close of Rs 99.88 or 7.82% yield.

In the meanwhile, India's food and fuel inflation eased in early August. Food price inflation (which has a weightage of over 15.0% in the WPI) for the week ended August 7, 2010, stood at 10.35% as against 11.40% recorded the week prior. Similarly, fuel prices (which have a weightage of little over 14.0% in the WPI) in the same week stood at 12.57%, as against 12.66% in the previous week.

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## Global Markets

**US:** Mixed economic reports in the United States weighed on the indexes. As weekly jobless claims continued to rise and housing starts were up less-than-expected in July, the markets remained pressured. The Dow Jones Industrial Average fell 0.9%. The S&P 500 erased 0.7% while the NASDAQ 100 added 0.4%.

However, robust earnings reports from some retailers contributed to the gains during the week. Wal-Mart, Home Depot, Dell amongst others posted profit that cheered the markets. Also, blue-chip company Intel announced that it will buy security software maker McAfee, which buoyed stocks across the world.

**Europe:** Key indexes in Europe took a dive with disappointing economic data from the United States leading the way. Britain's FTSE plunged 1.5%, French CAC plummeted 2.3% while Germany's DAX dropped 1.7%.

The region saw a flurry of merger activity last week with London-listed miner Vedanta Energy buying a 51% stake in Cairn Energy's Indian subsidiary. Dual listed BHP Billiton took its \$130-a-share offer, or worth \$39 billion, directly to Potash Corp's shareholders. Korea National Oil Company also launched a \$2.6 billion hostile bid to take over Dana Petroleum. Datacash was approached by Mastercard.

Banking stocks were pressured by the global economic situation with Lloyds Banking Group losing more than 1%, while Europe's largest bank HSBC Holdings tumbled more than 2.9%.

**Asia:** Most Asian markets slipped and Japanese export-related stocks were hurt as the yen strengthened against its global counterparts, but China soared after overtaking Japan as world's second largest economy in the second-quarter.

In the week, Japan's Nikkei dropped 0.8%, Hong Kong's Hang Seng lost 0.4%. Mainland China's Shanghai Composite rose 1.4% and Singapore's STI fell marginally to 0.1%.

China's output topped Japan's figures, which lagged on the index. However, Japanese stocks gained, mid-week, on speculation that policy makers may implement monetary measures to stimulate the economy, which investors worry is slowing. Australian mining giant BHP Billiton launched a hostile takeover bid for Canada's Potash Corp of Saskatchewan during the week and markets turned jittery. The uncertainty surrounding the bid, which follows a failed attempt at buying out rival Rio Tinto in 2008, proved to be a laggard.

Indices	Current Value	1 Week Return (%)	1 Month Return (%)	6 Month Return (%)	1 Year Return (%)
<b>US</b>					
NASDAQ 100	1825.8	0.4	-0.8	0.1	13.1
S&P 500	1071.7	-0.7	-1.1	-3.4	6.4
DJ Industrial Avg.	10213.6	-0.9	-0.2	-1.8	9.2
<b>Europe</b>					
UK: FTSE 100	5195.3	-1.5	1.1	-3.0	9.2
Germany: DAX	3520.8	-1.7	0.6	2.0	9.6
France: CAC 40	3526.1	-2.3	1.7	-6.5	0.6
<b>Asia Pacific</b>					
China: Shanghai	2642.3	1.4	4.5	-12.5	-9.3
Singapore: STI	2936.5	-0.1	-0.4	6.5	14.7
HK: Hang Seng	20981.8	-0.4	3.5	5.5	3.2
Japan: Nikkei 225	9179.4	-0.8	-1.3	-9.3	-11.6

Figures in Base Currency

Source: Morningstar Direct

Commodities	Current Value	1 Week Return (%)	1 Month Return (%)	6 Month Return (%)	1 Year Return (%)
Gold (\$/Oz)	1223.5	0.8	3.4	10.0	30.1
Oil (\$/Barrel)	75.4	-1.4	-1.0	-3.2	2.8

Figures in Base Currency

Source: Morningstar Direct

Currency	Current Value	1 Week Ago	1 Month Ago	6 Month Ago	1 Year Ago
US Dollar	46.7	46.8	47.1	46.3	48.6
Pound Sterling	72.4	72.9	71.9	71.4	80.3
Euro	59.2	59.7	60.8	62.6	69.5
Yen (Per Rs. 100)	54.4	54.2	54.1	50.3	51.4

Figures in INR

Source: Morningstar Direct

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### Key Economic News

- As per the data released by the government on Monday (August 16, 2010), July inflation based on wholesale price index eased to 9.97%, on account of moderating food inflation. WPI thus ventured into single-digit territory for the first time in six months. WPI inflation in June was at 10.55%. While food articles index rose an annual 10.29%, fuel price index rose 14.29% in July. The manufacturing products index in the WPI rose an annual 6.15% in July.
- The Indian economy is poised to return to the 9.0% growth trajectory in FY 11, the Centre for Monitoring Indian economy (CMIE) said in its monthly review in Mumbai. Between FY 06 and FY 08, the economy clocked an above 9.0% growth. The global liquidity crisis had derailed the growth to 6.7% in FY 09 and 7.4% in FY 10. However, during the quarter ended March 2010, the economy grew by an impressive 8.6%, thanks to a spurt in growth in the manufacturing sector at 16.3%, mining and quarrying at 14.0% and trade, hotel, transport and communication at 12.4%.
- Foreign direct investment inflows in the services sector in 2009-10 dipped by 28.19% to \$4.39 billion. The sector had attracted FDI worth \$6.11 billion 2008-09. However, inflows in the sector, including financial and non-financial services were highest in comparison to other segments. As per the data of the Department of Industrial Policy and Promotion, computer software and hardware, telecommunications, and housing and real estate were the other sectors that attracted highest FDI.
- Hit by the global financial crisis, the banks' credit growth slowed down to 17.8% in 2008-09 as against 24.1% in the previous fiscal. According to the latest report by the RBI, banks' total outstanding credit rose by 17.8% to Rs 2,847,713.12 crores during 2008-09, with over two-thirds of this loan amount accounted for by metropolitan areas.
- India's food and fuel inflation eased in early August, bolstering the government's hopes that headline inflation would slow at a faster pace and reduce the pressure for further monetary action. Food prices, which have a weightage of over 15.0% in the wholesale price index (WPI), stood at 10.35% as on August 7, 2010, as against 11.4% in the week prior. Fuel prices in the same week declined to 12.57%, from 12.66% a week ago. Fuel prices make up little over 14.0% in the WPI.
- India's exports growth moderated sharply in July due to weak consumer demand in its key markets such as the US and Europe. The 13.2% growth is the slowest in the last six months. Exports grew more than 30% in the five preceding months partly due to the base effect. Imports grew at a faster rate of 34.3% to \$29.17 billion indicating growing manufacturing activity.

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**Mutual Fund Update**

- ICICI Prudential Mutual Fund has declared 10% dividend under its schemes - ICICI Prudential Dynamic Plan and ICICI Prudential Growth Plan. The record date decided for distribution of dividend for the schemes was August 20, 2010.
- In a move to protect investors from losses, Securities and Exchange Board of India (SEBI) barred mutual fund asset managers from selling options contracts. The regulation will be applicable from October 1, 2010.
- Birla Sun Life Mutual Fund has declared dividend under its schemes - Birla Sun Life MNC Fund and Birla Sun Life India Opportunities Fund. The quantum of dividend decided for distribution is Rs 5.25 and Rs 1.25 per unit respectively on the face value of Rs 10 per unit each. The record date decided for distribution of dividend for the schemes is August 27, 2010.

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