

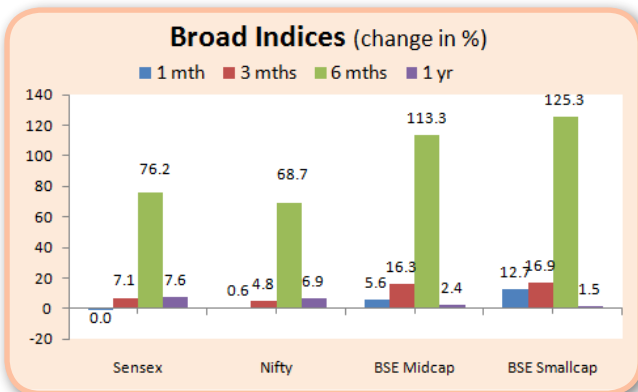
# Monthly Market Update

August 2009

## Equity Market Review

Indian stock markets experienced volatile movements during August 2009. The market, which started on buoyant note, came under pressure on concern over poor monsoon and lack of overseas flows. The performance of the market remained sluggish over next few sessions. However, better-than-expected economic data and the draft new direct tax code on hopes of higher disposable income in hand of individuals triggered recovery in the markets. It was unable to sustain level towards the end of the month on weaker Chinese markets. On the whole, the market closed on a flat note.

Global stocks, on the other hand, showed better performance during the month. The MSCI AC World Index gained 3.37% during the month. The substantial fall in Chinese market dragged the MSCI Emerging Markets Index lower by 0.54% during the month. The China's benchmark index, Shanghai Composite lost 21.81% over the month. The performance of Indian markets was in line with the other emerging markets. The Sensex settled the month with a marginal loss of 0.02%, while the Nifty moved up slightly 0.55%. The BSE Mid and Small caps outperformed their larger counterparts, gaining 5.60% and 12.75% respectively over the month.



Source: Bloomberg

### Sector Performance

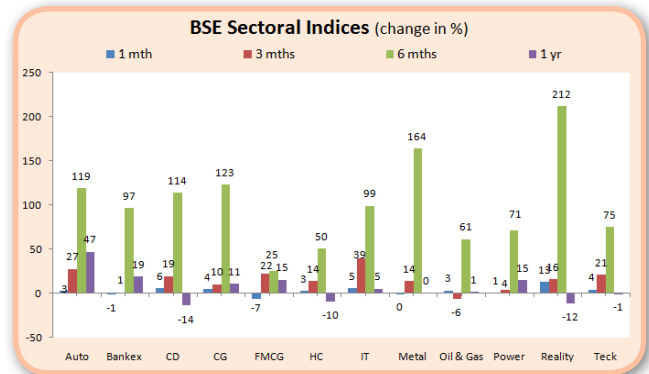
Major buying interest was seen in Realty index, which gained almost 13%, followed by Consumer Durable, IT, Capital Goods and Teck gaining in the range of 4 to 6%. On the other hand, FMCG fell 6.74% on concern about rural consumption. Bankex and Metal dipped 1.43% and 0.10% respectively.

### Institutional Activities

The FII flow was sluggish in equities with net inflows of Rs 218.90 crores (USD 42.50 mn) during the month. The domestic MFs were also net buyers with inflows of Rs 570.30 crores (USD 117 mn) during the month.

### Major Corporate Events

- Larsen & Toubro bagged four EPC orders from Qatar, UAE and Oman aggregating Rs 1,044 crores (USD 217 mn) for the construction of electrical substations. These projects will be executed by Electrical & Gulf Projects Operating Company, a part of the company's construction division.



Source: Bloomberg

- Oil and Natural Gas Corporation is planning to invest Rs 8,554 crores (USD 1.75 bn) in producing crude oil from two clusters - B-22 and B-193 of marginal fields in the western offshore by 2012. The estimated cost has been approved by the board with foreign exchange component of USD 1.70 billion (Rs 8,300.25 crores).
- Aban Offshore has bagged two contracts worth Rs 3,371 crores (USD 695 mn) for supplying rigs. It has signed a contract worth Rs 2,925 crores (USD 603 million) for the deployment of three newly build jack-up rigs in the Middle East. Further, a contract worth Rs 446 crores (USD 92 million) has been signed for the deployment of a new build jack-up rig in Latin America.
- Kalpataru Power Transmission secured orders worth Rs 1,400 crores (USD 287 million) from Maharashtra State Electricity Transmission and North East Transmission for transmission and substation projects.

### Key Macro Developments

Indian economy expanded at better-than-expected growth rate of 6.10% during the first quarter of fiscal 2009-10. Industrial production growth jumped to 7.80% for June 2009. However, core sectors growth slowed at 1.80% for July 2009. Exports continued to drop for the tenth consecutive month. In dollar terms, exports plunged 28.40% to USD 13.62 billion, however, in rupee terms, it dropped 19% to Rs 66,041 crores during July 2009. Meanwhile, oil prices gained marginally 0.73% over the month to USD 69.96 a barrel.

### Outlook

We believe that corporate earnings' down cycle is over now and earnings' upgrade is likely to take place for FY10 and FY11. This will serve as a positive trigger for the markets in medium term. The key economic data, especially the IIP numbers and big ticket policy announcements, will be watched very keenly. The progress of monsoon during September will also be watched as it has an impact on Rabi crop, which determines the rural purchasing power. From international perspective, the markets will track developments and key economic data from China, Japan and US.

There is a strong case of increasing equity allocation to reap benefits over next 18 to 24 months. One can also use this period of corrections/volatility to invest larger amounts.

## Debt Market Review

Rising bond yields and easy liquidity situation were the key highlights of August 2009. The government bond yields continued to move up across the curve on higher auction cut offs, rising inflationary expectations and the lackluster progress of monsoons. The yield of corporate bonds also climbed tracking rise in gilt yields.

On the global front, yields on the long end of the curve saw declining trend. The 10-year yields on the government bonds in the US, Europe and Japan moved down 8 bps, 4 bps and 9 bps respectively.

Call rates continued to remain stable during the month reflecting comfortable liquidity conditions in the overnight market. It moved down marginally 1 bps to close the month at 3.25%.

Policy Rates (in %)	August 09	July 09
Repo Rate	4.75	4.75
Reverse Repo Rate	3.25	3.25
Liquidity (in %)		
Call Rate	3.25	3.26
Currency (in Rs)		
USD/INR	48.84	47.93
Inflation (in %)	Week ended August 15	Week ended July 18
WPI	(0.95)	(1.54)

Source RBI / Bloomberg

### Gilt Performance

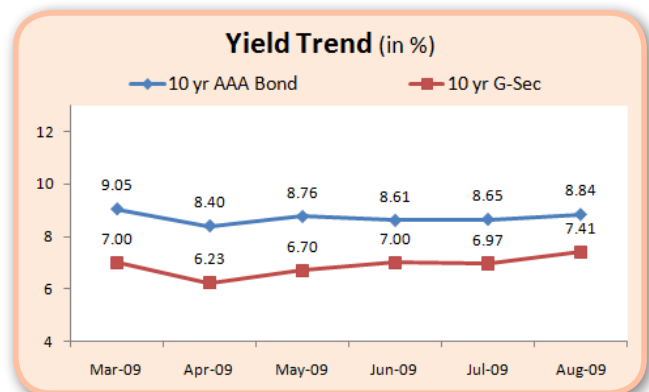
The G-sec yields rose amid Rs 36,000 crores of government borrowing during August. The 10-year benchmark G-sec yield moved up 44 bps to settle the month at 7.41%. The yield on the 5-year benchmark G-sec climbed 45 bps to end the month at 7.17%. Meanwhile, the short term 1-year benchmark G-sec yield rose 56 bps over the month to 4.64%. As a result, the spread between 1 and 10-year benchmark G-sec widened 12 bps to 289 bps.

### Corporate Bond Performance

Similarly, the 10-year AAA bond yield moved up 18 bps to close the month at 8.84%. The yield at 5-year AAA paper climbed 41 bps to end the month at 8.59%. Meanwhile, the short term 1-year AAA bond yield rose 40 bps over the month to 6.11%. As a result, the spread between 1 and 10-year AAA bond widened 22 bps to 295 bps. Meanwhile, the spread between 10-year benchmark G-sec and 10-year AAA bond shortened 26 bps to 143 bps.

### Inflation

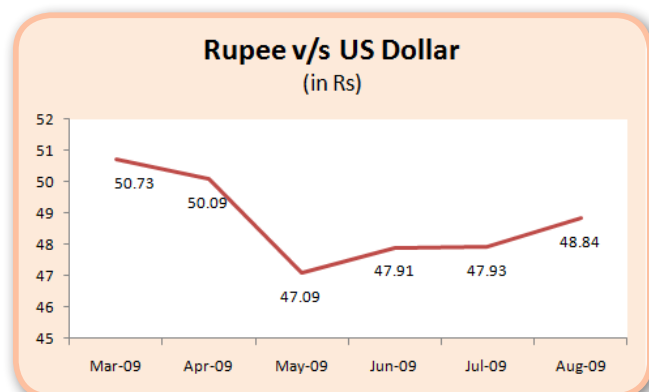
Headline inflation, as represented by the Wholesale Price Index (WPI), remained negative during the month as an effect of higher base of last year. It moved up to negative of 0.95% for the week ended August 15 compared with a drop of 1.54% for the week ended July 18.



Source: Bloomberg

### Rupee

Indian rupee further weakened 1.86% to settle the month at Rs 48.82/ dollar. Forex reserves continued rise by USD 4.25 billion to USD 271.96 billion as on August 21, 2009 from USD 267.71 billion as on July 24, 2009. In rupee terms, forex reserves rose Rs 30,275 crores to Rs 13,24,962 crores as on August 21, 2009 from Rs 12,94,687 crores as on July 24, 2009.



Source: Bloomberg

### Outlook

We expect the 10-year benchmark G sec yield to trade in a range of 7.00% to 7.50% in the near term. Continued heavy issuance of central and state governments will put upward pressure on yields. However RBI may take steps to curb any sharp rises. Comfortable liquidity in the system would keep short rates benign. There may be some volatility due to advance tax outflows. Corporate bond spreads are expected to remain stable.



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