

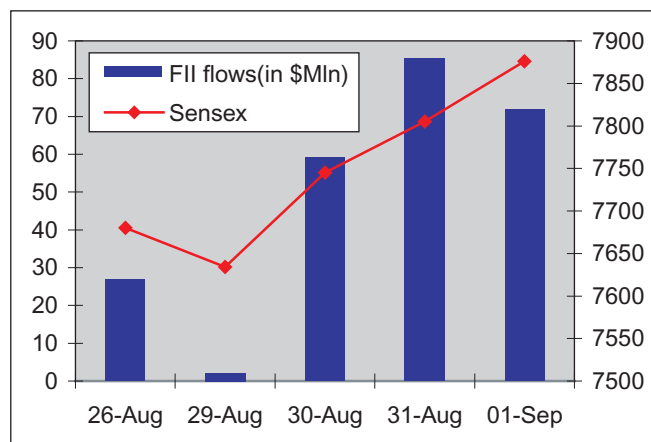
INDIA MARKET ANALYSIS

September 5, 2005

Equities Market Overview

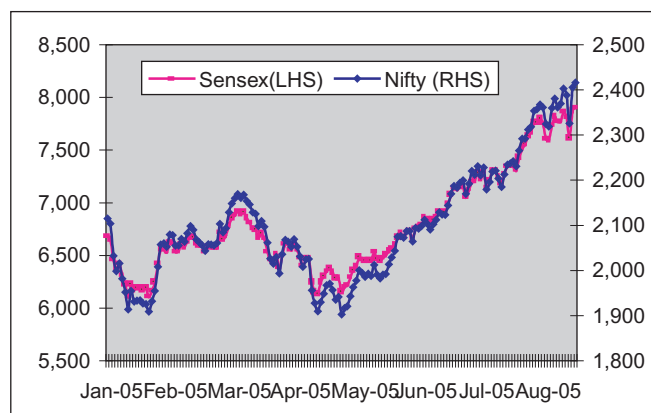
- The 16-week uninterrupted bull-run, which was snapped in the previous week, resumed again last week and the Sensex posted its biggest gains in 5 weeks to close at an all time high. The Sensex gained 2.86% for the week to close at 7900 and the Nifty registered a gain of 2.50% to close at record high of 2416.
- The action was, however, not restricted to just the large caps, which is evident from the near 3% gains witnessed in the CNX Mid-cap Index. Resurrection in FII inflows helped the markets scale new peaks this week.
- Auto stocks were in the limelight last week. This was owing to the news that the government is planning to overhaul the tax structure for the auto industry with an objective to provide a fillip to manufacturing of compact cars in the country (by reducing the tax rates). At the same time, the government is also planning a move to discourage the use of old commercial vehicles (by increasing the tax rates).
- Software services stocks witnessed renewed buying interest as TCS, Infosys & Patni computers bagged big IT services order from ABN Amro. Besides, with crude prices shooting through the roof, there seems to be strong interest in sectors that are not likely to be affected by the crude price rise.
- The RBI's annual report for FY05, released this week, has reaffirmed the bank's projection of a 7% GDP growth for FY06. There has also been no change in its annual inflation target of 5% to 5.5%. The apex bank, however, warned the government for its inaction in raising domestic fuel prices and has pointed out that spikes in the crude oil prices could increase the fiscal burden.
- Equities have outperformed other asset classes over a longer period of time. Over last few years the mid-cap funds have performed better than large-cap funds. Mid-cap stocks however are volatile over the shorter term. Investors should have a blend of large & mid-cap funds in their total equity portfolio. Conservative investors who have never invested in equity markets should start their investment with funds having large-cap bias.

Sensex & Weekly FII Flows



Source: SEBI & BSE

Sensex & Nifty Performance (YTD)



Source: BSE & NSE

Annualized Returns (in %) as on 31st August, 2005				
Index Name	1Yr	2 Yrs	3 Yrs	5 Yrs
BSE Sensex	50.33	34.34	34.80	11.75
S&P CNX Nifty	46.14	31.65	33.06	11.33
BSE 200	48.00	33.78	38.82	15.51
CNX 500	54.93	38.17	42.58	15.85

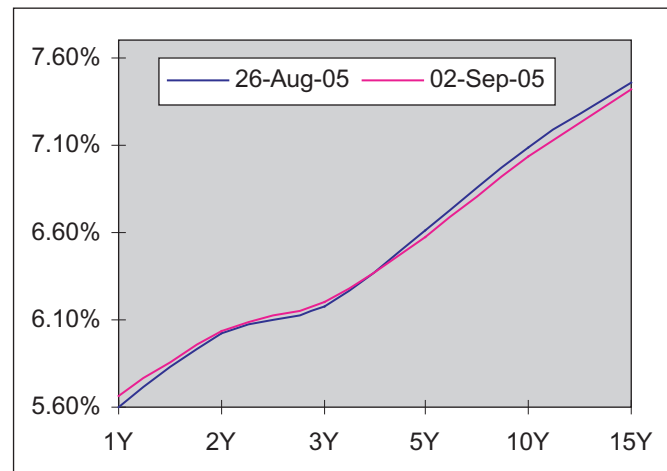
Source: Crisil MFPT

Bond Market Overview:

- Last week, the debt markets were range bound despite easy liquidity & lower-than-expected inflationary numbers, as global oil prices continued to weigh on investors.
- The annual wholesale price index-based inflation fell to 3.08% for week ended August 20th, down from the previous week's level of 3.13%. The fall in the y-o-y inflation rate was mainly on account of decrease in the prices of manufactured products and the base effect
- The bonds prices ended higher on Friday on soft local inflation and hopes that an expected pause in the U.S. Federal Reserve's rate hike cycle would keep a domestic rate hike at bay.
- The yield on the 10-year benchmark, 7.38% 2015 bond fell by 4bps to close the week at 7.04%. The yield on the 15-year paper also fell by 4bps to end the week at 7.42% levels.
- On Friday, post the market hours, the RBI announced that it would sell bonds worth Rs 80 bn on Thursday, comprising of Rs 50 bn of the 5.69% 2018 bond and Rs 30 bn of a new 30-year bond.
- Liquidity remained easy during the week and the average amount placed under RBI's reverse repo remained at around Rs 267 bn. The call rates ended sharply lower at around 4% on Friday as the market players had already covered their reserve requirements ahead of the reporting Friday.
- Going ahead, a lot will now depend on the evolution of the global uncertainties that RBI has mentioned in the quarterly review of Monetary Policy. Over the near term markets are expected to remain range bound and the investors would look forward to the quantum of the possible fuel price hikes to take further directions.

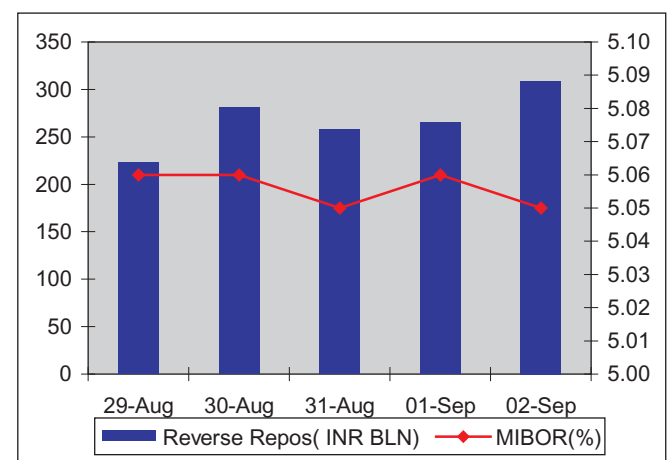
- Investors with a short to medium term horizon should consider investing into liquid or short term floating rate funds, while investors with a slightly longer-term perspective may look at investing into long term floating rate funds. Given that the slope of the yield curve has medium term horizon one can consider investing into short-term income funds. During the last 5-6 months, the steepness of the yield curve at the short end offered an opportunity to investors. Hence, despite a reverse repo rate hike over this period, short-term income funds have delivered a good performance compared to liquid & floating rate funds.

Trends in GOI Yield Curve



Source: Reuters

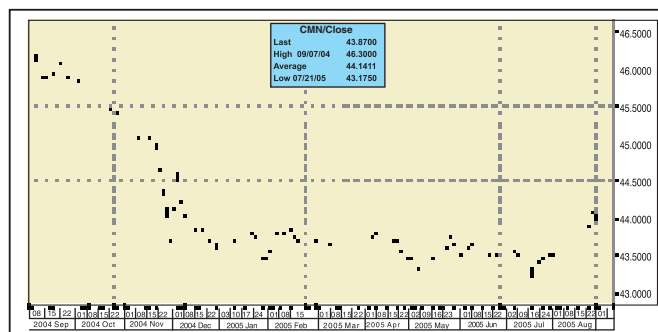
Trends in Liquidity (Reverse Repos)



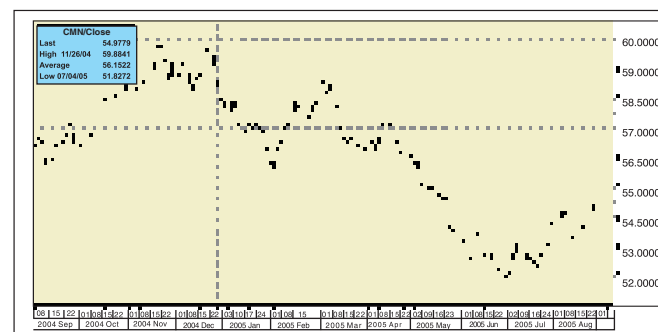
Source: Reuters

Fx Views for the week ahead

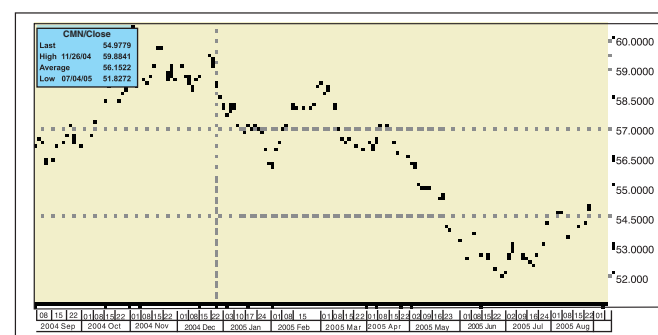
- **USD:** Knee-jerk USD negative response to data disappointment has strengthened our conviction that the USD will come under pressure as cyclical positives unwind and market focus reverts to structural negatives.
- **JPY :** We retain a positive medium-term outlook for JPY, **but near-term risks have grown and we have moved to the sidelines on our spot USD/JPY recommendation.**
- **EUR :** Incipient data strengthening and widening spreads in favour of the eurozone suggest that it may be increasingly difficult to sustain EUR sell-offs.
- **GBP :** Broad dollar selling has helped to support GBP/USD, but deterioration from UK fundamentals and our expectation for a further MPC easing this year continue to point to vulnerability ahead.
- **CHF :** With little new information on the Swiss economy, technicals may continue to dominate. Some ambiguity has mounted for the bullish USD/CHF technical view.
- **CAD :** Elevated oil prices have continued to lend support to CAD even as the market has pared back expectations for BoC tightening. We continue to forecast 75 bps of tightening this year and we retain an optimistic outlook for CAD.
- ⊗ **AUD:** Broad pessimism on Asia may have contributed to downbeat AUD sentiment in recent sessions and data slowing suggests continued near-term vulnerability.



USD/ INR Source - Bloomberg



EUR/ INR Source - Bloomberg



GBP/ INR Source - Bloomberg

Currency	Spot	1 Month		3 Month		6 Month		12 Month	
		Forecast	Forward	Forecast	Forward	Forecast	Forward	Forecast	Forward
EUR / USD	1.2398	1.2400	1.2408	1.2800	1.2445	1.3100	1.2504	1.3300	1.2627
GBP / USD	1.8144	1.7970	1.8104	1.8290	1.8087	1.8450	1.8073	1.8730	1.8064
USD / CHF	1.2476	1.2500	1.2448	1.2030	1.2382	1.1680	1.2282	1.1500	1.2087
USD / JPY	110.49	110.00	110.15	108.00	109.44	100.00	108.35	98.00	106.15
USD / CAD	1.1881	1.1800	1.1875	1.1500	1.1854	1.1400	1.1823	1.1300	1.1765
AUD / USD	0.7586	0.7600	0.7565	0.7800	0.7544	0.7900	0.7517	0.8000	0.7471
NZD / USD	0.6996	0.7000	0.6967	0.7000	0.6932	0.7100	0.6883	0.7100	0.6795

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