

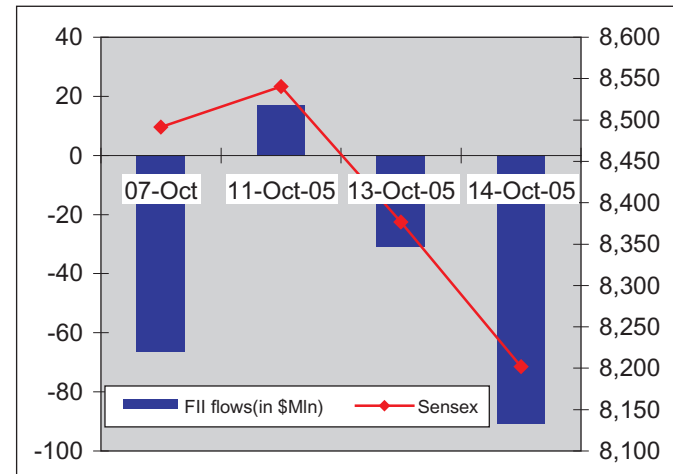
# INDIA MARKET ANALYSIS

October 17, 2005

## Equities Market Overview

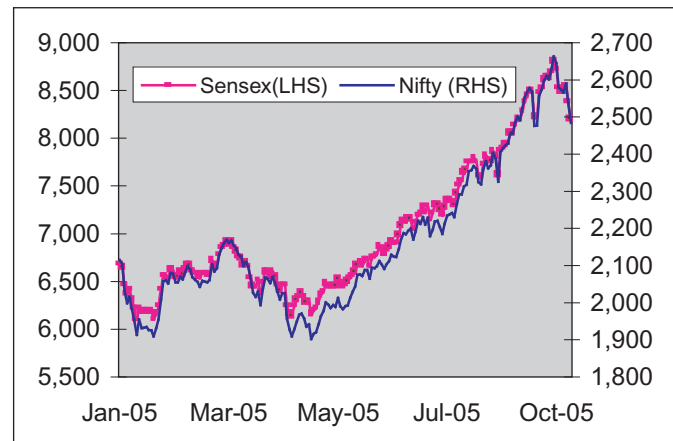
- The indices, having sprinted at a scorching pace for a better half of the year witnessed bouts of volatility in the past two weeks. Given the sharp run up in the past 3 months, the correction was not entirely unforeseen; apprehensions seem to have got further heightened by the negative sentiment across global markets. The Sensex lost 3.4% to close the week at 8202 and the Nifty ended at 2484, weaker by 3.5% for the week.
- However, unlike last week, the selling was broad based, as the mid-cap and small-cap segments of the market also witnessed profit booking, which is evident from the 4% and 6% weekly losses registered by the respective indices (on the BSE).
- While our markets may have corrected a good deal over the last fortnight, this time around, it wouldn't be justified to single out the Indian stock markets. This is because profit booking has been witnessed across markets, with most of the developed and emerging world stock markets having lost 2% to 10% from their peaks in the last fortnight.
- The Indian economy has blazed its way to the top of the growth charts once again. Last week, it was reported that the economy grew by an estimated 8.1% in the first quarter of FY06. Only China is growing at a faster clip. India and Japan are, perhaps, the only two major economies doing better than what was expected of them earlier in the year. The recent growth spurt has ensured that India's share of world output has increased - from 4.3% in 1990 to 5.8% in 2004. Over the past two years, according to the IMF, India has accounted for 20% of Asian growth and 10% of world growth.
- Equities have outperformed other asset classes over a longer period of time. Over the last few years, 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 13th October, 2005

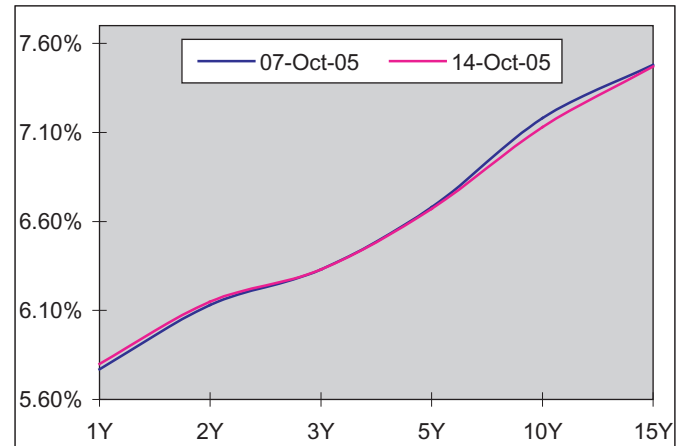
Index Name	1Yr	2 Yrs	3 Yrs	5 Yrs
BSE Sensex	47.41	31.38	40.76	17.50
S&P CNX Nifty	41.86	28.04	37.67	16.60
CNX 500	47.96	34.43	46.60	21.50
BSE 200	43.28	31.27	43.56	21.80

Source: Crisil MFPT

## Bond Market Overview:

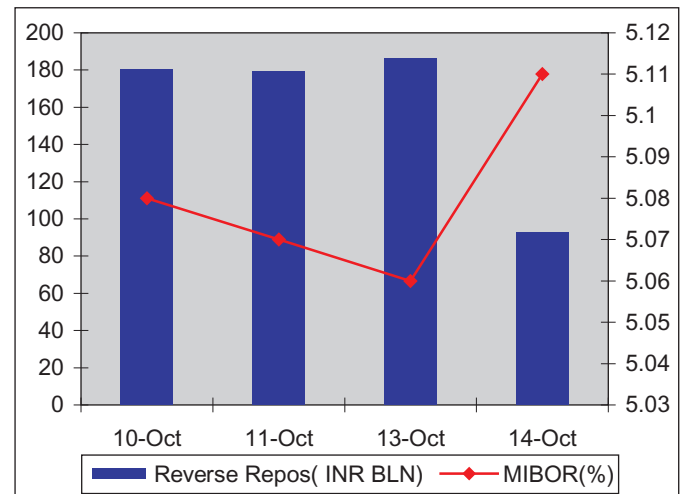
- After ruling weak for the past few weeks, the bond markets recovered towards the end of the week and the yields eased by 2-5 bps across the yield curve.
- The market received yet another surprise on Thursday with the announcement that the Rs. 40 bn auction due between 18th and 25th October had been cancelled. This comes on the heels of the RBI rejecting all bids under the Rs. 60 bn 2014 bond auction held recently. However, factors like the impending RBI policy, the Fed and the spot rupee weighed the overall sentiment and consequently the rise in the bond prices due to auction cancellation was curbed.
- The wholesale price index (WPI) rose in the week ending October 1st, mainly due to a rise in prices of ATF fuel, fruits and vegetables and manufactured products. The annual rate of inflation, stood at 4.24% as against previous week's 3.97%.
- The yield on the 10-year benchmark, 7.38% 2015 bond eased by 5 bps to 7.13%. The yield on the 15-year paper eased by 2 bps to 7.47% levels.
- The call rates remained soft on account of easy liquidity conditions. The average amount placed under RBI's reverse repo fell from Rs 244 bn in the previous week to Rs 160 bn. The call rates closed at 5.10-5.25% on Friday
- The comments from RBI officials indicate that domestic factors will be the prime drivers of interest rates. Over the near term, the market players would keenly watch the RBI's mid-term Credit Policy for taking fresh cues on the interest rates.
- 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

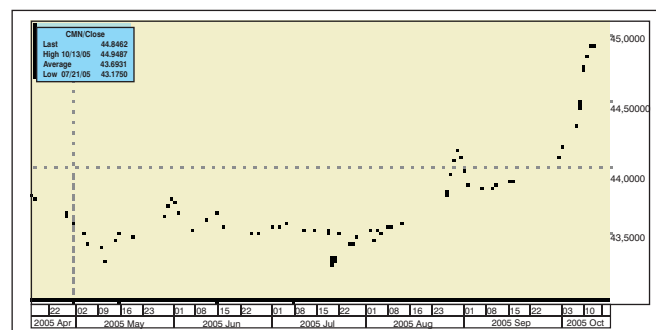
## Trends in Liquidity (Reverse Repos)



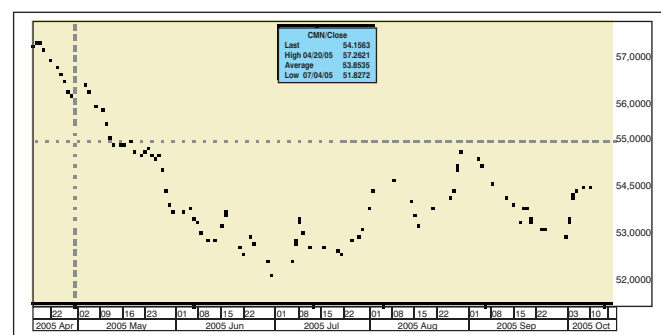
Source: Reuters

## Fx Views for the week ahead

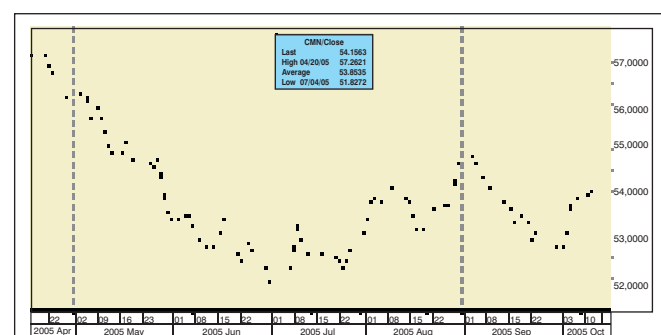
- **USD:** Cyclical USD support has strengthened and will likely be maintained over coming weeks as the market prices in higher expected inflation and interest rates.
- **JPY:** JPY looks set to weaken further during Q4 as market rates move higher in the US and Europe.
- **EUR:** ECB hawkishness on inflation should support EUR against the crosses in coming months.
- **GBP:** Weak economic data continues to weigh on GBP. This week we rolled our short GBP exposure to short GBP/USD via options.
- **CHF:** EUR/CHF continues to move higher as interest rate expectations move in favor of EUR.
- **SEK:** SEK remains under pressure after inflation readings were in line with market expectations and Riksbank Governor Heikensten was less hawkish than expected.
- **NOK:** Further oil price losses could weigh upon NOK in the sessions ahead.
- **CAD:** Increasing expectations for higher policy rates should support CAD going forward, despite a moderation in commodity prices.
- **AUD:** AUD took a hit from surprisingly disappointing employment data out this week, but near term prospects against the crosses remain positive.



USD/ INR Source - Bloomberg



EUR/ INR Source - Bloomberg



GBP/ INR Source - Bloomberg

Currency	Spot 12-Oct	1 Month		3 Month		6 Month		12 Month	
		Forecast	Forward	Forecast	Forward	Forecast	Forward	Forecast	Forward
USD / INR	44.79	44.85	44.95	45.00	45.10	44.00	45.21	43.00	45.43
EUR / INR	53.62	52.92	53.90	56.25	54.27	57.64	54.70	58.29	55.55
JPY / INR	0.39	0.39	0.39	0.42	0.40	0.44	0.40	0.46	0.41
HKD / INR	5.77	5.78	6.94	5.80	5.81	5.67	5.82	5.61	5.86
RMB / INR	5.54	5.54	5.57	5.60	5.61	5.59	5.67	5.67	5.83



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Kochi	:	9895014653
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