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INDIA MARKET ANALYSIS

September 19, 2005

Equities Market Overview

- Flush with liquidity from both foreign institutional investors' funds and domestic mutual funds, the domestic indices created history last week and the Sensex breezed past the 8300-level & the NSE Nifty breached the psychological 2500-level mark. The momentum in the bourses, especially over the last three months, has rendered records and 'all time highs' largely irrelevant, and the indices have crossed various milestones. The Sensex gained 3.98% for the week to close at 8381 and the Nifty registered a gain of 3.95% to close at record high of 2552.

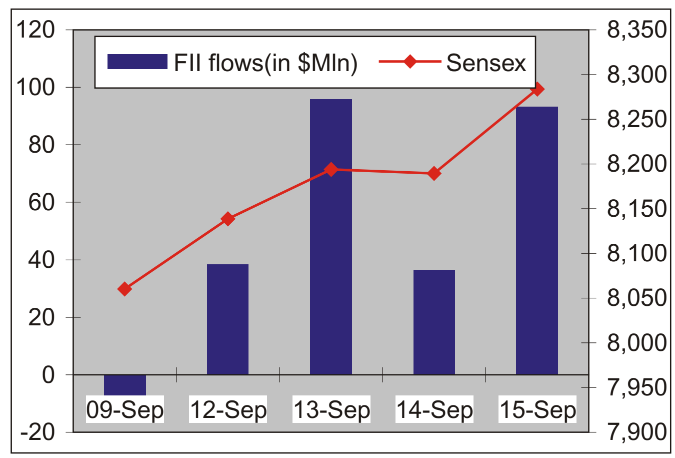
- The action was, however, not restricted to just the large caps, which is evident from the near 2.7% gains witnessed in the CNX Mid-cap Index.

- Domestic markets scaled new heights during the year helped by a string of positive news on the corporate and economic fronts. More importantly, FII flows continued at a robust pace lending support to the bourses, which is reflected in the fact that India has witnessed inflows of around $8 billion in 2005 already (About 95% of the flows witnessed in 2004).

- While the markets continue to make new lifetime highs, this development has come about without any major positive fundamental development and the overlooking of negative news (like crude oil). While SEBI's approval for liberal norms pertaining to the futures & options segment for domestic MFs may have aided sentiments in the second half of the week, it is sheer liquidity that is driving the indices to unimaginable heights. Money has been pouring in from all factions of the market - FIIs, domestic MFs and non-institutional investors

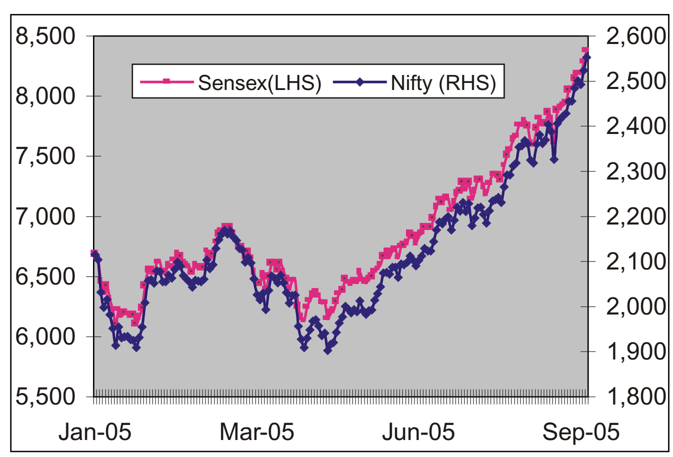
- Equities have outperformed other asset classes over a longer period of time. Over last few years the mid-cap funds have performed better than large-cap funds. Mid-cap stocks however are volatile over the shorter term. Investors should have a blend of large & mid-cap funds in their total equity portfolio. 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)



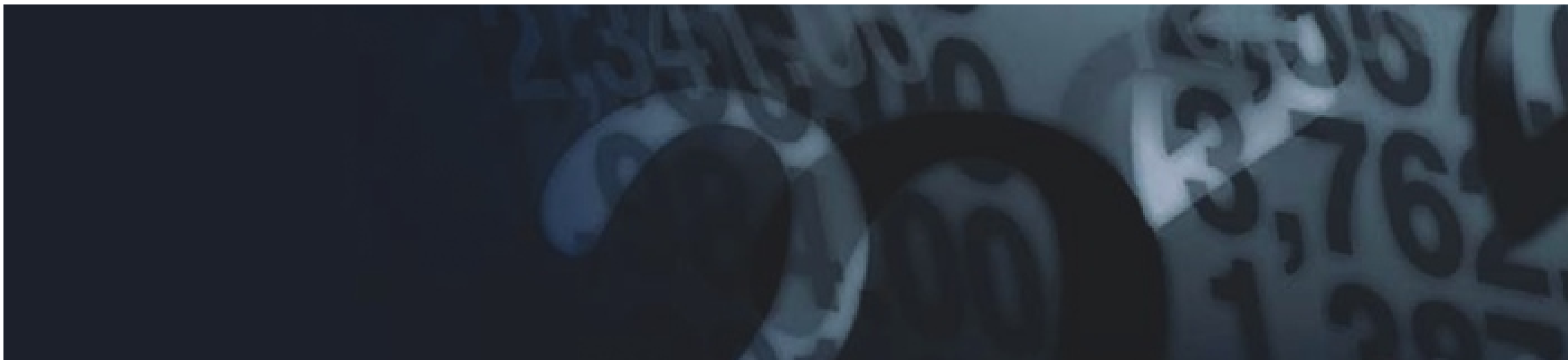
Source: BSE & NSE

Annualized Returns (in %) as on 15th September, 2005

Index Name	1Yr	2 Yrs	3 Yrs	5 Yrs
BSE Sensex	52.83	40.48	39.13	12.66
S&P CNX Nifty	49.95	37.74	36.81	12.23
CNX 500	57.42	44.14	46.61	16.80
BSE 200	51.83	40.69	43.48	17.00

Source: Crisil MFPT

Source: Citigroup Smith Barney Equity Research and Citigroup Economic & Market Analysis



Bond Market Overview:

- Last week, the debt markets were range bound despite easy liquidity, as concerns remained over the level of government borrowings in the second half. The market players were also cautious ahead of next Tuesday's meeting of the Federal Reserve, where traders expect the US interest rates to be raised.

- After falling for six consecutive weeks, the rate of inflation increased to 3.16% during the week ended September 3rd following the rise in prices of fruits, vegetables and energy products. It was 3.01% during the previous week and stood at 8.15% during the year-ago period.

- The yield on the 10-year benchmark, 7.38% 2015 bond fell by 2 bps to 7.02%. The yield on the 15-year paper ended flat at 7.38% levels.

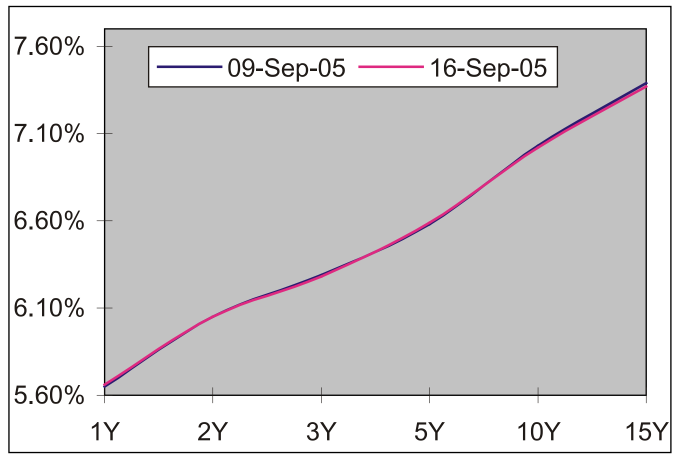
- Liquidity remained easy during the week and the average amount placed under RBI's reverse repo remained at around Rs 405 bn. The call rates closed at 5.00-5.10% on Friday.

- On Friday, US 10-year rose to 4.28% with participants worried about inflation ahead of the Fed meeting on Tuesday and even as the University of Michigan mid month report on consumer sentiment for September showed a drop to 76.9 from 89.1 in the last month and as against 84 expected.

- 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.

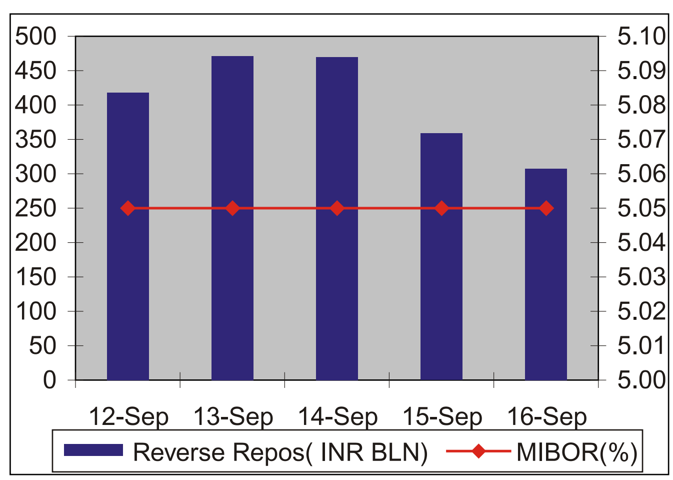
- Investors with a short to medium term horizon should consider investing into liquid or short term floating rate funds, while investors with a slightly longer-term perspective may look at investing into long term floating rate funds. Given that the slope of the yield curve has medium term horizon one 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



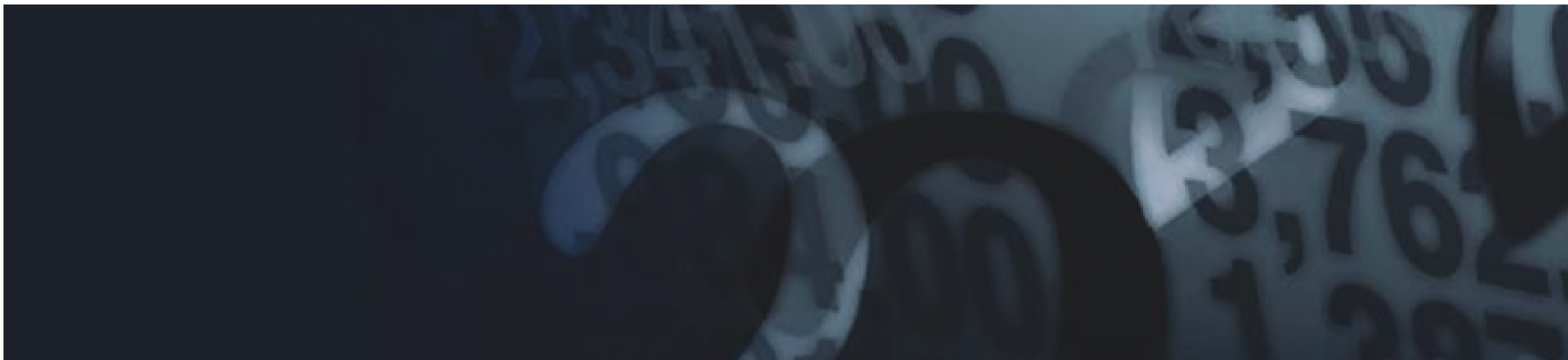
Source: Reuters

Trends in Liquidity (Reverse Repos)



Source: Reuters

Source:Citigroup Smith Barney Equity Research and Citigroup Economic & Market Analysis



Fx Views for the week ahead

- **USD:** Flows and technical momentum have shifted in favor of the USD, but limited potential for positive real side data surprises suggests that **there will be few pillars for sustained USD support upon renewed structural deterioration.**

- **JPY:** BoJ rhetoric pointing to some continued desire to lay the groundwork for tighter policy reinforces our expectation for medium-term JPY strengthening. However, surprising resilience on USD/JPY argues for caution on spot shorts.

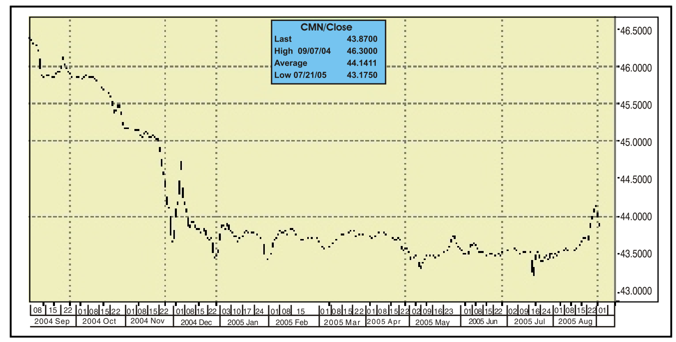
- **EUR:** Risk surrounding the German election should not be as great as with the EU referenda, suggesting that **EUR selling on the crosses on sliding support for the CDU is likely unfounded.**

- **GBP:** GBP has remained stubbornly strong despite relative rate spreads signaling downside risk especially against the EUR. We maintain a negative GBP outlook.

- **CHF**: Swiss economic data have improved, while SNB rhetoric stresses that interest rates remain very low. Accordingly, CHF weakness is unlikely to persist.

- **CAD:** The widening trade surplus underscores the likelihood that BoC will not oppose further currency strengthening and **we maintain a positive outlook on CAD.**

- **AUD:** Surprisingly hawkish rhetoric from the RBNZ suggests some near-term risks to long AUD/NZD positions.



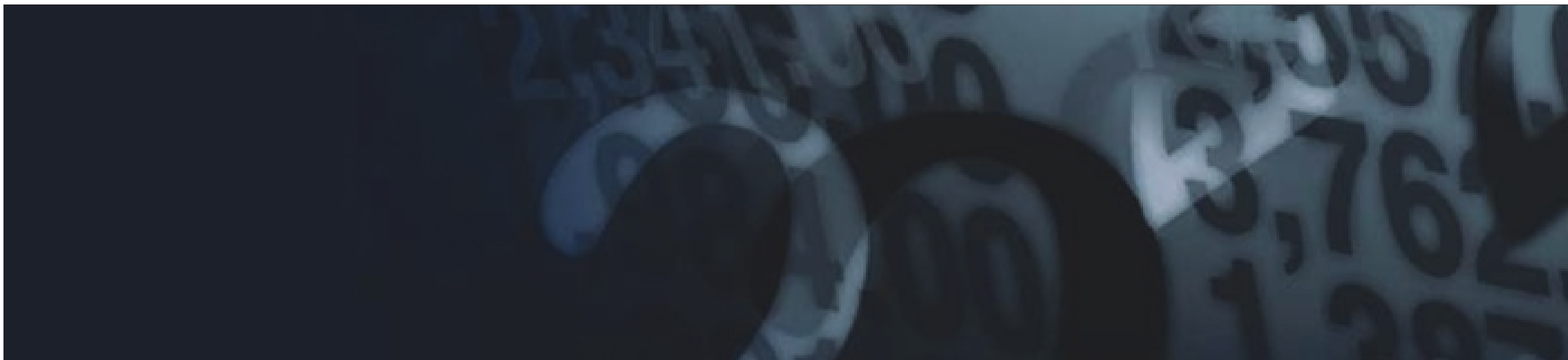
USD/ INR Source - Bloomberg

EUR/ INR Source - Bloomberg

GBP/ INR Source - Bloomberg

Currency	Spot 14-Sep	1 Month Forecast	1 Month Forward	3 Month Forecast	3 Month Forward	6 Month Forecast	6 Month Forward	12 Month Forecast	12 Month Forward
USD / INR	43.81	44.25	43.98	44.50	44.13	43.50	44.17	43.00	44.29
EUR / INR	53.86	54.87	54.14	56.96	54.49	56.99	54.79	57.19	55.50
JPY / INR	0.40	0.40	0.40	0.41	0.40	0.44	0.41	0.44	0.42
HKD / INR	5.64	5.70	6.98	5.73	5.69	5.61	5.69	5.54	5.71
RMB / INR	5.41	5.47	5.44	5.54	5.49	5.53	5.54	5.61	5.64

Source : CitiFx Views and Citigroup Asian Economic Weekly



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