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INDIA MARKET ANALYSIS

October 24, 2005

Equities Market Overview

- Depreciating rupee, weak global markets and FII outflows took its toll on the domestic equity market and the key benchmark indices registered a weekly loss for the third consecutive week. The Sensex closed at 8069, down 1.62% for the week and the NSE Nifty was weaker by 1.64% to close at 2443. The Midcap stocks continued their southward journey and the CNX Midcap index was down 3.84% for the week.

- Markets witnessed extreme volatility on each day of the week and by mid-week, the Sensex went below the psychological 8000 mark. The stock market however bounced back on Friday on value buying and statement by the Finance Minister, P. Chidambaram that foreign investors would continue to invest in India and the rupee was still strong.

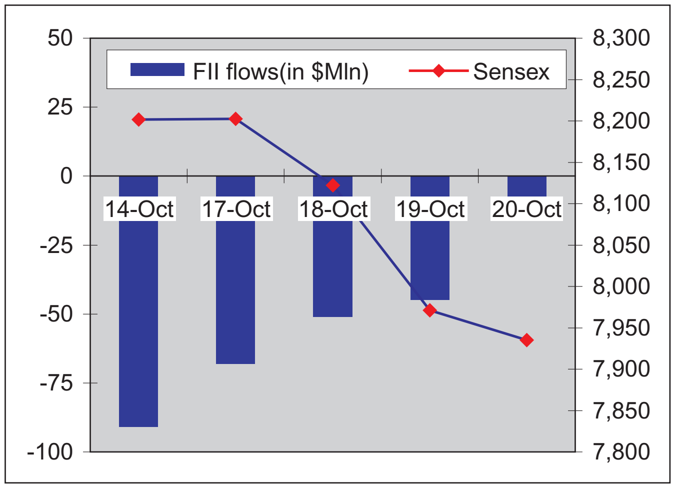
- In other key events last week, the government has raised the FDI limit in telecom sector from 49% to 74% and the shareholders of Reliance Industries Ltd have given final approval for demerger of the company.

- In the quarterly performances that were declared last week, large part of India Inc. results has been in-line/above estimates (like Satyam, Godrej Consumers, Pidilite, Reliance Energy, Bajaj Auto). However Ranbaxy, Zee, NDTV, Geometric Software & ACC have delivered poor/ below expectation performance which has led to sharp correction in these stocks.

- Media stocks were amongst the worst hit with stocks falling like nine-pings across the board. Among the biggest losers this week were Zee Tele (down 16%) and NDTV (down 15%).

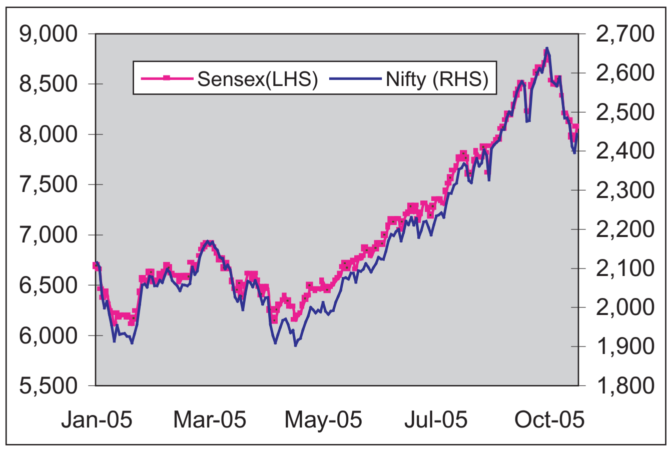
- Going forward, with investors already feeling the heat considering the huge volatility being witnessed on the bourses, investors should take a long-term approach while investing. While investment in equities was never risk-free, this is compensated for by the higher returns. The risks can surely be mitigated to a large extent by following a disciplined, staggered and fundamental investment approach. 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 20th October, 2005

Index Name	1Yr	2 Yrs	3 Yrs	5 Yrs
BSE Sensex	39.88	27.85	38.33	16.52
S&P CNX Nifty	33.82	24.57	35.29	15.36
CNX 500	38.58	31.17	43.51	19.80
BSE 200	34.50	28.45	40.75	20.05

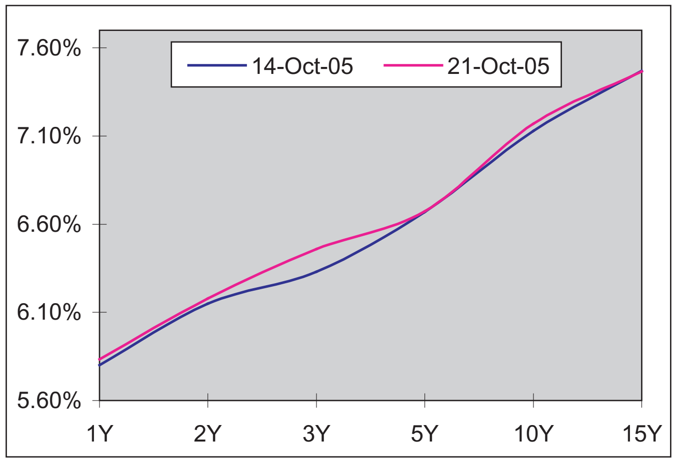
Source: Crisil MFPT

Source: Citigroup Investment Research and Citigroup Economic & Market Analysis

Bond Market Overview:

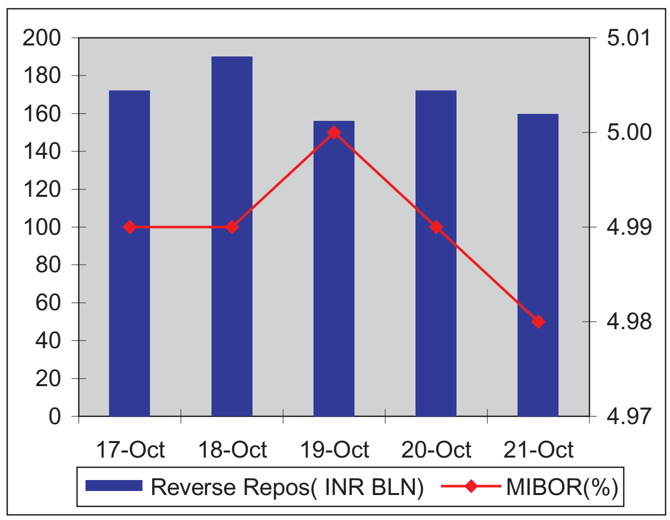
- Last week, the bond markets were range bound and the yields tightened by around 3-5 bps across the board.
- The inflation based on the wholesale price index (WPI) continued its upward trend and rose in the week ending October 8th mainly due to a rise in prices of food and manufactured products. The annual rate of inflation, stood at 4.62% as against previous week's 4.24%.
- The yield on the 10-year benchmark, 7.38% 2015 bond tightened by 4 bps to close 7.17%. The yield on the 15-year paper however was unchanged at 7.47% levels.
- The call rates remained soft on account of easy liquidity conditions. The average amount placed under RBI's reverse repo rose from Rs 160 bn in the previous week to Rs 170 bn. The call rates closed at 5.00-5.10% 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 on October 25th for taking fresh cues on the interest rates.
- Citigroup expects a 25bps hike in the Monetary Policy. Case for a hike can be justified on grounds of needing to cool the economy, inflation edging up and slowing down of capital flows. The current policy rates stand at 5% for the reverse repo and CRR, and 6% for the repo and bank rate. Given that the bank rate is more of a medium-term instrument signaling a shift in policy stance, Citigroup expects that to remain unchanged, and believe that the most likely case would be a 25bps hike in the reverse repo rate.
- 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 Investment Research and Citigroup Economic & Market Analysis

Foreign Exchange Strategies and Issues for the Week Ahead Currency Overview

- **USD:** Prospects for further USD gains have strengthened with fundamentals, technicals, flows and the STARS quantitative model signaling upside. A rise from US short-end yields is the most probable catalyst.

- **JPY:** Overly loose Japanese monetary policy appears to be anchoring Japanese yields and widening spreads in favor of the U.S. We establish a long USD/JPY recommendation.

- **EUR:** Continued ECB hawkish ness may support EUR in coming weeks, but we expect the Bank to remain on the sidelines through early next year.

- **GBP:** UK interest rate expectations have pushed higher as recent economic data have exceeded expectations, supporting lower levels from EUR/GBP.

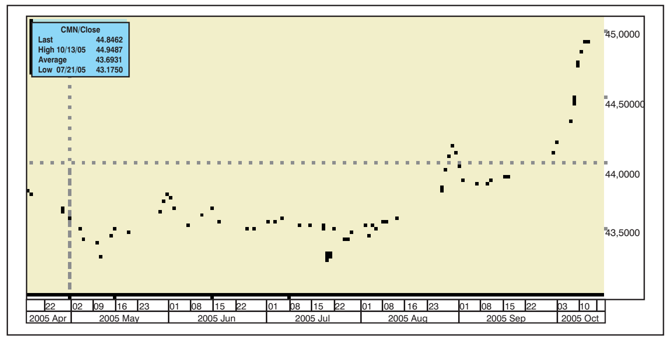
- **CHF:** EUR/CHF looks set to move lower as a more hawkish SNB supports CHF prospects.

- **SEK:** The Riksbank left the repo rate unchanged at 1.50% this week, as widely expected, and signaled it was in no rush to raise rates. Still, SEK weakness may be approaching an extreme

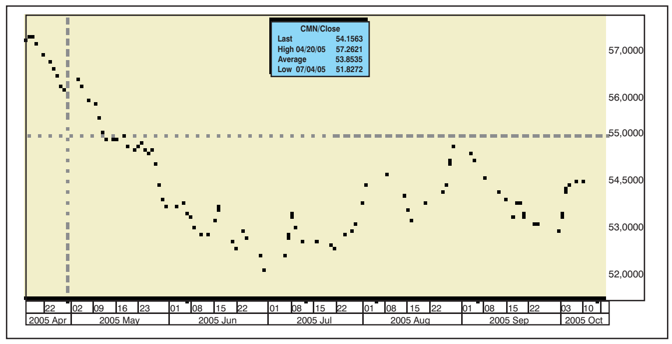
- **NOK:** EUR/NOK may move higher in coming sessions as oil prices continue to moderate and interest rate expectations move in favor of EUR.

- **CAD:** The BoC raised base rates by 25bp to 3.00%, as widely expected, and continued its hawkish tone. CAD should continue to benefit from increased rate expectations, especially on the crosses.

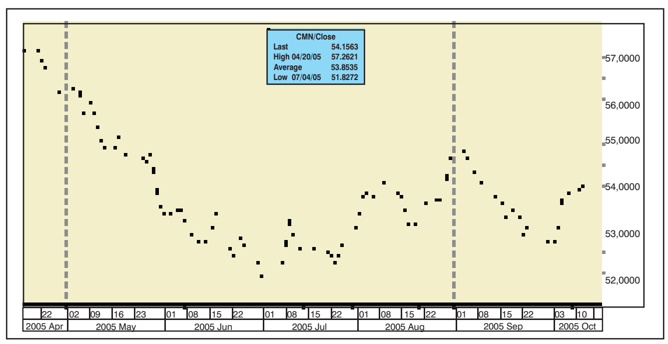
- **AUD:** Near term prospects for AUD against the crosses remain positive



USD/ INR Source - Bloomberg



EUR/ INR Source - Bloomberg



GBP/ INR Source - Bloomberg

Currency	Spot 19-Oct	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**	45.06	45.00	45.36	46.00	45.56	44.00	45.68	43.50	45.93
EUR / **INR**	53.94	53.10	54.38	57.50	54.81	57.64	55.25	58.29	56.15
JPY / **INR**	0.39	0.38	0.40	0.41	0.40	0.44	0.41	0.46	0.42
HKD / **INR**	5.81	5.80	7.01	5.92	5.87	5.67	5.89	5.61	5.92
RMB / **INR**	5.57	5.56	5.62	5.73	5.67	5.59	5.73	5.67	5.90

Source : CitiFx Views and Citigroup Asian Economic Weekly

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