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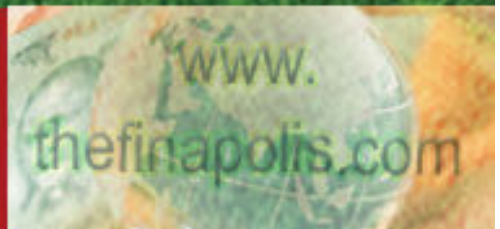
May

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Feb

MONTHLY REPORT
JANUARY-2009



25 Years



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Fund - O - Meter -- Monthly

A Monthly Report on Mutual Funds



PF/MFW/11012009/517

Dec 1, 2008 to Dec 31, 2008

Indian Major Stock Indices

	Nov 30, '08	Dec 31, '08	% Change
S&P Nifty	2755.10	2959.15	7.41
BSE Sensex	9092.72	9647.31	6.10
BSE Teck	2001.63	1947.04	-2.73
BSE-HC	2887.83	2966.19	2.71
BSE FMCG	1936.60	1987.38	2.62
BSE CD	1793.57	1913.74	6.70
BSE Bankex	4645.40	5454.54	17.42
BSE CG	6387.32	6911.12	8.20
BSE AUTO	2330.56	2444.71	4.90
BSE METAL	4383.38	5214.35	18.96
BSE Oil & Gas	5618.16	6050.04	7.69
BSE Mid Cap	2885.76	3235.05	12.10
BSE Small Cap	3304.61	3683.11	11.45
BSE Realty	1561.01	2274.13	45.68

Data source: BSE

Monthly MF – AMC - AUM transactions

	Nov '08	Dec '08	% Change
AUM	402029.59	421116.48	4.75

Amt in Rs. Cr

Data Source: AMFI

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Highlights

- ❖ Sensex displays signs of respite from negative trends
- ❖ IIP Shrinks by 0.40% for the First Time in 15 years
- ❖ Inflation reached to its 10 month low
- ❖ Second stimulus package announced

Equity Market – Roundup

Finally, Indian indices have close on a positive figure in comparison to the previous months levels. December has brought green colours to all the indices except Teck. Indices like banking, metal and realty have shown great progress and have managed to close at 17.42%, 18.96% and 45.68% respectively. The two stimulus packages announced by the government have originally contributed to the rise in the indices during the month, however, towards the end of the month and marching in to the first week of new year the Satyam fiasco has again sent tremors into the market. During the second half of the month market witnessed a consistent fall and FII's withdrew funds totalling Rs. 151 crore from market during the first week. In the last week of the month, market opened firm in expectations of announcement of second stimulus package by the Government. Banking and capital goods sectors recovered smartly. Bulls remained active helped by the positive global sentiments. Mutual funds invested over Rs. 1,500 crore during the fortnight. In addition to this, firm European and US markets also boosted the market sentiments. Rebound in crude oil prices spurred buying in oil producing companies. Declining inflation kept the market sentiments upbeat.

Debt Market:

Corporate Bond market: Corporate bond's primary market remained highly active with many issuers tapping the market to raise both short and long-term funds. PFC raised Rs.250 crore through issuance of AAA rated bonds maturing in 18-months. Bonds offer a semi-annual coupon rate of 8.70%. Andhra Bank raised Rs.200 crore through issuance of AA rated perpetual bonds carrying call option at the end of 10-yr. These bonds carry annual coupon of 9.50% which will be raised by 50 bps if the call option is not exercised at the end of 10th year. HDFC bank also raised Rs. 850 crore for 10-yrs at an annual rate of 9.90%.

Government Securities During the month, the Govt. of India raised Rs. 10,000 crore through reissuance of 9-yr paper 7.46% GOI 2017 (Rs. 6,000 crore) and 27-yr paper 7.4% GOI 2035 (Rs. 4,000 crore) using multiple price auction method. In the secondary market, after the continuous rally which resulted in yields easing by over 100 bps, yields in G-sec market firmed up owing to profit booking by market participants. Moreover, Parliament's approval to the additional spending raised fears of increased supply of govt. securities triggering a sell-off in the market. Fears of armed conflict also turned investors cautious as economic uncertainty may increase under such conditions.

MONEY MARKET

Money market rates remained comfortable and well within the interest rate corridor throughout the month owing to ample liquidity in the system.

Key Indicators

	30 Nov, 2008	31 Dec, 2008
Dollar exchange rate	49.84	48.50
Gold (Rs.10/gm)	13,154.60	13,425.00
Crude Oil	54.43	44.60

Data source: Bloomberg

Foreign Major Stock Indices

	30 Nov, 2008	31 Dec, 2008	% Change
MSCI World Index	892.92	920.22	3.06
FTSE	4288.00	4434.2	3.41
Dow Jones	8829.04	8776.39	-0.60
Strait Times	1732.57	1761.56	1.67
KLSE	866.14	876.75	1.22
HangSeng	13888.24	14387.48	3.59
Nikkei	8512.27	8859.56	4.08

Data source: Bloomberg

Domestic Developments:

IIP Shrinks by 0.40% for the First Time in 15 years

Industrial production has slipped by 0.4% in October for the first time in 15 yrs highlighting the deceleration of the Indian economy and fall in external and internal demand. The decline has been sharp compared to 12.2% growth witnessed in the corresponding period last year. Manufacturing sector, which accounts for about 80% of industrial production, has been the worst performer, showing 1.2% y-o-y contraction as against September's revised growth of 5.5%. Tightened credit availability, high interest rates and slowing demand have hurt the manufacturing sector, reinstating the fact that the Indian economy is not insulated against the global slowdown. On the other hand, mining and electricity output grew by 2.8% and 4.4% respectively. The fall in IIP has been further magnified owing to base effect as the index was higher in the corresponding period last year. Industrial output across Asian countries has been hit as a recession in US and Europe has curbed demand substantially. Industrial production is expected to fall further in coming months as the high base effect comes into play. RBI has been aggressively cutting interest rates in response to the recent developments and is further expected to take more steps in order to shore up the economy.

Second Stimulus Plan Introduced to Spur Slowing Economy

In yet another effort to counter the impact of the slowing global economy, RBI has come up with the second stimulus package including hefty cuts in its key policy rates.

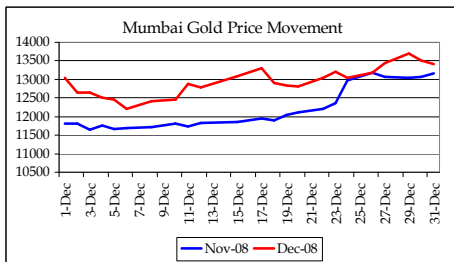
- Repo and Reverse Repo rate cut by 100 bps each to 5.50% and 4% respectively
- CRR reduced by 50 bps to 5%

RBI has been actively tracking the developments and has adopted an increasingly softer monetary stance since October in line with market expectations. All the key policy rates have been reduced aggressively in order to prevent the economic slowdown and increase the availability of credit. Repo rate has been brought down from a high of 9% during the year to the current rate of 5.50%. Reverse Repo rate has also been brought down to 4% in order to discourage banks from parking surplus funds with RBI. 50 bps reduction in CRR is expected to flush in funds worth Rs 20,000 crore into the financial system. The package comes in the wake of deteriorating global economic condition, which has now been officially endorsed as a recession by major countries of the world. Major economies of the world have resorted to interest rate cuts and various bailout packages in order to boost growth. India has also been affected by the global developments and performance across sectors has been weakened as against robust growth witnessed during the last financial year. Banks have also reciprocated the monetary easing process by cutting key deposit and lending rates.

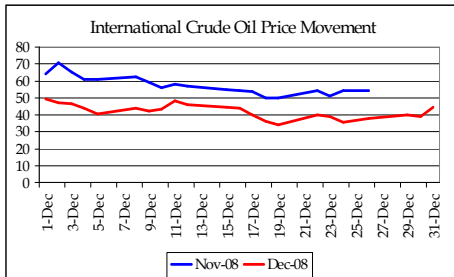
Despite the cut in lending rates by banks, some moderation has been observed in credit off take, which has resulted in decline in demand.

The debt market has been able to generate windfall profits as a result of the consistent decline in policy rates, which indicates that the Indian economy is headed towards a low interest rate regime. Apart from the monetary easing, the government has also introduced a fiscal package to enhance credit availability, the highlights of which are given as under:

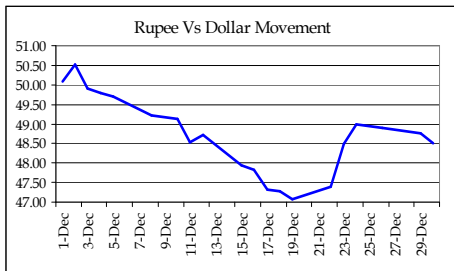
- State owned banks to be recapitalized by Rs 20,000 crore over next two years
- States to be allowed additional borrowings of Rs 30,000 crore for capital expenditure during the current financial year
- FII investment limit in corporate bonds raised from USD 6 billion to USD 15 billion
- Interest rate ceiling on ECB's removed under RBI approval route
- NBFC's permitted to access ECB's for infrastructure financing
- EXIM Bank has been permitted to use line of credit from RBI amounting to Rs 5000 crore to provide credit to exporters



Data source: Bloomberg



Data source: Bloomberg



Data source: Bloomberg

International Developments:

Record Low Yields Wane Demand for US Treasuries

In US treasury market, initially yields traded in a range bound manner due to lack of major triggers. Subsequent to the rate cut by Fed during the first fortnight, yields were trading at record low levels giving rise to apprehension over the extent of demand in the upcoming USD 66 billion short-term treasury auctions. Demand for these papers was expected to be low with yields hovering around zero percent level, there was not much scope for further decline. With investor preference shifting to longer tenor bonds, spread between the 2-yr and 10-yr paper declined to the lowest since June'08. Another series of weak data releases revived demand for treasuries resulting in further decline in yields across the curve. Initial jobless claims rose to the highest level since Nov'82, indicating employers are stepping up job cuts as the recession deepens. Low holiday spending despite steep discounts by retailers added to the concerns that the economic slump may lead to deflation. However, after rising for 7 consecutive weeks, US treasuries registered a weekly loss as fresh supply of securities drew lower-than-expected demand. In the last week of the month, short-term securities rose due to the mounting tension in the Middle-East. However, volumes remained low due to festive season. After touching a low of 2.05%, yield on 10-yr paper firmed up by 16 bps on the last trading day of the calendar year owing to better-than-expected initial jobless claim data and decline in demand for treasuries due to low yields.

Crude Recovers on Back of Production Cuts

OPEC's decision to cut output has seemed to bring in some respite as crude oil prices increased by almost 37% over the last fortnight. Even though crude oil prices have shown an increase, trade remained choppy during the entire month. The cut in output by OPEC was brought in to reduce the glut in supply, which was mismatched with the falling demand due to recession in major economies of the world. Crude oil prices also sought support from weakness of dollar against euro, which increased the attractiveness of the commodity. Moreover US government's decision to bailout the country's biggest automaker also kept the sentiments upbeat. However, oil prices fell as US economy shrank by 0.50% in the third quarter and gasoline supplies grew more than estimated. Weak US economic data releases also pressurized crude oil prices. During the last week of the month, prices rose to USD 37.71 a barrel after U.A.E. announced reduction in its production. The reduction comes after the OPEC, supplier of more than 40% of the world's oil, agreed to trim production targets by 2.46 million barrels a day. The prices were supported by tension on the Gaza strip as fears loomed that Israel's air attack would disrupt supplies from the Middle East.

FOREX Market

Wiping out the gains made after the release of the first stimulus plan, rupee weakened against dollar to end the fortnight at 48.57/USD as against 47.26/ USD at the end of the first fortnight. In the third week of the month, weak domestic equity markets and dollar demand by importers and oil companies led to weakening of rupee against USD. Banks also bought dollar in domestic market to take advantage of arbitrage opportunities offered by the high dollar rate in NDF market. In addition to this, strengthening of dollar against major currencies after announcement of bail out package for automotive financial firm accentuated the rupee's fall. Rupee gained some strength on dollar selling by exporters. Many exporters sold dollar to book profits ahead of the quarter end. Recovering of stock markets further added to rupee's strength. However, trading volumes remained low owing to festive season and year-end closing Rupee has registered a decline of 23.5% during the calendar year. Rupee declined from 39.42/USD at the beginning of year to 48.68/USD as on 31st Dec' 08 as recession in world's major economies reduced risk appetite of investors resulting in lower demand for emerging market assets. However, rupee recovered subsequently on hopes of revival of investor interest as govt. stepped up efforts to stave off an economic slump.

NFO at a glance:

NFO's open for subscription:

Scheme	Open Date	Close Date
Bharti AXA Tax Advantage Fund	12.12.08	12.02.09
Tata Infra Tax Savings Fund	17.12.08	16.03.09
JP Morgan Tax Advantage	18.12.08	16.01.09
DBS Chola Tax Advantage	19.12.08	19.03.09
JP Morgan Tax Advantage	18.12.08	16.01.09

Forthcoming NFO's:

Sl. No.	Scheme Name
1	ICICI Target Returns Fund
2	Bharti AXA Income Fund
3	Edelweiss Income Plus Fund

Note: The above given funds are awaiting SEBI's approval.

MF Recommendations:

Equity Long & Medium Term:

Recommended schemes to invest		Historical returns as on Dec 05 '08 (%)		
		1 year (ann.)	2 years (ann.)	3 years (ann.)
Equity	HSBC Equity Fund	-49.65	-8.94	3.31
	IDFC Premier Equity Fund	-53.55	-1.67	8.54
	Kotak Opportunities Fund	-58.19	-9.91	3.07
	Reliance Regular Savings Fund – Eq.	-55.24	-7.18	10.83
ELSS	Franklin India Taxshield	-49.83	-11.67	-1.05
	HSBC Tax Saver Equity Fund	-52.98	--	--
	Reliance Tax Saver Fund	-52.04	-18.58	-4.22
	Sundaram BNP Paribas Tax saver	-48.80	-7.26	3.71
Balanced	Birla Sun Life Balance Fund	-30.43	-3.45	4.46
	DSP BlackRock Balanced Fund	-39.01	-3.82	6.17
	UTI Mahila Unit Scheme	-9.09	5.63	11.73

Data source: MFI Explorer

Debt Short & Ultra Short Term:

Recommended schemes to invest		Historical returns as on Dec 05 '08 (%)		
		3 months (abs)	6 months (abs)	1 year (ann.)
Floating Rate Funds	LIC MF Floating Rate Fund - ST	2.54	5.16	10.18
	Tata FRF – LT	2.95	5.30	9.86
Debt Short Term	Canara Robeco Income Scheme	10.29	23.95	29.15
	Fortis Flexi Debt Fund	7.82	10.35	14.66
Debt Ultra Short Term	HDFC Cash Mgmt Fund - Savings Plus - Retail	2.18	4.51	8.77
	LIC MF Liquid Fund	2.46	4.93	9.45

Data source: MFI Explore

For more information on MUTUAL FUNDS call 1800 4258283 or contact your nearest Karvy branch.

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