

01-2008

02-2008

03-2008

04-2008

05-2008

06-2008

07-2008

08-2008

09-2008

10-2008

11-2008

12-2008

Sep

Oct

Nov

Dec

Jan

Feb

Mar

Apr

May

Jun

Jul

Aug

MONTHLY REPORT  
AUGUST-2008



25 Years



**CONTENTS**

Monthly performance - Equities	1
Monthly performance - Debt	2
Domestic Developments	2
International Developments	3
MF Recommendations	4
NFO corner	4

PF/MFW/14082008/469

July 01, 2008 to July 31, 2008

## Indian Major Stock Indices

	June 30, '08	July 31, '08	% Change
S&P Nifty	4040.55	4332.95	7.24
BSE Sensex	13461.60	14355.75	6.64
BSE Teck	3043.99	3000.41	-1.43
BSE-HC	4164.33	4162.03	-0.06
BSE FMCG	2080.33	2139.18	2.83
BSE CD	3477.60	3685.84	5.99
BSE Bankex	5915.98	6516.41	10.15
BSE CG	10080.69	11683.80	15.90
BSE AUTO	3585.62	3679.51	2.62
BSE METAL	13207.30	12912.61	-2.23
BSE Oil & Gas	9009.16	9729.48	8.00
BSE Mid Cap	5386.48	5567.37	3.36
BSE Small Cap	6701.96	6912.79	3.15
BSE Realty	4543.47	5079.01	11.79

Data source: BSE

## Monthly FII &amp; MF transactions (equities)

	June '08	July '08
FII – Net inflow	62840.80	256166.30
MF – Net inflow	14810.70	1412.20

Amt in Rs. Cr.

Data source: SEBI

## Monthly MF – AMC - AUM transactions

	June '08	July '08	% Change
AUM	5,64,599.28	5,29,631.04	-6.19

Amt in Rs. Cr

Data Source: AMFI

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## Highlights

- ❖ Positive equity markets
- ❖ RBI announced its Q1 monetary policy
- ❖ Annual Inflation continues to be there at the same.
- ❖ Fiscal Deficit during April – June at 64.6% of Annual Budgeted figure

## Equity Market – Roundup

After months of continuous downfall sensex and nifty have finally seen some positive trend during the month. In the first week of the month, the markets were upbeat about the government's decision to go ahead without the support of the Left, with hopes of resumption of economic reforms. Sensex ended the first week at 13,497 after scaling a high of 14,063 points during the week. In the second week, market declined sharply as Fitch downgraded India's outlook to negative. In addition to this, continuing political crisis, rising inflation and weak global cues weighed heavily on market sentiments. Market indices made strong gains during the third week on anticipation of reforms after the Government won the trust vote. However, half of the 1,300-point gain in Sensex was erased on concerns that RBI may hike interest rates in the policy review on 29th July. Sentiments were also hit by the seven blasts that took place in Bangalore. In the last week, initially, Sensex traded in a narrow range, as participants remained cautious ahead of the policy review. Corporate result announcements remained the major drivers of the market. Later, RBI's hawkish monetary stance caught investors by surprise, triggering a 500-plus point fall in the market indices. However, market recovered sharply on strong global cues and renewed interest in securities at attractive valuations.

**Sector indices:** During the month, capital goods and realty indices have been amongst the major gainers 19.90% and 20.47% gains respectively.

## Debt Market:

**Corporate Bond market:** During the Month, IDFC raised Rs. 132 crore AAA rated bonds through 3-yr and 5-yr bonds with an annual coupon of 10.75%. Tata sons raised Rs. 500 crore through 5-yr bonds at an annual coupon of 10.80%. Exim Bank raised Rs. 500 crore through 5-yr bonds carrying an annual coupon of 10.80%. Exim Bank also raised Rs. 130 crore through 3-yr bonds with an annual coupon of 10.75% and carrying a put/call option at the end of 18 months.

**Government Securities:** During the month the state of Punjab auctioned 10-yr State Development Loan for an amount of Rs 500 crore. The cut off yield in the auction was set at 9.81%. Also, the Govt. of India raised Rs. 6,000 crore through the reissuance of 10-yr paper 8.24% GOI 2018 using uniform price method.

**Money Market:** Liquidity continued to be under pressure under the combined impact of auction outflows and the first of the two stages of CRR hikes coming into effect. The 50 bps CRR hike which came during the month is expected to drain more than Rs. 17,000 crore.

## Key statistics

	June 30, '08	July 31, '08
7.38% (7 Yr G-Sec Yield)	9.17	9.37
8.24% (10 Yr G-Sec Yield)	8.82	9.13
FII – Debt Net inflow	312.70	20176.10
MF – Debt Net inflow	24287.00	5788.90

*Amt in Rs. Cr.*

*Source: SEBI & CCIL*

## Outlook

### Equity Market:

With the Q1 June 2008 earnings season over, there is lack of any major near term trigger for the domestic bourses. The market will now closely watch movement in crude oil prices and global stock markets. A further slide in oil price may boost investor confidence in the short term. In the near term, the market trend is likely to be also dictated by the progress of the monsoon. India's annual monsoon rains from 17 to 23 July were 33% below the long-term average, the Indian Meteorological Department. Rainfall since 1 June 2008 has been 2% below the same average. Stocks of the public sector units will continue to remain in focus as there are expectations that the government may push forward some economic reforms, which were stalled over the past four years due to opposition from Left parties. Left parties had stalled privatisation of state-run firms, pension reforms, higher foreign limits in insurance and more liberal norms for foreign bank. Some analysts, however, feel that a major big-bang push to reforms is unlikely as the government will focus primarily on bringing down inflation ahead of key state polls and parliamentary elections, which are due in May 2009.

Despite heavy borrowing under RBI's LAF facility, call and CBLO rates remained firm. Expecting a hike in key lending rate in the policy meet, most of the banks borrowed heavily in the third week of the month to cover the reserve requirements. In all the combined impact of auction outflows, lack of Govt. spending and CRR hike have lead to liquidity being tight during the month.

### Outlook

#### Debt Market:

After yields firmed up considerably following RBI's aggressive monetary tightening measures, easing of crude oil prices and easier liquidity conditions have improved debt market sentiments. Going forward, announcement of uniform price based auction of 10-yr paper 8.24% GOI 2018 (Rs.6,000 crore) and 24-yr paper 7.95% GOI 2032 (Rs.4,000 crore), as per the auction calendar, is likely to be received positively by market participants. Liquidity conditions are also expected to remain comfortable. However, auction outflows may put some pressure on money market rates. Signs have also started emerging that oil demand is tapering at high price levels which have reduced inflation expectations. However, WPI-based inflation is expected to breach the 12% level in the near future. High inflation is expected to prevent traders from building huge positions; high yields are however expected to attract buying interest at regular intervals leading to intermittent rallies in the market.

### Domestic Developments:

#### RBI Announces Q1 Monetary Policy Review, Hikes Key Interest Rates

Emphasising its focus on controlling inflation, RBI hiked the repo rate by 50 bps to 9.00% and CRR by 25 bps to 9.00% in its first quarter review of the monetary policy for FY 2008 – 09. CRR hike will come into effect from the fortnight beginning 30th Aug'08. The hawkish policy statement laid emphasis on ensuring a monetary and interest rate environment that accords high priority to price stability, well-anchored inflation expectations and orderly conditions in financial markets while being conducive to continuation of the growth momentum. In view of the higher-than-expected escalation in inflation and limited success of the steps taken to curb inflationary pressures, RBI revised the inflation target to 7.0% from 5.0% - 5.5%. RBI has also lowered GDP projection to 8.0%, down from 8.0 -8.5% earlier.

**Impact on Markets:** After the 50 bps hike in repo rate, the interest rate corridor has widened to 300 bps. Hike in repo rate is a clear indication for banks to hike lending and deposit rates. Interest rates are expected to increase by a minimum of 50 bps. While this is expected to moderate the credit growth, existing retail borrowers will also feel the pinch of rising rates. Expensive loans will lead to further shrinking of corporate profits. Decline in investments is expected to affect economy's growth. The recent hike in CRR, fourth in the current FY, is expected to suck about Rs 8,000 crore from the banking system. Capital markets reacted negatively to the hawkish policy statement and higher-than-expected rise in repo rate. Easing of crude oil prices from the record high levels and decline in industrial growth had raised expectations of slightly moderate tightening of monetary stance. In equity market, financial stocks declined sharply. In bond market, yields firmed up across the curve. CRR hike announcement amid tight liquidity conditions led to sharp rise in short-term yields.

#### Fiscal Deficit during April – June at 64.6% of Annual Budgeted figure

The centre's fiscal deficit during April – June'08 stood at Rs. 86,126 crore, registering an increase of Rs. 12,925 crore during the month of June. At this

## Key Indicators

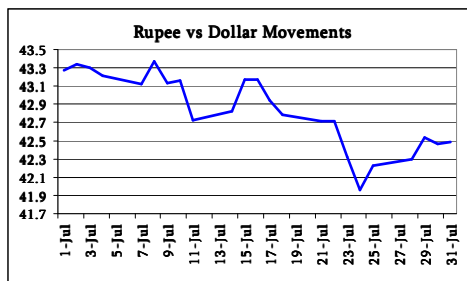
	30 June, 2008	31 July, 2008
Dollar exchange rate	42.95	42.49

Data source: Bloomberg

## Foreign Major Stock Indices

	30 June, 2008	31 July, 2008	% Change
MSCI World Index	1402.12	1366.69	-2.53
FTSE	5625.9	5411.9	-3.80
Dow Jones	11350.01	11378.02	0.25
Strait Times	2947.54	2929.65	-0.61
KLSE	1186.57	1163.09	-1.98
HangSeng	22102.01	22731.1	2.85
Nikkei	13481.38	13376.81	-0.78

Data source: Bloomberg



Data source: Bloomberg

level, it constituted 64.6% of the annual budgeted figure. The fiscal deficit during the same period of the previous year was 52.3% of BE. Revenue deficit stood at 138.73% of the budgeted figure, rising from 122.7% at the end of May. Government's fiscal deficit during the current fiscal is expected to exceed the budget estimate on account of additional expenditure arising from farm loan waiver scheme and implementation of the Sixth Pay Commission. Further, interest payments to the tune of Rs.35,912 crore covered 57.77% of the planned expenditure. Total receipts at Rs. 82,813 crore and total expenditure at Rs.1,68,939 crore were at 13.4% and 22.5% of their budgeted figures respectively.

## International Developments:

### Banking Sector Concerns and Weak Economic Data Heighten buying Interest in US Treasuries

In US treasury market, in the first week, decline in US equities owing to weak quarterly results from some companies led to some safe haven buying interest in treasuries. However, declining crude oil prices shifted investor interest from treasuries to equities. A Fed official's remarks that rising inflation could force the Fed to lift interest rates before labor and financial markets recover and poor response to a 20-yr treasury paper's auction led to firming up of yields on treasuries. Concerns also remained over more treasury debt issuances to fund the Government's plan to help the ailing housing and mortgage markets. However, weak economic data on existing home sales and jobless claims revived investor interest in treasuries and brought down 10-yr yield. Yield on benchmark US 10-yr security ended the first week at 4.10%. In the second half of the fortnight, yields eased further as concerns about the banking sector triggered sharp declines in equities and spurred investor interest in treasuries. A modest increase in consumer confidence and decline in crude oil prices however restored buying interest in equities. News of larger US Government borrowings further reduced demand for safe haven treasuries. Global credit squeeze concerns however prevented yields from firming up by a large extent. Weak growth and employment data pointed towards continued weakness in the economy and took yields on treasuries to two-week lows. Gains in oil prices, stock market weakness and release of highest unemployment rate data in more than four years kept yields soft. Yield on benchmark US 10-yr security ended the fortnight at 3.94% vis-à-vis previous fortnight's level of 4.10%.

**FOREX MARKET:** In Forex market, rupee appreciated against USD during the third week.. The new found confidence in government improved market sentiments and with crude oil trading at low levels, dollar demand from oil companies fell. However, profit booking, steep losses in equity markets on the back of weak global cues pulled down rupee from its two-month peak against USD. Rupee ended the third week at 42.31/USD. In the last week, rupee weakened on the back of dollar demand from oil refiners to meet month-end import commitments. RBI's announcement that it would stop the two-month old scheme of providing foreign exchange to oil refiners in exchange for special government-issued bonds led to a surge in dollar buying. While some inflows in between gave the rupee interim relief, dollar demand remained strong. After RBI took strong monetary measures in its quarterly monetary policy review, rupee strengthened against USD. However, sharp decline in domestic equities reversed rupee's gains. Expectations of stronger inflows on account of higher domestic interest rates took rupee higher. Narrowing down of trade deficit in June from the previous month also provided comfort to the market. Rupee ended the month at 42.39/USD.

## NFO at a glance:

### NFO's open for subscription:

Scheme	Open Date	Close Date
ING Optimix Global Commodities Fund	29.07.08	25.08.08
Sahara Banking and Financial Services Fund	28.07.08	26.08.08
JM Multi Strategy Fund	31.07.08	29.08.08
JP Morgan India Alpha Fund	31.07.08	29.08.08

### Forthcoming NFO's:

Sl. No.	Scheme Name
1	Edelweiss Absolute Return Equity Fund
2	AIG Long Term Tax Advantage Fund
3	Kotak Emerging Economies Fund
4	Franklin India MENA Fund
5	JM Moving Sector Fund
6	Mirae Asset Tax Advantage 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 Aug 13 '08 (%)		
		6 months (abs)	1 year (ann.)	3 year (ann.)
<b>Equity</b>	DWS Investment Opportunity Fund	-10.42	11.24	30.93
	HSBC Equity Fund	-9.11	8.90	25.83
	ICICI Prudential Infrastructure Fund	-8.53	15.55	--
	IDFC Premier Equity Fund	-9.81	12.52	--
	Reliance Diversified Power Fund	-11.17	25.71	46.21
<b>ELSS</b>	Sundaram BNP Paribas Select Focus	-10.17	11.54	30.49
	DSP Merrill Lynch Tax Saver Fund	-11.90	0.77	--
	DWS Tax Saving	-13.23	1.40	--
	Principal Personal Tax saver	-48.50	-49.06	-14.36
<b>Balanced</b>	Sundaram BNP Paribas Tax saver-(O.E)	-11.88	7.92	24.12
	DSP Merrill Lynch Balanced Fund	-2.90	7.78	22.43
	Tata Balanced Fund	-11.48	0.00	18.77
	UTI Childrens Career Balanced Plan	-5.67	-0.20	2.61

Data source: MFI Explorer

### Debt Short & Ultra Short Term:

Recommended schemes to invest		Historical returns as on Aug 13 '08 (%)		
		3 months (abs)	6 months (abs)	1 year (ann.)
<b>Floating Rate Funds</b>	HDFC F R I F - LTF	2.42	4.88	9.50
	LIC MF Floating Rate Fund - ST	2.41	4.78	9.52
<b>Debt Short Term</b>	Birla Sun Life Short Term Fund	1.96	3.85	8.27
	Canara Robeco Liquid Plus -Ret	2.19	4.31	8.97
<b>Debt Ultra Short Term</b>	HDFC Cash Mgmt Fund - Savings Plus - Retail	2.11	4.14	8.28
	LIC MF Liquid Plus Fund	2.33	4.58	9.11

Data source: MFI Explore

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

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