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## Indian Major Stock Indices

	Feb 01, '08	Feb 29, '08	% Change
<b>Sensex</b>	18,242.58	17,578.72	-3.64
<b>S&amp;P Nifty</b>	5317.25	5223.50	-1.76
<b>Smallcap</b>	10,072.32	9,628.13	-4.41
<b>Midcap</b>	7,761.54	7,680.39	-1.05
<b>Banking</b>	10,890.27	10,113.73	-7.13
<b>Healthcare</b>	3,642.71	3,928.78	7.85
<b>FMCG</b>	2,225.02	2,274.39	2.22
<b>IT</b>	3,934.27	3,862.45	-1.83
<b>PSU</b>	8,376.90	8,484.16	1.28
<b>Auto</b>	5,004.87	4,887.17	-2.35
<b>Capital Goods</b>	16,434.41	16,119.52	-1.92

Data source: BSE

## Monthly FII & MF transactions (equities)

	Jan '08	Feb '08
FII - Net inflow	-1,3035.70	1733.30
MF - Net inflow	5,568.00	57.50

Amt in Rs. Cr.

Data source: SEBI

## Monthly MF - AMC - AUM transactions

	Jan '08	Feb '08	% Change
AUM	5,47,880.93	5,65,469.53	3.21

Amt in Rs. crores

Data source: AMFI

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## Highlights

- ◆ **Global market sentiments weakened the domestic market**
- ◆ **FII's inflow more than Rs.1,700 crores**
- ◆ **Gold prices touch record highs.**
- ◆ **Crude prices rose due to expectations on higher heating oil demand.**

## Equity Market

The market saw volatility during the month. Both Sensex and Nifty have lost around 3.64% and 1.76% respectively. The weak global market sentiments coupled with all-time high levels of crude oil prices led to poor sentiments in the domestic market. After 3 weeks of continued volatility, the markets turned positive last week on the announcement of bonus share issuance by Reliance Power. Further, announcements of decline in freight rates in the railway budget pushed up construction related stocks of cement and steel during the last 3 days of the month. On the last day of the month, all the PSU banks have faced a severe hit after the finance minister has announced the waiver on the farmers loans to an extent of Rs.60,000 crores.

### Sector indices:

Banking sector has evidenced the worst fall amongst all the other indices because of the unabated selling pressure. IT index was to a major extent protected by the weakening rupee. Indices like health care and FMCG have remained positive during the month.

### Debt Market:

**Corporate Bond market:** During the month, Yield on short-term papers firmed up resulting in an inverted yield curve due to strong demand for short-term funds from banks. Due to redemption pressure, mutual funds sold bonds despite high yields. However, volumes remained low as market participants faced the cash crunch and failed to generate surplus funds to invest in bonds despite attractive yields.

**Government Securities:** As per the auction calendar Govt. of India raised Rs.9,000 crore through the regular auction of dated securities. In addition, it raised Rs.6,313 crore through sale of two dated securities under MSS. The yields in the auctions ranged between 8.12% and 8.48%.

**Money Market:** Throughout the first half of the month, call and CBLO rates traded steady owing to influx of liquidity through Reliance Power issue subscription refunds and also equitable distribution of liquidity amongst banks. RBI accepted bids worth Rs.11,360 crore under MSS during the month in an attempt to drain out excess liquidity.

### Key statistics

	Jan 31, '08	Feb 29, '08
7.27% (5 Yr G-Sec Yield)	7.50%	7.49%
7.99% (10 Yr G-Sec Yield)	7.54%	7.52%
FII – Debt Net inflow	1953.80	2496.80
MF – Debt Net inflow	-4,511.60	11407.70

*Amt in Rs. Cr.*

*Source: SEBI*

During the second half of the month, month-end outflows towards import payments forced banks to convert rupee into dollars resulting in further shortage of funds. However, liquidity improved towards the end of the fortnight as demand waned after banks covered their reserve requirements ahead of reporting Friday (Last Friday). Further, Debt Mutual funds inflow which was decent during the month has eased the liquidity crunch.

### Outlook:

The housing and credit market travails continue to impinge on the US economy and financial markets, with clear signs of weakness emerging from the commercial real estate sector, retail space in particular. Banks are recording additional write downs. Manufacturing conditions continued to worsen, with February's state surveys pointing to the possibility that the ISM Manufacturing Index might slip back into the red. Despite the continuing weakness in the economy, inflation remains sticky – because of soaring food, energy and other commodity prices. However, monetary policy adjustments and the fiscal stimulus package now signed into law are expected to provide some economic relief in the second.

Indian markets have still not recovered from the fall that has been evidenced post the Reliance IPO. Though it is believed that there is basic independence of the Indian markets, in the short term, markets still seem to have direct correlation with the international markets. In the long term, Indian economy is expected to display growth potential as basic fundamentals of the economy still continue to be robust pointing towards burgeoning economy.

Further, in the short run, the banking stocks will gain an eye in the market as the PSU's have negatively responded to the debt waiver of farmers as per budget.

Further, as seen in Feb 2008, though the equity MF was disappointing the debt MF has grown in the corpus by a huge extent. This inflow is expected to bring balance in the industry.

Yields in the domestic gilt market witnessed great volatility in the past fortnight with yield on 7.99% GOI 2017 fluctuating between 7.49% and 7.71%. However, release of lower-than-expected budgeted borrowing figures for FY 2008 - 09 has improved market sentiments considerably. The supply of dated securities will be more than offset by coupon inflows and redemptions of dated securities thereby putting no additional strain on liquidity. While inflation has firmed up to a nine month high, the economic survey has indicated that inflation would remain moderate in the medium term which is an added positive factor for the market.

However, yields are expected to trade range bound in the coming days as liquidity may come under pressure following tax outflows.

### Domestic Developments:

The pre-budget Economic Survey 2007-08 acknowledged that sustaining 9% growth and keeping inflation under control would be a primary economic challenge. For FY 2007 - 08, GDP is projected to grow at 8.7%, inflation is expected to moderate to 4.4% and credit growth is also expected to slow down to 26.8%. Against this backdrop of estimated moderation in inflation and marginally lower economic growth, Finance Minister presented the Union Budget for FY 2008 - 09.

## Key Indicators

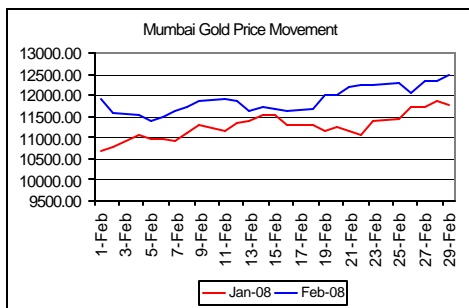
	31 Jan, 2008	29 Feb, 2008
Dollar exchange rate	39.38	39.92
Gold (Rs.10/gm)	11,794	12,504
Crude Oil	91.75	101.84

Data source: Bloomberg

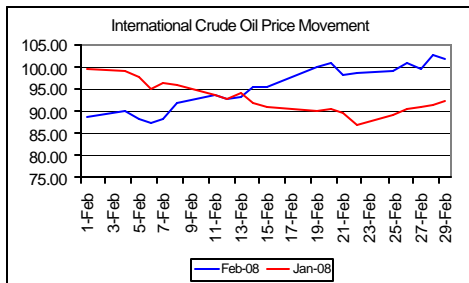
## Foreign Major Stock Indices

	Jan 31, '08	Feb 29, '08	% Change
MSCI World Index	1466.34	1455.56	-0.74
FTSE	5879.80	5884.3	0.08
Dow Jones	12650.36	12266.39	-3.04
Strait Times	2981.75	3026.45	1.50
KLSE	1393.25	1357.4	-2.57
HangSeng	23455.74	24331.67	3.73
Nikkei	13592.47	13603.02	0.08

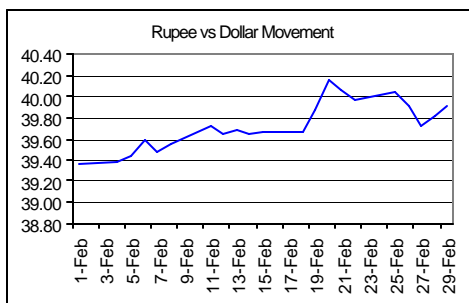
Data source: Bloomberg



Data source: Bloomberg



Data source: Bloomberg



Data source: Bloomberg

## Highlights of Union Budget 2008 - 09

### Tax Measures

- Income tax exemption threshold limit raised to Rs.150,000 from Rs.1,10,000
- For women and senior citizens, the income tax limit has been increased to Rs.1,80,000 and Rs.2,25,000 from existing limits of Rs.1,45,000 and Rs.1,85,000 respectively
- As per the new tax slabs, personal income tax rates for income levels in the range of Rs.150,001 to Rs.300,000, Rs.300,001 to Rs.500,000 & Rs.500,001 and above would be 10%, 20% and 30% respectively
- Short term capital gains tax raised to 15% from 10%

### Capital Markets

- Corporate debt instruments issued in demat form and listed on recognised stock exchanges exempted from TDS
- Exchange-traded currency and interest rate futures to be launched and credit derivatives market to be developed
- To enhance liquidity in the corporate bond market, embedded equity option in convertible bond to be allowed to be traded separately
- Introduction of Commodities Transaction Tax; Withdrawal of Banking Cash Transaction Tax

### Other Measures

- Duty cuts - General CENVAT rate on all goods reduced from 16% to 14% to give a stimulus to the manufacturing sector; Excise duty on hybrid cars reduced to 14% from 24%
- Threshold limit of exemption of service tax for small service providers increased from Rs.8 lakhs per year to Rs.10 lakhs per year
- AMC's being brought into service tax net.
- Dividend Distribution Tax relief - Parent companies allowed to set off the dividend received from its subsidiary company against dividend distributed by the parent company
- Central Sales Tax rate will be reduced from 3% to 2% from April 1, 2008

### International Developments:

#### Weak Economic Data release pulls down Yields on US Treasuries:

In the US treasury market, the month started with sharply lower yields resulting out of profit booking and inflation worries owing to surging oil prices. High demand drove yields on short-tenure papers to 4-yr low levels resulting in further steepening of the yield curve.

**Forex Market:** In Forex market, consistent decline in domestic stock markets and a fresh bout of risk aversion led to rupee depreciation beyond 40 against US dollar. Huge dollar demand from oil companies combined with reduced capital inflows led to strengthening of dollar. Market sentiments remained bearish due to outflows of investments from the equity markets. The month ended with the rupee standing at 39.92/\$, which is weaker than previous months close of 39.38/\$.

**Commodity markets:** In commodities market, in the first half of the fortnight, crude prices firmed up considerably to trade above USD 100 a barrel. The month ended with the crude prices standing at USD 101.84 a barrel, which is higher than the previous month's USD 91.75 a barrel.

## NFO at a glance:

### NFO's open for subscription

Scheme	Open Date	Close Date
Standard Chartered Small & Midcap Equity	09.01.08	15.03.08
Reliance ELSF – Series - 1	18.12.07	17.03.08
Tata Growing Economies Infrastructure Fund - Plan A	18.02.08	18.03.08
UTI Long Term Advantage Series 2	19.12.07	19.03.08
JM Tax Gain Fund	24.12.07	25.03.08
DSP ML Natural Resources & New Energy Fund	03.03.08	27.03.08

### Forthcoming NFO's

Sl No.	Scheme Name
1	ABN AMRO Infrastructure Fund
2	SBI Magnum Sector Funds Umbrella (MSFU) - Banking and Financial Services Fund
3	Tata Small and Midcap Infrastructure
4	ICICI Prudential Banking and Financial Services Fund
5	HSBC Agri and Natural Resources
6	HSBC Infrastructure and Real Estate
7	HSBC Banking and Financial Services Fund
8	Standard Chartered Ancillary Companies Fund
9	Standard Chartered Fifty Fifty Equity Fund
10	Sundaram BNP Paribas Select Thematic Funds - Financial Services Opportunities

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

## MF Recommendations:

### Equity Long & Medium Term:

Recommended schemes to invest		Historical returns as on Mar 3 '08 (%)		
		6 months (abs)	1 year (ann.)	3 year (ann.)
Equity	DSP ML India T.I.G.E.R. Fund	13.30	47.03	46.87
	HDFC Capital Builder Fund	8.99	39.46	31.14
	ICICI Prudential Infrastructure	25.32	65.78	-
	JM Basic	6.85	61.42	39.25
	Reliance Diversified Power Fund	36.49	94.84	65.30
	Reliance Regular Savings Fund -Equity	37.43	70.09	-
ELSS	Sundaram BNP Paribas CAPEX Opp.	14.28	57.95	-
	DSP Merrill Lynch Tax Saver Fund	13.69	48.96	-
	DWS Tax Saving	16.89	47.54	-
	Principal Personal Tax saver	9.56	46.82	36.66
	Sundaram BNP Paribas Tax saver-(O.E)	18.51	40.87	37.67
Balanced	Principal Child Benefit	10.88	32.10	29.03
	Tata Balanced	16.17	39.10	36.44
	DSPML Balanced	9.08	32.49	28.12

Data source: MFI Explorer

### Debt Short & Ultra Short Term:

Recommended schemes to invest		Historical returns as on Mar 3 '08 (%)		
		3 months (abs)	6 months (abs)	1 year (ann.)
Short Term Floaters	ICICI Prudential FRF - Plan D	4.26	8.77	-
	Tata FRF – ST	4.07	8.37	6.91
Debt Short Term	Kotak Bond (Regular)	6.88	11.75	7.61
	Reliance Short Term Fund	4.73	10.17	7.69
Debt Ultra Short Term	HDFC Cash Mgt. Savings Plus	4.03	8.21	6.95
	LIC MF Liquid Fund	4.09	8.11	7.11

Data source: MFI Explore

**For more information on MUTUAL FUNDS call 18 00 42582 83 or contact your nearest Karvy branch.**

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