

01-2008

02-2008

03-2008

04-2008

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06-2008

07-2008

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Sep

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MONTHLY REPORT
OCTOBER - 2008

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25 Years



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Indian Major Stock Indices

	Aug 31, '08	Sep 30, '08	% Change
S&P Nifty	4360.00	3921.2	-10.06
BSE Sensex	14564.53	12860.43	-11.70
BSE Teck	3073.59	2545.91	-17.17
BSE-HC	4311.73	3672.18	-14.83
BSE FMCG	2215.60	2160.76	-2.48
BSE CD	3840.79	2929.18	-23.73
BSE Bankex	7009.69	6478.85	-7.57
BSE CG	11886.62	10581.13	-10.98
BSE AUTO	4001.23	3674.98	-8.15
BSE METAL	12348.02	8992.06	-27.18
BSE Oil & Gas	9659.46	9039.28	-6.42
BSE Mid Cap	5742.29	4798.29	-16.44
BSE Small Cap	6891.64	5577.47	-19.07
BSE Realty	4995.25	3508.77	-29.76

Data source: BSE

Monthly MF – AMC - AUM transactions

	Aug '08	Sep '08	% Change
AUM	544173.95	529045.13	-2.78

Amt in Rs. Cr

Data Source: AMFI

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Highlights

- ❖ Financial crisis in the US leads to meltdown in global equities
- ❖ Rupee remains weak on declining domestic equities
- ❖ Annual Inflation eases upto 12% mark
- ❖ International crude oil price eases to USD 100.64 a barrel

Equity Market – Roundup

The first fortnight of the month saw the stocks specially the ones belonging to power, capital goods and banking sectors make a gain with India getting the much awaited NSG waiver and the US government bailing out the mortgage companies Fannie Mae and Freddie Mac. However, this gain was very short lived as the selling pressure mounted on Sensex with the Rupee breaching the 45-level and FIIs going strong in their selling spree. Also, the markets failed to react to the positive developments of lower inflation levels and IIP numbers.

The second fortnight brought with it the global financial tremors that few will be able to forget easily. Lehman Brothers filed for bankruptcy and Merrill Lynch was bought by Bank of America as the AIG (American International Group) was bailed out by the US government and saved from extinction. All these and more of bad news lead to the international equity markets being nervous with sentiments on the worst negative levels in turn driving the world indices to record lows. As more of US financial institutions were seen as under strain, investors preferred to stay away from equities and instead invested in safer investment havens such as gold.

The month ended with the global equity markets continue to see the decline mode as the US political theatre was activated as the negotiations for the \$700 billion bailout package increased and Washington Mutual was seized in the biggest American bank failure in history.

Debt Market:

Corporate Bond market: During the month, Railway Finance Corp raised Rs. 1,470 crore through sale of 10-yr and 15-yr bonds. Rs. 855 crore were raised through 10-yr bonds and Rs. 615 crore were raised through 15-yr bonds. These bonds will offer semi-annual coupons of 10.60% and 10.70% respectively. Rural Electrification Corp raised Rs.1,025 crore through sale of 5-yr and 10-yr bonds. Rs. 375 crore was raised through 5-yr bonds and Rs. 650 crore was raised through 10-yr bonds. These bonds will offer annual coupons of 10.90% and 10.85% respectively.

Government Securities: During the month, Govt. of India raised Rs. 10,000 crore through the auction of dated securities. While the Govt. had already completed the issuance of dated securities for the first half of the current fiscal year, borrowing programme for the second half year was advanced to accommodate the current auction.

Money Market: During the first half of the month, money market rates rose beyond the 9% level as liquidity conditions tightened after the 25 bps CRR hike came into effect from 30th Aug. High demand for funds from market participants took call rate to as high as 9.50%.

Outlook

Equity Market:

The global financial services industry drove a decline in equity markets. Global markets including India were highly influenced by the uncertainty surrounding the bail out plan for the financial sector. The Sensex index closed the month at 12,526, down 4.4%. The US\$700 billion bail out plan for the financial sector was approved by the US House of Representatives on October 3rd. After 12 weeks at over 12%, inflation for the week ended September 20th moved down to 11.99%. This will provide some comfort to the RBI. However, inflation is expected to continue to be in double digits for the next 2-3 months. We expect oil prices to correct further and inflation to stabilize around the RBI's comfort zone of 6.5% - 7.0% by March 2009. In the short term, Indian markets should take cues from global economic and equity markets data. Central banks have strongly signaled the provision of liquidity support to protect banking institutions. This could lend support to equity markets across the globe. However, weak corporate quarterly results on the back of high capital costs and a demand slowdown could keep markets range-bound. FIIs continue to net sell Indian equities. We expect a resumption in buying interest only in the longer-term, as a return in the risk appetite of institutional investors would be a gradual process. Overall, we believe that India continues to display a fundamentally strong growth story with GDP growth of 7.0% -7.5% anticipated this year. With the correction in commodity and oil prices, and inflation nearing its peak we could expect an improvement in equity market returns in the medium to long term.

During the second half of the month, rates firmed up drastically as banks borrowed heavily to meet reserve requirements amid liquidity tightness due to Rs.35,000 crore of advance tax outflows and auction outflows. However, after RBI took measures to alleviate tight liquidity conditions, rates eased. Announcement of second LAF auction and permission given to scheduled banks to avail additional liquidity support under LAF to the extent of upto 1% of their NDTL without penal interest, brought down money market rates. RBI's dollar selling in the forex market to support rupee, sucked liquidity from the system.

Outlook

Debt Market:

The market witnessed tightening of liquidity conditions with volumes on the Repo window touching Rs 90,000 crore. Overnight rates held at 15% levels. The declining rupee is forcing the RBI to step in and sell dollars and this is taking a toll of liquidity. Portfolio outflows and high trade deficit on the back of oil imports is putting pressure on the rupee. The rupee which is now trading beyond the 47 mark has fallen by 17% against the dollar year to date. Headline inflation measured on the basis of the wholesale price index declined to 11.99% for the week ended September 20, 2008. Inflation is expected to ease down due to a global correction in the prices of crude and other commodities. However inflation might not come down to single digit levels till the end of this calendar year. The Reserve Bank of India (RBI) is expected to maintain status quo on policy rates at the central bank's policy meeting in October. With a slowdown in global economic activity which could also impact India, expectations of a rate hike have come off. The cut-off on the 91-day T-bill auction held on October 1 came in at 8.86% against a cut-off of 8.56% in the previous week. The 182-day T-bill auction saw the cut-off coming in at 9.01% against a cut-off of 8.77% in the previous auction.

Domestic Developments:

ECB Norms Liberalized for Infrastructure Companies

Private infrastructure developers have now been allowed to borrow for long term upto USD 500 million a year for rupee expenditure. Earlier, infrastructure companies could raise no more than USD 100 million a year. The policy has also relaxed the interest rate ceiling for such borrowings to 450 bps above LIBOR. The new norms will come into effect from the date of notification by the Reserve Bank of India.

Aggregate Deposits y-o-y Growth at 22.49%

Till 12th Sep'08 in this financial year, aggregate deposits have reached Rs.34,054 bn, rising by Rs. 139 bn during the fortnight. Despite high lending rates, banks' credit growth, particularly non-food loans, has been robust. According to RBI data, year-on-year growth in aggregate bank credit as on 12th Sep this year was 26.1%. Non-food credit growth so far during this financial year has risen by Rs.1,285 bn compared with just Rs. 633 bn in the same period last year. Credit to deposit ratio stood at 73.16% as on 12th Sep'08, lower than the 73.57% as on 28th March 2008.

Annual Inflation Rate at 12.14%

India's wholesale price index rose by 12.14% in the week ended 6th Sep'08, marginally higher than previous week's level of 12.10%. Rise in prices of vegetables, wheat, pulses, imported edible oils and certain other food items led to the increase in inflation rate. The 52-week average inflation stood at 7.30% in the week ended 6th Sep'08, much higher than the corresponding figures for the previous two years of 5.42% and 4.47% respectively. This was mainly due to high fuel and power prices. In the following week, inflation remained steady at 12.14%.

Key Indicators

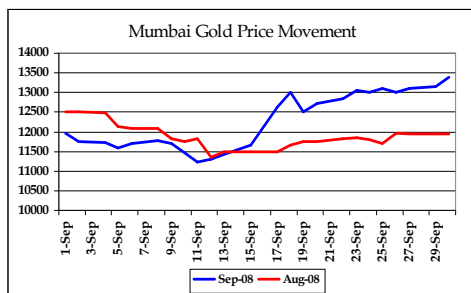
	31 Aug, 2008	30 Sep, 2008
Dollar exchange rate	43.69	46.94
Gold (Rs.10/gm)	11,946.65	13,373.75
Crude Oil	115.46	100.64

Data source: Bloomberg

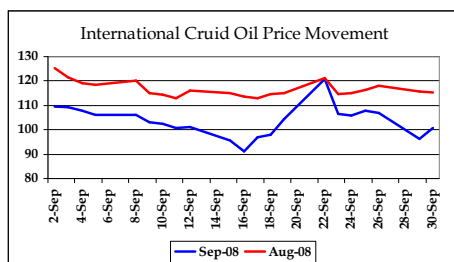
Foreign Major Stock Indices

	31 Aug, 2008	30 Sep, 2008	% Change
MSCI World Index	1347.3	1163.53	-13.64
FTSE	5636.6	4902.5	-13.02
Dow Jones	11543.55	11143.13	-3.47
Strait Times	2739.95	2358.91	-13.91
KLSE	1100.5	1018.68	-7.43
HangSeng	21261.89	18016.21	-15.27
Nikkei	13072.87	11259.86	-13.87

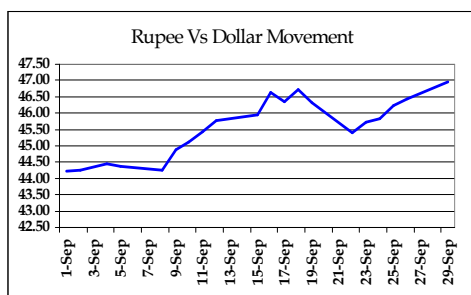
Data source: Bloomberg



Data source: Bloomberg



Data source: Bloomberg



Data source: Bloomberg

With inflation continuing to hover over 12%, expectations are high that RBI will continue to maintain a tight monetary policy. The headline inflation is likely to stay in double digits due to previous year's low base effect till January before starting to ease.

International Developments:

Plans to Revive Financial Markets Reduce Demand for US Treasuries

The deepening concerns about the US banking crisis pulled down the yields on safe haven treasuries drastically. Yield on US 30-yr treasury fell to its lowest level in 45 years as investors sold equities and invested heavily in treasuries. In the FOMC meeting, US Federal Reserve's decision to hold interest rates unchanged reduced buying interest in treasuries. Nevertheless, money market funds emerged as big buyers of treasuries as they anticipated heavy redemption by investors worried about the money market funds' exposure to securities issued by AIG and Lehman Brothers. Yields also firmed up after major central banks announced to lend overnight dollars to help alleviate tight liquidity conditions in money markets. Further, expectations that US financial authorities would formulate a longer-term solution to the financial crisis led to a surge in key equity indices and reversed the panic buying in treasuries. Yield on benchmark US 10-yr security ended the first week at 3.81%. Later in the month, treasuries reversed the losses as doubts over the effectiveness of the bailout plan increased demand for safe treasuries. The gains were however restricted by concerns over the fiscal situation. Yield on short-term papers declined sharply as investors preferred to park funds in cash and safe haven securities owing to financial market turbulence. The opposition of the congress members to the proposed bailout plan and the crash of a Washington Mutual, spurred buying in short-term papers.

WTI Crude Oil Prices Firm Up Following Expectations of Higher Demand

In commodities market, crude oil prices declined to 7-month low level of USD 90.51 a barrel after Lehman Brothers filed for bankruptcy which was expected to weaken the global economy thereby reducing demand for crude oil. Moreover, as refineries along the Gulf of Mexico escaped major damage from Hurricane Ike, supply concerns also reduced. Later, crude oil prices rose by more than USD 6 a barrel in a single day as investor interest heightened in commodities on concern that the credit crisis would deepen, leading to the failure of more financial institutions. Decline in crude oil stockpiles and speculation that government measures to resolve the bank crisis would revive the US economy and bolster petroleum demand, took crude oil prices further higher. WTI crude oil spot price ended the first week at USD 104.55 a barrel. In the second week, crude oil firmed up sharply, rising by USD 16 a barrel in a single day to end above USD 120 per barrel.

Forex Market:

In Forex market, during the month, rupee declined beyond 46 per USD following steep losses in domestic equities. Worries about global financial sector led to FII outflows which weakened the rupee. Rupee posted its worst fall in a decade as weaker offshore rates created an arbitrage opportunity and led to dollar buying in the domestic market and selling in the offshore market. Rupee declined to an intra day low of 46.98 against USD. Despite heavy dollar demand from FIIs and oil importers, central bank's dollar selling halted rupee's further decline. Recovery in domestic equities and dollar selling by exporters led to strengthening of the rupee during the month.

NFO at a glance:

NFO's open for subscription:

Scheme	Open Date	Close Date
Principal Emerging Bluechip Fund	22.09.08	20.10.08

Forthcoming NFO's:

Sl. No.	Scheme Name
1	ICICI Prudential R.I.G.H.T Fund
2	Goldman Sachs Sustain Fund
3	JP Morgan India Tax Advantage Fund
4	Goldman Sachs India Equity Fund
5	DWS Global Agribusiness Offshore Fund
6	Fidelity Wealth Builder 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 Oct 13 '08 (%)		
		6 months (abs)	1 year (ann.)	3 year (ann.)
Equity	DWS Investment Opportunity Fund	-32.20	-35.78	16.02
	HSBC Equity Fund	-27.33	-32.42	11.78
	IDFC Premier Equity Fund	-29.68	-28.67	14.89
	Reliance RSF - Equity	-30.99	-27.03	14.82
ELSS	DSP Merrill Lynch Tax Saver Fund	-31.28	-36.79	--
	DWS Tax Saving	-34.71	-42.31	--
	Principal Personal Tax saver	-34.56	-41.67	7.43
	Sundaram BNP Paribas Tax saver-(O.E)	-20.59	-28.33	14.32
Balanced	DSP Merrill Lynch Balanced Fund	-17.20	-20.12	13.93
	HDFC Balanced Fund	-17.44	-20.25	5.89
	UTI Mahila Unit Scheme	-2.04	-4.76	13.38

Data source: MFI Explorer

Debt Short & Ultra Short Term:

Recommended schemes to invest		Historical returns as on Oct 13 '08 (%)		
		3 months (abs)	6 months (abs)	1 year (ann.)
Floating Rate Funds	HDFC FRI F - LTF	2.44	4.97	9.71
	LIC MF Floating Rate Fund - ST	2.60	4.92	9.86
Debt Short Term	ABN AMRO Flexi Debt Fund	2.55	4.77	9.45
	DWS Credit Opportunities Cash	2.57	4.92	9.10
Debt Ultra Short Term	HDFC Cash Mgmt Fund - Savings Plus	2.34	4.41	8.57
	LIC MF Liquid Plus Fund	2.63	4.88	9.51

Data source: MFI Explore

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

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