

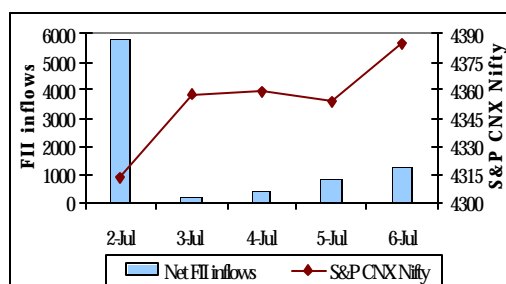
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## Highlights

- ◆ **Markets reach their all-time highs**
- ◆ **Extreme volatility in store - correction likely**
- ◆ **Bond yields edge lower**
- ◆ **RBI Monetary Policy Review much awaited**

## FII movement relative to Nifty



FII inflows in Rs. Crores

Source: NSE, SEBI

## Weekly FII transaction (equities)

	July 2 to July 6	June 25 to June 29
Gross purchases	18799.7	11770.5
Gross sales	10252.1	12406.5
Net inflows	8547.6	-636

Amt in Rs. crores

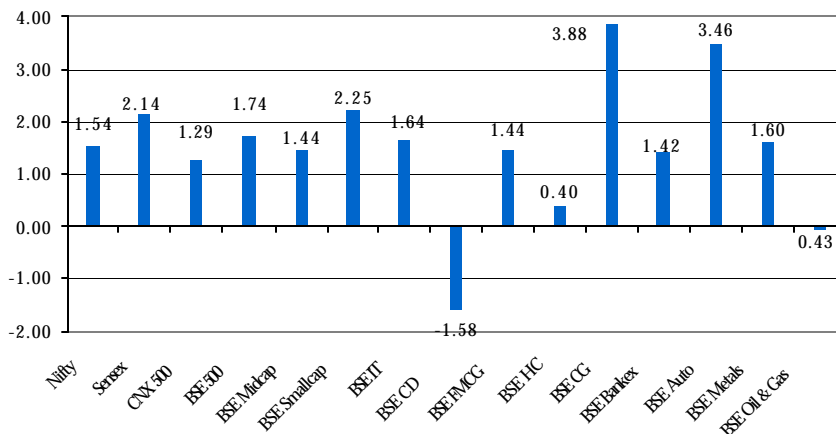
Data source: SEBI

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## The week in retrospect-Equities

The markets ended the week on a positive note on the back of firm global markets, stock specific buying and build-up of fresh position in derivatives markets. Sensex jumped by 313 points to settle at its record closing high of 14964.12. Nifty gained 66.55 points to close at a record 4384.85 level for the week ending July 6, 07. Amidst the positive trend, high volatility was witnessed on account of profit booking. Soaring crude oil prices (which scaled above \$72 per barrel) instilled negative sentiments in the markets. On Tuesday, markets registered heavy gains triggered by strong buying momentum in stocks across the sectors. On Thursday, markets settled with marginal losses as the listing of the Giant IPO of DLF was met by profit booking at higher levels. On Friday, Sensex crossed the psychological 15000 level in the intra-day while Nifty also crossed the 4400 mark during the trading session. IT stocks were the major contributor towards the rally on Friday, as the fall in rupee ahead of the earnings results of the sector witnessed significant buying and trading in IT stocks. Heavy buying was witnessed in the auto and capital goods stocks. Rally in the capital goods sector was mainly led by cement stocks, which was in demand after the cement companies raised prices by Rs.3-Rs.5 per kg. During the week, FIIs turned out to be net buyers in the equity market, significantly amounting to Rs.8547.60 crores. Mutual funds however emerged as net sellers in equities to the tune of Rs.408.70 crores.

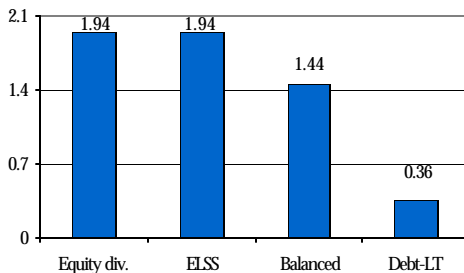
## Weekly Equity Indices Return (absolute %)



As on July 6

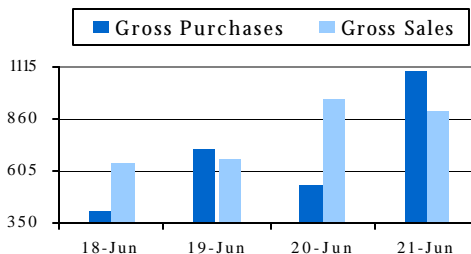
Datasource: BSE, NSE

## Weekly category returns (%)



Abs. returns as on July 6 Datasource: Bloomberg

## Weekly MF transactions (equities)



Amt in Rs. crores

Data source: SEBI

In the equity market, mutual funds emerged as net sellers to the tune of Rs. 408.70 crores.

## Outlook:

**Short-term:** Markets are at their all-time highs. High volatility is likely to persist due to profit booking. U.S. Federal Reserve is meeting on July 17-18 to decide on the fed rate. With strong U.S. employment data, it is likely that U.S. may hike the interest rate from the current 5.25%. If that happens, negative sentiments might prevail in the markets. High energy demand amidst the unrest in Nigeria may drive crude oil prices further up. Inflation also remains a watching factor. All eyes are set on the Infosys earnings results due on July 11. Less-than-expected growth may trigger a sell off in the IT sector.

**Long-term:** According to the finance ministry, per capita income in 2005-06 increased by 7.4%, savings rate is estimated at 32.4% and investment rate at 33.8%. The finance ministry has revised the GDP growth estimates for 2006-07 to 9.2% on the back of 2.7% growth in agriculture, 10% growth in industry and 11.2% growth in services sector. With markets backed by strong economic fundamentals, long-term story remains bullish. Robust corporate earnings, strong domestic consumption, high infrastructure spending, retail sector growth and real-estate boom are likely to support this growth.

Recommended schemes to invest		Historical returns as on July 6(%)			Crisil Ranking*
		6 months (abs)	1 year	3 year (ann)	
<b>Aggressive (Equity)</b>	DSP ML Small & Mid	10.87	N.A.	N.A.	-
	DSP ML T.I.G.E.R	17.07	62.32	55.97	1
	ICICI Pru Services	13.23	77.56	N.A.	-
	Reliance Equity Oppor.	8.72	45.72	N.A.	2
<b>Moderate (Equity)</b>	Fidelity Equity	15.79	60.12	N.A.	-
	ICICI Pru Dynamic	7.65	48.13	61.06	1
	DSP ML Equity	15.72	56.52	58.20	1
	Fidelity Ind. Special.	9.69	54.76	N.A.	-
<b>Conservative (Equity)</b>	DSP ML Top 100	15.20	50.35	49.28	2
	HSBC Equity	7.98	41.41	44.54	4
	Franklin India Bluechip	10.39	43.16	44.53	4
	Templeton India Eq. Inc.	15.31	44.23	N.A.	-
<b>ELSS</b>	Franklin India Taxshield	10.43	35.30	43.20	3
	Fidelity Tax Advantage	15.21	52.81	N.A.	-
	SBI Magnum Tax Gain	9.84	49.24	76.11	1
<b>Balanced</b>	DSP ML Balanced	13.11	39.51	35.59	3
	HDFC Prudence	9.45	40.15	42.32	1
	FT India Balanced	11.46	40.10	32.95	2

\*For qtr end Mar 07

Datasource: Bloomberg

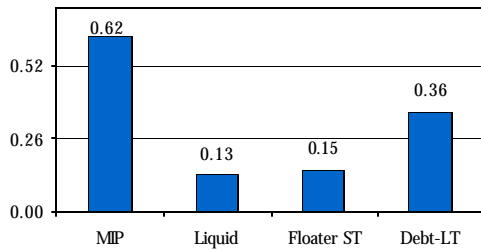
Note: Funds have been classified as aggressive, moderate and conservative on the basis of their portfolio concentration and exposure to various market segments.

## Recommendations

**Fresh investments:** As markets are expected to exhibit volatility at these levels, investors need to make investments with a long-term perspective. SIP (Systematic Investment Plans) investors can continue to put fresh money. A combination of equity diversified funds, opportunities funds, thematic funds and mid-cap funds could be considered. Derivative funds maintaining hedge positions can be a part of the portfolio for investors who wish to adopt a hedged style. Investors can also opt for GETFs to further diversify their portfolio.

**Existing investments:** We reiterate our long-term bullish view on the markets. Hence, we suggest continuing with the existing holdings. However, one needs to be particular about the schemes forming part of the portfolio.

## Weekly category returns (%)

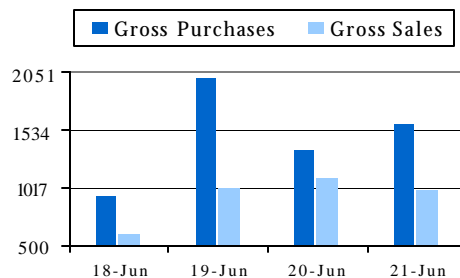


Abs. returns as on July 6 Data source: Bloomberg

## Key statistics

	Jul 6	Jun 29
8.07% GOI 2017 yield	8.01%	8.16%
Call rate	0.4%	6.25%
WPI inflation (week ending Jun 23 and June 16)	4.13%	4.03%
Dollar exchange rate	40.45	40.73
Forex reserves (\$ bn)	213.486 (Jun 29)	212.549 (Jun 22)

## Weekly MF transactions (debt)



Amt in Rs. crores

Data source: SEBI

In debt market, mutual funds emerged as net buyers to the tune of Rs.2167.60 crores.

## The week in retrospect-Debt

The bond market witnessed the yields go down on the back of comfortable cash position in the system and gradually declining inflation figure. Higher inflation figure (than the previous week) recorded for the week ending June 23 failed to dampen sentiments in the bond market. For the week, the yield of 10-year benchmark index closed at 8.01% as against 8.16% the previous week. After a long time, 10 year G-sec went below 8% mark in the early days of the week. Gilt prices were largely steady due to the auctions in the market.

Inflation rate increased marginally to 4.13% for the week ended June 23 from 4.03% due to dearer prices of food, mineral and manufactured products. However, high prices of wheat and crude oil in the international market could exert upward pressure on the inflation rate.

Rupee continued its northward journey despite RBI intervention in the currency market. It was admitted by RBI that the rupee movement was market determined. The forex reserves rose to \$213.48 bn due to the purchase of foreign currency by the central bank.

## Outlook:

**Short-term:** 10-year gsec may not go down below 8% due to high resistance at this level which could weigh high on the upward movements of bond prices in the coming days. With the RBI's monetary policy review slated on July 31, banks have highly cautious approach in the liquidity factor. The possibility of hike in CRR can't be ruled out.

**Long-term:** With RBI adopting the route of monetary tightening to curb inflation, credit growth (currently at nearly 30%) is expected to come down to 22-25% in coming months. Tackling supply side inflation may help in bringing down the prices of primary articles. As rising inflation is expected to be controlled, yields may cool down in the coming months.

Recommended schemes to invest		Return as on July 6 (%)			Expense ratio	Crisil ranking
		1 m	3 m	1 yr.		
Liquid plus	HSBC Liquid Plus	0.64	2.09	N.A	0.65	-
Liquid	LIC MF Liquid	0.57	1.99	7.92	0.50	2
	Canliquid Retail	0.57	1.94	7.52	0.23	-
Arbitrage	StanChart Arbitrage	0.55	1.91	N.A	--	-
FMPs	DBS Choal FMP Series 8 (91 days)	Closing date: July 11, 07			Net indicative yield: 7.8% - 8.0%	

For qtr end Dec, 06

Datasource: Bloomberg

## Recommendations:

**Short-term investors:** Very short-term investors who desire T+1 redemption should invest in liquid funds. Short-term floater funds are recommended (due to their tax efficiency) for investors who can go for T+2 redemption. For other investors for whom instant liquidity is not an issue, FMPs (shorter duration of 3 months to 6 months) can be considered as the yields are quite attractive.

**Long-term investors:** Investors with a horizon of more than one year could consider FMPs (longer duration) in place of bank deposits as present yields on short-term papers are quite attractive. Due to lower taxation on FMPs, the post-tax returns on these products could be higher.

### Forthcoming New Fund Offers:

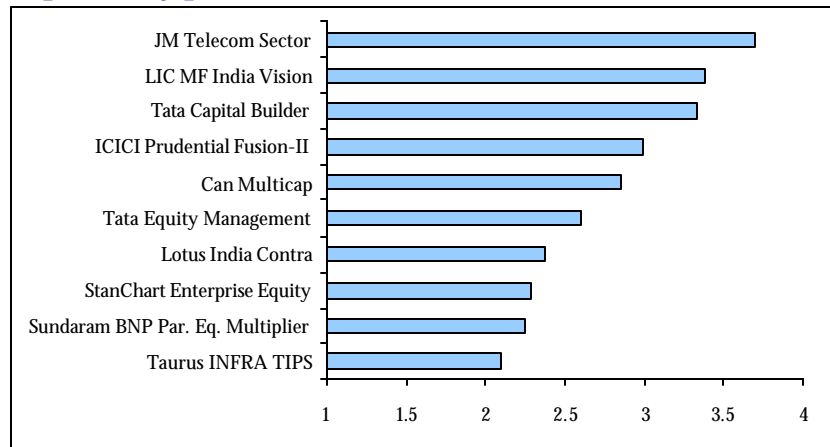
- ◆ Lotus India AMC is coming up with Lotus India Growth Fund, an open-ended equity diversified scheme. The fund would be available for subscription between July 9, 07 and July 19, 07.
- ◆ Birla Sunlife AMC is planning to come up with Birla Sunlife International Equity Fund. The equity scheme would invest in both domestic and international markets.
- ◆ Tata AMC is launching Tata Global Infrastructure Fund. The 3-year close-ended equity fund would invest in both domestic and overseas companies, which are related with infrastructure sector.
- ◆ JM Fund House is planning to launch JM Agri & Infra Fund. The 3-year close-ended equity scheme would invest in companies that focus on agricultural and infrastructure development of India.

### NFO Corner

#### NFOs open for subscription:

- ◆ Reliance AMC has launched Reliance Equity Advantage Fund on June 12, 07. The fund aims to offer nifty-plus returns by following the same sector weightage of the index. Offer period would close on July 10, 07.
- ◆ Birla Sunlife AMC has launched CPF, Birla Sunlife Capital Protection Orientation Fund, with a 3-year and a 5-year plan. The closing date of the scheme has been extended till July 13, 07.
- ◆ Kotak Mahindra AMC had launched Kotak Gold Fund. The Gold Exchange Traded Fund is available for subscription till July 4, 07.
- ◆ UTI AMC has launched UTI Lifestyle Fund on July 2, 07. The 3-year close-ended scheme would invest in stocks which are likely to benefit from the growing consumerism and changing demographics. It will be available for subscription till July 25, 07.

#### Top weekly performers-NFOs\*



\* Weekly return in % as on July 6, 07

Datasource: MFI Explorer

**Note:** Funds launched since Jan 06 have been considered.

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