PF/MFW/18062007/230 June 11, 2007 to June 15, 2007

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Highlights

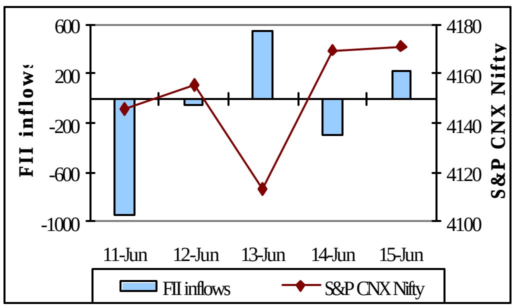
- **Markets ended in positive territory**
- **No major triggers for the market ahead**
- **All eyes on upcoming monetary policy review**
- **Rupee appreciation- most watched factor**

The week in retrospect-Equities

The markets ended in the positive territory in a volatile fashion on bouts of alternate buying and selling (sector specific). Also cautious approach was taken by the investors due to large IPO pipeline. Both DLF and ICICI Bank led the investors to book profits at higher levels. Sensex rose 98.90 points to settle at 14162.71 while nifty rose 26.45 points to close at 4171.45 in the week ended Friday, 15th June, 2007. Firm global markets fuelled the domestic markets to go up marginally. Also, the markets took support from IIP (Index of Industrial Production) data released for the month of April. The industrial output was up 13.6% in April, 2007 compared with 9.9% in April, 2006. Manufacturing output climbed up 15.1% in April, 2007 against 11% in April, 2006. Among sectors, IT industry was in the downtrend due to appreciation in the rupee. However, buying in select stocks was seen at lower levels. Cement shares recovered after data from Cement Manufacturers' Association showed that cement sales rose 10.6%. ACC was the winner among the cement picks. The market regulator, SEBI constituted a panel to suggest suitable measures to address issues relating to difficulties faced by investors while dealing with transmission of securities in physical and dematerialised mode.

During the week, FIIs emerged as net sellers in the equity market, amounting to Rs. 541.60 crores. Also, mutual funds emerged as net sellers to the tune of Rs. 467.40 crores.

FII movement relative to Nifty



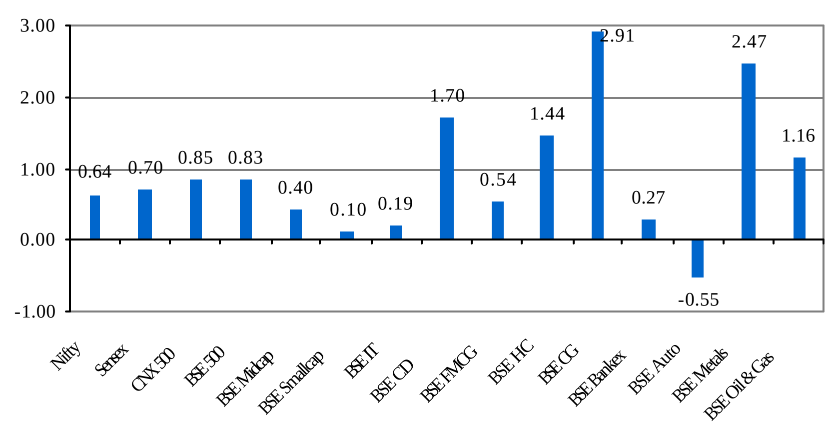
FII inflows in Rs. Crores *Source:* NSE, SEBI

Weekly FII transactions (equities)

	June 11 to June 15	June 4 to June 8
Gross purchases	11454.2	10529
Gross sales	11995.8	10154.8
Net inflows	-541.6	374.2

Amt in Rs. crores *Data source:* SEBI

Weekly Equity Indices Return (absolute %)



As on June 15 *Datasource:* BSE, NSE

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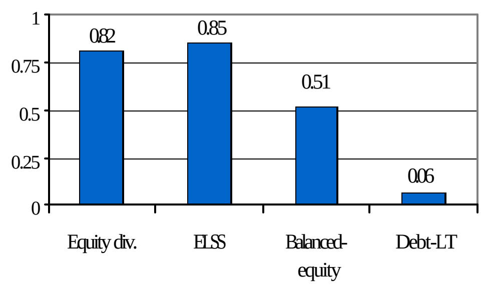
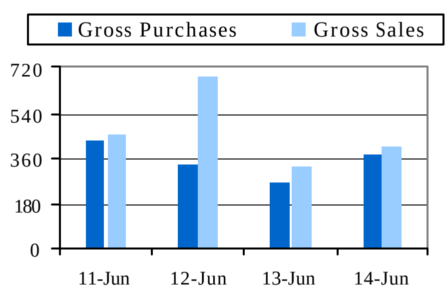
Weekly category returns (%)



Abs. returns as on June 15 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. 467.40 crores.

Outlook:

Short-term: The markets may stay sideways due to absence of any major triggers. However, firm global markets may support the domestic trend. But large IPO ICICI Bank may cause downtrend in the market as profit booking could be seen. Also, the progress of monsoon will be watched closely. Stock specific buying may be expected since quarterly results are expected to be out from the month of July.

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 Jun 15 (%)			Crisil Ranking*
		6 months (abs)	1 year	3 year (ann)	
Aggressive (Equity)	DSP ML Small & Mid	7.17	N.A.	N.A.	-
	DSP ML T.I.G.E.R	11.27	66.63	N.A.	1
	ICICI Pru Services	17.70	81.03	N.A.	-
	Reliance Equity Oppor.	6.70	56.66	N.A.	2
Moderate (Equity)	Fidelity Equity	12.23	66.41	N.A.	-
	ICICI Pru Dynamic	8.76	61.84	60.29	1
	DSP ML Equity	14.16	66.65	57.64	1
	Fidelity Ind. Special.	7.49	57.88	N.A.	-
Conservative (Equity)	DSP ML Top 100	11.31	59.02	48.50	2
	HSBC Equity	4.14	50.91	43.62	4
	Franklin India Bluechip	4.86	48.03	43.05	4
	Templeton India Eq. Inc.	14.62	49.11	N.A.	-
ELSS	Franklin India Taxshield	7.03	41.22	42.32	3
	Fidelity Tax Advantage	12.61	59.02	N.A.	-
	SBI Magnum Tax Gain	7.54	58.62	76.45	1
Balanced	DSP ML Balanced	11.48	44.05	34.73	3
	HDFC Prudence	7.97	48.03	41.69	1
	FT India Balanced	7.75	42.70	31.96	2

*For qtr end Mar 07 *Datasource: Bloomberg*

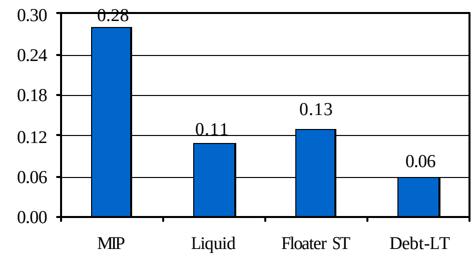
Note: Funds have been classified as aggressive, moderate and conservative on the basis of their portfolio concentration and exposure to various market segments.

Recommendations

Fresh investments: After witnessing significant amount of correction, stocks (across some sectors) are available at attractive valuations. The downside from the present levels seems limited. From next month, quarterly earnings results will start flowing in. On expectations of strong results, markets may climb further. Hence, it is an opportune time to invest. Derivative funds can be considered 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 (%)

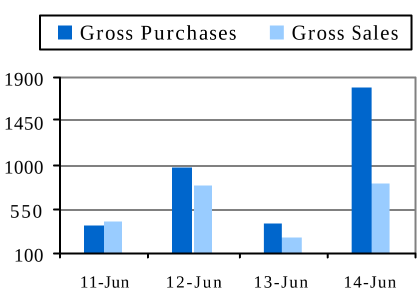


Abs. returns as on June 15   Data source: Bloomberg

Key statistics

	Jun 11	Jun 8
8.07% GOI 2017 yield	8.28%	8.14%
Call rate	3.25%	0.35%
WPI inflation (week ending Jun 2 and May 26)	4.80%	4.85%
Dollar exchange rate	40.87	41.14
Forex reserves ($ bn)	209.547 (Jun 8)	208.373 (Jun 1)

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.1281.9 crores.

The week in retrospect-Debt

The bond market rallied on Friday as the yield cut off at a government auction was lower than the market expectations and traders were cautious that there would be no further supply next week. The cut-off yield at the auction of benchmark 10-year bond was 8.35%, lower than 8.38%, predicted by Reuters poll. The yield on the 10-year bond closed at 8.28%. The central bank received bids totalling Rs. 692 billion at its reverse repo auction on Friday reflecting ample cash in circulation in the banking system. Call rates spiked to 3.25% on the closing day. Reserve Bank of India Deputy Governor Rakesh Mohan said on Thursday that the central bank may need to step up open market operations in the bond market to improve the transmission of monetary policy.

Inflation for the week ending June 2 remained at 4.80% marginally lower than the pervious weeks' due to decline in the prices of food and energy. Although inflation seems to be approaching RBI's target, it may be a little too early to comment on this. Rupee appreciated to 40.87 for the week ending June 15 from previous week's 41.14.

Outlook:

Short-term: There is an expectation that cash outflows of Rs. 200 billion toward quarterly payment of corporate tax may hit the market in the next week. The markets may take cue from the monetary policy expectations as there may be another hike in CRR in the month-end. Inflation is likely to hover in the 4.5%-5% range in the coming weeks.

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 April-May.

Recommended schemes to invest		Return as on June 15 (%)			Expense ratio	Crisil ranking*
		1 m	3 m	1 yr.		
Liquid plus	HSBC Liquid Plus	0.68	2.23	N.A	0.65	-
Liquid	LIC MF Liquid	0.64	2.13	7.88	0.50	2
	Canliquid Retail	0.59	2.05	7.45	0.23	-
Arbitrage	StanChart Arbitrage	1.05	2.13	N.A	--	-

*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.

NFO Corner

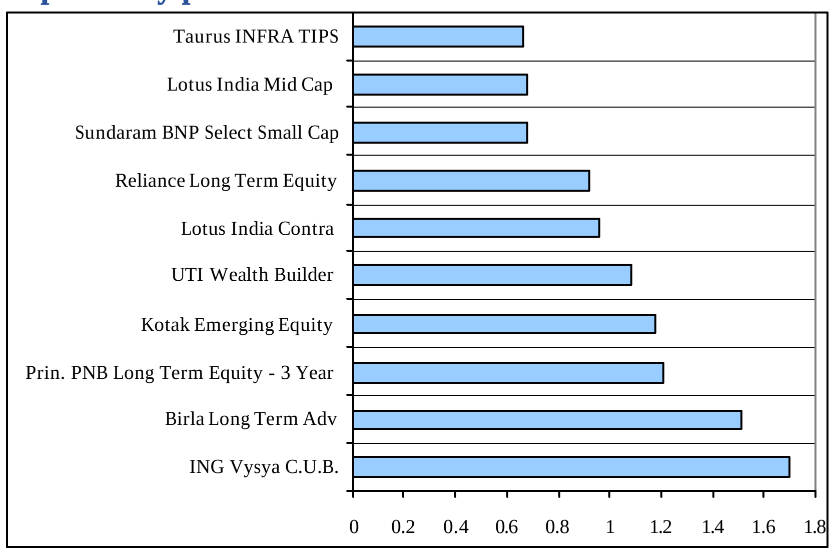
NFOs open for subscription:

- Tata AMC has launched Tata SIP Fund which is a 36-month close-ended scheme. It will initially invest in debt and money market instruments and then subsequently allocate assets to equities in a systematic manner. The offer period would close on June 22, 07.
- Franklin Templeton AMC has launched Franklin India High Growth Companies Fund. The open-ended equity scheme would invest in high growth companies. The NFO period would be open till June 29, 07.
- Reliance AMC is launching Reliance Equity Advantage Fund on June 12, 07. The fund would aim to offer nifty-plus returns by following the same sector weightage of the index. The offer period would close on July 10, 2007.

Forthcoming New Fund Offers:

- Reliance is also planning to launch Reliance Natural Resources Fund, an equity fund to invest in companies that discover, develop, produce, or distribute natural resources.
- UTI AMC is coming up with UTI Lifestyle Fund. It would be a 3-year close-ended scheme which would invest in companies which play a role in driving Indian demographics or consumer patterns.
- Lotus India AMC is planning to launch Lotus India Equity Fund. The scheme would be an open-ended equity diversified one which would invest across sectors and market-cap ranges.
- 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.

Top weekly performers-NFOs*



** Weekly return in % as on June 15, 07* *Datasource:* MFI Explorer

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

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