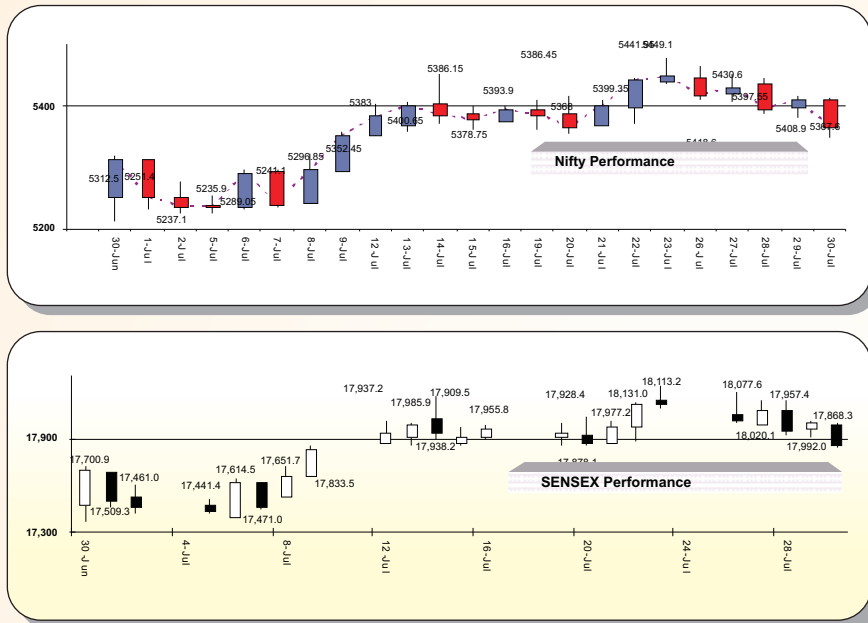


## Equity Market Watch

The nearly US\$ 5.25 bn FII inflow in the month of July, with almost US\$ 3.5 bn being directed into the Indian equities market, saw the trading sentiment receive a major boost in the last month. However, the uncertainty surrounding the continuity of the US fiscal stimulus package, and the hawkish tone of the RBI, prompted the market operators to book profit at the higher levels. Consequently, the key equity indices, SENSEX and Nifty, posted a net growth of 0.95% and 1.04% respectively.

### SENSEX & Nifty Performance in July 2010



Source: nseindia, bseindia

The performance of sectoral indices reflected the interplay of the specific factors intrinsic and peculiar to each sector; and therefore varied accordingly. The top sectoral gainers in July were Consumer Durables (11.8%), Banking (7.19%) and Realty (5.51%). On the other hand, Oil & Gas (-6.5%), Healthcare (-2.64%), and Power (-1.27%) remained on the lag end of the sectoral indices performance chart. (Source: NSE)

The SENSEX and Nifty performance displayed a daily returns variance (risk) of 0.603% and 0.622% respectively. The average daily cash volume in Nifty in the month of July decreased by -2.6% to Rs 12,661.5 crs. On the y-o-y basis, the average daily cash volume in Nifty decreased by -31.66%. The aggregate cash volume in Nifty for the period of July-2010 was recorded at Rs 278,550.8 crs - a decrease of -2.6% over June month. The volume of average daily contract in F&O Market in July month decreased by -10.1% m-o-m (source: NSE).

### Other Economic News

The industrial production, as reflected by IIP, saw a significant jump in the month of April, registering a growth of 17.6% yoy. In the month of March the growth in this index was recorded at 13.9%.

The growth in the capital goods related sector was noted the highest, with machinery and equipment segment posting a yoy growth of 55.6%. In contrast, the consumer goods related industry was seen posting a negative to sluggish growth for the period.

In the Use-based category, the growth rates in April 2010 were: 8.8% in Basic goods, 72.8% in Capital goods and 10.8% in Intermediate goods. The growth in the Consumer durables and Consumer non-durables were recorded at 37.0% and 6.6% respectively. The aggregate growth in Consumer goods was at 14.5%.

IIP Core Infrastructure as on Apr 10	Y-o-Y	m-o-m	Avg (Jan-Apr 2010 period)
Mining	11.4%	-16.0%	13.8%
Manufacturing	19.4%	-8.9%	12.7%
Electricity	6.0%	-5.0%	4.4%
General	17.6%	-9.1%	12.1%

Industrial Performance as on Apr 10	Y-o-Y	m-o-m	Avg (Jan 10-Apr10 period)
Machinery and Equipment other than Transport equipment	55.6%	-11.1%	30.6%
Metal Products and Parts, except Machinery and Equipment	51.9%	-9.5%	37.3%
Other Manufacturing Industries	41.4%	-26.7%	4.5%
Transport Equipment and Parts	32.3%	-12.4%	22.2%
Food Products	22.9%	-22.9%	33.6%
Rubber, Plastic, Petroleum and Coal Products	19.2%	-6.4%	13.0%
Paper & Paper Products and Printing, Publishing & Allied Industries	11.5%	-10.8%	3.9%
Basic Metal and Alloy Industries	11.2%	-9.8%	7.7%
Basic Chemicals & Chemical Products (except products of Petroleum & Coal)	9.9%	0.2%	1.6%
Cotton Textiles	6.9%	-0.9%	4.5%
Leather and Leather & Fur Products	3.5%	-9.1%	-3.6%
Non-Metallic Mineral Products	2.5%	-9.8%	8.1%
Textile Products (including Wearing Apparel)	1.5%	-0.1%	0.9%
Jute and other vegetable fibre Textiles (except cotton)	1.3%	3.8%	-29.1%
Wool, Silk and man-made fibre textiles	0.1%	8.3%	-2.2%
Beverages, Tobacco and related Products	-2.7%	-6.1%	1.5%
Wood and Wood Products; Furniture and Fixtures	-16.6%	-21.5%	-2.7%

Source: Mospil

## Market Outlook

As expected markets are clearly finding resistance at higher levels as valuations are not very cheap. Results for 1st quarter declared by various corporate last week have not been very encouraging and hence it is likely that every rise may see profit booking. Volatility is likely to rise in the coming month and investors may increase exposure to equities only on sharp corrections to benefit from the volatility keeping 2-3 years of horizon.

## Debt Market Watch

The factors affecting the debt market performance remained in line with expectations of the market. Following is the summary of key changes in certain parameters from the previous month

Particulars	July-10	June-10	Change
10 YR IGB (Yield) (30/JULY/2010)	7.80%	7.56%	24 bps
10 YR UST (Yield) (30/JULY /2010)	2.90%	2.97%	-7 bps
Avg. LAF Surplus / Deficit (Rs. Cr)	-13660	-63026	49366.00
Currency (Rs/\$) (30/JULY /2010)	46.48	46.79	-31 ps
India's Forex Reserve (Billion \$) (23/JULY/2010)	282.9	277	US\$ 5.9 bn

Source: RBI; US Fed

## Inflation

The inflation in the primary goods segment continued to remain buoyant, although the pace of price escalation continued to moderate a bit.

The yoy inflation in the primary goods index registered a growth of 14.50% ( as on 17th July 2010). In the immediately preceding month ended 19th June 2010, the inflation was recorded at 14.75%. In the same period last year, the inflation in primary goods segment was at 8.18%. The price growth in the primary goods segment continues to be dictated by the price hike of food commodities like cereals and fruits, although the onset of a largely normal monsoon is expected to temper down the price hike in the future.

Rates of Inflation as on 17th July 2010

Commodities/Groups	52 week avg	YoY		Since March		WoW	
		FY10	FY11	FY10	FY11	FY10	FY11
<b>PRIMARY ARTICLES (a+b)</b>	14.1	8.2	14.5	8.3	4.7	2.2	0.4
<b>FOOD ARTICLES (a)</b>	16.2	15.1	9.7	11.8	4.0	3.1	0.6
Cereals	11.5	12.1	5.6	3.4	-1.5	0.2	0.0
Rice	11.6	16.8	5.3	2.9	-0.8	0.1	-0.6
Wheat	10.6	2.5	6.3	1.9	-4.5	0.4	0.8
Pulses	32.3	21.3	21.2	15.2	5.4	2.6	0.5
Vegetables	9.6	32.0	-14.8	77.6	49.2	5.3	-0.3
Potatoes	26.8	74.6	-46.1	88.5	23.5	4.0	2.1
Onions	8.3	30.4	-10.3	-13.5	-4.7	2.0	-0.7
Fruits	10.3	0.8	12.1	-14.6	-17.2	-1.4	0.5
Milk	14.9	9.5	19.0	4.5	3.2	0.0	1.5
<b>NON-FOOD ARTICLES (b)</b>	10.3	-3.7	21.0	4.8	2.4	0.0	0.2
Fibres	6.5	-8.6	13.5	7.1	1.1	0.8	-1.0
Oil Seeds	4.9	-4.4	7.9	4.7	3.7	-0.6	1.0
Minerals	5.9	-14.0	53.5	-16.4	26.6	0.0	0.0
<b>FUEL, POWER, LUBES</b>	4.4	-10.6	14.3	5.3	6.8	-0.1	-0.1
LPG	-1.9	-7.4	15.3	0.1	14.9	0.0	0.0
Petrol	2.0	-11.9	15.3	10.0	8.6	0.0	0.0
High Speed Diesel Oil	4.2	-5.9	14.7	6.5	6.2	0.0	0.0

Source: Mospi

On the other hand, the prices of the select commodities in the energy and related segment have also begun to show early signs of renewed inflationary trend on account of rising cost of commodities, especially fuel, in the international markets. The inflation in Fuel & power segment stood at 14.3%. During the same period last year, the inflation this segment was at -10.6%.

## Deposit and Credit Growth

The credit growth continued to gain pace in the July period. The annual rate of growth in the aggregate credit segment was around 21.3% yoy. Although moderation in the credit growth on account of rising interest rates has begun to surface.

The mobilization of the aggregate-deposit warmed up a bit on account of the rising interest rates in the banking system. The growth was recorded at a pace of 14.6% yoy. In the same period last year, the deposit mobilization rate was around 21.7%.

### Credit & Deposit Growth as on July 2010

Outstanding as on 2010 July 16th (in Rs Crs)	Difference Since				
	Financial year so far		Year-on-year		
	FY10	FY11	2009	2010	
Aggregate deposits	4,591,836.00	174,473.00	99,010.00	715,834.00	583,253.00
		4.6%	2.2%	21.7%	14.6%
Demand	576,552.00	-29,016.00	-69,057.00	48,727.00	82,483.00
Time	4,015,283.00	203,488.00	168,067.00	667,107.00	500,770.00
Bank Credit	3,363,477.00	-2,048.00	118,688.00	366,193.00	589,976.00
		-0.1%	3.7%	15.2%	21.3%
Food Credit	45,404.00	1,937.00	-3,085.00	-2,211.00	-2,744.00
Non-food credit	3,318,072.00	-3,986.00	121,773.00	368,405.00	592,720.00

Source: RBI

## Outlook

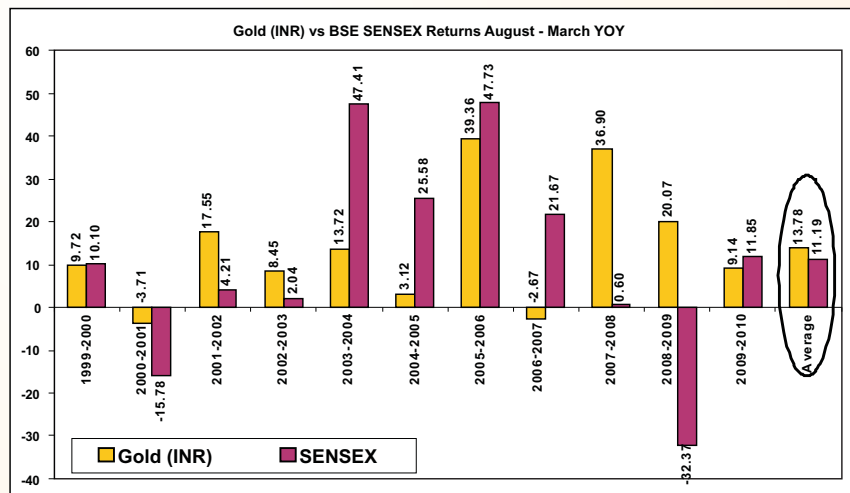
The hawkish stance adopted by the RBI in its monetary policy meet may continue to restrain the trading sentiments in the market. Additionally, the tone of the policy, and the increased frequency of the official policy review meet, has indicated the likelihood of additional rate hikes in the future. In the forthcoming period, the IIP and the WPI data, as well as the monsoon behavior, will continue to influence the market trading momentum from time to time. The market may also keenly watch-out the monetary policy outcome of other central banks due for their respective reviews in the month of August.

## Gold Corner

In the month of July, Gold prices closed at \$ 1168 per ounce. Down by \$ 72.50, or 5.84%. Price of the yellow metal opened the month of July at \$ 1240 per ounce. Underperformance of the yellow metal could be attributed to the strength in the US dollar which has gained by 5% during the month. (Source: Bloomberg)

Gold ETFs took the second spot for asset gathering in June month, garnering in \$2 billion during the period. Also, in the first half of 2010, these funds led all funds in net inflows, collecting in \$7.3 billion, as investors continued to seek out a safe haven for their assets. Gold demand in China grew by 59% in the first half of 2010 due to declining stock markets, governmental efforts to cool the property market, and the general global economic instability. (Source: usfunds.com)

The assets managed by Gold Exchange Traded Funds in the country increased to Rs.1939 crore as on June 30, 10 from Rs.1837 crore as on May 31, 10.



## Outlook

The above graph shows the absolute returns of Gold (INR) and SENSEX for the period August to March from 1999 to 2010. Gold prices display seasonal patterns. Our analysis for the period 1999 to 2010 shows that gold prices often rally in the period from August to March each year. If at all the trend has to continue how much could the gain on year end rally be?

In the study period since 1990, the average return during the Aug-March period for gold has been around 13.78%, while it is 11.19% in SENSEX. Also with demand for gold expected to increase due to festival season, gold prices may see an upward movement. Higher inflation, global growth slowdown and geopolitical uncertainties certainly provide a strong fundamental framework for higher gold prices.

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