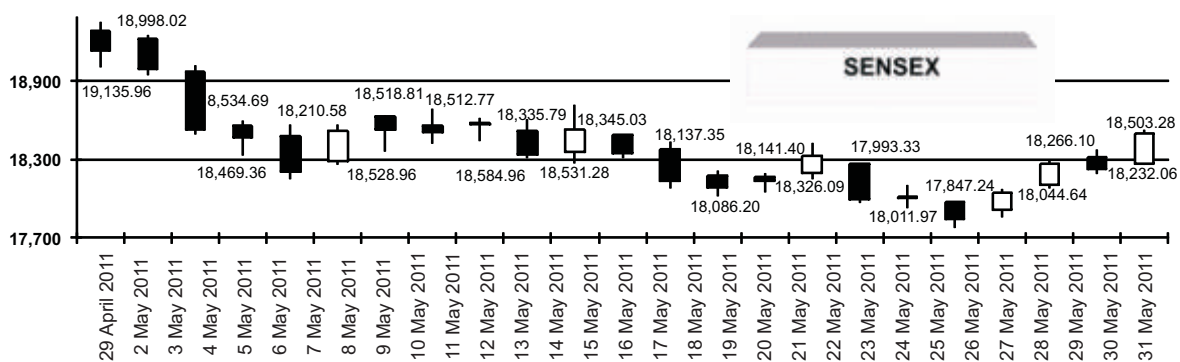
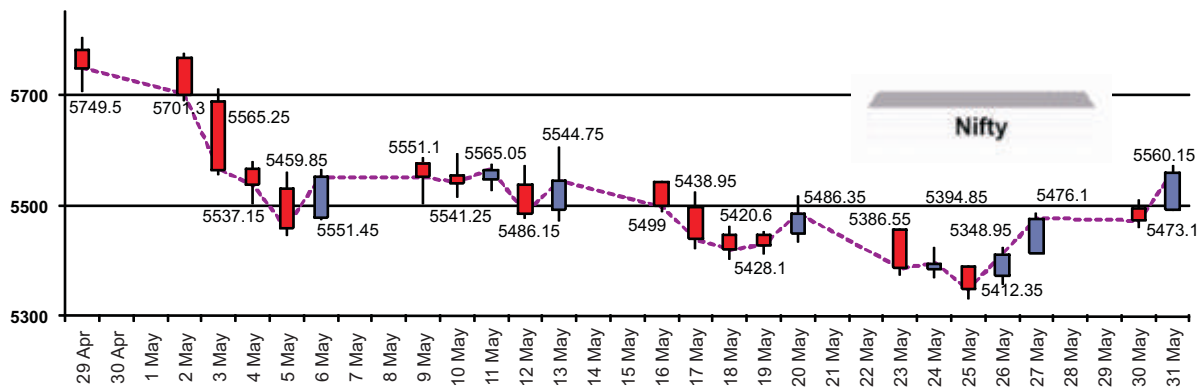


Equity Market Watch

Indian equities market declined for the month of May 2011 with key benchmark indices, SENSEX and Nifty posting a performance of -3.31% and -3.29% respectively during the period. This performance may be attributable slew of reasons, primary of which may be rising credit risk in EU, decline the asset quality of the PSU banks and net-selling by FII's who withdrew US\$ 1.48 bn during the last month.

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 May 2011 were FMCG (2.74%), Health care (2.57%) and Consumer Durables (2.44%). On the other hand, Oil & Gas (-4.41%), Metals (-4.81%), and Auto (-6.56%) remained on the lag end of the sectoral indices performance chart. (Source: NSE)

SENSEX & Nifty Performance in May 2011



(Source: nseindia, bseindia)

The SENSEX and Nifty performance displayed a daily returns variance (risk) of 1.101% and 1.105% respectively. The average daily cash volume in Nifty in the month of May 2011 decreased by -16.2% to Rs 10,630 crs. On the y-o-y basis, the average daily cash volume in Nifty decreased by -17.83%. The aggregate cash volume in Nifty for the period of May 2011 was recorded at Rs 2,33,875 crs - an increase of 2.42% over the month of April. (Source: NSE).

Other News : Union Budget FY12

Sectoral Allocation of Bank Credit as on April 2011(Rs Crs)	Apr.22, 2011	Apr.23, 2010	% YoY
Non-food Credit (1 to 4)	3677429	3010638	22.1%
Agriculture & Allied Activities	452700	404354	12.0%
Industry (Micro & Small, Medium and Large)	1636915	1299891	25.9%
Micro & Small	233629	207321	12.7%
Medium	187026	134248	39.3%
Large	1216260	958322	26.9%
Services	896637	722606	24.1%
Transport Operators	65246	52540	24.2%
Computer Software	14223	13258	7.3%
Tourism, Hotels & Restaurants	28324	20103	40.9%
Shipping	9098	8943	1.7%
Professional Services	60248	47404	27.1%
Trade	185392	162492	14.1%
Wholesale Trade (other than food procurement)	102817	87396	17.6%
Retail Trade	82575	75096	10.0%
Commercial Real Estate	114550	93957	21.9%
Non-Banking Financial Companies (NBFCs)	173944	111700	55.7%
Other Services	245613	212209	15.7%
Personal Loans	691177	583788	18.4%
Consumer Durables	10558	8544	23.6%
Housing (Including Priority Sector Housing)	353338	301156	17.3%
Advances against Fixed Deposits (Including FCNR (B), NRNR Deposits etc.)	60178	48212	24.8%
Advances to Individuals against share, bonds, etc.	3435	2734	25.6%
Credit Card Outstanding	17268	20012	-13.7%
Education	43815	36921	18.7%
Vehicle Loans	80164	64668	24.0%
Other Personal Loans	122421	101540	20.6%

Source:RBI

The non-food bank credit grew by 22.1 % during April 2011 as to compared with 17.1% during same period last year. The credit growth in the agriculture sector accelerated to 12.0% from 21.9% last year.

Credit allocation to the industry, the services and the personal loan segment grew by 25.9%, 24.1% and 18.4% respectively. Within the services segment, it is the NBFC, the hospitality and the professional services sector that witnessed maximum growth at 55.7%, 40.9% and 27.1% respectively.

Market Outlook

The long term outlook continues to remain positive for Indian equities as the economic growth momentum remains healthy with real GDP growth remaining at around 8%. We expect this growth to result in healthy corporate earnings and the earnings growth to translate on growth in equity markets. While the long term positive outlook remaining intact, the near term challenges can influence markets as it gets impacted by events / newsflows that can have a near term negative implications. Currently, the economy & markets across the globe (including India) are facing headwinds arisen from the rising crude oil prices post the politically relevant events playing out in Middle East & European region. In the Indian context, an additional factor to monitor is the tightening interest rate cycle and the inflationary pressures being generated as a corollary to growth. However, in the overall context of positive demography, economic growth & earnings momentum, we continue to remain positive with a medium term outlook.

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	May-11	April-11	Change
10 YR IGB (Yield) (27/May/2011)	8.44%	8.13%	31 bps
10 YR UST (Yield) (27/May/2011)	3.07%	3.28%	21 bps
Avg. LAF Surplus / Deficit (Rs. Cr)	-74682	-39306	-35,376.00
Currency (Rs/\$) (27/May/2011)	45.165	44.21	0.95
India's Forex Reserve (Billion \$) (20/MAY/2011)	308.5	309.7	-1.20

Source: RBI; US Fed

Inflation

Snapshot of Latest Monthly Inflation(April 2011)						
Groups	mom		March till date		YoY	
	FY10	FY11	FY10	FY11	FY10	FY11
WPI	1.76	1.34	1.76	1.34	10.88	8.66
PRIMARY Articles	3.07	2.24	3.07	2.24	21.45	12.05
Food	3.18	2.46	3.18	2.46	20.49	8.71
Cereals	-0.78	-0.46	-0.78	-0.46	8.04	4.30
Rice	0.12	-0.42	0.12	-0.42	8.35	2.14
Wheat	-2.26	-2.87	-2.26	-2.87	8.48	0.12
Pulses	1.81	-0.52	1.81	-0.52	24.08	-6.37
Vegetables	9.02	2.15	9.02	2.15	8.03	2.29
Potato	4.65	2.52	4.65	2.52	-23.14	-0.54
Onion	-13.60	-11.68	-13.60	-11.68	-10.03	10.41
Fruits	10.65	15.72	10.65	15.72	19.60	28.86
Milk	1.97	0.90	1.97	0.90	27.91	4.69
Egg,	2.21	-0.41	2.21	-0.41	38.61	10.69
Non-Food	0.80	1.96	0.80	1.96	18.08	27.33
Fibres	0.99	2.23	0.99	2.23	17.11	86.11
Oil	1.76	1.40	1.76	1.40	6.53	9.96
Minerals	6.09	1.54	6.09	1.54	34.56	7.41
FUEL & Power	0.71	1.07	0.71	1.07	13.61	13.32
LPG	3.30	0.00	3.30	0.00	3.76	11.31
Petrol	1.09	0.00	1.09	0.00	18.04	21.81
High Speed Diesel	0.69	0.00	0.69	0.00	15.83	5.49
Manufactured Products	1.35	1.04	1.35	1.04	6.41	6.18
Food	-2.61	0.48	-2.61	0.48	9.09	5.65
Non-Metallic	0.49	0.47	0.49	0.47	3.08	3.20
Machinery	0.84	0.98	0.84	0.98	2.21	2.57
Transport	1.69	0.57	1.69	0.57	2.74	2.16

Source:RBI

The WPI based inflation grew at 8.66% (April 2011) and continued to remain above the long term historical average. Albeit, this moderation over the previous month is lesser, than was expected by the market observers.

The inflation in the primary goods segment moderated to 12.05% yoy, with the inflation in the food sub segment growing by 8.71% yoy.

The price growth in the primary goods segment continues to be dictated by the price growth in commodities like fruits, fiber and minerals.

On the other hand, the prices of the select commodities in the energy and related segment continue to show buoyancy. The inflation in Fuel & power segment as of April month stood at 13.32%. During the same period last year, the inflation in this segment was at 13.61%.

The manufactured products segment too has begun to display moderate growth in prices, registering a price growth of 6.18 % yoy in April 2011.

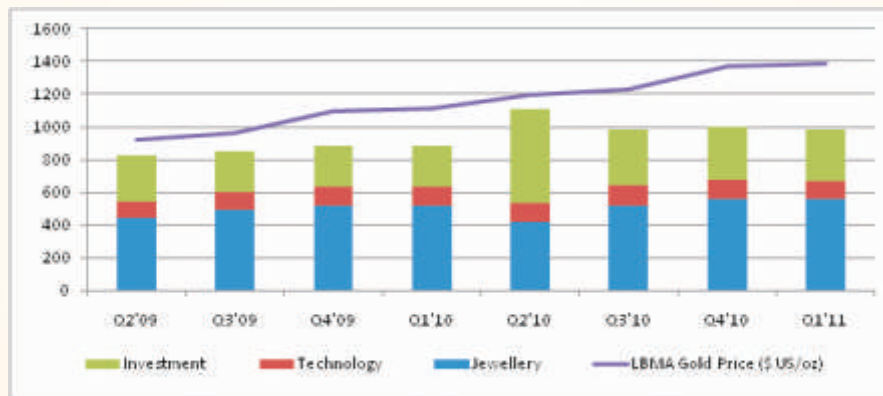
Outlook

The liquidity in the system is expected to tighten further as the advance tax outflows begin to set-in during the month. In consequence, the market has already begun to internalize the liquidity paucity in its pricing. However, depending on the intensity of the outflows, we can expect the shorter end of the yield curve to rise further with the CDP/CP approaching 10% mark. Also, the awaited mid-quarter monetary policy announcement during the month; along with the impending inflation numbers during the same period, too may have a bearing on the market performance.

Gold Corner

Spot gold closed at \$1,537, up \$ 6 per ounce, or 0.39 percent for the month of May while the U.S. Trade-Weighted Dollar Index lost 0.78% for the same period. Gold in euro terms reached a new all-time high of €1,080 per ounce on 27th May as several unnerving developments surrounding the sovereign debt crisis in P.I.I.G.S nations spooked investors. Namely, the Standard & Poor's lowered its outlook on Italy's credit rating, Spain's ruling Socialist political party suffered its worst ever defeat in regional elections, and government bond yields on Greek debt spiked to fresh all-time highs.

According to World Gold Council's recent report Gold demand grew 11 percent to 981.3 tons during the first quarter of 2011, valued at \$43.7 billion at quarter-end's price levels. The increase was driven by a significant rise in demand for gold as an investment, up 26 percent from a year ago, as emerging markets look to protect their assets from rising inflation. Demand for gold bars and coins was up 62% and 42% respectively.



Source: World Gold Council

Outlook

The rising sovereign credit risk amongst P.I.I.G.S nations, especially Greece, has exacerbated the currency outlook on Euro. This crisis while in short term may affect euro's potential, in the long run may even dampen the political cogency of European Union, as we know it now. This spate of uncertainty surrounding the largest economic block provides a lot of demand pull for gold from such institutions and investors that are seeking to protect value.

Additionally, the run-up in the global commodities gives a co-relational indication, not necessary causal, for gold's future direction as well. Moreover, the retail consumers in China and India are now being increasingly accustomed to present levels of gold prices. Therefore, the demand hesitancy resulting from high prices may begin to fade over a period of time. These factors provide for continued buoyancy in the gold prices; albeit, in the short-term, the volatility emanating from profit-booking cannot be ruled out.

The assets managed by Gold Exchange Traded Funds in the country is Rs. 4,800 crore as on 30th April 2011.

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