

## Equity Market View - September 2011

Indian equities market registered a negative performance in the month of September 2011, with the key benchmark indices, SENSEX and Nifty, posting a performance of -1.33% and -1.15% respectively during the period. This performance may be attributed to fears of double-dip recession in US, increased fears of sovereign debt crisis in Greece, and the resultant decline in the global risk appetite.

Country Index	Country	1 mn performance	Q3 2011 Performance
Swiss Market Index	Switzerland	0.06	-10.59
<b>S&amp;P Nifty</b>	<b>India</b>	<b>-1.15</b>	<b>-12.47</b>
Nikkei	Japan	-2.85	-11.37
KLSE	Malaysia	-4.16	-12.16
DAX Index	Germany	-4.89	-25.41
FTSE	UK	-4.93	-13.74
Kospi	S Korea	-5.88	-15.76
Dow Jones	USA	-6.03	-12.09
Nasdaq	USA	-6.36	-11.86
Taiwan Weighted	Taiwan	-6.67	-16.49
Strait Times	Singapore	-7.28	-14.27
Ibovespa Sao Paulo Index	Brazil	-7.38	-16.15
Jakarta Composite Index	Indonesia	-7.62	-8.73
SSE Composite Index	China	-7.87	-14.59
CAC 40 Index	France	-8.44	-25.12
HangSeng	Hong Kong	-14.33	-21.46
Merval Buenos Aires Index	Argentina	-16.9	-26.69
RTS Index	Russia	-21.22	-29.66

Source: ICRA

The performance of sectoral indices reflected the interplay of the specific factors intrinsic and peculiar to each sector; and therefore varied accordingly. The top three sectoral gainers in September 2011 were IT (4.22%), Realty (2.68%) and Oil & Gas (1.69%). On the other hand, Infrastructure (-6.88%), Metal (-9.44%), and Capital Goods (-10.82%) remained on the lag end of the sectoral indices performance chart. (Source: NSE).

The Nifty performance displayed a daily returns variance (risk) 1.569% respectively. The average daily cash volume in Nifty in September 2011 increased by 0.6% to Rs 11,241 crs. However, on the y-o-y basis, the average daily cash volume in Nifty decreased by -25%. The aggregate cash volume in Nifty for the period of September 2011 was recorded at Rs 2,47,313 crs - an increase of 0.6% over August month. (source: NSE).

**Statement II: India's Overall Balance of Payments: for  
Q1 - FY12**

(US\$ Billion)

Particulars	Q1-FY12	Q1-FY11	Q4-FY11
<b>A. CURRENT ACCOUNT</b>			
I. MERCHANDISE	-35.5	-31.9	-29.9
II. INVISIBLES (a+b+c)	21.3	19.8	24.5
Total Current Account (I+II)	-14.2	-12.1	-5.4
<b>B. CAPITAL ACCOUNT</b>			
1. Foreign Investment (a+b)	9.7	7.5	0.8
2. Loans (a+b+c)	6.4	9.0	5.9
3. Banking Capital (a+b)	12.7	4.0	-0.8
4. Rupee Debt Service	0.0	0.0	-0.1
5. Other Capital	-7.8	-3.8	2.4
Total Capital Account (1 to 5)	20.9	16.8	8.2
C. Errors & Omissions	-1.3	-0.9	-0.8
D. Overall Balance (A+B+C)	5.4	3.7	2.0

Source:RBI

During Q1 FY12, the rise in trade deficit, despite sharper increase in exports than imports and increase in net export of services, led to widening of current account deficit as compared with Q1 FY12. The current account deficit, at US\$ 14.1 bn, was higher in Q1 FY12 than the corresponding quarter of the previous year.

Services exports rose by 15.7 % (18.3 % in Q1-FY11) mainly led by transportation, software and business services. Net financial inflows increased to US\$ 15.7 bn during Q1-FY12 (US\$ 13.0 bn during Q1 in previous year). This was mainly on account of net FDI inflows to India which increased to US\$ 7.2 bn during Q1-FY12 as compared to US\$ 2.9 bn in Q1-FY11.

Net loans availed by non-Government and non-banking sectors stood higher at US\$ 2.9 bn as compared to US\$ 2.3 bn in Q1-FY11.

The Balance of Payment showed a surplus to the extent of US\$ 5.4 bn during Q1-FY12.

### 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%. However, in the present context, the trading sentiments in the equities market remain sensitive to the global market volatility, and would continue to follow the unfolding events in Europe closely. In this context, we may expect the key indices to trade in a broad range over the few weeks.

## 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	End Week of Sept 2011	End Week of Aug 2011	Change
10 YR IGB (Yield) (29/SEP/2011)	8.44%	8.33%	0.11%
10 YR UST (Yield) (29/SEP /2011)	1.91%	1.98%	-0.07%
Avg. LAF Surplus / Deficit (Rs. Cr)	-74827	-28632	-46195.00
Currency (Rs/\$) (29/SEP /2011)	48.92	46.01	2.91
India's Forex Reserve (Billion \$) (22/SEP /2011)	312.7	319.2	-6.50

Source: RBI; US Fed

## Inflation

### Snapshot of Latest Monthly Inflation in Percent August 2011

Groups	YoY	
	FY11	FY12

<b>WPI</b>	8.87	<b>9.78</b>
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<b>PRIMARY Articles</b>	15.96	<b>12.58</b>
Food Articles	14.96	<b>9.62</b>
Non-Food Articles	15.81	<b>17.75</b>
Minerals	23.77	<b>23.43</b>

<b>FUEL &amp; Power</b>	12.55	<b>12.84</b>
LPG	15.30	<b>14.74</b>
Petrol	15.23	<b>23.23</b>
High Speed Diesel	14.63	<b>9.32</b>

<b>MANUFACTURED PRODUCTS</b>	5.16	<b>7.79</b>
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Source: Ministry of Statistics & Programme Implementation

Karif Crop Estimates(in mn tonnes)			
	FY12 <sup>(1)</sup>	FY11	% Growth
Rice	87.1	80.65	8.00%
Coarse Cereals	30.42	32.43	-6.20%
Pulses	6.43	7.12	-9.69%
Foodgrains	123.88	120.2	3.06%
Oilseeds	20.89	20.84	0.24%
Cotton	361.02	334.25	8.01%
Sugarcane	342.2	339.1	0.91%

Source: Hindu Business Line. 1: Estimates

The WPI based inflation grew at 9.78% (August 2011), indicative of a partial moderation over the previous month. However, this rate continues to remain above the long term historical average.

The inflation in the primary goods segment skied again to 12.58% yoy, with the inflation in the food articles sub-segment growing by 9.62 % yoy.

The fresh arrival from the Kharif season is expected to assuage the inflationary pressure in the agri-commodities. With a relatively good soon, the harvest estimates are pegged at record levels.

On the other hand, the prices of the select commodities in the energy and related segment continued to show buoyancy. The inflation in Fuel & power segment as of August month stood at 12.84%. During the same period last year, the inflation in this segment was at 12.55%.

The manufactured products segment too has begun to display growth in the prices, registering a price growth of 7.79% yoy in August 2011

## Outlook

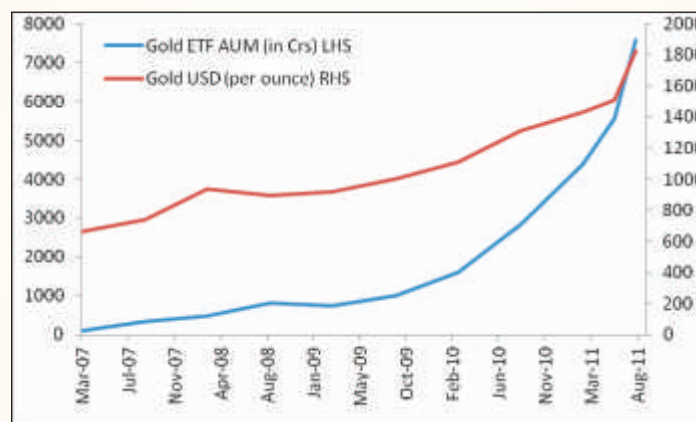
The liquidity in the market continues to be negative at around 50,000- 70,000 crs; and we expect this situation to remain for some more time further due to festival demand. For now, the 3-month bond is trading at around 9%, the January-2012 maturity is at around 9.15% and the 1 year is at around 9.50%. With the expected moderation in the inflation, the sentiments in the market is expected to remain largely buoyant. Having said that, the monetary policy scheduled on 26th October would look at data like WPI and IIP to decide the future monetary policy stance.

## Gold Corner

In the month of September the yellow metal rose to a record of \$1921 to an ounce. The spur in the bullion to a record high was mainly due to slowing global growth and the continued money supply from the key central banks to step up stimulus measures. By the end of the month, the spot gold closed at \$1,629, down \$197 per ounce, or 10.79 %. The reason for the sharp correction later in the month was mainly due to the rebound in the global equities and the strength in the dollar, which rose against the six major currencies during the month. The U.S. Trade-Weighted Dollar Index rose 5.99 % for the month.

The assets of gold exchange-traded funds in India, the world's largest consumer of the yellow metal, jumped nearly three times in August from a year earlier, helped by a sharp increase in the metal's price and increased investor interest due to its safe-haven appeal amid global economic uncertainty.

Chart Depicting Gold ETF growth (March 2007 to August 2011)



Past performance may or may not be sustained in future .Source:amfiindia.com & lbma.org.uk

## Outlook

Today's geopolitical climate has become increasingly volatile. This has spiked uncertainty, which in-turn has provided significant buoyancy for gold prices. However, it is the extensive uncertainty surrounding the sovereign debt solvency in the P.I.I.G.S nations that has caused increasing jitters to the financial markets (and has spiked the performance of gold). Moreover, the likelihood of renewed slowdown in the U.S economy, and the prevalence of high unemployment, too, continues to drive up the gold demand.

The credit ratings downgrade by S&P of the US economy, and of Italy, has only been the latest of the series of reasons to further enhance this view point. It is also believed that, were the troubled economies to resort to monetary expansion to wriggle their way out of their debt problems, the resultant erosion in money-value may further spike up prices in Gold.

Thus, the resultant investor wariness, and the decline in the global risk-appetite, in conjunction, is expected to fuel the institutional and retail demand for gold in the following months.

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