

Equity Market View - August 2011

Indian equities market registered a negative performance in the month of August 2011, with the key benchmark indices, SENSEX and Nifty, posting a performance of -8.36% and -8.77% respectively during the period. This performance can be attributed to a slew of reasons, primary of which is ascribed to the rising credit risk in EU, the downgrade in the US credit ratings; and fears of double-dip recession in US. Evidently, India was one of the worst performing markets in the 2011 (till Aug), while in the last month duration; its performance was seen in the middle group.

Country Index	Country	1 mn Performance	CY 2011 Performance
Ibovespa Sao Paulo Index	Brazil	-3.96	-18.48
Dow Jones	USA	-4.36	0.31
Swiss Market Index	Switzerland	-4.41	-14.1
SSE Composite Index	China	-4.97	-8.57
Nasdaq	USA	-6.42	-2.77
KLSE	Malaysia	-6.56	-4.72
Jakarta Composite Index	Indonesia	-7	3.73
FTSE	UK	-7.23	-8.57
HangSeng	Hong Kong	-8.49	-10.86
S&P Nifty	India	-8.77	-18.48
Nikkei	Japan	-8.93	-12.45
Strait Times	Singapore	-9.53	-9.55
Taiwan Weighted	Taiwan	-10.44	-13.72
Merval Buenos Aires Index	Argentina	-10.75	-15.86
CAC 40 Index	France	-11.33	-14.4
Kospi	S Korea	-11.86	-8.33
RTS Index	Russia	-13.37	-3.84
DAX Index	Germany	-19.19	-16.33

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 sectoral gainers in August 2011 were FMCG (-3.51%), Auto (-4.14%) and Oil & Gas (-5.07%). On the other hand, Metal (-13.7%), IT (-13.95%), and Realty (-14.78%) 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 1.503% and 1.515% respectively. The average daily cash volume in Nifty in the month of August 2011 increased by 2% to Rs 11,175 crs. However, on the y-o-y basis, the average daily cash volume in Nifty decreased by -21%. The aggregate cash volume in Nifty for the period of August 2011 was recorded at Rs 2,45,854 crs - an increase of 6.89% over July month. (source: NSE).

Other Economic News:- (Source: RBI)

As per the latest press release by Mospi, Indian economy expanded by 7.8%(at factor cost) in the Jan-Mar 2011 quarter over the corresponding period in 2010.

The growth in nominal terms (added for inflation), was estimated at 17.23% for the period.

Sectors	Q4-FY11	Q4-FY10	% growth (Real)	% growth (Nominal)
1. agriculture, forestry & fishing	1866	1736	7.5%	25.56%
2. mining & quarrying	299	294	1.7%	19.07%
3. manufacturing	2096	1987	5.5%	11.32%
4. electricity, gas & water supply	244	226	7.8%	11.65%
5. construction	1035	956	8.2%	17.58%
6. trade, hotels, transport & communication	3677	3364	9.3%	14.11%
7. financing, insurance, real estate and business services	2196	2015	9.0%	18.79%
8. community, social & personal services	1762	1647	7.0%	16.68%
9. GDP at factor cost	13176	12226	7.8%	17.23%

Source: Mospi

The Private Final consumption expenditure (Current prices) grew by 17% during the period was estimated at Rs 11.9 trillion. During the same period, the Govt expenditure grew by 14.6% to stand at around Rs 2.5 tn. Similarly, during the period, the growth in capital formation was pegged at around 7%, which is a significant moderation over the previous quarter. (Source: Mospi)

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.

The US Nonfarm payroll data was far below expectations indicating that the US could be slipping back into a recession. Also Angela Merkel's party in Germany lost a regional election adding to fears of instability in the region. China's PMI was just on the borderline between expansion and contraction indicating that rate hikes in China have started to bite. We need to wait and watch for additional stimulus from the US Fed and see in what form and quantum further stimulus is given.

For India, inflation could continue to remain an issue, especially with the fuel price hikes. If the monsoon is good then we can see some easing of inflation. Results have been mixed so far with the banking sector doing better than expectations while the manufacturing sectors doing worse than expectations. 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	End Week of Aug 2011	End Week of July 2011	Change
10 YR IGB (Yield) (26/AUG/2011)	8.33%	8.44%	-11 bps
10 YR UST (Yield) (26/AUG/2011)	1.98%	2.79%	-81 bps
Avg. LAF Surplus / Deficit (Rs. Cr)	-28632	-51143	22511.00
Currency (Rs/\$) (26/AUG/2011)	45.79	44.19	1.60
India's Forex Reserve (Billion \$) (18/AUG/2011)	319.2	316.8	2.40

Source: RBI; US Fed

Inflation

Snapshot of Latest Monthly Inflation in Percent July 2011		
Groups	YoY	
	FY10	FY11
WPI	9.98	9.22
PRIMARY Articles	19.09	11.30
Food Articles	18.48	8.19
Non-Food Articles	15.30	15.51
Minerals	31.6	25.03
FUEL & Power	13.26	12.04
LPG	15.30	14.58
Petrol	15.33	23.23
High Speed Diesel	14.64	9.32
MANUFACTURED PRODUCTS	5.78	7.49

Source: Mospi

The WPI based inflation grew at 9.22% (July 2011), indicative of a partial moderation over the partial month. However, this rate continues to remain above the long term historical average.

The inflation in the primary goods segment palliated partially at 11.30% yoy, with the inflation in the food articles sub-segment growing by 8.19 % yoy.

The inflation 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 July stood at 12.04%. During the same period last year, the inflation in this segment was at 13.26%.

The manufactured products segment too has begun to display growth in the prices, registering a price growth of 7.49% yoy in July 2011.

Outlook

The liquidity situation in the system has begun to improve gradually, although the advance tax outflows continued to skew the situation intermittently. Consequently, the trading sentiments in the near term yields segment are expected to remain relatively moderate. Going forward, the continuing fiscal pressure may induce a possible preponing of G-Sec auction, which may turn out to be additional borrowing. This may result in 10 year coming off to around '8.20-8.30 levels. In the near term, the monetary policy meet of 16th September would be a keenly watched event for future market direction.

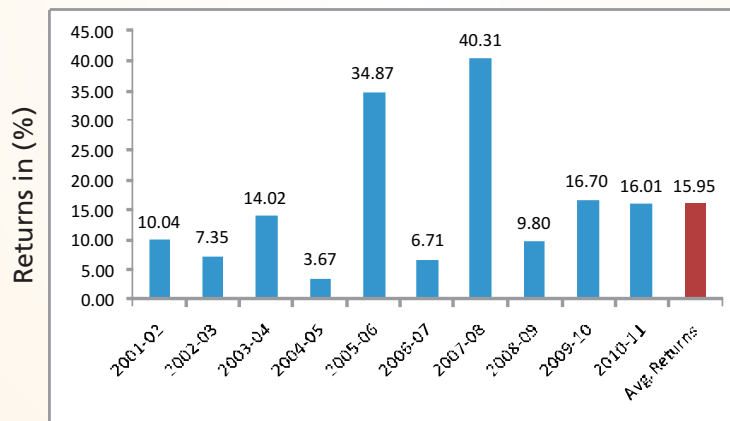
The '2 & 5'yr corporate bond segment continues to remain a potential opportunity, given the wide rate corridor available in this segment. In case of the likely moderation in the policy stance over the medium to long term, we can expect the rate compression in this segment to provide competitive returns for the long-term investor.

Gold Corner

For the month of August spot gold closed at \$1826, up \$ 212.25 per ounce or 13.15 percent for the month. The gold price touched a record high of \$1,912 per ounce during the month. Gold again proved its safe haven status recording strong gains in the face of turbulent markets globally. This was due to Eurozone and United States sovereign debt concerns which surfaced again during the last month.

Demand for gold also received a boost due to strong buying by central banks. Russia raised its reserves by 4.42 tns, while Colombia added 2.3 tonnes, first rise since 1998. Meanwhile, South Korea also increased its gold holdings, the first time since '98. World over Central banks are ramping up their gold buying as they seek to diversify their reserves away from the dollar and other beleaguered currencies.

Find below the last 10 years seasonal Gold (USD) Returns (Beginning date September & end date March)



Source: lbma.org.uk

Outlook

With the S&P downgrading the US from AAA to AA+; the zero interest rate scenario expected to continue till mid-2013 (as per FED); and the increasing concerns about the health of the European countries and global economy; all these worries amplify Gold as the safe-heaven status. Also possible QE3 announcement by FED in coming days; the strong investment demand world over; and the start of seasonal buying of gold from next month onwards also provides an upside for gold in the coming months.

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