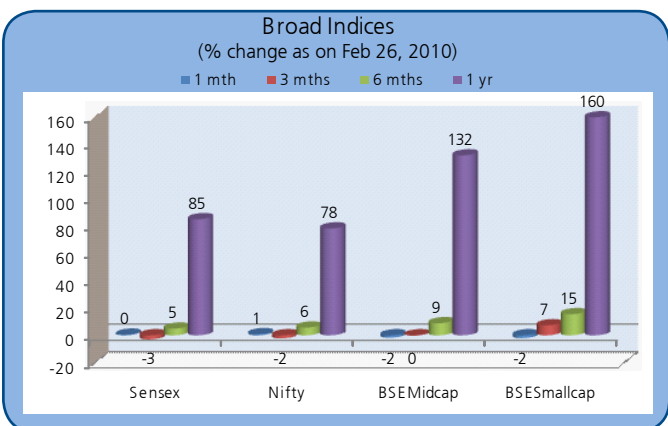




## Equity Market Review

February 2010 turned out to be sluggish for Indian equities. The first few sessions saw the Sensex slipping below the psychological 16,000 mark as Europe's sovereign debt crisis and a fall in commodity and energy prices raised fresh concerns over the global economic recovery. Later the market pared some losses tracking global markets and emergence of value buying. The volatility continued in the following sessions with positive bias on increased optimism that the government will announce plans to spur expansion in the Union Budget and global factors. The market friendly Budget lifted the sentiments at the end. On the whole, the market settled the month on a flat note.

Global equities registered a marginal gain as rise in commodity prices lifted resource stocks and concerns over Greece eased after European leaders lend support to tackle debt crisis. The MSCI AC World Index climbed 1.11%, while, the MSCI Emerging Markets Index rose marginally 0.25%. The Sensex registered a marginal rise of 0.44%, while the Nifty settled with a gain of 0.82%. However, the BSE Mid and Small caps slid 1.72% and 2.01% respectively.



Source: BSE

### Sector Performance

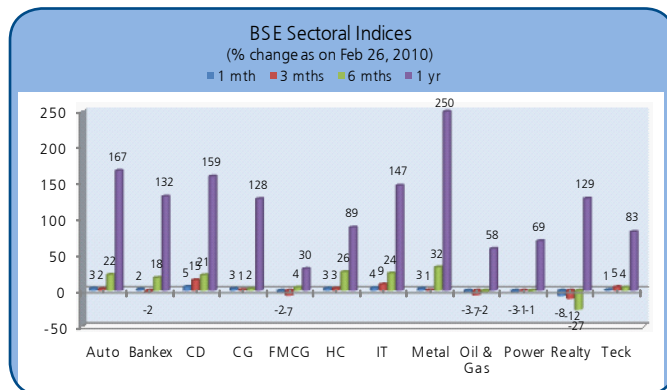
BSE sectoral indices have shown mixed performance during February. Major buying was seen in Consumer Durable, which gained 5.33%, followed by IT (3.94%) and Auto (3.13%). However, Realty dropped the most with loss of 7.53%, followed by Oil & Gas (3.45%) and Power (3.27%).

### Institutional Activities

The FIIs flow turned positive for equities with marginal net inflows of Rs 48.10 crores (USD 10.4 mn), while the domestic MFs remained net sellers with outflows of Rs 697.20 crores (USD 151.30 mn) during the month.

### Major Corporate Events

- Tata Motors reported consolidated net profit of Rs 650.26 crores (USD 141 mn) for the third quarter ended December 2009 against a loss of Rs 2,598.83 crores (USD 564 mn) in the same period last year. Total income grew 46.15% yoy to Rs 26,048.94 crores (USD 5.65 bn).



Source: BSE

- Bharti Airtel and Zain entered into talks for acquisition of Zain's African unit based on an enterprise value of USD 10.7 billion (Rs 49,311 crores).
- Bharat Heavy Electricals secured a major order for Greenfield power projects valued at Rs 5,778 crores (USD 1.25 bn). The order includes setting up two thermal power projects (TPP) located at Nasik (5x270 MW) and Amravati (5x270 MW) in Maharashtra.

### Key Macro Economic Developments

Indian economy expanded at 6% during third quarter ended December 2009. Industrial production registered a growth of 16.8% for December 2009, while core sectors growth was at 9.4% for January 2009. Exports continued to rise for the third month in January 2010. In dollar terms, exports climbed 11.5% to USD 14.34 billion (a rise of 4.9% in Rupee terms to Rs 65,920 crores). Oil prices surged 9.29% over the month to USD 79.66 per barrel. Meanwhile, inflation continued to surge with January WPI coming at 8.56% (yoy) as compared to 7.31% (yoy) in December 2009.

### Outlook

Overall, the Budget was positive for equity markets on the back of its thrust on promoting consumption through income tax cuts and creating a more conducive environment for investments. Proposals such as increase in NREGS and infra spend would lead to increased investments in rural and infrastructure segments of the economy. Broadly, rollback of stimulus measures was in line with expectations; however, managing growth with lower fiscal deficit and moderate inflation would be a key challenge for the year.

From here on, the equity markets will start looking at the global cues as uncertainty of Budget is behind us. Global markets will continue to track steps taken in Euro-zone to contain the fiscal problems in Greece & other European economies and the manufacturing data from key economies including US, Japan and China.

Any sort of correction in markets on the back of global developments should be taken as an opportunity to increase exposure in equities (reasonable valuations, continuation of growth momentum and clear direction for fiscal prudence will act as catalysts for premium valuations of Indian equities as compared to emerging markets).

## Debt Market Review

Indian bond prices declined, pushing yields higher during February 2010 on uncertainty about government borrowing needs. A view that strengthening economy and rising inflation could result in the RBI raising interest rates in the coming months also dampened market sentiments. The liquidity situation remained comfortable during the month.

Global bond markets traded weak as improved risk appetite. However, yields at the long-end rose slightly on policy related changes in the US. The 10-year yield on the government bond in the US climbed 3 bps to 3.61%. On the other hand, yields on 10-year bonds in Europe and Japan moved down 10 bps and 2 bps to 3.10% and 1.31%.

The call rates remained range bound (3.10%-3.40%) during the month. The yield on 91 Day T-Bill rose 12 bps to 4.13%, while, 364 Day T-Bill's yield climbed 34 bps to 5.01%. Meanwhile, the yields on 3 month and 1-year certificate of deposit (CD) moved up 115 bps and 65 bps to 5.80% and 6.75% respectively. The yields on 3 month and 1-year commercial paper (CP) climbed 125 bps and 68 bps to 6.30% and 7.55% respectively.

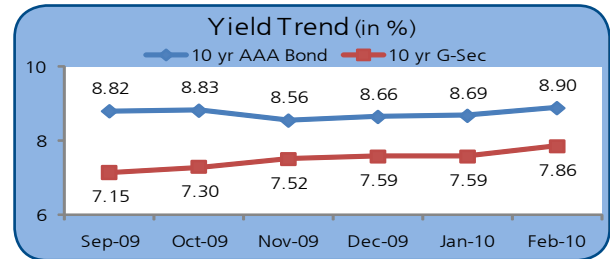
Policy Rates (in%)	Feb 10	Jan 10
Repo Rate	4.75	4.75
Reverse Repo Rate	3.25	3.25
CRR	5.75	5.00
SLR	25.00	25.00
Liquidity (in%)		
Call Rate	3.40	3.30
Currency (in Rs.)		
USD/INR	46.09	46.18
Inflation (in%)	Jan 10	Dec 09
WPI	8.56	7.31

Source RBI / Bloomberg

In Union Budget, the government announced that its gross and net market borrowings for 2010-11 at Rs 4,57,143 crores (USD 99 bn) and Rs 3,45,010 crores (USD 75 bn) respectively as against Rs 4,51,000 crores (USD 98 bn) and Rs 3,98,411 crores (USD 86.4 bn) during 2009-10.

## Gilt Performance

The 10-year benchmark G-sec yield moved up 27 bps at 7.86%. The yield on 5-year benchmark G-sec climbed 44 bps to 7.59%. Meanwhile, the short term 1-year benchmark G-sec yield rose 76 bps to 5.34%. As a result, the spread between 1 and 10-year benchmark G-sec shortened by 44 bps to 255 bps.



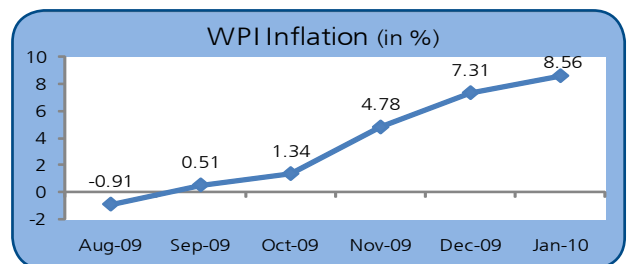
Source: Bloomberg

## Corporate Bond Performance

The 10-year AAA bond yield moved up 21 bps to 8.90%. The yield at 5-year AAA paper climbed 26 bps to 8.61%. The short term 1-year AAA bond yield went up 65 bps to 6.88%. As a result, the spread between 1 and 10-year AAA bond shortened by 45 bps to 203 bps. Meanwhile, the spread between 10-year benchmark G-sec and 10-year AAA bond declined by 7 bps at 89 bps.

## Inflation

The inflation as represented by the Wholesale Price Index (WPI) continued to surge to 8.56% for December 2009 compared with 7.31% for the previous month. The primary articles inflation was at 15.84% for the week ended February 13, 2009 as against 14.66% for the week ended January 16, 2009.



Source: Bloomberg

## Rupee

Indian rupee strengthened 0.20% to Rs 46.09 per US dollar. Forex reserves declined by USD 4.67 billion to USD 278.67 billion as on February 19, 2010 from USD 282.94 billion as on January 22, 2010. In rupee terms, forex reserves slipped Rs 12,453 crores to Rs 12,94,806 crores as on February 19, 2010 from Rs 13,07,259 crores as on January 22, 2010.

## Outlook

The Budget restricted the gross borrowing and net borrowing on the lower side of market expectations. However the actual supply which would hit the debt markets is expected to be substantially higher than FY10 as RBI is not expected to conduct Gilt purchases through OMOs. Inflation continues to be a concern and banking system liquidity will fall due to CRR hike effect and advance tax outflows. The 10-year benchmark G-sec yield may trade in a range of 7.75% to 8.25% during the month. Short term CD/CP rates may also remain volatile with upward bias.

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