

## Indian Equity Market

### Global Update

In June, MSCI India outperformed all the major global indices. India was the 3rd best performing emerging market during the month. After falling to almost a four-month low during the month, the market rose 9% from its low point to its high point in just nine days. Year to date, India continues to rank among the bottom four (refer to the MSCI returns chart at the bottom of this page).

### Domestic market review

- ▶ **Sensex/Sectors:** The BSE Sensex closed the month up 1.9%. Financials was the best performing sector while Energy was the worst during the month. Year-to-date also, Energy remains the worst performing sector and Financials, the best.
- ▶ **Large/Mid/Small Cap:** The Large cap index outperformed the mid- and small-cap indices during the month, while it underperformed these indices during the latest completed quarter.
- ▶ **Flows:** In June, FIIs turned buyers of Indian equities. They purchased ~\$700 mn in cash and ~ \$400 mn in the futures market. Domestic institutions were marginal buyers (at ~ US\$ 10mn). Domestic mutual funds remained buyers for the 2<sup>nd</sup> consecutive month (at ~ \$260 mn) while domestic insurance companies turned sellers (at ~\$250 Mn). Since the start of 2011, FIIs have bought ~ US\$ 500 mn worth of stocks while domestic institutions have bought ~ US\$ 3.2bn worth of stocks.
- ▶ **Equity market activity:** Market activity was moderate during the month. While cash volumes rose 6% M-o-M, cash turnover fell further to a 28-month low. Volumes in the derivatives market were down M-o-M.
- ▶ **Valuation:** After touching a 2-month low last month, MSCI India's absolute and relative valuations rose M-o-M. India traded at a 54% premium to EM at the end of June.

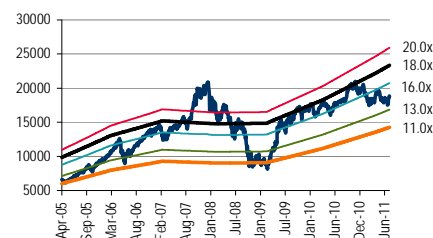
### Macroeconomic Review

- ▶ IIP growth decelerated to 4.4% in April (vs.7.8% growth in March). During June, the Ministry of Statistics released the new IIP index with base year revised from F1994 to F2005. As per the new index, IP growth decelerated to 6.3% Y-o-Y in April (vs. 8.8% growth in May).
- ▶ The WPI **headline inflation** went up to 9.06 per cent in May on the back of rising manufactured products and petrol prices. prices of manufactured products, which have a weight of around 65 per cent in the WPI basket, went up by 7.27 per cent year-on-year in May. inflation in the fuel and power segment, which has a weight of almost 15 per cent in the WPI basket, stood at 12.32 per cent year-on-year.
- ▶ **India's exports** grew 57 per cent to \$26 billion in May due to greater demand for India's engineering, oil and electronics goods in overseas markets. However, the country's imports rose to a four-year-high of \$41 billion, resulting in the gap between imports and exports widening to \$15 billion. The surge in imports by 54 per cent in May was mainly due to rising oil prices and a surge in gold imports.

### About DSP BlackRock

- ▶ DSP BlackRock Investment Managers, one of the premier asset management companies in India, currently manages assets, including advisory and offshore funds of USD 8.81bn (as at June 30, 2011) offering investment products across the risk-reward spectrum. DSP BlackRock Investment Managers is a joint venture between the DSP Group and BlackRock Inc. The DSP Group is owned by Mr. Hemendra Kothari and has a track record of over 145 years. BlackRock Inc. is one of the largest quoted asset management companies in the world, managing assets in excess of USD 3.65 trillion.

**Sensex 1-year forward PE Band Chart**



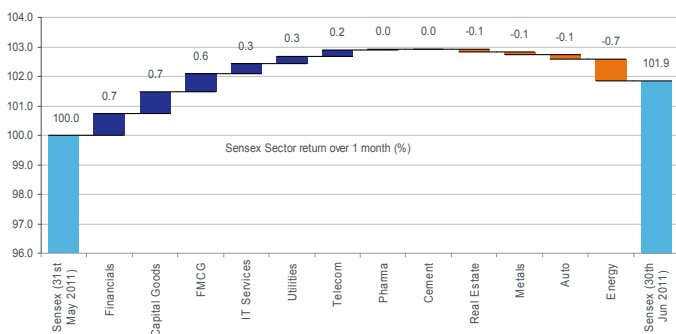
Source: Bank of America, Merrill Lynch Research

**MSCI Returns**

Country	1M	YTD
Indonesia	1%	11%
Russia	0%	8%
Korea	-2%	7%
Malaysia	2%	7%
USA	-2%	5%
Australia	-1%	2%
Thailand	-4%	0%
Emerging Markets	-2%	0%
China	-5%	-1%
Philippines	1%	-2%
Hong Kong	-4%	-3%
Taiwan	-5%	-3%
Brazil	-1%	-3%
Japan	1%	-6%
India	1%	-9%

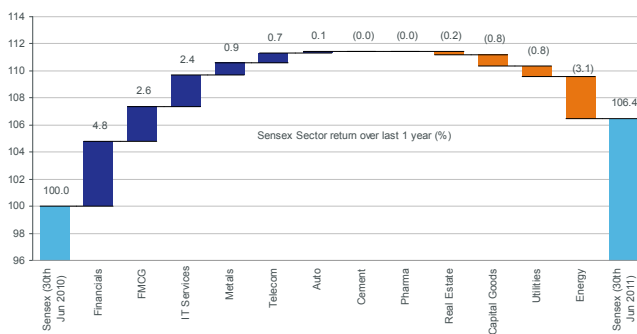
Source: Bloomberg; as at June 30, 2011, All data in USD. Values sorted by YTD.

## Index Returns: One month



Source: IIFL; as at June 30, 2011

## Index Returns: One year



## Equity Market Outlook

- ▶ June was an extremely volatile month for the Indian equity markets, with sharp movements in either direction. While negative global sentiment kept the market direction southbound through the month, the announcement of the relief package to Greece and positive domestic developments helped the market recover. The month closed with the Indian equity markets (BSE Sensex Index) up 1.85%.
- ▶ Inflation continued to accelerate and can further get a spurt from the recent fuel price hike (de-regulation). But, the central bank can be expected to also go slow on its tightening monetary policy in the second half of the year based on concerns regarding economic growth. The deregulation however is a significant positive development towards improving the fiscal situation for the government.
- ▶ Domestically, the first half of the year has been not been very positive with some macro headwinds in the form of high oil prices, a rising current account deficit and tight liquidity in the money markets. Added to this, the spate of news on corruption scandals has somewhat dampened investor sentiment towards equities. But for the second half of the year with the government refocusing on growth, long awaited reforms and clearances are expected to come through giving a boost to the equity markets. In the near term, fund flows which can be taken as a proxy for global sentiment, and monsoon are important variables to watch out for. Additionally, an improvement in the fiscal situation and correction in commodity prices on the back of global concerns should augur well for domestic economic growth.

## Non-Equity Market Update

- ▶ **Fixed Income:** During June, the treasury yield curve (between 10-yr and 1-yr Government Bonds) widened by 4 basis points (bps) m-o-m to 20 bps. The 10-year bond yield moved from 8.41% pa to 8.33% pa during the month while the 1-year bond yield moved from 8.25% pa to 8.13% pa during the same period.
- ▶ **Currency:** The INR appreciated vs. USD as well as Euro this month. Over the past 12-months INR has appreciated by 4% against the USD while it has depreciated 12% vs. the Euro Y-o-Y.
- ▶ **Gold:** Gold price corrected by 2.3% in June to close the month at USD 1,500.4/ounce.
- ▶ **Oil:** WTI crude corrected by 7.1% to close the month at USD 95.4/barrel.

**Statutory Details:** DSP BlackRock Mutual Fund was set up as a Trust and the settlors/sponsors are DSP ADIKO Holdings Pvt. Ltd. & DSP HMK Holdings Pvt. Ltd. (collectively) and BlackRock Inc. (Combined liability restricted to Rs. 1 lakh). **Trustee:** DSP BlackRock Trustee Company Pvt. Ltd. **Investment Manager:** DSP BlackRock Investment Managers Pvt. Ltd. **Risk Factors: Mutual funds, like securities investments, are subject to market and other risks and there can be no assurance that the Scheme's objectives will be achieved. As with any investment in securities, the NAV of Units issued under the Scheme can go up or down depending on the factors and forces affecting capital markets.** Past performance of the sponsor/AMC/mutual fund does not indicate the future performance of the Scheme. Investors in the Scheme are not being offered a guaranteed or assured rate of return. Each Scheme/Plan is required to have (i) minimum 20 investors and (ii) no single investor holding >25% of corpus. If the aforesaid point (i) is not fulfilled within the prescribed time, the Scheme/Plan concerned will be wound up and in case of breach of the aforesaid point (ii) at the end of the prescribed period, the investor's holding in excess of 25% of the corpus will be redeemed as per SEBI guidelines. For scheme specific risk factors, please refer the Scheme Information Document (SID). For more details, please refer the Key Information Memorandum cum Application Forms, which are available on the website, [www.dspblackrock.com](http://www.dspblackrock.com), and at the ISCs/Distributors. **Please read the Scheme Information Document and Statement of Additional Information carefully before investing.**

Source: Morgan Stanley Research, IIFL Research, Bloomberg, Internal as of June 30, 2011  
The views expressed are as of June 2011 and may change as subsequent conditions vary