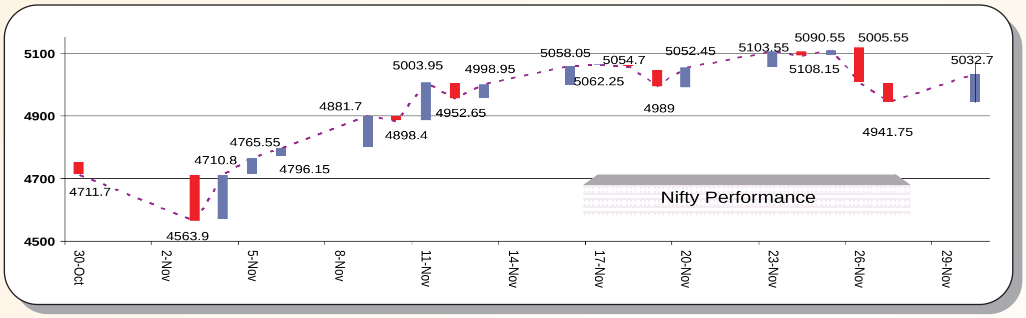
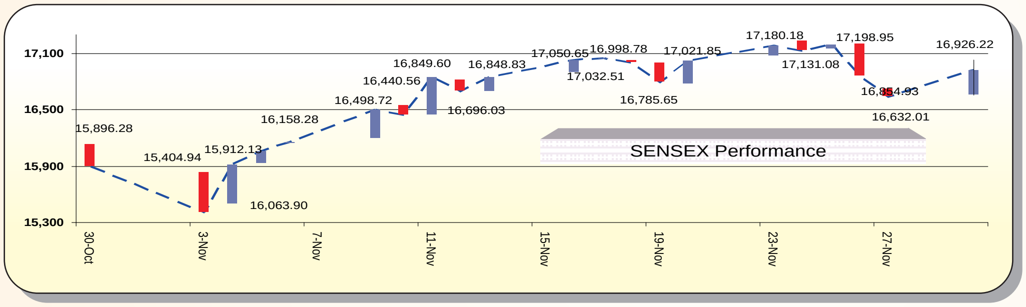
Equity Market Watch

The market performance in the month of December witnessed a cyclically inclining trend with the key benchmark indices SENSEX and Nifty posting an m-o-m return of 3.35% and 3.18% respectively. During the calendar year of 2009 Indian equities market as represented by SENSEX and Nifty posted a net return of 81.03% and 75.76% respectively.

The performance of sectoral indices reflected the interplay of the specific factors intrinsic and peculiar to each sector; and therefore varied accordingly. Amongst the top sectoral gainers in December were IT (9.02%), Consumer Durables (8.48 %), Technology (8.26%) and Power (7.02%). On the other hand, PSU (4.29%) and IPO (4.7%) remained on the lag end of sectoral indices performance chart.

SENSEX & Nifty Performance in December 09





Source:NSE,BSE

The SENSEX and Nifty performance displayed a daily returns variance (risk) of 0.973% and 1.028% respectively. The average daily cash volume in Nifty in December decreased by 14% to Rs 13947 crs. On the y-o-y basis, the average daily cash volume in Nifty increased by 37.54%. The aggregate cash volume in Nifty for the period of December was recorded at Rs 292,900.41 crs - a decline of -9.73% over November month. The volume of average daily contract in F&O Market in December month decreased by 8.23% (source: NSE).

Other Economic News

Indian Balance of Payment(BoP) Position in Q2 – FY10 :

The positive growth in Balance of Payment caught further steam in Q2-FY10 (July-Sept 09); with BoP registering an increase of US$ 9.4 bn in the three month period.

The decline in trade deficit due to disproportionate decrease in oil import bill (-45.7% yoy) over the last year, the extremely buoyant net capital inflow (FIIs, FDIs, NRI deposits etc. aggregating US$ 23.6 bn), and the high SDR allocation by IMF (US$ 5.1 bn) during the period ensured that BoP ledger swelled in the last quarter.

INDIA'S OVERALL BALANCE OF PAYMENTS in US$ bn(source RBI)	Net Q2-FY09	Net Q2-FY10
A.CURRENT ACCOUNT		
I. MERCHANDISE	-39.1	-32.2
II.INVISIBLES (a+b+c)	26.5	19.6
a) Services	14.4	6.3
b) Transfers	12.9	13.7
c) Income	-0.8	-0.4
Total Current Account (I+II)	-12.6	-12.6
B. CAPITAL ACCOUNT		
1. Foreign Investment (a+b)	3.6	16.8
a) Foreign Direct Investment (i+ii)	4.9	7.1
b) Portfolio Investment	-1.3	9.7
2.Loans (a+b+c)	2.6	2.5
a) External Assistance	0.5	0.5
b) Commercial Borrowings	1.7	1.2
c) Short Term to India	0.4	0.8
3. Banking Capital (a+b)	2.3	4.4
4. Rupee Debt Service	0.0	0.0
5. Other Capital	-1.4	-0.1
Total Capital Account (1to5)	7.1	23.6
C. Errors & Omissions	0.7	-1.6
D. Overall Balance(A+B+C)	-4.7	9.4

Source:Mospi

Market Outlook

As the market proceeds into the next calendar year, the prospect of fresh allocation money is expected to set in. In the same vein, the new surplus premium allocation from the domestic insurance sector would also be pivotal for the market momentum in the coming month.

The stock rise during the last year was a function of liquidity interplay and broad sectoral trend. This may witness a core shift, as more and more scrip specific activity is expected to emerge as the major growth determinant in future.

Nonetheless, Industrials, IT and commodities sector may emerge as the new investment flavor, since they tend to ride the second wave of capex boom. Sugar may be another sector which may provide positive alpha in the following year. On a cumulative basis, the equities market is expected to mirror the 15-20% corporate earning projection for 2010.

We therefore believe that the buoyancy in the Indian economy provides a bullish long term perspective on the market, though the period systemic events may raise concerns in the market. It is therefore advisable for the investor may invest with a 1-2 year investment horizon. Also, to mitigate the possibilities of short term pricing volatility, investment through means of SIP to obtain 'competitive risk - adjusted return' on their investments is advisable.

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	December End	November End	Change
10 YR IGB (Yield) (31st/Dec/2009)	7.66%	7.30%	36 bps
10 YR UST (Yield) (31st/Dec/2009)	3.83%	3.20%	63 bps
Avg. LAF Surplus / Deficit (Rs. Cr)	49051	99119	-50068
Currency (Rs. /$) (31st/Dec/2009)	46.61	46.48	13 ps
India's Forex Reserve (Billion $) (24th /Dec/2009)	283.05	285.3	-2.25

Source: RBI; US Fed

Inflation

The inflation in the primary articles segment continued to remain upbeat, and on the upward spiral. The prices of articles in this segment increased by around 15.49 %(19th Dec) over the pervious year's base price. For a comparative reference, the inflation in primary articles last year was at 10.81%(20/12/2008).

However, the food article prices reflect some price moderation on a week-on-week basis. Yet, it remains to be seen whether it a seasonal fluctuation, or a more promising trend.

During the same week (19th Dec), the inflation in the 'Fuel, Power, & Lubes' segment was at 4.45%. In the same period last year, this segment had posted a price inflation of -0.75%.

Rate of Inflation

Items	As of Financial Year		YoY		52 week Avg
	FY09	FY10	FY09	FY10	2009
Primary Articles (A+B)	3.9%	14.1%	10.8%	15.5%	8.3%
Food (A)	5.2%	17.9%	9.4%	19.8%	12.0%
Cereals	7.0%	9.9%	10.3%	13.8%	12.8%
Rice	10.8%	8.8%	15.1%	13.0%	15.9%
Wheat	3.1%	11.1%	4.9%	12.7%	6.5%
Pulses	6.6%	38.0%	13.2%	41.7%	20.6%
Vegetables	-4.9%	47.2%	0.6%	46.7%	17.0%
Potatoes	-18.1%	101.4%	-28.9%	132.7%	47.0%
Onions	45.3%	28.4%	7.3%	40.8%	38.4%
Fruits	3.6%	8.0%	15.6%	10.4%	6.6%
Milk	5.1%	11.5%	7.1%	13.6%	8.7%
Non-Food Articles (B)	1.7%	10.4%	9.2%	8.7%	0.9%
Fibres	11.0%	16.9%	20.0%	7.9%	-1.1%
Oil Seeds	-1.6%	7.6%	10.8%	7.6%	0.8%
Minerals	-1.0%	-13.1%	43.8%	-5.9%	-1.3%
Fuel, Power, Light & Lubricants	-3.4%	7.5%	-0.8%	4.5%	-5.8%
LPG	13.9%	0.1%	13.9%	-7.4%	-1.9%
Petrol	0.2%	10.0%	4.7%	-2.2%	-10.1%
High Speed Diesel	3.5%	6.5%	7.3%	-0.2%	-3.8%

Source: Mospi

Credit Growth

The spate of decelerating growth in bank credit showed a break from the previous trend, posting a better than expected number of 10.5% yoy as on 4th Dec 09. However, the credit expansion in food credit segment continued to remain in the negative territory.

The continued deceleration in the non-food credit segment remains a significant impediment for the economic growth revival. The growth rate in this segment was recorded at 10.97% yoy as on 4th Dec 09. In the same period last year, the credit growth in non-food segment was at 26.25%.

Scheduled Commercial Banks - Business in India (in crs)

Item	as on 2009 Dec. 4	differernce since			
		Financial year so far		Year-on-year	
		2008-2009	2009-2010	2008	2009
Aggregate Deposits	4203645	355642	369535	627529	651064
		11.1%	9.6%	21.5%	18.3%
Demand	525529	-84,306	2,445	20,645	85,526
Time	3678116	439948	367091	606884	565538
Investments	1385299	131,238	218889	147,740	282346
		13.50%	18.80%	15.50%	25.60%
Bank Credit	2919700	280308	144151	551993	277479
		11.9%	5.2%	26.4%	10.5%
Food Credit	44,564	6,841	-1,647	12,031	-6,676
Non-Food credit	2875136	273467	145798	539962	284155

Source: RBI

The moderation in credit growth is primarily attributable to a period of general economic slowdown. No surprise then, that the banking credit flow to industry and services macro-sectoral segment posted a growth of only 14.8% and 6.3% respectively in 2009. In comparison to this, the credit flow to industry and services sector in 2008 was at 37.4% and 35.5% respectively.

Outlook

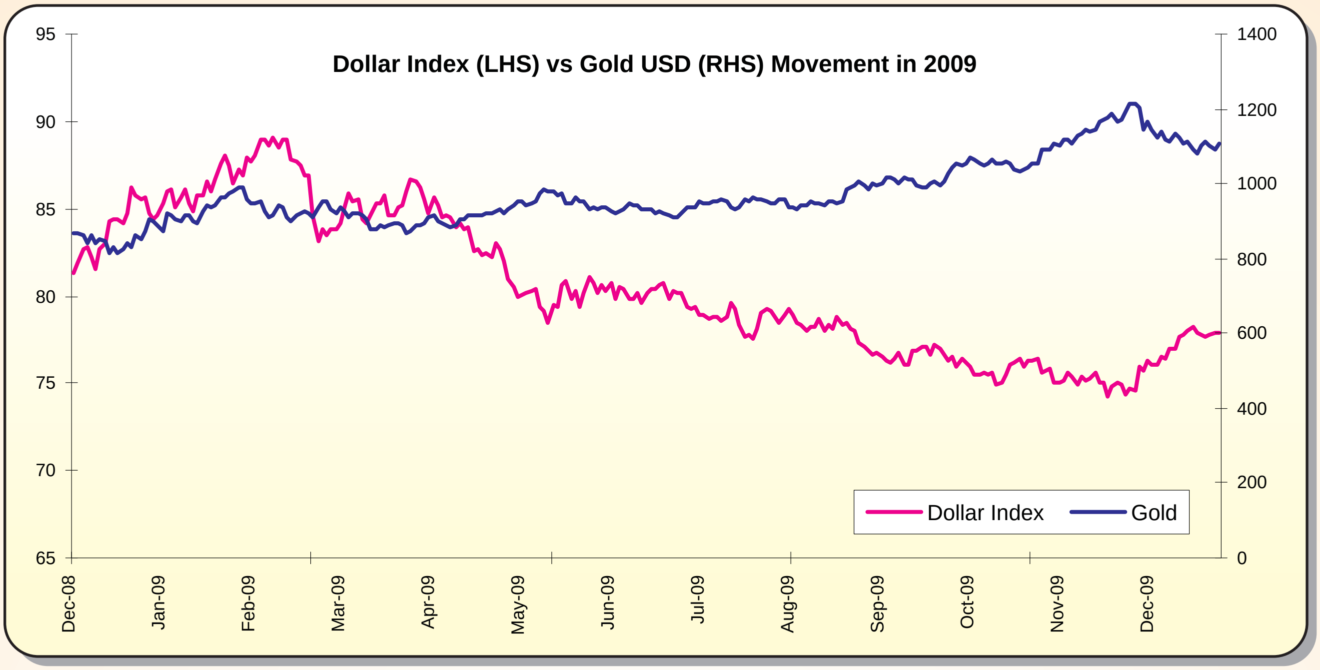
The interest rate outlook in the debt market has dampened considerably in the month of December. The 10 yr gilt touched the month high of 7.75% before coming down to around 7.66% by the month end. The government decision to provide an extra subsidy of Rs 309 bn only added to the market wariness in the period.

There is an expectation within the market that interest-rate revision may be sooner on the cards than was previously envisaged. In the period, the US fed non-action on the rate scenario remained the only silver-lining for the market. It is visible that RBI is weighing its options, and the expectation of a credit market revival, and/or the agri-supply situation post rabi crop season, may provide the ground for further course of action. In this context, we believe that yields on 10 yr gilt may witness some volatility and may trade in the 7.5-7.8% range.

Gold Corner

Amidst a volatile month, Gold touched an all time high of $1218/oz, made a low of $1080/oz and ended the year 2009 at $ 1104/oz. This is almost 5.80% lower from its Nov'09 closing of $1172/oz. Underperformance of the yellow metal could be attributed to strength in the US dollar, which gained almost 4% during the month. During the calendar year 2009, the US dollar depreciated 4.24% and gold appreciated 27.60%. Historically, the US dollar and gold have an inverse correlation and as the chart below shows, the trend continued in 2009 as well. (Source: Bloomberg)

The assets managed by Gold Exchange Traded Funds in the country increased to Rs.1275 crore as on Nov 30, 09 from 1085 crore as on Oct 30, 09. Source: lbma.org



Source: www.lbma.org

Outlook

In total, privately held physical investment in gold makes up only 0.7 percent of global investible financial assets of $130 trillion. This means that currently the average fund manager and investor relatively has negligible exposure to gold, indicating that there is still huge investment potential in gold (Source: Matterhorn). The International Monetary Fund has said the dollar's share of global currency reserves fell in the third quarter to the lowest level in a decade. The currency's portion fell at the end of the third quarter of 2009 to 61.6 percent from 62.8 percent in the previous quarter. The difference in US yields between the 2- and 10-year Treasury note widened to a record of 286 basis points as investors reckon the U.S recovery will fuel inflation and reduce demand for government debt sales. Data collected by the World Gold Council showed that central banks collectively bought $28 billion of gold at an average price of $978 ounce in the third quarter of 2009. The higher demand for gold worldwide & worries about raising inflation in future will likely result in higher gold prices in the medium to long term.