January 20, 2012 - January 27, 2012

BNP PARIBAS
MUTUAL FUND

Week at a Glance

MARKET REVIEW

EQUITY MARKET

- Benchmark indices closed the holiday-shortened week with stellar gains on the back of supportive domestic and global cues. Sensex gained 2.96% to 17233.98 while Nifty rose 3.09% to 5204.70. So far, in January 2012, Sensex and Nifty have surged 11.51% and 12.55%, respectively.
- Indices started off the week looking for fresh leads with most Asian markets being closed on account of public holidays. RBI steps to boost liquidity buoyed sentiment and the momentum-led rally pushed the indices above key resistance levels. Company-specific developments and Q3FY12 earnings led to stock-specific movements.
- The US Federal Reserve pledged to keep interest rates at ultra-low levels till the end of 2014 and indicated at a possible bond purchase programme down the line to boost the US economy. The event gave fillip to risk appetite across most regions, assisted domestic equity indices.
- Barring realty, all sectors surged. Capital goods, telecom and auto led the gainers. Lower capitalisation indices gained in excess of 3% each and outperformed the benchmark indices.

The week ahead: Global cues would be important for domestic markets in the coming week. Developments with regards to Greek debt-swap deal, economic data in US and Euro zone would be eyed. Corporate earnings results may lead to stock-specific movements.

Source: Verity Analytics

DEBT MARKET

- Government securities faced volatility in the wake of RBI's 3QFY12 monetary policy review on Tuesday, where the central bank surprised participants with a 50 bps cut in CRR (cash reserve ratio). The CRR cut, effective from Saturday, is expected to infuse around ₹32,000 crore into the banking system.
- The 10-year benchmark yield swung in a wide range of 8.03%-8.37% on the same day, as sentiment took a hit owing to renewed concerns over the oversupply of dated securities in the market. Such concerns were triggered by the dovish policy of RBI raising doubts over any further bond purchases by the central bank in coming weeks.
- Odds of open market operations (OMOs) by RBI seemed low especially after RBI governor D. Subbarao said that any bond purchases in future would depend on how the liquidity situation pans out.
- Later, some relief was sought on the back of value buying and short-covering by traders noting the sharp decline in prices, but sharper gains were averted due to the ₹13,000 crore worth bond sale lined up in the week.
- Earlier, at the treasury bill auctions, the yield on 91-day bill moved up to 8.73% from 8.64%, while yield of 364-day bill surged to 8.47% from 8.20%.
- On the liquidity front, call rates shot up to 9.40%-9.50% as a rush for funds by banks intensified in the first week of the reporting fortnight and as banks braced for RBI policy and a holiday-shortened week. The surge in borrowing at the RBI LAF repo window revealed the worsening deficit gap in the system.

The week ahead: Sentiment will remain cautious awaiting details of bond purchases as traders hope that the systemic fund shortfall could compel the RBI to conduct OMOs buybacks. However, uncertainty would linger to keep big buying in check. Bond sales scheduled in the week will also weigh on the mood.

Source: Verity Analytics

Market Indicators

	As on 27th Jan 2012	Change over (%) 1-Week	1-Year
Developed Markets			
Dow Jones	12660.46	-0.47	5.30
FTSE 100	5733.45	0.09	-4.04
Xetra Dax	6511.98	1.65	-9.88
Nikkei 225	8841.22	0.85	-18.30
Emerging Markets			
BOVESPA	62904.20	0.94	-8.18
RTS	1565.82	4.43	-22.08
Shanghai*	2319.12	0.00	-18.54
Sensex	17233.98	2.87	-8.42

*Data as on 20th Jan 2012
Sources: NewsWire18, Verity Analytics

Benchmark Rates

Treasury	As on 27th Jan 2012	Absolute Change 1-Week	1-Year
Call Rate	8.60	-0.40	1.90
NSE MIBOR	9.15	-0.14	2.43
5 Yr. AAA Bond Spreads	0.93	-0.08	0.03
10 Year Yield	8.35	0.17	0.21
Repo	8.50	0.00	2.05
CBLO	7.98	-0.12	1.48
91 Day Tbill	8.65	0.15	8.65
182 Day Tbill	8.50	0.10	8.50
364 Day Tbill	8.40	0.20	8.40
Gold($/oz)	1738.35	72.44	1738.35
Brent($/bbl)	111.32	1.11	111.32
INR	49.31	-1.02	3.74

Sources: NewsWire18, Verity Analytics

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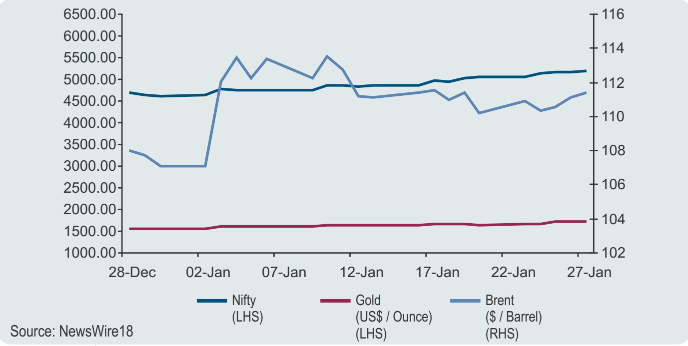
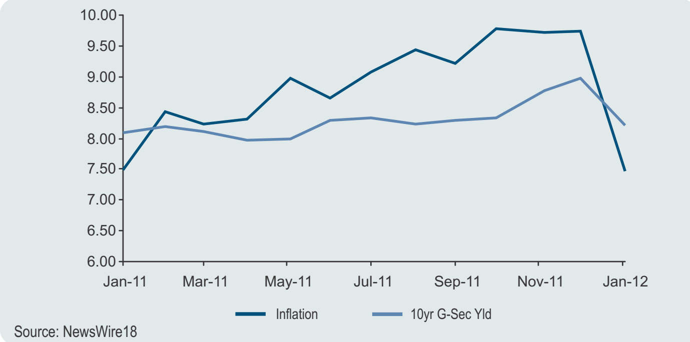


Source: NewsWire18

(Data as on 27th Jan 2012)



Source: NewsWire18

(Data as on 27th Jan 2012)

FII & MFs Net Flows				
	Equity		Debt	
	Latest	YTD*	Latest	YTD*
FII*	3065.80	9073.10	862.00	16794.80
MF#	-268.30	-1334.60	2799.80	12978.50

(₹ Cr) YTD* - From Jan' 12 Source: SEBI

(*Data as on 27th Jan 2012) (#Data as on 25th Jan 2012)

Sources: SEBI, Verity Analytics

LAF Volumes (₹Cr.)	Today	Previous	1 week	1 Month
Repo*	159445	145050	151580	126785
Reverse Repo*	8,260	5	5	760

Source: RBI (*Data as on 27th Jan 2012)

Tenor	CP (%)	CD (%)
3 Months*	10.20	9.85
6 Months*	10.30	9.95
1 Year*	10.30	9.95

Source: NewsWire 18 (*Rates as on 27th Jan 2012)

RECENT EVENTS

RBI Q3FY12 monetary policy review...

The Reserve Bank of India (RBI) released its policy review for the third quarter of fiscal year ending March 2012 (Q3FY12) on January 24, 2012. The central bank cut the cash reserve ratio (CRR) by 50 basis points (bps) to 5.5% with effect from January 28, 2012. The repo rate under the liquidity adjustment facility (LAF) was kept unchanged at 8.5%. Consequently, the reverse repo rate under the LAF and the marginal standing facility (MSF) rate would remain at 7.5% and 9.5%, respectively. The reduction in CRR would inject ₹320 billion of primary liquidity in the system.

Deceleration in domestic growth, sticky core inflation and tight liquidity conditions beyond the comfort zone of RBI were the key reasons cited by the central bank for the reduction in CRR. Further, concerns over the sustainability of sovereign debt problem in the Euro zone have intensified. There are modest signs of improvement in the US. In the emerging and developing economies (EDEs), growth has been moderating, reflecting the sluggishness in the advanced economies and the impact of earlier monetary tightening. This coupled with domestic slowdown in the growth of demand have raised downside risks to growth. On the basis of this view, RBI lowered the GDP growth projection for FY12 to 7% y-o-y from the previous 7.6% y-o-y. The inflation estimate for March 2012 was retained at 7% y-o-y.

The RBI cited urgent need for fiscal consolidation, which may help in capital formation and hinted that the government must begin the process in the forthcoming Union Budget.

Source: Verity Analytics

BACK TO SCHOOL

Types of Diversification:

A well-diversified portfolio may get the investor through harsh conditions with relatively milder dent because diversification spreads the investors' risk. Diversification can be done in the following ways:

1. Diversification by asset class

2. Diversification by sector

3. Diversification by region

4. Diversification by market capitalisation

5. Diversification by investment style

We will discuss each type in detail in the forthcoming weeks.

Source: Verity Analytics