December 16, 2011 - December 23, 2011

BNP PARIBAS
MUTUAL FUND

Week at a Glance

MARKET REVIEW

EQUITY MARKET

- Benchmarks indices recovered from the previous week's lows aided by the pull back in mid-week. Indices pared gains in the fag end of trade amid profit booking. Sensex was up 247 points, closing at 15,738.70, while Nifty was up 62.40 points at 4,714.00 for the week.
- Gains in stocks were aided by the positive news from US and German data, and a successful bond auction in Spain that improved investor confidence, although uncertainties surrounding the Euro zone kept traders wary. Locally, Moody's raised India's local-currency debt ratings.
- The domestic macro environment continued to bog down sentiment amidst factors like the political lock jam and lack of policy implementation raising doubts on sustainability of future GDP growth.
- Fiscal and liquidity pressures affecting interest rates and growth projects, current account pressures, oil prices, lack of portfolio inflows due to general risk aversion adversely affecting the rupee kept a tab on sentiment.
- FII were net sellers of stocks worth ₹1104.70 crore as against ₹1383.10 crore selling in the previous week.

The week ahead: Stocks are expected to remain choppy amidst the prevailing volatile conditions. Global news flow is likely to maintain dominance over domestic leads but the next set of US data also keenly awaited apart from the persistent Euro zone theme.

DEBT MARKET

- Government bonds started the week on a buoyant note on anticipation that tight liquidity conditions may compel RBI to conduct open market operations. However, the excitement fizzled out soon, as RBI disappointed the market with the selection of securities and quantum of the OMO purchases
- The yield on the 10-year benchmark bond surged to end flat for the week at 8.37%, rebounding from a low of 8.27% touched mid-week.
- The weekly bond auctions worth ₹120 bln prompted traders to lighten positions, while sentiment took a hit after RBI in its Financial Stability report said that the fiscal stress was likely to aggravate due to high risk of slippage. Concerns over fiscal deficit worsened in turn implying a further increase in market borrowing.
- Meanwhile, a sharp fall in food and primary articles inflation rates comforted traders, but the impact failed to leave a sustained impact. The primary articles inflation rate in the week to December 10 fell for the seventh straight time, to 3.78% y-o-y from 5.48% a week ago, while food inflation rate fell to 1.81% y-o-y from 4.35% y-o-y.
- At the treasury bill auctions, the yield on 91-day bill fell to 8.39% from 8.47%, while yield on 182-day bill fell to 8.26% from 8.51%.

The week ahead: Yields may settle in a narrow range. Traders may look for fresh cues to drive the trading sentiment. Meanwhile, absence of bond auctions will provide some respite.

Source: Verity Analytics

Market Indicators

	As on 23rd Dec 2011	Change over (%) 1-Week	Change over (%) 1-Year
Developed Markets			
Dow Jones	12294.00	3.48	5.86
FTSE 100	5512.70	2.27	-8.77
Xetra Dax	5878.93	3.01	-20.05
Nikkei 225	8395.16	-0.08	-22.42
Emerging Markets			
BOVESPA	57701.07	2.78	-18.69
RTS	1394.12	1.46	-26.64
Shanghai	2204.78	-0.91	-29.50
Sensex	15738.70	1.57	-26.97

Sources: NewsWire18, Verity Analytics

Source: Verity Analytics

Benchmark Rates

Treasury	As on 23rd Dec 2011	Absolute Change 1-Week	Absolute Change 1-Year
Call Rate	9.85	0.85	2.85
NSE MIBOR	9.85	0.87	2.84
5 Yr. AAA Bond Spreads	1.00	0.18	0.07
10 Year Yield	8.36	-0.01	0.43
Repo	9.20	0.90	2.80
CBLO	8.42	2.42	2.21
91 Day Tbill	8.35	0.05	1.16
182 Day Tbill	8.25	0.00	0.91
364 Day Tbill	8.15	0.00	0.66
Gold($/oz)	1606.43	8.00	226.73
Brent($/bbl)	108.03	4.55	13.71
INR	52.97	0.26	7.80

Sources: NewsWire18, Verity Analytics

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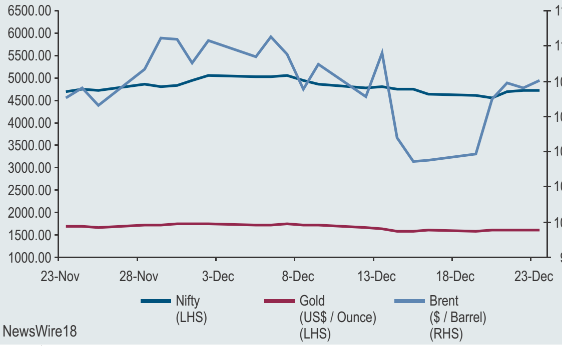
MUTUAL FUND



Source: NewsWire18
(Data as on 23rd Dec 2011)

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(Data as on 23rd Dec 2011)

FII & MFs Net Flows

	Equity		Debt	
	Latest	YTD*	Latest	YTD*
FII*	-1104.70	-3917	3789.30	24082
MF#	161.60	5768	11285.90	286741

(₹ Cr) YTD* - From Jan' 11 Source: SEBI

(*Data as on 23rd Dec 2011) (#Data as on 21st Dec 2011)

Sources: SEBI, Verity Analytics

LAF Volumes (₹Cr.)	Today	Previous	1 week	1 Month
Repo*	173330	165150	148470	135440
Reverse Repo*	465	15	0	0

Source: RBI (*Data as on 23rd Dec 2011)

Tenor	CP (%)	CD (%)
3 Months*	10.20	9.90
6 Months*	10.25	9.85
1 Year*	10.50	9.95

Source: NewsWire 18 (*Rates as on 23rd Dec 2011)

RECENT EVENTS

Moody's raised rating; RBI points out risks…

Moody's Investors Service upgraded the rating on India's long-term government bonds denominated in domestic currency and long-term country ceiling on foreign currency bank deposits, both, from Ba1 to Baa3 i.e. from speculative to investment grade. The outlook was kept stable. Similarly, rating on short-term government bonds denominated in domestic currency was raised by a notch. The stable outlook on India's rating reflected Moody's medium-term assessment of the country's growth, fiscal, and balance of payments outlook, relative to other countries.

RBI presented its half-yearly assessment of India's financial sector in the Financial Stability Report (FSR) on Thursday. The FSR showed that the domestic financial system remained robust in the last two quarters. A series of macro-financial stress tests, which assessed the resilience of the banking system to adverse macroeconomic developments found that banks' capital adequacy remained above regulatory requirements even under severe stress scenarios. The Financial Stability Map and Indicator - quantitative tools designed to measure movements in risk dimensions affecting the entire financial system - did point at some rise in risks.

RBI outlined that volatility in domestic markets increased since June as the global economic scenario turned gloomier, with significant stress coming from the developments in debt-ridden Euro zone countries. The domestic equity and foreign exchange markets experienced severe stress in the recent months. Current market conditions might persist until March 2012 according to the report.

Source: Verity Analytics

BACK TO SCHOOL

Income Fund:

An income fund is a type of a debt mutual fund scheme that emphasises on regular income, either on a monthly or quarterly basis, as opposed to capital appreciation. Such funds hold a variety of government securities, money market instruments, municipal and corporate debt securities .

Income funds are considered to be conservative investments. Generally, the bonds included in the portfolios of these funds are of investment grade. The other securities are of sufficient credit quality so as to ensure preservation of capital.

Source: Verity Analytics