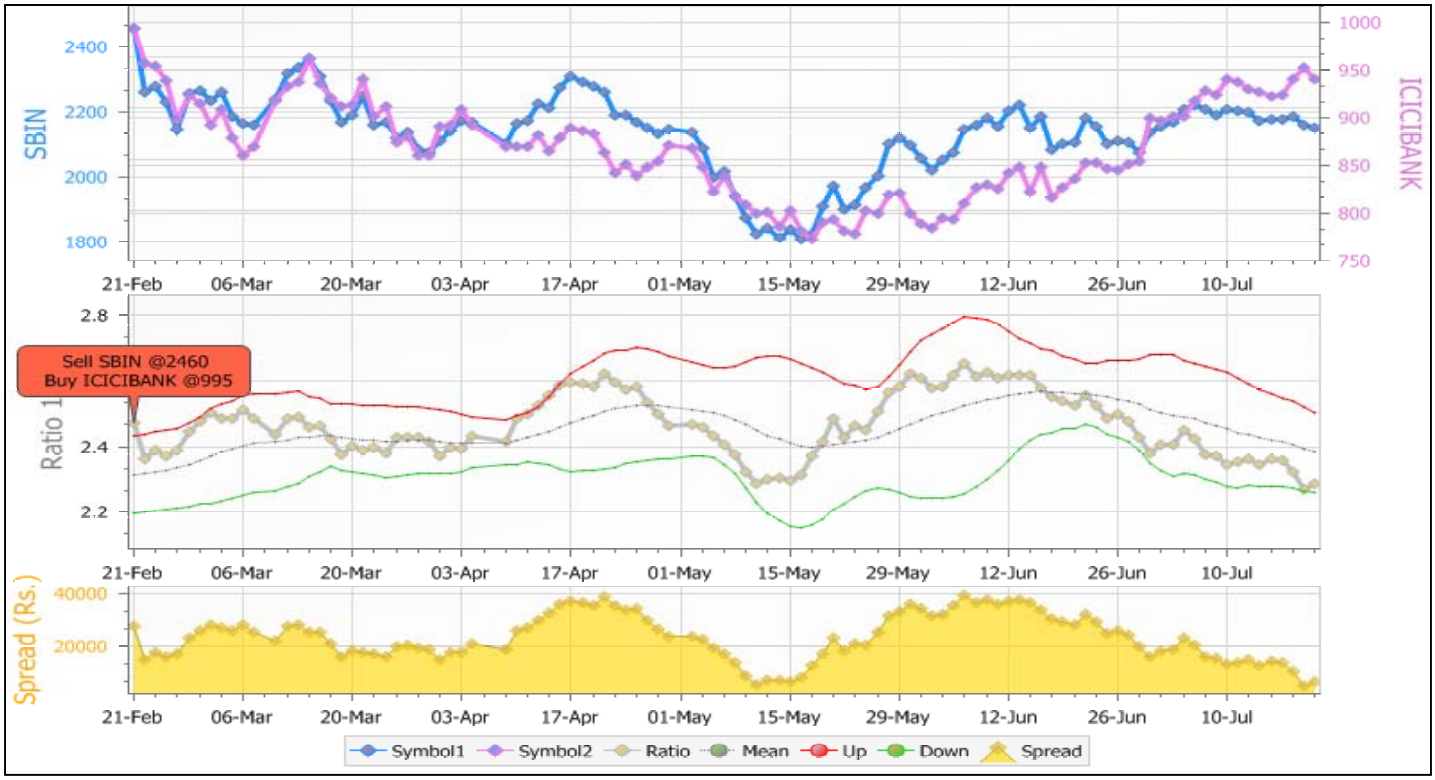
Pair Trading Strategy

July 20, 2012

One could initiate a statistical pair trade on the expectation that SBI Future will outperform ICICI Bank Future in the near term.

Start Date	Buy/Sell	Stock	Entry Price	Entry Ratio	Target Ratio	Stop Loss	Time Horizon
20-July-2012	Buy Sell	SBI Future ICICI Bank Future	2152.7 940.2	2.29	2.39	2.25	3- 5 Weeks

The strategy is to be executed by buying 1 lot of SBI Future and selling 1 lot of ICICI Bank Future. Entry ratio is 2.29 and mean ratio for the pair is 2.39. The pair is trading way below the price ratio and we expect the pair to move near to its mean of 2.39.



Key Statistics

Current ratio is 2.29
Target ratio is 2.39
180 days correlation 92%
Profit Expected from Pair Strategy: ₹. 11797*
Maximum loss: ₹. 4656*
* Calculated keeping the lower price variable constant

Action	Buy	Sell
Stock	**SBI**	**ICICI**
Lot Size	125	250
Fut Stk Price	2152.70	940.2
Value	269087.5	235050
Difference	34037.50	
Ratio	2.29	

Analyst :– Siddharth Deshpande (Siddharth.deshpande@hdfcsec.com)

HDFC Securities Limited, I Think Techno Campus, Building 'B', "Alpha", Office Floor 8, Near Kanjurmarg Station, Opposite Crompton Greaves, Kanjurmarg (East), Mumbai – 400042, Fax: (022) 30753435

Disclaimer: This document has been prepared by HDFC Securities Limited and is meant for sole use by the recipient and not for circulation. This document is not to be reported or copied or made available to others. It should not be considered to be taken as an offer to sell or a solicitation to buy any security. The information contained herein is from sources believed reliable. We do not represent that it is accurate or complete and it should not be relied upon as such. We may have from time to time positions or options on, and buy and sell securities referred to herein. We may from time to time solicit from, or perform investment banking, or other services for, any company mentioned in this document. This report is intended for non-Institutional Clients only.