

## Outlook for Week Ahead

July 23, 2012

The market may remain volatile this week as traders roll over positions from the near-month July 2012 series to Aug 2012 series. The July 2012 derivatives contracts expire on Thursday, 26 July 2012. Stock-specific action will be at the fore as the first quarter June 2012 earnings season is underway. Investors and analysts would closely watch the management commentary that would accompany the result to see if there is any revision in their future earnings forecast of the company for the current year. Some of the major results for the quarter ended June 2012 due this week include that of HUL, L&T, Cairn India, Wipro, Sesa Goa, Jindal Steel & Power, Power Grid, HCL Technologies, ITC, BHEL, Sterlite Ind, ACC, Ambuja Cements, ICICI Bank, Grasim Industries, NTPC, PNB, Maruti & HDFC.

The progress of monsoon rains will be closely watched. Rainfall in the country till July 15 was 22% short of the long-term average, raising concerns that farm output may be hurt and could lead to a rise in food prices. On a positive side, there has been speculation that the government would raise fuel prices after the presidential polls to lighten its subsidy burden and improve fiscal position.

We expect the market to remain volatile & nervous ahead of the RBI monetary policy on July 31, 2012. Further, with the global cues not so supportive, we expect the market to trade in a narrow range with a negative bias during the week. On the upside, the market is likely to find stiff resistance at 17318. A break below 17000 could lead to further downside till 16600.

## The Week Gone By

July 23, 2012

### Indian Markets

Key benchmark indices edged lower as investors reduced bets on future rate cuts from the central bank after hawkish comments from RBI governor D Subbarao on Monday, 16 July 2012, on inflation. The BSE Sensex lost 55.3 points or 0.3% to 17,158.4, its lowest closing level since 17 July 2012. The CNX Nifty declined 22.2 points or 0.4% to 5205.1, its lowest closing level since 17 July 2012. The BSE Mid-Cap index declined 1% and the BSE Small-Cap index dropped 0.9%. Both these indices underperformed the Sensex.

### Some key highlights during the week

- India's wholesale price index (WPI), the main inflation gauge, rose to a lower-than-expected annual 7.25% in June, its slowest rate since January, helped by moderation in fuel prices. India's wholesale and consumer price inflation levels are way above the RBI's comfort lines.
- Food inflation in the consumer price index accelerated to 10.71% in June from 10.66% in May. However India's benchmark wholesale price index that is used by the RBI to frame policy, slowed to 7.25% in June. The level, lowest in five months, was mainly attributed to slower increases in fuel prices.
- Venture capital (VC) investments declined by nearly 30% during the half year ended June 2012. VC firms invested \$363 mn across 100 deals during the six months. While the volume of investments has kept pace, the value declined as compared to the same period last year, which had witnessed 103 deals worth \$520 mn.
- The Centre for Monitoring Indian Economy (CMIE) revised downwards its growth estimate marginally for the current fiscal to 7.2% from the previous forecast of 7.3% growth. It said that the dip in growth estimate is due to revision in many individual sectors and lower than expected trade and credit offtake performance in the initial months of 2012-13.
- Power minister Sushilkumar Shinde told to a conference of state power ministers in the capital during the last week that India aims to add 88,000 megawatts (MW) of power generation capacity in the next five years. The country's current power generation capacity is 200,000 MW, with a peak shortfall of 10%.
- The weather office said on last Thursday that India's monsoon rains retreated to below average levels in the past week. However, that was after scraping above average the previous week for the first time in this rainy season, keeping overall rainfall under par.
- A senior commerce ministry official said during the last week that exports can grow 20% in FY13 notwithstanding the global slowdown. Last fiscal, the country crossed the merchandise shipment target of \$300 bn at \$303.8 bn, making it the largest-ever trade numbers.

### US Markets

Despite a sharp correction towards the end of the week (on Friday), all the three major US indices closed marginally higher for the week ended July 20, 2012. The Dow and S&P 500 rose 0.4% each, while the Nasdaq climbed 0.6%.

### Key Highlights during the week:

- Initial jobless claims (US) last week came in higher than expected, at 386,000. That was an increase of 34,000 from the previous week's revised figure.
- The National Association of Realtors said that sales of existing homes fell 5.4% to a seasonally adjusted annual rate of 4.37 mn in June, from an upwardly revised 4.62 mn in May. Analysts were expecting sales to come in at an annual rate of 4.65 mn.

## Weekly Statistics

Key Indices	July 20	% Chg
Sensex	17158	-0.32
Nifty	5205	-0.42
DJIA	12823	+0.36
Nasdaq	2925	+0.58
FTSE	5652	-0.25
DAX	6630	+1.11
Hang Seng	19641	+2.87
Shanghai	2169	-0.79
Nikkei	8670	-0.62
Bovespa	54195	-0.25
Indonesia – Jakarta	4081	+1.53
Singapore – Strait	3016	+0.67
MSCI Emerging Markets	937	+1.16
MSCI World	1231	+0.47

Metals (USD)	July 20	% Chg
Aluminum	1913.0	+1.14
Copper	7635.0	-0.51
Zinc	1854.5	-0.78
Tin	18995.0	+1.58
Lead	1905.5	+1.63
Gold	1582.8	-0.58

Interest Rates	July 20	Chg bps
MIBOR	9.32	-2.00
10 yr bond yield	8.07	-3.00
LIBOR – UK	0.81	-5.00
LIBOR – USA	0.46	0.00
LIBOR – Europe	0.34	-7.00

Exchange Rates	Value	% Chg
USD/INR	55.15	-0.91
USD/EURO	0.82	+0.69
USD/YEN	78.50	-0.88
USD/POUND	0.64	-0.28
.DXY	83.50	+0.30

Other	Value	% Chg
RJ/CRB Index	304.57	+3.61
Crude Oil (\$/ Barrel)	91.83	+5.43
Baltic Dry Index	1037	-6.58

Turnover (Rs. Bn)	Week Jul 13	Week Jul 20	% Chg
BSE	103.8	94.7	-8.8
NSE	458.7	432.8	-5.6
Futures	1055.5	1119.2	+6.0
Index Options	3634.4	4158.9	+14.4
Stock Options	377.9	333.9	-11.6

Net Flows (Cr)	FII	MF
Jul 13 – Jul 19	+1859.4	-234.5*
Previous Week	+2045.5	-1136.0

\*Value for Jul 13 – Jul 18

Volatility Index (ViX)	Nifty	CBOE
July 20	16.89	16.27
% Chg w-o-w	-7.50	-2.81

- US Retail Sales fell 0.5% from the previous month, bucking economists' expectations for a 0.2% increase. Nearly every sector took a hit, from furniture & electronics shops to gas stations & sporting goods stores.
- The Empire Manufacturing survey for New York State rose to 7.4 in July from 2.3 the prior month. Economists were expecting a reading of 3.8.
- US Business inventories rose 0.3% in May, according to data from the Census Bureau. Economists were expecting inventories to have risen 0.2% from the prior month.
- Just 43% of companies that have reported have topped revenue expectations. That's the lowest percentage since the first quarter of 2009, according to FactSet.
- Bernanke told a Senate panel during the last week that risks to economic growth have heightened and that the Fed is looking for ways to address the weakness in the economy should more action be needed.
- Investors exited money market funds in the latest week as low interest rates led them to look for higher returns in U.S. bond and stock funds, according to data released Friday by fund tracking firm EPFR. Investors sent \$6 billion to U.S. stock funds in the week ending July 18, and allocated \$3.1 billion to U.S. bond funds.

#### Week Ahead

The trend of better-than-expected earnings would be put to the test this week when investors hope Apple can exceed already high expectations for the tech giant and Facebook reports its first quarterly earnings. Apple accounts for a significant proportion of the overall earnings of Standard & Poor's 500 components. S&P 500 earnings are expected to show a rise of 5.7% in the second quarter from a year ago. Investors are likely to be just as keen to hear from Facebook when it reports on Thursday. Among the other 138 S&P 500 companies reporting earnings are Ford Motor Co, United Parcel Service and Whirlpool Corp. While the majority of companies have beaten earnings expectations, revenue performance has been the worst for S&P 500 companies since the first quarter of 2009. With results in from 116 companies, just 43% of companies have beaten revenue expectations.

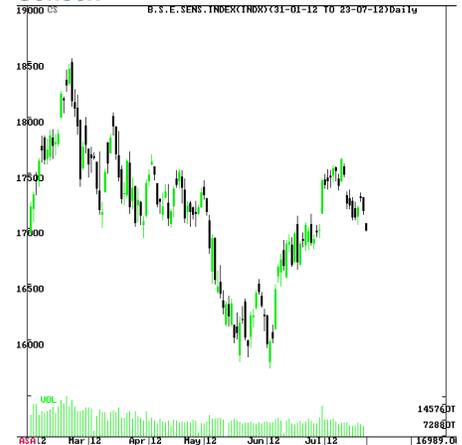
#### Other Markets

Asian stocks rose, with the regional benchmark gauge posting its largest weekly gain this month, amid speculation that China and the US will do more to boost growth in the world's two largest economies. The MSCI Asia Pacific Index gained 1.2% to 116.7, its largest weekly advance in three weeks.

#### Key Highlights during the week:

- Annual Eurozone inflation was confirmed at +2.4% in June, as energy price inflation slowed to a 22-month low, while the core rate remained stable. Consumer prices declined 0.1% for the second month in a row. Energy prices fell 1.7% on the month, dampening annual rise to 6.1%, the weakest since August 2010.
- U.K. unemployment fell to a nine-month low in the quarter through May as the London Olympics helped to create jobs, underlining the resilience of the labor market in the face of a recession at home and Europe's worsening debt crisis. Unemployment based on International Labour Organization methods fell to 8.1% from 8.2% in the period through April.
- The UK Consumer Price Index (CPI) annual inflation stands at 2.4% in June 2012, down from 2.8% in May. The largest downward pressures came from clothing & footwear, transport and food and non-alcoholic beverages. The largest upwards pressure came from recreation and culture.
- German analyst and investor sentiment dropped for a third consecutive month in July, providing further evidence that the euro zone crisis is taking its toll on morale in Europe's largest economy. The main reading from the ZEW poll of economic sentiment slid to -19.6 from -16.9 in June, coming in slightly above the median forecast.
- Spain's plan to offer cash-strapped regional administrations emergency loans leaves the Treasury with 12 billion euros (\$15 bn) of additional funding needs that the government says won't affect its borrowing plans. The central government will tap the lottery for part of the 18 billion-euro fund for regions, leaving 12 billion euros for the Treasury to finance.
- Japan's all industry activity declined in May as expected by economists. Despite a surge in construction output, the all industry activity index fell 0.3% from a month ago, following a 0.1% rise in April. Construction activity recovered strongly in May, up 9.6% M-o-M and tertiary industry output climbed 0.7%.
- Brazil's central bank reiterated that inflation would continue to slow toward its target, signaling it will further reduce interest rates that have already been cut to a record. In the minutes to its July 10-11 meeting, the bank's board voted unanimously to cut the Selic for an eighth straight time to 8%.
- In a Y-o-Y comparison German PPI increased 1.6% in June, following a 2.1% rise in May. Analysts expected less growth of 1.8%. This result is the lowest registered by the indicator since May 2010 when it also stood at 0.9%.
- Canada's Consumer's Prices Index (CPI) rose 1.5% in the 12 months to June, following a 1.2% gain in May. The increase in CPI was led by higher prices for the purchase of passenger vehicles and, to a lesser extent, for electricity.

#### Sensex



Weekly Gainers	CMP (Rs)	% Rise
Cadilla Health	882.55	13.31
Aqua Logist	11.42	9.39
SKS Micro	90.65	7.53
Trent	1078.95	7.52
Dishman Pharm	67.50	6.89

Weekly Losers	CMP (Rs)	% Fall
Aadhaar Ven	0.62	19.48
MVL Ltd	6.48	16.28
Adani Enter	195.80	12.08
3i Infotech	11.14	11.38
Motilal Oswal	91.95	10.07

### Commodities:

International crude oil prices (WTI) rose 5.4% for the week ended 20th July 2012 to close at USD 91.83 per barrel. Crude oil rose to a seven-week high on 19th July 2012 on speculation that petroleum inventories fell. A report showed U.S. industrial production increased in June, signaling higher energy demand. It rose exceeding \$90 a barrel for the first time since May, as U.S. housing starts rose more than forecast. Violence in Syria and tensions with Iran reinforced geopolitical fears and U.S. Federal Reserve Chairman Ben Bernanke downplayed the risk of a double-dip recession also lifted the oil prices.

International gold prices fell 0.6% for the week to close at USD 1582.80 per ounce. Gold futures edged lower Friday, facing pressure from a weaker euro and investor anxiety over Spain's ongoing bank debt crisis. Gold prices also fell on the news as the precious metal is traded in dollars and becomes more expensive for investors who use other currencies to fund their purchases. Gold fell after Federal Reserve Chairman Ben S Bernanke provided no specific plans for debt purchases while saying the central bank is prepared to act if labor markets don't improve.

Base metals on the LME closed mixed for the week ended 20th July 2012. The major gainers in the week were Tin (1.58%), Lead (1.36%), and Aluminum (1.14%) while the losers were Nickel (-1.85%), Zinc (-0.78%) and Copper (-0.51%). Copper prices edged down on Friday, weighed down by China's warning against relaxing curbs on the property sector, a move many investors favour as a quick way to boost domestic consumption. Recent weak U.S. data that underscores a fragile U.S. economic recovery also dampened sentiment amid investor worries about a global economic slowdown.

The Baltic dry index (BDI), which is a global index tracking the movement of cargo by the sea route registered a fall of 6.58% for the week ending 20th July 2012 to close at 1037 levels. The Baltic Exchange's main sea freight index, which tracks rates to ship dry commodities fell, as sluggish activity pulled down panamax and capesize vessel rates. Earnings for capesizes, which typically transport 150,000 tonne cargoes such as iron ore and coal, have fallen about 80% so far this year. Price offers for imported spot iron ore cargoes in top buyer China fell after the benchmark rate hit its lowest since November, as a weak steel market thinned demand for the raw material.

### Currencies:

The USD appreciated against the Euro by 0.69% for the week ended 20th July 2012. The Euro hit record lows against other global currencies and reached its weakest level against the US Dollar in more than two years after the European Central Bank said it would stop accepting Greek sovereign bonds as collateral and Spanish borrowing costs threatened euro-era highs. The Euro fell after comments by German Chancellor Angela Merkel reignited worries about the euro zone debt crisis and government bond prices rose over fears of slow economic growth.

The USD depreciated against the Japanese yen by 0.88% for the week ended 20th July 2012. The yen rose against all of its 16 major counterparts as concern Europe's leaders will be slow to implement measures to stem the region's debt crisis supported demand for Japan's currency as a haven and also as investors' appetite for risk faded ahead of an address later in the session by Federal Reserve Chairman Ben Bernanke, a day after he flustered markets with mixed signals.

The USD depreciated against the Pound by 0.28% for the week ended 20th July 2012. The dollar fell against the pound and edged down as poor US data gave some reprieve to the European currencies. The dollar fell after the U.S. government reported that the number of people seeking unemployment benefits rose last week. The pound also hit a two-week high versus a broadly weaker dollar as gains in equity markets fuelled demand for perceived riskier currencies. Some analysts said that with the recent decline in UK inflation pushing up consumer spending power, sales could beat forecasts and push sterling to fresh highs.

The US dollar depreciated against the rupee by 0.91% for the week ended 20th July 2012. The Indian Rupee rose as the US Dollar weakened ahead of U.S. Federal Reserve Chairman's appearance before the U.S. Congress, though greenback demand from oil companies kept a check on any sharp gains and on sustained capital inflows amid exporters selling the US currency.

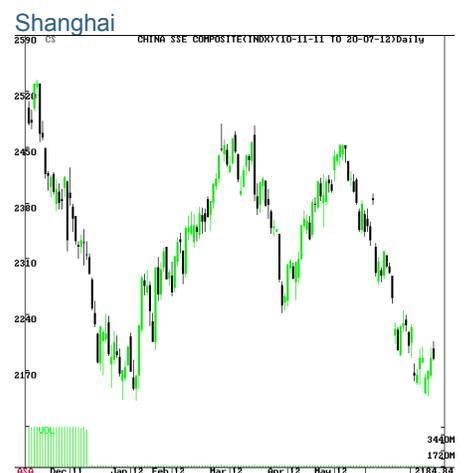
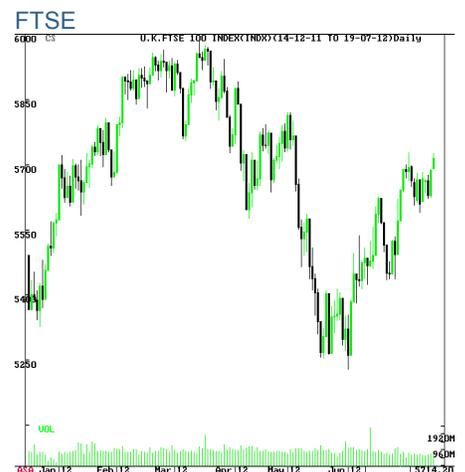
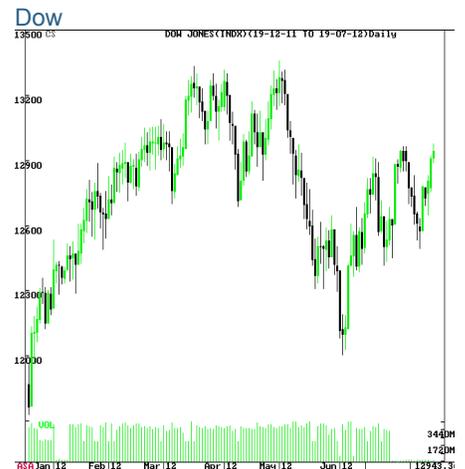
## Sectoral Analysis

### July 23, 2012

Key benchmark indices edge lower as investors reduced bets on future rate cuts from the central bank after hawkish comments from Reserve Bank of India governor. Lower than expected rainfall, lack of economic recovery comments from the RBI governor and weak economic data from the US and China were some of the negatives in the week. Continued FII buying and hopes of economic reform after the presidential elections were the supporting factors in the market.

FIIs have been buying persistently in the month. Cumulative investment for the month to July 19<sup>th</sup> has been ~Rs. 9115 cr. FII investment in the July 13<sup>th</sup> to July 19<sup>th</sup> week was ~1859 cr.

### Global Indices Charts



The BSE Sensex fell 0.3% to 17,158 while the Nifty fell 0.4% to 5,205. The broader indices fell more. The BSE Mid-Cap and the BSE Small-Cap indices fell 1.0% and 0.9% respectively. Sectoral indices were mixed however, with a largely negative bias.

#### Consumer Durables (CD):

The BSE CD index rose 2.5% in the week to close at 6,388 levels, making it the largest gainer for the second consecutive week. All the heavyweights except Titan Industries were losers. However, Titan's gain was enough to carry the index in the green. Titan Industries gained 5.2% while Videocon and Rajesh Export fell 2.1% and 1.5% respectively. Titan Industries Ltd is looking to add 200,000 to 250,000 sq ft of retail space in its jewellery business, Tanishq, this fiscal, as it looks to counter the weak demand environment. This would be double the expansion undertaken in the last fiscal and amounts to 50% of the existing space. Titan's high-end watch retail chain Helios is adding new stores as well.

#### Healthcare (HC):

The BSE HC index rose 0.8% to close at 6,989 levels, making it the second largest gainer in the week. Among the heavyweights, Sun Pharma and Lupin rose 1.3% and 2.6% respectively while Dr. Reddy's and Cipla fell 2.1% and 0.7% respectively. Dr. Reddy's reported 28% growth in consolidated net profit to Rs 340 crore on 28% growth in revenue to Rs 2540 crore in Q1FY13 over Q1FY12. Dr. Reddy's results fell short of market expectations. Dr. Reddy's Laboratories attributed the surge in revenue to healthy growth in key markets of North America, Russia and other emerging markets in Global Generics segment. The company launched 33 new generic drugs, filed 18 new product registrations and filed 7 drug master files (DMFs) globally.

#### Realty:

The BSE Realty index fell 2.5% to close at 1,682, making it the largest loser in the week. All industry heavyweights were losers. DLF, Unitech, HDIL, Oberoi Realty and Indiabulls Real Estate fell 1.7%, 4.5%, 5.8%, 1.3% and 4.1% respectively. The realty market was more or less subdued during the quarter ended June 2012. Sales volume and absorption rates were low in the residential segment, while high inventory and slow execution of projects continue to be a cause of concern. Most real estate companies are expected to report flat to moderate growth in sales volumes for the June quarter. The commercial real estate market was characterised by low absorption and a slight drop in rentals in the metros. Telenor of Norway and its Indian joint venture partner Unitech have begun talks to move towards an out-of-court settlement to end their bitter dispute over the future of wireless operator Uninor. Telenor sought to end its partnership with Unitech following the cancellation of Uninor's operating licences in February this year. Telenor intends to continue operations in India with a new partner, if the terms for the spectrum auction are deemed reasonable, but has been blocked by Unitech, who fears that Telenor will transfer the joint venture's assets to another company. During the week, Manulife Global FD- Asian Eq Fd sold 2,432,000 shares of HDIL at Rs 84.68.

#### Auto:

The BSE Auto index fell 1.6% in the week to close at 9,162 levels. All the industry leaders other than Bajaj Auto were losers. Tata Motors, M&M, Hero MotoCorp and Maruti Suzuki fell 5.2%, 2.3%, 0.1% and 3.3% respectively while Bajaj Auto rose 6.2%. Auto stocks edged lower on speculation the government will raise fuel prices shortly to lighten its subsidy burden and improve fiscal position. M&M has suspended its plans to develop a vehicle for the US market due to changes in the US regulatory and market situation. SIAM last week cut its forecast of domestic car sales for the year through March 2013 to 9%-11% from 10%-12% earlier. Workers at Maruti's Manesar plant revolted against management and attacked staff and burned property. Several executives, managers and supervisors were brutally attacked and injured, and nearly 100 of them had to be hospitalized. The company is still assessing the total damage to property and facilities from the acts of arson. The office facilities have been burnt beyond repair, as have the main gate, security office and the fire safety section. The Manesar plant remains shut and the company will shortly announce a decision on the next steps with regard to resuming operations at the unit. Bajaj Auto lost exports of about 20,000 units in Sri Lanka in Q1FY13 due to introduction of import barriers by that country. The company also lost export of about 25,000 commercial vehicles in Q1FY13 due to restrictions by importing countries and due to political unrest in Egypt. The company has undertaken proactive measures like rationalizing the end-user cost of vehicles in Sri Lanka and with these measures the company expects normalcy in exports to resume by end of Q2FY13.

#### Power:

The BSE Power index fell 1.6% in the week to close at 1,933 levels. NTPC, BHEL and Power Grid fell 2.3%, 1.1% and 0.6% respectively while Tata Power rose 0.9%. The Union Cabinet approved expanding a 21% import tax to generating equipment imported for larger power projects. Previously machinery for new projects of 1 gigawatt capacity or more were exempt. The tax extension is aimed at protecting local power equipment manufacturers who lost orders to overseas competition. Power producers in India have placed nearly half of the total 146.48 GW equipment orders with overseas companies, about 42% with Chinese manufacturers. India aims to increase power generation by 44% to 288 gigawatts in the next five years and boost the country's manufacturing sector's share of economic output to 25% by 2025 from about 16% currently.

#### Weekly Statistics

Sectoral Index - BSE	Value	% Chg
BSE Sensex	17158	-0.32
BSE Midcap	6184	-1.02
BSE Smallcap	6675	-0.92
BSE 500	6629	-0.52
BSE Auto	9162	-1.59
BSE Bankex	12042	-1.15
BSE Capital Goods	9942	-1.12
BSE Consumer Durable	6388	2.53
BSE FMCG	4938	0.57
BSE Health care	6989	0.84
BSE IT	5321	-0.75
BSE Metals	10674	0.31
BSE Oil and Gas	8026	-0.04
BSE Power	1933	-1.56
BSE PSU	7247	-1.04
BSE Realty	1682	-2.52
BSE Teck	3171	-0.32

Sectoral Index - NSE	Value	% Chg
S&P CNX Nifty	5205	-0.42
CNX Nifty Junior	10124	-0.61
S&P CNX 500	4135	-0.53
Bank Nifty	10482	-1.07
CNX IT	5674	-0.69

**Bankex:**

The BSE Bankex index fell 1.2% to 12,042 levels. Among the heavyweights, HDFC Bank and SBI fell 0.7% and 2.0% respectively while ICICI Bank and Axis bank rose 1.0% and 0.6% respectively. SBI raised the rate of interest on NRE Rupee Term Deposits for tenor of 3 years to less than 5 years from 8.75% to 9% on deposits of less than Rs 15 lakhs with effect from 17 July 2012. Lack of confidence in cut in rates by the RBI as per its statements last week, added to worries in the banking sector.

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