



Contrary to common supposition, there is nothing wrong in being illiquid – unless you are vulnerable to being forced to sell in a hurry.

		Sensex Close		
Current Week: 09	▲	8	▼	0
Today: 33	▲	19	▼	13

Market Snapshot

Indices	22-May	WTD %	YTD % (CY)
BSE Sensex	13,887	▲ 14.1	▲ 43.9
S&P Nifty	4,239	▲ 15.4	▲ 43.2
Dow Jones	8,277	▲ 0.1	▼ -5.7
FTSE 100	4,365	▲ 0.4	▼ -1.6
Nikkei 225	9,226	▼ -0.4	▲ 4.1
Bovespa	50,568	▲ 3.2	▲ 34.7
Hang Seng	17,063	▲ 1.6	▲ 18.6
Seoul	1,404	▲ 0.9	▲ 24.8
Shanghai	2,598	▼ -1.8	▲ 42.7
Straits Times	2,245	▲ 4.9	▲ 27.5

Market Capitalization

INR Bn	15-May	22-May	Chg Abs	% Chg
BSE	38,069	45,588	7,518	19.75
NSE	35,932	42,689	6,757	18.80

Institutional Activity

INR Bn	For the Week		Cash	
	Cash	F&O	MTD	YTD (FY)
FII's	60.11	-50.99	152.82	217.90
MF's	-9.91	-	-2.89	-2.49

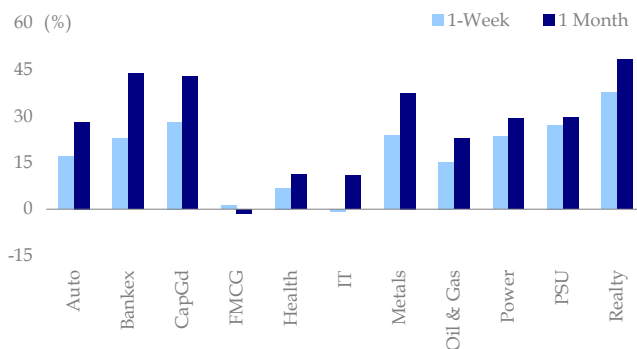
Movers &

Scrip (INR)	15-May	22-May	Chg Abs	% Chg
Uni.Brew. (H)	110.8	213.8	103.0	92.9
IFCI	25.9	45.5	19.7	76.0
Sobha Devel.	111.2	194.3	83.1	74.8
Financial Tech	761.4	1,308.3	546.9	71.8
Parsvnath Devel.	47.7	80.8	33.2	69.6

Shakers during the week

Scrip (INR)	15-May	22-May	Chg Abs	% Chg
GSK Pharma	1,170.6	1,094.4	-76.2	-6.5
Infosys Tech.	1,594.3	1,519.4	-74.9	-4.7
Cipla	230.7	222.3	-8.3	-3.6
Wipro	377.8	368.7	-9.1	-2.4
TCS	646.0	634.0	-12.1	-1.9

BSE Sectoral Indices



WATCH LIST

- GER: 1Q GDP, Import Price Index, May 25
- India/US: 1Q GDP, May 29

Pause! Half-Marathon

Bears are running for cover and bulls are celebrating return of Mr Singh as PM. Voters cheer return of the ruling Congress party providing continuation of the leadership with visibly higher political stability. However, the short term economic realities, and which are not very pleasant, remain an area of concern. The saga of fiscal deficits, deflation and degrowth is still on in investors' mind. Stability of government brings prosperity, but with a lag.

Global recession is running deeper as Asia goes through double-digit contraction in several countries' GDP. Singapore GDP shrank 14.6% after 15.2% cut in Japan's in 1QCY09. Globally, unraveling of various stimuli is expected to boost run in the commodity prices. Corporate earnings may again get a set back globally since demand crunch doesn't give too much room for pass through of high prices to consumers.

On domestic front inflation for the near term is expected to look negatively skewed based on higher base effect. Inflation is easier to put right than deflation. Deflation robs central bank's ability to stimulate spending due to high real interest rates.

Bulls are now expected to pause after a half-marathon. The rally has now brought the Sensex to crucial level of 50% retracement of the entire fall from all-time high. Investors have again started building projections for Sensex at 18,000s and 21,000s.

Our suggestion is to remain cautious as prices have run past average PE and earnings have yet a long way to catch up.

Events during the week

Date	Events
26-May	US: Consumer Confidence; GER: Import/Exports
27-May	JP: Merchandise Trade Import/Export
28-May	JP: Retail Trade; US: Initial Jobless Claims, Durable Goods Orders
29-May	JP: Industrial/Vehicle Prod'n; US: Personal Consump.

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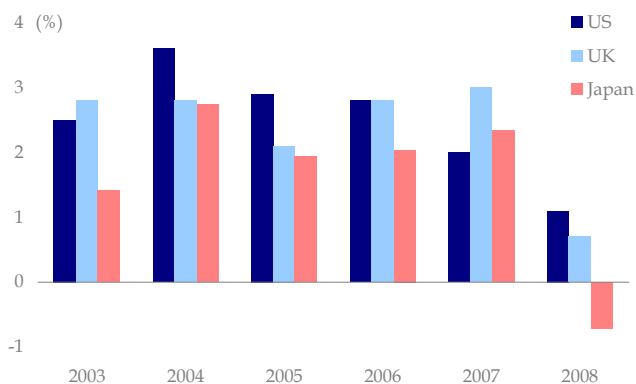
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Credit Rating Threat & Currency Depreciation

The repercussion of the subprime crisis is showing in a big way and it is not accepting to die. The subprime crisis, which resulted in banking collapse in the US, lead to severe credit crunch in the global market. It was followed by server demand contraction in global market, which persuaded governments across the globe to announce multi billion dollar stimulus packages to revive the demand. However, despite stimulus package GDP growth rate for all major economies are plunging and some have even experienced the contraction also. As we can observe in the following chart:

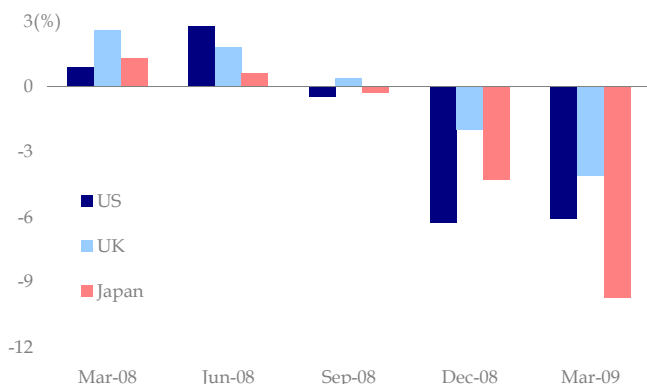
Yearly GDP of Major Economies



Source: Khandwala Research, Bloomberg

The situation is nowhere near improvement and quarterly statistics are showing much bigger cut then yearly numbers.

Quarterly GDP of Major Economies



Source: Khandwala Research, Bloomberg

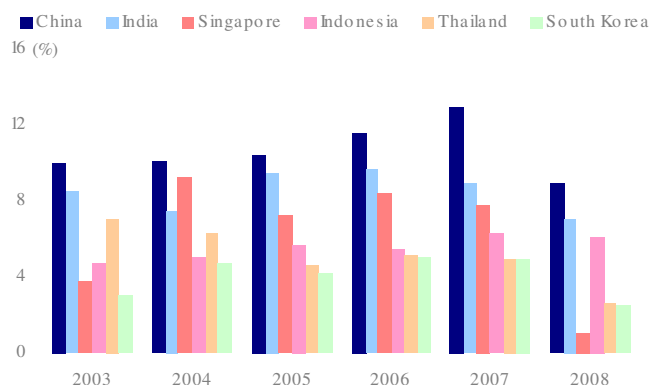
In the initial phase of the crisis, US has resorted to bailout of its banking sector, while later it grew to the size where entire countries like Iceland needed a bailout. However, as nothing comes free either it is stimulus package or a bailout, which resulted in enormous rise in government liability and its debt ballooned like never before. At the same time, slowdown in industrial activities and painful rise in unemployment has lowered the tax revenue for the governments, leading to intolerable rise in fiscal deficit.

This has threatened the sovereign rating of several countries including India. S&P has downgraded sovereign rating outlook for India in the month of February 09 from 'stable' to 'negative'. The S&P cited the deterioration in fiscal deficit situation to unsustainable level in the medium term for this downgrade, which is running over 11% for central and state together.

Like India, many other developing and emerging countries also faced rating outlook downgrades. Nevertheless, there seems to be no end of this crisis as developed countries are running at the risk of rating outlook downgrades. The latest one is Britain, where S&P has lowered its outlook to 'negative' from 'stable'. Britain also faces a one in three chance of its 'AAA' ratings cut for the first time as debt approaches 100% of GDP.

The fiscal deterioration is relatively very high in export depended developing countries since demand contraction has brutally effected global trade. This has also resulted in significant amount of depreciation in their currencies. However, no country seems to concern this since it would help them to grow their exports.

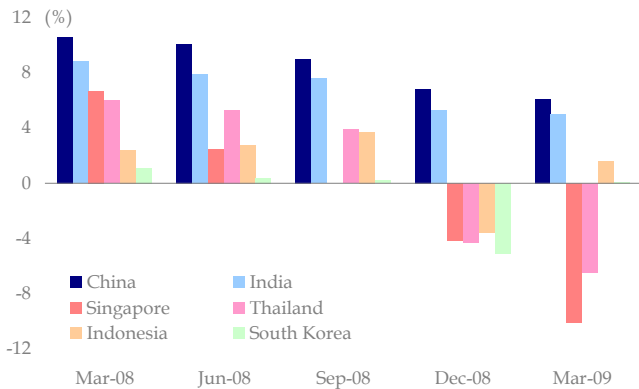
Yearly GDP of Asian Countries



Source: Khandwala Research, Bloomberg



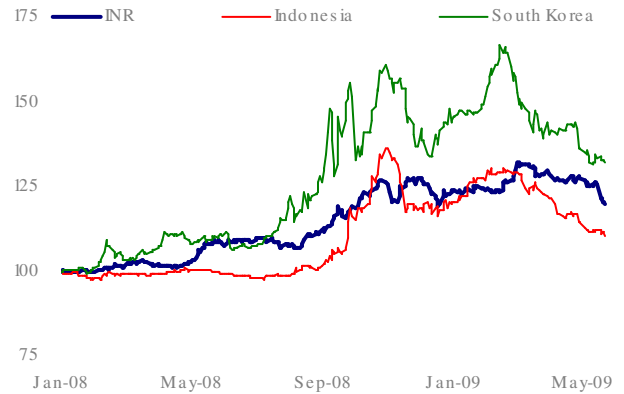
Quarterly GDP of Asian Countries



Source: Khandwala Research, Bloomberg

We believe that government finance of these developing nations would continue to worsen on account of stimulating economy and lower revenue, which coupled with rating downgrades, would put further pressure on their currencies. We expect these countries may face even depreciation from current levels.

Asian Currencies against USD



Source: Khandwala Research, Bloomberg

The currency devaluation would raise the risk of inflation, which may shoot up in the later part of second half. Thus investor would like to focus on Gold and other real assets to hedge from inflation.



INDIA

EQUITY RESEARCH

TEL. NO. +91 22 4076 7373

FAX +91 22 4076 7378

Name	Designation	Sectors	E-mail
Ashok Jainani	VP, Head Research	Market Strategy	ashokjainani@kslindia.com
Dipesh Mehta	Sr. Research Analyst	IT, Telecom	dipesh@kslindia.com
Hatim K Broachwala	Research Analyst	BFSI	hatim@kslindia.com
Vinay Nair	Research Analyst	Energy	vinay.nair@kslindia.com
Giriraj Daga	Research Analyst	Metals & Mining	giriraj@kslindia.com
Kruti Shah	Research Associate	Economics	kruti.shah@kslindia.com
Sandeep Shrimali	Research Associate	Cement	sandeep.shrimali@kslindia.com
Dinesh Bhatia	Research Associate	Technical Analysis	dinesh.bhatia@kslindia.com
Sandeep Bhatkhande	Research Associate	Publishing	sandeep@kslindia.com
Lydia Rodrigues	Research Executive	Data Mining	lydia@kslindia.com

INSTITUTIONAL DEALING

TEL NO. +91 22 4076 7342-47/56

FAX NO. +91 22 4076 73 77-78

Biranchi Sahu	Head	Institutional Equity	bsahu@kslindia.com
Gopi Doshi	Senior Dealer	Institutional Equity	gopi.doshi@kslindia.com
Mayank Patwardhan	Dealer	Institutional Equity	mayank.patwardhan@kslindia.com

PRIVATE CLIENT GROUP

TEL No. +91 22 4076 7317-21

FAX NO. +91 22 4076 73 77

Sanjay K Thakur	President	Sales & Marketing	thakursk@kslindia.com
Subroto Duttaroy	General Manager	Equity & Portfolio Mgmt. Service	subroto@kslindia.com
Jagdish R Modi	Manager	Equity & Portfolio Mgmt. Service	jrmodi@kslindia.com

BRANCH OFFICE (PUNE)

TEL NO. +91 20 2567 1404/06

FAX NO. +91 20 2567 1405

Ajay G Laddha	Vice President	ajay@kslindia.com
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Corporate Office:

Vikas Building, Ground Floor,
Green Street, Fort,
MUMBAI 400 023.
Tel. No. (91) (22) 4076 7373
Fax No. (91) (22) 4076 7377/78
E-mail: research@kslindia.com

Web site: www.kslindia.com

Branch Office:

C8/9, Dr. Herekar Park,
Off. Bhandarkar Road,
PUNE 411 004
Tel. No. (91) (20) 2567 1404/06
Fax. No. (91) (20) 2567 1405
Email: pune@kslindia.com

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