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YEARLY REPORT

Saturday, December 31st 2011

BSE Sensex 15454.92 ▼ -5054.17 (-24.64%) **NSE Nifty 4624.30 ▼ -1510.20 (-24.62%)**

S&P CNX NIFTY Yearly Technical Outlook

Market Last Year - 2011

2011 was one of the worst years for Indian markets as it fell more than 20% on a Year on Year basis, which makes it the worst performer of 2011 in Asia. Slowing growth, rising inflation, and policy paralysis have blown the Indian markets off course in 2011. 2011 saw high inflation rate dampening the market spirit. Headline inflation, as measured by wholesale price index (WPI), has been above the 9% mark since December 2010. This in turn led the RBI action of hiking the repo and reverse repo rates consistently 11 times. And now the Interest rate cycle in India is at the verge of peaking out. However, even if this action by RBI could not tame inflation immediately it helped in reducing the growth story of India. The hike in interest rate, inflation and lack of demand in global markets put huge pressure on Indian markets. The IIP data too saw some shameful numbers with October 2011 IIP registering a negative growth of 5.1%. The GDP growth of India was revised down to 7.6 % for the FY 12 by RBI. Indian Rupee too witnessed huge depreciation in value this year. USD/INR crossed 54 levels in December 2011. RBI's move to bring down speculation in the Forex market has imparted some stability to the rupee. But the move has negatively affected the foreign inflows. The Great Indian Dream seems to be coming to a close as most of the FIIs are pulling out of Indian markets. The FIIs were net sellers this year pulling out their positions.

On the Global front this was a year that witnessed huge unrest due to financial and political crisis in most parts of the world. 2011 started with a string of revolutions in the Arab world starting in Tunisia and spreading to Egypt, Libya, Bahrain, Syria, Yemen and many other Middle Eastern countries. The effect of the revolution in Middle East pushed the markets into a panic mode. Moreover the Sovereign debt crisis in Europe took the center stage in pulling the global markets down. Rising government debt levels and a wave of downgrading of government debts made it difficult for countries like Greece, Portugal and Ireland to Finance their debt. In October 2011 Euro zone leaders agreed on a package of measures designed to prevent the collapse of member economies. This included an agreement with banks to accept a 50% write-off of Greek debt owed to private creditors, increasing the EFSF to about €1 trillion, and requiring European banks to achieve 9% capitalization. To restore confidence in Europe, EU leaders also suggested creating a common fiscal union across the Euro zone with strict and enforceable rules embedded in the EU treaties.

Major Indices	**Yearly change**	**Year Close**
BANK NIFTY	-32.42%	7968.65
CNX IT	-18.05%	7491.10
BSE MID CAP	-34.19%	5135.05
BSE SMALL CAP	-42.61%	5550.14
BSE METAL	-47.19%	9293.17
BSE REALTY	-51.84%	1375.65
BSE OIL & GAS	-28.98%	7529.27
BSE AUTO	-20.44%	8143.65
BSE CAPITAL GOODS	-47.66%	8067.63
BSE FMCG	+9.53%	4035.31
BSE HEALTH CARE	-12.83%	5870.52

Yearly Change

		Dec-10	Dec-11	Change in points	% Change
US Markets					
	Dow Jones Industrial Average	11,569.71	12,217.60	647.89	+5.60%
	NASDAQ	2,662.98	2,605.15	-57.83	-2.17%
European Markets					
UK	**FTSE**	5,971.00	5,572.28	-398.72	-6.68%
France	**CAC**	3,850.76	3,159.81	-690.95	-17.94%
Germany	**DAX**	6,914.19	5,898.35	-1,015.84	-14.69%
Asian Markets					
Japan	**NIKKEI**	10,228.92	8,455.35	-1,773.57	-17.34%
Hong Kong	**HANGSENG**	22,999.34	18,434.40	-4,564.94	-19.85%
China	**SHANGHAI**	2,759.58	2,199.42	-560.16	-20.30%
S.Korea	**KOSPI**	2,051.00	1,825.74	-225.26	-10.98%
Indian Markets					
BSE	**SENSEX**	20,509.09	15,454.92	-5,054.17	-24.64%
NSE	**NIFTY**	6,134.50	4,624.30	-1,510.20	-24.62%
Major Currencies					
US	**USD/INR**	44.9	53.266	8.37	+18.63%
UK	**GBP/INR**	69.68	82.0989	12.42	+17.82%
EUROPE	**EURO/INR**	59.47	68.9005	9.43	+15.86%
JAPAN	**YEN/INR**	55.16	68.68	13.52	+24.51%
Commodities					
	GOLD	1420	1566.8	146.80	+10.34%
	SILVER	30.5	27.915	-2.59	-8.48%
	CRUDE	89.5	98.83	9.33	+10.42%

Market Next Year - 2012

The investment scenario in India has been witnessing turbulent times due to high inflation, poor policy implementation by the government. The problems were further accentuated by the Euro zone crisis leading to a more than 24% decline in Indian Equities in 2011. The GDP growth rate for 2012 has been revised to 7-7.5%. With interest rate cycle in India at the verge of peaking out, we could expect an interest rate cut by the RBI sometime in 2012. If the RBI proceeds with the reduction cycle, then it will be a breather for companies which are struggling for cash. Strong policy decisions from the government's side will make India an attractive investment destination which may attract FII investments making the rupee stronger. Inflation, in the longer run is expected to moderate to levels of around 5%. Beaten down sectors like Banking, Capital Goods, Infrastructure and Auto space will be the key sectors that will be in focus once the economy starts rebounding. The next imminent market determinant would be the upcoming budget for the next year. Generally, there is no substantial reason for expecting any major breakthrough. The upcoming elections in five states could aggravate the political uncertainty in our country if the major parties in these states fail to gain a majority. The year went by was a bad year for investors and now they are seeking some respite in 2012.However we expect more downside in the coming months particularly in January and February. Looking at the Q3 results which are expected next month, with all the Forex losses that will be factored in, we are expecting much of a downside than upside. So investors should look at levels of around 4400 than 5000 in the next month or two.

In the Global front, the Presidential elections in the US are due in 2012 and Global equity may show some signs of uncertainty due to this. The European worries could also impact the Global economy as they are unable to find a permanent solution for the debt crisis. Uncertainties prevailing in the Middle East might spike up the crude oil prices. The global economic condition is still very fragile, and the risks of a renewed recession in the advanced economies accelerating into a widespread financial crisis cannot be completely ruled out. The year 2011 witnessed weakness in Indian Currency. The global uncertainty and slow growth of Indian economy are the key things affecting the Indian rupee. The Euro zone issue is more serious than the problems in the US economy. A recovery in the US economy in 2012 will result in an uptrend of Dollar index. If dollar out perform against other world currencies, the Indian currency also show a weak trend. Investments in Gold seem to be highly risky in 2012 as it is already overbought and forms a ridiculously high percentage of the investment. Even a small sell off by Exchange Traded Funds can dip the price of Gold substantially. Moreover, the fluctuations in Indian Rupee against US Dollar will be a decisive factor in the pricing of Gold in India.

Indian stocks ends in 2011 with the biggest decline among the world's largest equity markets. We are not expecting a huge uptrend in the market in 2012 due to uncertainties in domestic as well as in the global economy. However a slow recovery cannot be ruled out in the Indian markets. Nifty may trade in a range between 4200 to 5800 level. It is generally believed that the next year would be a much better year for equities as the major negative news has already been priced into the markets. Before jumping into a conclusion, it is expedient to thoroughly analyze the future probable outcomes in the global and domestic economical landscape as well.

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