

Investment Newsletter Feb '08



Market Overview

Key Rates	Current	One Month Ago	One Year Ago
Nifty	5223.50	5137.45	3745.30
Annual Inflation rate (Wholesale Price Index)	4.89%	3.93%	6.20%
Yield Ten Year Government Security (Semi annual)	7.62%	7.50%	7.98%
Yield 5 year AAA rated Corporate Bond (Annual)	9.28%	9.05%	9.40%
US Dollar(USD) –Indian Rupee(INR) exchange rate	40.02	39.38	44.27

Finance minister in his fifth budget during the current term managed to do the impossible by implementing populist measures without adversely affecting Government finances. The key policy initiatives proposed in the budget are

- Change in Income tax slabs, reducing tax for all tax paying individuals
- Short term capital gains tax increased from 10% to 15%
- Reduction in cenvat from 16% to 14%,
- Write-off overdue loans given by banks to small& marginal farmers and one time settlement for loans given to other farmers. Estimated write-off amount is Rs 600 billion
- PAN requirement to be extended to all transactions in capital market subject to a threshold. PAN likely to be made compulsory for life insurance companies for premium size above a certain threshold.

The government finances look healthy for 2007-08 with estimated fiscal deficit at 3.1% of GDP compared to budgeted estimate of 3.3% of GDP. Fiscal deficit for next financial year (2008-09) is also projected at a healthy 2.5% of GDP. Caution is warranted for the budgeted fiscal deficit for 2008-09 as it does not explicitly provide for impact increase in wages on account of recommendation of the 6th pay commission and reimbursement of farmer loan write off to banks.

The Gross Domestic Product (GDP) data, a measure of size of the economy, was announced by Central Statistical Organisation (CSO) on 29 February. The Economy expanded 8.4% in the three months ended 31 December from a year earlier, after gaining 8.9% in the previous quarter. This was the slowest place of growth of GDP since last quarter of 2005 as dry weather conditions curbed winter plantings of food grains.

The Indian equity market was dominated by weak listing of Reliance Power initial public offering (IPO). The stock issued at 450 per share and which had at one point in time traded in grey market (unofficial market for trading of IPO shares on when issued basis) at Rs 900+ closed at Rs 373 on the day of listing. The FII turned into marginal buyers of equity (net purchases Rs 17 bn) compared to massive sales made by them in January. The Mutual funds also were marginal buyers with net purchases at Rs 5 bn for the month. The lack of activity from institutional players resulted in lackluster Equity market in February. Nifty rose 1.67% during the month but Sensex fell by 0.4%. The small caps and mid caps continued to do badly falling by 4.90% and 1.11% respectively in February. Banking sector, the market darling, for a very long time was the worst performing sector in February. Real Estate sector under-performed and metal and healthcare sector out-performed the market in February.

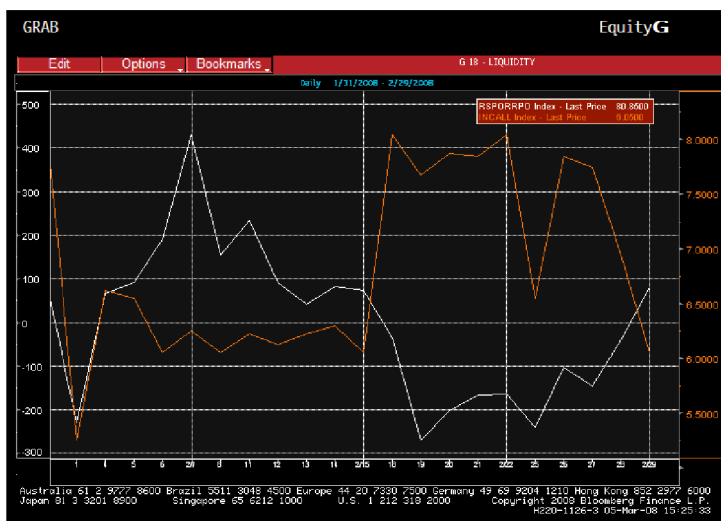
The bond market was volatile during February due to unexpected shortage of liquidity. The graph below gives the call rates during February (red line) and daily amount either lend to or borrowed from Reserve Bank of India (RBI) (white line) by banks under the repo facility made available to banks by RBI.

The yield on government bonds rose from 7.50% at beginning of the month to 7.70% during third week of February due to shortage of liquidity. As the liquidity eased the yields on government bonds fell. Announcement in the budget that the borrowing program for the government is Rs 1.45 trillion (1 trillion is 1 lac crores) in FY 2008-09 compared to Rs 1.56 trillion for FY 2007-08 resulted in further fall in yields though ending slightly higher than month beginning levels. The yield on corporate bonds rose sharper than government bonds as credit spreads (difference between yield on a corporate bond and yield on government bond of similar maturity) increased. The credit spread on AAA rated corporate bond for 1 year were 2.20% and for 5 year were 1.74% as at February end.

The commodity markets were in limelight during the month with gold and oil reaching all time highs in February. Gold price closed the month at USD 974/ounce. Oil crossed the USD100/ barrel barrier for the first time to close the month at USD 101.92/barrel. Other commodities like copper, wheat are also trading at or near all time highs.

The key factor to watch is the liquidity situation in the domestic market and change, if any, in the risk appetite in the world markets. Another important development to watch are details of government plans of funding farmer loan write offs.

Disclosures: 1. This newsletter only gives an overview of the economy and should not be construed as financial advice. Policyholder should use his/her own discretion and judgment while investing in financial markets and shall be responsible for his/her decision. 2. EPS - Earning per share, PE - Price earning multiple. 3. Source: www.bloomberg.com 4. Insurance is the subject matter of the solicitation. 5. The information contained herein is as on 29th Feb 2008.



Bharti AXA Life Insurance Company Limited

Registered Office: 61/62, Kalpataru Synergy, Opp. Grand Hyatt, Vakola, Santacruz (E), Mumbai 400 055.
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