



FRANKLIN TEMPLETON  
INVESTMENTS

# Market Review

WEEK ENDED FEBRUARY 12, 2010

## International

Global equity markets bounced back from the recent weakness and closed a volatile week on the positive note, drawing comfort from policymakers' comments regarding support to Greece. The MSCI AC World Index gained 1.3%, but worries about monetary tightening and weak economic data out of Europe, pared weekly gains on Friday. Concerns about monetary policy weighed on global bond markets and benchmark bond yields rose, with US treasury yields hardening due to the large issuances and relatively lower bid-to-cover ratios. The Reuters Jefferies CRB Index closed up 3.63% with base metal and oil prices moving up – IEA raised its 2010 estimates for oil consumption on expectations of higher demand from emerging markets. Weak economic data and worries pertaining to Greece fiscal crisis weighed on the Euro.

- **Asia Pacific:** Regional markets outperformed on the back of strong economic data, with the exception of Japanese markets. Indonesia recorded 5.4% economic growth in Q4-2009 (4.5% for 2009) helped by rebound in exports and fiscal & monetary stimulus measures. The continued increase in bank lending and property prices prompted People's Bank of China to step up bank's cash reserve requirements further by 50 bps to 16.5%/ 14.5% for large/small banks, while the country's trade surplus narrowed on steep increase in imports. Consumption data and machinery orders showed improvement in Japan. The Bank of Korea kept interest rates unchanged and Australia's unemployment rate continued to ease as resource demand from Asian counterparts helped the country add jobs. On the M&A front, the proposed mergers between Japan's Kirin and Suntory along with Shinsei Bank/Aozora have reportedly fallen apart.
- **Europe:** EU policymakers moved to alleviate market concerns about stability of public finances, helping regional equity markets in posting gains. On the economic front, data out of the region was on the weaker side – Euro Area GDP grew a marginal 0.1% due to slowdown in Germany and contraction in Italy and Spain. Sweden's central bank kept interest rates on hold, however, indicated that it is likely to start raising rates earlier than previously planned. UK retail sales growth slowed in January on adverse weather conditions and trade deficit expanded on rising imports, while industrial production for December came in ahead of expectations. Data out of Eastern Europe was also on the weaker side, the Czech economy reported negative GDP growth on slowdown in demand from Germany and GDP growth in Romania/Hungary remained negative.
- **Americas:** Positive earnings news flow and increased M&A activity boosted US markets. On the economic front, house prices increased in most of the large cities December export growth and retail sales picked up in January, however, consumer sentiment weakened. As part of its strategy to exit the large stimulus, the US Fed said it could use a different benchmark (other than the Fed funds rate) due to the low volumes in the fed funds market and the large volume of excess reserves. Mexico industrial

production returned to positive growth in December for the first time since 2008 on increased demand for exports from US. On the M&A front, FirstEnergy bought over Allegheny Energy for \$4.7 bln, Micron Technology acquired Numonyx for \$1.27 bln, Brazil's Vale enhanced its stake in Fosfertil by 20% and CSN sweetened its bid for Portugal's CIMPOR.

	Weekly change (%)		Weekly change (%)
MSCI AC World Index	1.28	Xetra DAX	1.22
FTSE Eurotop 100	1.95	CAC 40	0.99
MSCI AC Asia Pacific	1.48	FTSE 100	1.61
Dow Jones	0.87	Hang Seng	3.07
Nasdaq	1.98	Nikkei	0.35
S&P 500	0.87	KOSPI	1.69

## Equity Markets - India

Indian equity markets closed the holiday shortened week in the positive territory helped primarily by short-covering, despite FII outflows. Gains in mid/ small cap stocks outpaced their large-cap counterparts. The rally was fairly broad-based and all sectoral indices closed in the black – realty and technology stocks, in particular, notched up smart gains. FIIs were net sellers to the tune of \$262.1 mln in the first three trading days of the week.

- **Union Budget:** Over the years, the importance of Union Budget as a signaling tool of economic policy has diminished with policy announcements being made outside the budget on a regular basis. Nonetheless, this year's Budget could be significant as it will provide an insight into the government's assessment of the revival in the economy and the ways it would look to manage the recovery going forward. In our view, some of the key areas are:
  - Roadmap for fiscal consolidation
  - Articulation of the fiscal exit strategy
  - Progress on tax reforms and their implementation
  - Focus on taking forth the pending physical and social infrastructure agenda and more importantly, a clearly articulated infrastructure development and financing policy
  - There is also a need to address the supply side constraints that are pushing up prices
  - Subsidy burden needs to be contained
- **Macro:** Industrial activity continued to gather momentum and surprised on the upside again – the index for industrial production jumped 16.8% yoy in December on the back of low base effect and strong increase in manufacturing (18.5%). Mining and electricity generation were up 9.5% and 5.4% respectively. Capital goods (39% yoy) and consumer durables (46% yoy) output registered sharp rises. For the period Apr-Dec 2009, cumulative growth in industry now stands at 8.6%yoy vis-à-vis 3.6% recorded for the same period in 2008.



Source: CSO, Morgan Stanley

As per advanced estimates released by the Central Statistical Organization, India is likely to register 7.2% growth for FY10, on the back of sharp bounce back in industrial activity and expectations of marginal decline in farm sector output. With economic activity clearly showing signs of acceleration, expectations of tightening are on the rise. However, the government and central bank are likely to factor the global situation and recent increase in risk version.

Weekly change (%)	
BSE Sensex	2.29
CNX Nifty	2.29
S&P CNX 500	2.48
CNX Midcap	3.11
BSE Smallcap	2.84

## Debt Markets - India

Indian bond markets fell amidst uncertainty about government borrowing needs and rise in inflation. Corporate spreads over gilts (5-year segment) contracted further.

- **Market movements:** Yields on both the 10-year paper increased 19 bps and the 5-year gilt yields added 17 bps. Yield on corporate bonds of a similar tenor was up 5 bps and spreads over gilts narrowed to 83 bps. Yield on the 30-year paper rose 6 bps, and 1-year gilt yields hardened 7 bps. As a result, spreads between short & long-dated securities stood at 317 bps.
- **Liquidity/ borrowings:** Systemic liquidity remained comfortable – call rates remained steady and reverse repos averaged over Rs. 89,000 crores. The scheduled government borrowing programme for the current fiscal was completed last week.
- **Forex:** Weakness in the greenback and dollar sales by exporters boosted the rupee. Forex reserves declined further by \$2.2 bln from \$278.7 bln.
- **Macro/ Policy:** Fuel price sub-index rose 1.2% on sharp increase in prices of coal. This along with continued rise in food prices added to ongoing concerns about inflation levels. Bank credit growth

continued to trend higher and 14.8% as of Jan-end. Deposit growth however slowed to 17.1% and consequently M3 declined to 17%.

With a view to enable better transmission of monetary pricing signals, the RBI unveiled draft of the new base rate system. The proposed structure that will take effect from April 1, 2010, will replace the prevailing benchmark prime lending rate system and aims to ensure uniform base price for all loans. Lending rates would differ across categories/ clients based only on borrower specific charges and appropriate risk premiums added to the base rate.

	11.02.2010	05.02.2010
Exchange rate (Rs./\$)	46.50	46.73
Average reverse repos (Rs. Cr)	89,031	104,537
1-yr gilt yield (%)	5.23	5.16
5-yr gilt yield (%)	7.65	7.48
10-yr gilt yield (%)	7.86	7.67
30-yr gilt yield (%)	8.40	8.34

The information contained in this commentary is not a complete presentation of every material fact regarding any industry, security or the fund and is neither an offer for units nor an invitation to invest. This communication is meant for use by the recipient and not for circulation/reproduction without prior approval. The views expressed by the portfolio managers are based on current market conditions and information available to them and do not constitute investment advice.

**Risk Factors:** All investments in mutual funds and securities are subject to market risks and the NAVs of the schemes may go up or down depending upon the factors and forces affecting the securities market. The past performance of the mutual funds managed by the Franklin Templeton Group and its affiliates is not necessarily indicative of future performance of the schemes. **Please refer to the Scheme Information Document carefully before investing.** **Statutory Details:** Franklin Templeton Mutual Fund in India has been set up as a trust by Templeton International Inc. (liability restricted to the seed corpus of Rs.1 lac) with Franklin Templeton Trustee Services Pvt. Ltd. as the trustee (Trustee under the Indian Trust Act 1882) and with Franklin Templeton Asset Management (India) Pvt. Ltd. as the Investment Manager.



**FRANKLIN TEMPLETON**  
**INVESTMENTS**