



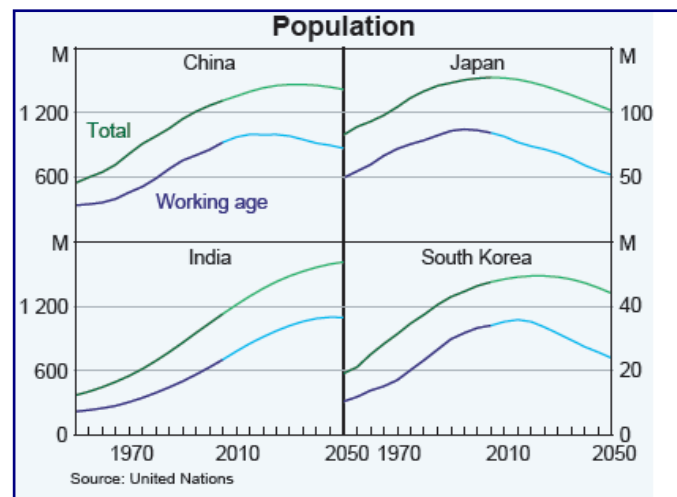
India: Market Snapshot

5th February, 2010

“The Growing Importance of the Indian Economy”

- *A Review by the Reserve Bank of Australia in its Monetary Policy.*

- ✚ The Indian economy looks likely to continue to expand at a relatively rapid pace in coming decades and to become an increasingly important part of the world economy.
- ✚ Long-term population projections suggest that, notwithstanding a declining fertility rate, India’s population will continue to grow rapidly through natural increase, and United Nations’ estimates suggest it will surpass China as the world’s most populous nation in around two decades.
- ✚ Further, economic growth in India is expected to continue to benefit from compositional change in its population structure; the working-age share of the population is projected to continue to increase over the next two decades, so India’s potential labour force could grow even more rapidly than the anticipated increase in its total population.
- ✚ This contrasts with projected declines in the working-age share of the population not only in the major developed economies, but also in other Asian economies such as China and Korea. In addition to the boost from demographic factors, India’s per capita income is likely to rise steadily as the composition of the labour force continues to shift away from subsistence farming towards the industrial and services sectors.
- ✚ The growing importance of India in the global economy has also been reflected in a rise in India’s importance as a trading partner for Australia.



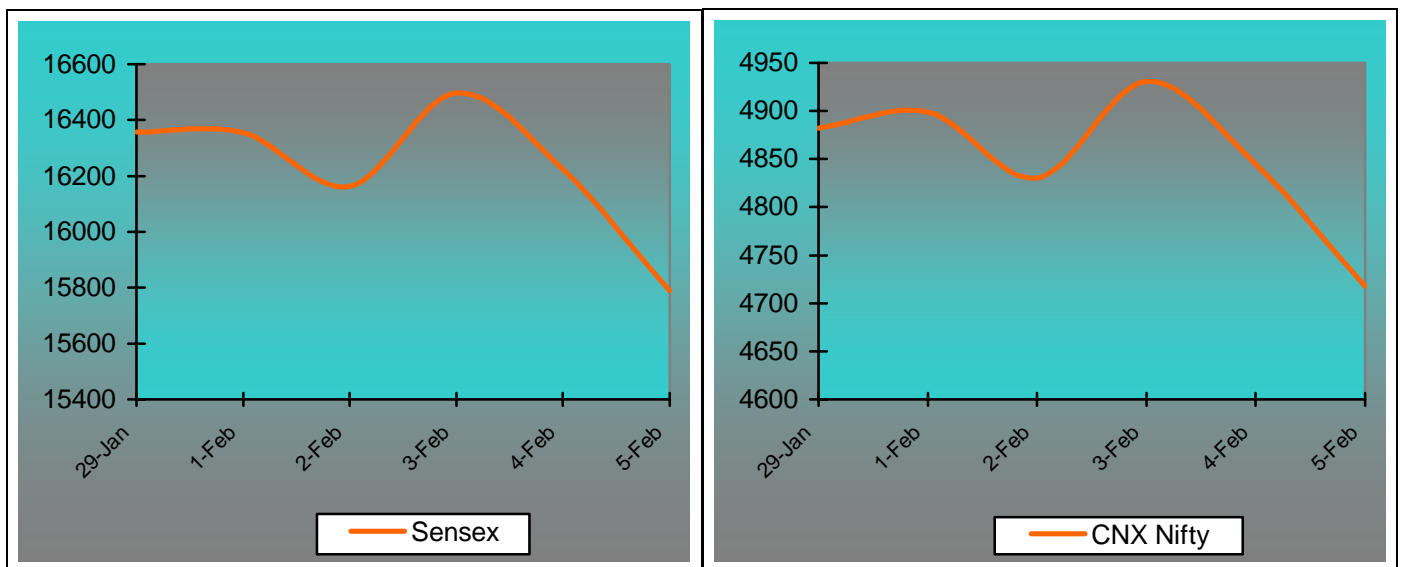
IMF forecasts robust Indian GDP growth:

The International Monetary Fund has forecast India's economy to grow at 6.75% in 2009/10 and 8% in 2011/12 on the back of an expected pick-up in private consumption and investment.

It forecast wholesale price inflation of 8.1% at the end of the 2009/10 year in March, and expected it to ease to 5.5% the following year.

- ✚ Growth is projected to rise from 6¾ percent in 2009/10 (April-March) to 8 percent the following year. Agriculture is likely to contract by about 1 percent in 2009/10 due to the drought, but nonagricultural GDP growth is expected to gather momentum.
- ✚ Private consumption would benefit from better employment prospects and less uncertainty, and investment would be boosted by robust corporate profits, rising business confidence, and favorable financing conditions. With India's long-term prospects remaining strong and private sector balance sheets sound, we expect growth to be back at potential in 2010/11 even if advanced economies grow below trend.
- ✚ Near-term risks are broadly balanced. On the upside, an acceleration of reforms and capital inflows could spur investment. On the downside, the main risks are elevated inflation and financing constraints arising from—among other things—the fiscal deficit, which could put breaks on the recovery. Tail risks include asset price bubbles and a sudden stop in capital inflows caused by turmoil in global financial markets.
- ✚ India's medium-term growth prospects remain bright. India was not at the center of the global crisis and growth is well balanced and mainly reliant on domestic drivers. Risks to this favorable outlook stem primarily from difficulties in implementing productivity-enhancing reforms and continued supply bottlenecks.

Observations on the Indian equity markets:





The key benchmark indices fell sharply during the week overweighed by Europe's debt mess and indications of weak US job data. The Sensex fell in 4 out of 5 trading sessions in the week ended Friday, 5th February 2010. The BSE Sensex fell below the psychological 16,000 mark. Fiscal woes in Europe pushed global equities sharply lower on Friday as the cost of insuring Greece, Spain and Portugal's debt against default rose sharply.

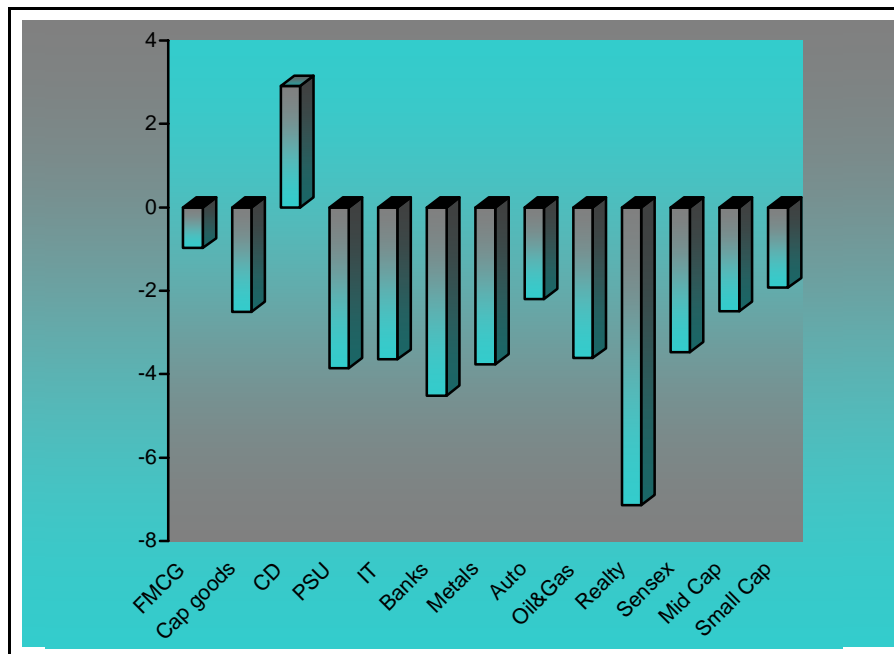
- ✚ Sensex and S&P CNX Nifty fell by 3.47% and 3.34% respectively.
- ✚ BSE Midcap and BSE Smallcap fell by 2.50% and 1.93% respectively.
- ✚ FIIs were net buyers to the tune of \$ 130 million.

Going forward, Indian investors will closely follow global developments after worries about fiscal woes in Europe pushed global equities sharply lower, as the cost of insuring Greece, Spain and Portugal's debt against default rose sharply. European Commission's endorsement Wednesday of Greece's deficit-cutting plan failed to assuage investor fears. Adding to the pressure was lack of fresh or reassuring news from European Central Bank President Jean-Claude Trichet at the ECB's press conference on Thursday.

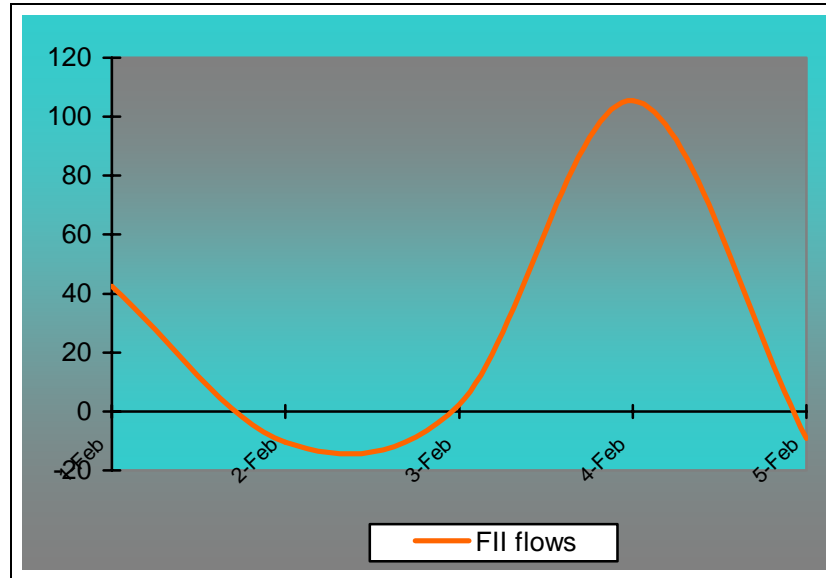
Back home, the Centre of Statistical Organization (CSO) is set to release advance estimates of GDP growth for 2009-10. It will be based on the provisional data for the first half of the year and partial data for third quarter and no data on the fourth quarter, which contributes the highest to the annual Gross Domestic Product. The advance estimate will facilitate the making of the Union Budget, to be presented in Lok Sabha on 26th February 2010. The government will announce the industrial output data for the month of December 2009 this week.

Sectoral performances:

- ✚ Index covering Consumer Durables has risen the most during the week.

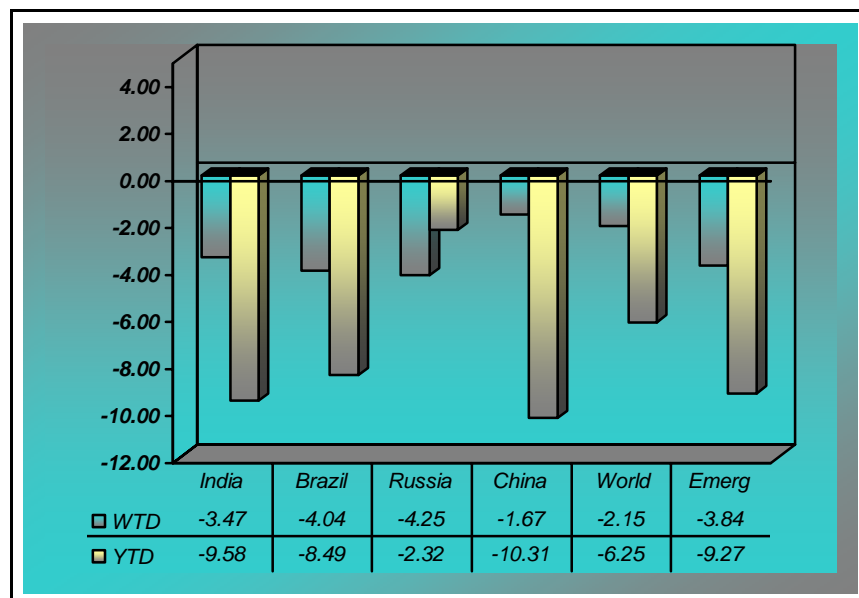


Foreign fund flow trends:



Performance of the key emerging market indices:

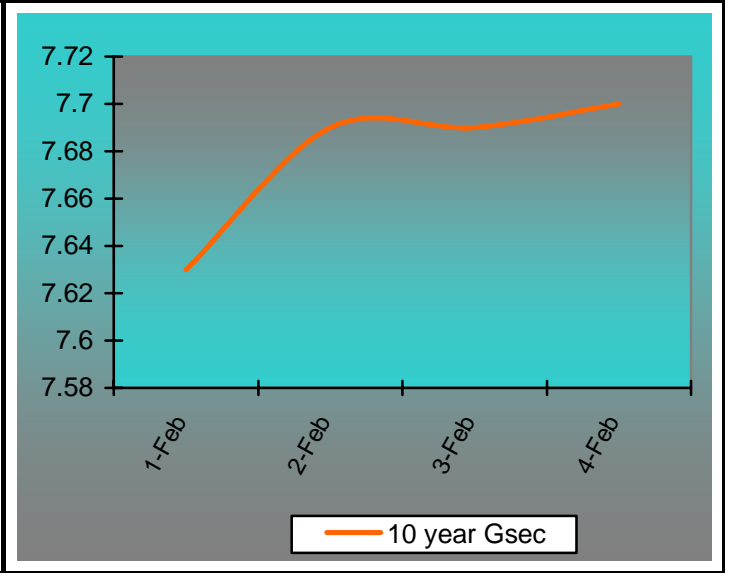
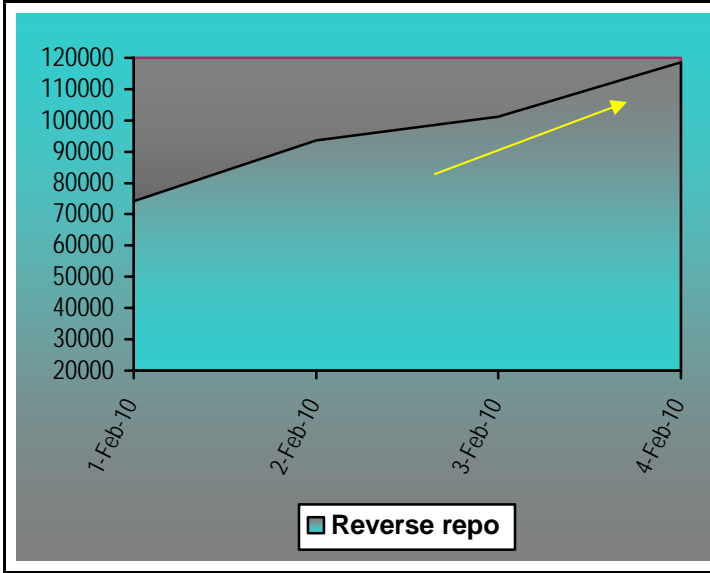
🚩 Key markets have fallen across the board this week, thereby putting the yearly returns in deep red.



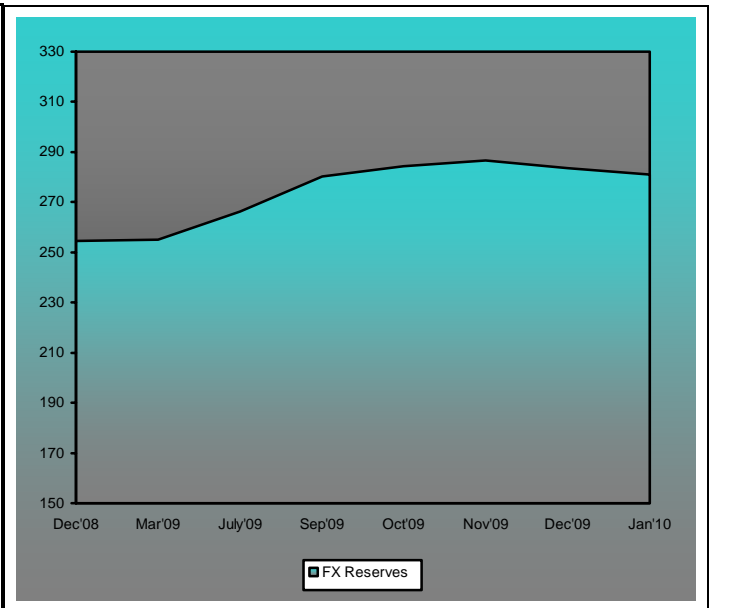
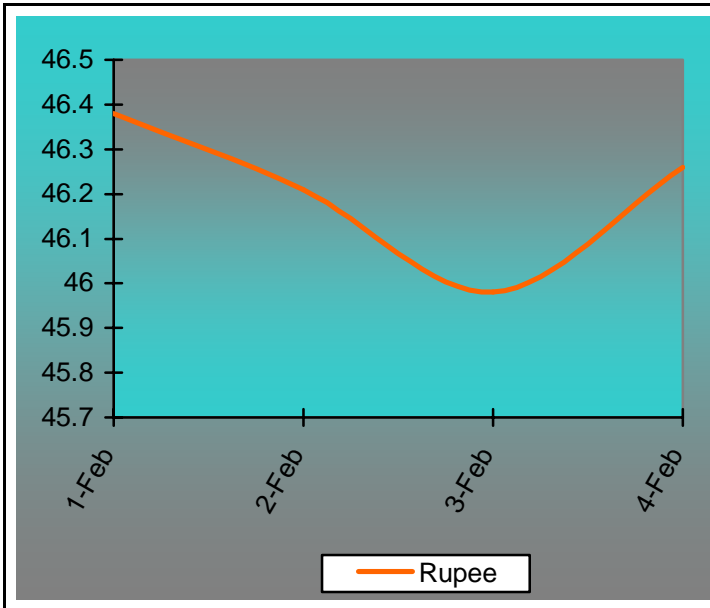
Source: Bloomberg



Fixed Income Market:



Forex Update:



Weekly changes in the key indicators:

Indicator	5 th Feb	29 th Jan
INR Vs \$	Rs. 46.26	Rs.46.16
Sensex	15790	16357
10 Year G Sec	7.7%	7.58%

Voice on India:

"It will be calibrated and done in a manner that stimulus in the economy continues to persist and at the same time some adjustment is made as far as the deficit is concerned,"

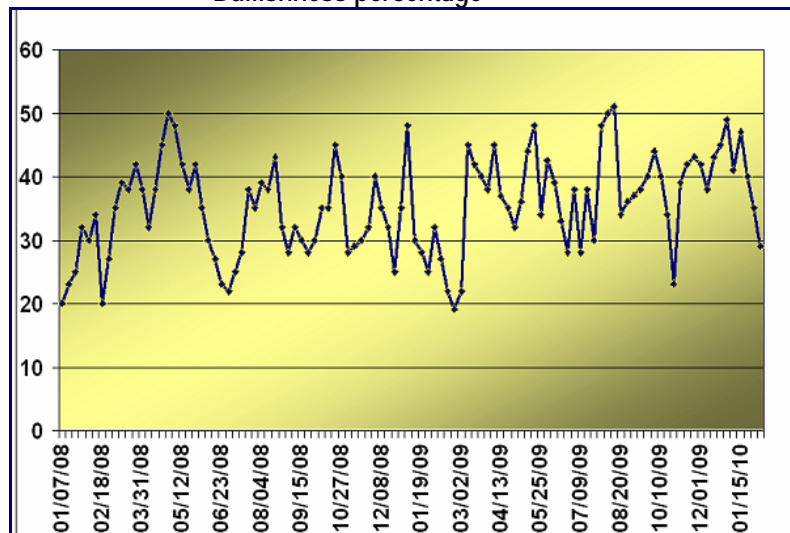
- Dr. C. Rangarajan, chairman of the Prime Minister's economic advisory council.

Global Update:

Global Equities:

Bearish sentiment continued to spike in the latest week according to the American Association of Individual investors' sentiment survey. Bullish sentiment fell to 29.2%, but remains off of levels that were seen at prior major market lows.

Bullishness percentage



Data source: AAI



- ✚ US stocks fell a fourth straight week, the longest streak since July, as concern grew that widening budget deficits in Europe can potentially derail the global economic recovery.
- ✚ The Dow Jones Industrial Index fell 0.55 percent. The S&P 500 Stock Index dropped 0.72 percent, while the Nasdaq Composite finished 0.29 percent lower.
- ✚ Euro stocks fell for a fourth week, the longest losing streak since July, amid concern that Greece, Spain and Portugal will struggle to curb their budget deficits.
- ✚ The Dow Jones Stoxx 600 Index dropped 3.9 percent to 237.46 this week, the lowest level in three months. Stocks in Spain and Portugal slumped the most in 15 months on Feb. 4 on concerns that they will struggle to manage their budget shortfalls.
- ✚ National benchmark indexes fell in all 18 western European markets except Iceland.
- ✚ The U.K.'s FTSE 100 retreated 2.5 percent, while Germany's DAX fell 3.1 percent and France's CAC 40 slid 4.7 percent.
- ✚ Asian stocks fell for the third week on concern rising U.S. job losses and mounting debt concerns in Europe, combined with China's steps to cool its economy.
- ✚ The MSCI Asia Pacific Index dropped 1.8 percent, the lowest close since Nov. 27th. The gauge has fallen 9.5 percent from a 17-month high on Jan. 15 on concern central banks of China and India will tighten monetary policy to curb inflation.
- ✚ The Nikkei 225 Stock Average declined 1.4 percent this week. Australia's S&P/ASX 200 Index fell 1.2 percent. Hong Kong's Hang Seng Index slumped 2.3 percent to below 20,000.

Global Economic Update:

- ✚ The U.S. Senate on Thursday approved Ben Bernanke's nomination to a second four-year term running the Federal Reserve in an attempt to maintain continuity in the world's powerful Central Bank.
- ✚ In the US, the ISM Manufacturing Index hit 58.4, well above the economic breakeven level of 50, the highest level in over five years. The jobs index component also rose to the highest levels since 2006.
- ✚ Retail sales in January broadly beat expectations, reinforcing the idea that the economy is improving and consumers are becoming more confident
- ✚ Australia's central bank unexpectedly paused in raising interest rates as the Central bank opted to support the economy's acceleration and stem inflation later.
- ✚ Hong Kong's retail sales rose 16 percent year-over-year in December, the fastest pace in 20 months and ahead of market expectations. The growth owed to improving employment and a 14 percent year-over-year increase in tourist arrivals from mainland China.
- ✚ South Korea's exports jumped 47.1 percent in January from a year earlier, the highest growth rate in more than 20 years, as the continued global recovery drove external demand for autos, appliances and electronics.
- ✚ China's official Purchasing Managers' Index moderated to 55.8 in January from 56.6 in December, partly due to seasonal factors.
- ✚ According to the Indian Bullion Market Association, 37 tonnes of gold were imported in January compared with 27 tonnes for December and 30 tonnes in November. The increase was primarily attributed to jewelers shifting to the precious metal as record prices began to drop.
- ✚ Emerging market equity funds lost \$1.6 billion in weekly withdrawals, the biggest outflows in 24 weeks, as earnings and Greece's debt woes raised concerns that the global recovery may falter, EPFR Global said.



- ✚ During the week, Latin American funds posted outflows, while those buying emerging Europe, Africa and the Middle East shares reported “modest” net inflows, EPFR said. Within Asia, China equity funds reported net outflows for the fifth time in six weeks, according to the statement.

Global Voices:

- ✚ “The global economy continues to recover following the sharp contraction in output in late 2008 and early 2009. The recovery is most advanced in Asia, although almost all economies are now growing again, albeit weakly in some cases. International trade is also continuing to recover and a degree of stability has returned to financial markets. The Board decided to keep the cash rate unchanged. With inflation moderating as expected, interest rates no longer at exceptionally low levels, and relatively little information available as to the impact of the recent increases, the Board judged it appropriate to hold the cash rate steady for the time being”.

- Contents from the Monetary Policy Review statement by Reserve Bank of Australia

- ✚ “We need to continue to deliver the stimulus to which we are mutually committed and begin looking at exit strategies to move to a more sustainable fiscal track”

- Canadian Finance Minister Jim Flaherty after chairing a meeting of counterparts and central bankers from the G-7.

- ✚ “Judging from market valuations, I sense quite a gap between consensus market expectations and key political and economic realities, especially in the U.S. If the gap isn’t bridged by the validation of the more optimistic expectations, investors may well find that January’s global equity sell-off was just a precursor to a disappointing year for several asset classes, including stocks”
- ✚ First, an orderly handoff from temporary sources of growth (think government stimulus and inventory rebuilding) to sustainable components of final private demand. Second, a smooth exit from unconventional measures, with policies regaining much-needed degrees of operational flexibility. Third, the government’s delivery of a credible, pro- growth medium-term fiscal adjustment program. Fourth, a rebound in bank lending that alleviates the enormous pressures facing small businesses. Fifth, the ability to defend the institutional integrity of key public institutions. And finally, effective global policy coordination.

- Mohamed A. El-Erian, Pimco’s chief executive officer and co-chief investment officer.

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