Indian stock markets witnessed huge movements in the month of June. While sensex closed at 16415 on June 1 and closed at 15087 on June 19, down by 8% due to hike in petrol, diesel and cooking gas prices, spiraling inflation pressures and continuous selling by FIIs.

Comparative market performance

Index	**June 1 2008**	**June 19 2008**
Sensex	16415	15087
Dow Jones	12600	12030
Hang Seng	24800	22797
Nikkei 225	14425	14130
S&P 500	1400	1337

Markets Snapshot

Institutional Activity

As on 17/06/2008	Turnover in Rs crore					
	FIIs			**Mutual Funds**		
Particulars	Purchase	Sales	Net	Purchase	Sales	Net
As on 17/06/2008	2,546.20	2,173.80	372.4	683	424.5	258.5
Last one week	14,479.00	15,984.50	-1,505.50	3,625.60	2,264.30	1,361.30
Last one month	62,368.30	74,313.20	-11,944.90	15,158.40	13,055.80	2,102.60

Important announcement by SEBI

- **SEBI allowed sovereign wealth funds, university funds, endowment and charitable trusts, asset management firms founded by overseas Indians to register as FII.**

- **SEBI allowed Direct Market Access (DMA)** to institutional investors. Under this system, foreign institutional investors, or FIIs, as well as domestic institutions can buy and sell shares without going through brokers.

- **SEBI to allow trading in currency futures:** The market regulator is mulling to introduce trading in currency futures within three months. The move is in right direction since it will help companies and investors hedge their currency risks as the rupee rallied the most in more than three decades in 2007 and later retreated to a 13-month low within six months. Currently we have trading in currency derivatives, including forwards and options, which are contracts that are bought and sold on demand and not traded on exchanges.

- **Review of External Commercial Borrowing (ECB) policy:** SEBI has increased the cumulative debt investment limits from USD3.2 billion to USD5 billion and USD1.5 billion to USD3 billion for FII investments in Government Securities and Corporate Debt. The enhanced limits shall be allocated among the FIIs on a 'first come first served' basis, which would be subject to a ceiling of USD200 million per registered entity. In a major relaxation of overseas borrowing norms, the government had made it easier for domestic companies to raise ECBs and repatriate larger chunks of these funds to India. A company can now bring in up to USD50 million worth of ECBs a year for spending in India, up from USD20 million, while borrowers in the infrastructure sector have been permitted to bring home USD100 million.

- **SEBI moots faster reporting transaction disclosures to a company and subsequently to stock exchange:** under SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997, it is proposed that the time gap between the date of transaction and the date of dissemination of the information by the stock exchange may be reduced from nine days to two working days.

Global/Domestic cues affecting the markets

Domestic market has been quite volatile in the past few weeks and much of this is on account of its linkages with global markets.

Some of the global events that kept the Indian Markets ticking are:

- **Rising crude oil prices**

The record high crude prices which has been hovering around USD 140 per barrel has created havoc on the domestic markets with Sensex tanking more than 500 points in early trade. All the sectoral indices on BSE were in red. Realty, power and auto stocks were hit hard.

- **Sub Prime Crisis**

The sub prime crisis is hitting the stock markets again as foreign banks have announced further write downs on account of sub prime crisis. This triggered another wave of fear in the global markets, as analysts fear the depth of sub prime losses could be much more than what was expected.

Highlights

- **Indian Markets Third worst performers**

Indian bourses posted a negative return of 27.98 % in the January-May 2008 period, making it the third biggest loser behind Turkey (-32.7 %) and Philippines (-28.88 %). Even the US market, which was hit by the subprime crisis showed more stability and posted a negative growth of just 1.44 %. The UK also fared better with a negative growth of 3.86 %.

The BSE realty index is the worst performer this year, having shed 51% of its 52-week peak reached in January. With increasing evidence of a slowdown in the realty sector, rising input costs and little chances of interest rate softening, it is feared that realty stocks may see further dip in valuations.

Other major losers since January include bank (41%), consumer durables (41%), capital goods (39%), PSU (39%) and oil and gas index (28%).

However, many countries like Thailand, Indonesia, Brazil, Mexico and Russia showed positive returns in the last five months. After investing over USD17.2 billion in 2007, FIIs have pulled out USD3.8 billion from Indian markets in the January-May period of 2008. With high inflation and crude oil prices playing havoc, FIIs sold stocks worth USD1.24 billion in the month of May alone.

- **Real Interest Rates turn negative**

With inflation crossing 11%, the real interest rates on long term deposits have turned negative after a gap of 3 years. Fixed deposits for less than one year, which attracts rate around 7 per cent, is already earning negative returns. Last time this happened was in December 2004, when inflation touched 6.7%, while the interest rates remained in the range of 5.25% to 6.25%.

Rising inflation has started to put pressure on banks to increase deposit rates in order to keep them lucrative.

- **Surging Inflation**

The spiraling inflation primarily fuelled by rising global commodity, domestic increase in petrol prices and crude oil prices. Besides fuel prices, rise in prices of food products particularly edible oil and manufactured goods added to the pressure on price. Inflation, which clocked 8.17% for the week ended May 17 shot up to 11.42% for week ended June 14.

- **Weakening Rupee**

After historic appreciation of 15% against dollar during 2007, rupee continued to lose ground against the dollar, as crude oil prices continued to rise, (this pulls down the rupee as oil import bills are paid in US dollar) and FIIs continued selling on the bourses. Foreign funds have sold more than USD 3.9 billion of Indian shares so far this year pulling the rupee down more than 7 %. Rupee has been hovering around 42.9, against dollar after heavy purchase by oil companies and banks.

- **RBI hikes CRR, Repo Rates to check inflation**

In one of the steepest measures in recent times, the Reserve Bank of India (RBI) announced hike in the benchmark cash reserve ratio (CRR) to 8.75%—CRR is the cash banks must keep with the central bank —and the repo rate to 8.5%, its the rate at which banks borrow short-term funds from RBI —by 50 basis points each.

The moves are expected to trigger an across-the-board hike in interest rates. The CRR hike will suck out around Rs 17,000-18,000 crore from the system. This will also impact bond yields.

Sectoral Highlights

- **The banking sector**

The banking sector has been one of the worst performing sectors in the market as it has been receiving negative news from all corners.

Firstly, the inflation figure, which has been climbing steadfastly in recent weeks, has now crossed the 11% mark.

Secondly, the Finance Minister enhanced the farm loan waiver to Rs 72,000 crore from Rs 60,000, which was announced during the Budget.

Thirdly, The Reserve Bank of raised the repo rate by 25 basis points to 8 % in a desperate attempt to check inflation. However it is feared that this might upset the asset-liability balance of the Banks as the impact of the RBI move will be felt on prime lending rates of banks that are now in the range of 12.75-13.25 %. This may go up by 25 to 50 basis points. While deposit rates are expected to rise by 50 basis points.

- **Realty, power and auto sector**

The record high crude prices which has been hovering around USD 140 per barrel and rising interest rates, have created havoc on the domestic markets with Realty, power and auto stocks were hit hard.