



Source, chart & following table: Bloomberg

Close 7 Jan 2009	Index	Pts Chg	% Chg	Forward	7 Yr	7 Yr	15 Yr
		Day	YTD	PER	PER Hi	PER Lo	Avg
SENSEX 30	9,587	-749	-0.6	10.7	31.1(13/1/08)	9.2(20/11/08)	N/A
NIFTY 50	2,920	-192	-1.3	9.5	28.5 (13/1/08)	N/A	N/A

BOMBAY

INR/US\$ **Rs 48.76**

INR/GB£ **Rs 72.75**

INR/EUR **Rs 66.44**

The SENSEX crashed a massive 7.25% on heavy selling across sectors after the financial scam at Satyam Computers (Rs40.25, down Rs138.70 or 77%). The Chairman and founder, Mr Raju, resigned after confessing to grave accounting fraud over years. Today is a black day for Indian corporate governance.

LONDON / NEW YORK

GDRs trade much lower in moderate volumes. Falls of 9-12% are seen in Reliance, L&T, and Ranbaxy. There are no discounts available on liquid GDRs.

2008 MARKET REVIEW: A GHASTLY YEAR.....

The SENSEX closed 2008, a year of frequent high volatility, at 9,647 - a loss of 52.4%. This is the worst performance for the index since economic reforms began in 1991 and beats its previous record loss of 21.4% in 2000, at the time of the dotcom bubble.

- The SENSEX scaled an all-time closing high of 20,873 on 8 January and touched a year's low of 8,451 on 20 November, an unusually large band of 12,422 points and a drop of 59.6% from the high.
- Investors showed defiance to the horrendous terrorist attacks on Bombay from 26-29 November, with the SENSEX gaining 7% by year-end.
- Despite India's regulatory and bureaucratic controls proving to be an effective firewall against the credit crunch virus and although the country is relatively better insulated than many of its peers against a global slowdown, because exports account for less than 20% of GDP, Foreign Institutional Investors (FIIs) sold Indian shares aggressively to raise funds to meet heavy redemptions faced in home markets. They sold a record US\$13.1bn of Indian equities in 2008, after buying a record US\$17.3bn in 2007. The slowing Indian economy also induced selling by FIIs, who continue to greatly influence market sentiment on Indian bourses.
- The Indian Rupee, reeling from heavy capital outflows from FII selling, US\$ strength and deteriorating Current and Trade Account deficits, had the biggest fall since 1991 - of 19.2% against the US\$ to Rs48.80 (vs + 11% in 2007).

2009 MARKET FORECAST: MORE HIGH VOLATILITY

- Forecast GDP growth of 7.1% for the y/e March 2009 and 6% for the next year, with EPS growth of 5-8%.
- SENSEX to test 8000 (P/E:8.9x) by 3/09, before rising to around 12,500 (P/E: 13x) later in the year. India should recover from the downturn before developed Western markets. Once there is confidence and clarity of an upturn, demand will revive and stimulate the economy in H2 2009.
- Interest rates are expected to be cut to 4% in 2009, from the current 5.5%, and inflation is expected to be 3% or lower by 3/09. Deflation is a possibility in H2 2009.
- IPOs, M&A and PE deals to remain subdued in H1.

So, what are the risks? They are, inter-alia: 1. Political instability (fractured results at General Elections, due by May 2009 at the latest); 2. Global economy worsening and adversely affecting risk appetite for emerging market equities; 3. Monsoon failing; 4. Wars (including with Pakistan); 5. Deflation; 6. External/unforeseen shocks (oil/other).

Sectors favoured: FMCG, Infrastructure (Construction, Cement, Power and Steel) Capital Goods, Banks, Telecoms, Pharmas & local I.T. Stick to domestic rather than export stocks and large cap vs mid/small cap. stocks.

Expect another volatile year and a good buying opportunity around SENSEX 8000 on a 1-2 year view.

2008 PERFORMANCE OF ASIAN/WESTERN MARKETS: The credit crunch and slowing global economy hit all markets in the table, which ended with double digit losses. Risk aversion battered emerging markets.

INDEX PERFORMANCE (source: Bloomberg)	Index at 31.12.08	2008 %Chg	2007 %Chg
ASIA PACIFIC:			
AUSTRALIA 200 INDEX	3722	-41	+12
CHINA SHANGHAI COMP	1820	-65	+97
CHINA SHENZEN COMP	553	-62	+180
HONG KONG HANG SENG	14,387	-48	+39
INDIA NIFTY 50	2,959	-52	+55
INDIA SENSEX 30	9,647	-52	+47
INDONESIA JAKARTA COMP	1,355	-51	+52
JAPAN NIKKEI 225	8,859	-42	-11
MALAYSIA K.L. COMP.	876	-39	+31
PAKISTAN KSE 100	5,865	-58	+40
PHILIPPINES PSEi	1,872	-48	+21
SINGAPORE STI	1,761	-49	+17
SRI LANKA ALL SHARE	1,503	-41	-7
STH. KOREA KOSPI	1,124	-41	+32
TAIWAN TAIEX	4,591	-46	+9
VIETNAM STOCK INDEX	315	-66	+23
WESTERN:			
UK FTSE 100	4,434	-32	+4
US D.J. IND	8,776	-34	+6
USA NASDAQ	1,577	-41	+10
BR BOVESPA	37,550	-41	+43

SELECTED SHARE PRICES : 2008 Performance

GDR OFFER PRICES (US\$) LONDON – 31 December 2008					
Company	31/12/08 Price	YTD %	Company	31/12/08 Price	YTD %
Baj. Hldg (ex-Bajaj)	\$4.50	-73%	Ranbaxy	\$5.39	-49.3%
L&T	\$16.20	-69.9%	Rel. Inds	\$51.40	-65.2%
M&M	\$5.70	-74.6%	SBI	\$55.00	-54.9%

Source : Bloomberg

ADR OFFER PRICES (US\$) NEW YORK – 31 December 2008					
Company	31/12/08 Price	YTD %	Company	31/12/08 Price	YTD %
Dr.Reddy	\$9.80	-46%	Satyam	\$9.04	-66%
HDFC Bank	\$71.38	-45%	Sterlite	\$5.52	-79%
ICICI Bank	\$19.25	-69%	Tata Com (ex VSNL)	\$21.37	-43%
Infosys	\$24.57	-45%	Tata Motor	\$4.45	-76%
MTNL	\$3.46	-64%	WIPRO	\$8.60	-42%

Source : Bloomberg

AIM (LONDON): in GB p unless stated otherwise (indicative only) – 31 December 2008					
Company	31/12/08 Price	YTD % Change	Company	31/12/08 Price	YTD % Change
Dhir India	70	-61%	KSK	165	-55%
Eredene	15	-29%	Naya Bharat	\$0.13	-90%
Eros	150	-63%	Noida Toll	\$6.05	-14%
Gt Eastern	210	+30%	OPG Power	22.5	-63%
Greenko	61	-40%	Prometh. (Eleph.Cap)	97	-8%
HIRCO	88	-77%	Trinity	36	-63%
Indian Films	27	-65%	UMP (ex-UTV)	\$1.80	-46%
Indus Gas	120	-27%	Unitech	7	-94%
Ishaan	33	-69%	W. Pioneer	73	-44%

Source : Bloomberg

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CONTACTS:**ASTAIRE:**

T: +44 (0)20 7012 8800
e: www.astaire.co.uk

AUTHOR: Deepak Lalwani FSI, FCCA
Director - India

T: +44 (0)20 7012 8803
e: d.lalwani@astaire.co.uk