PATERSON

Inspiring trust, creating wealth

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P2P

PATH TO PROFITABILITY

See inside: P2P strategy for the week.

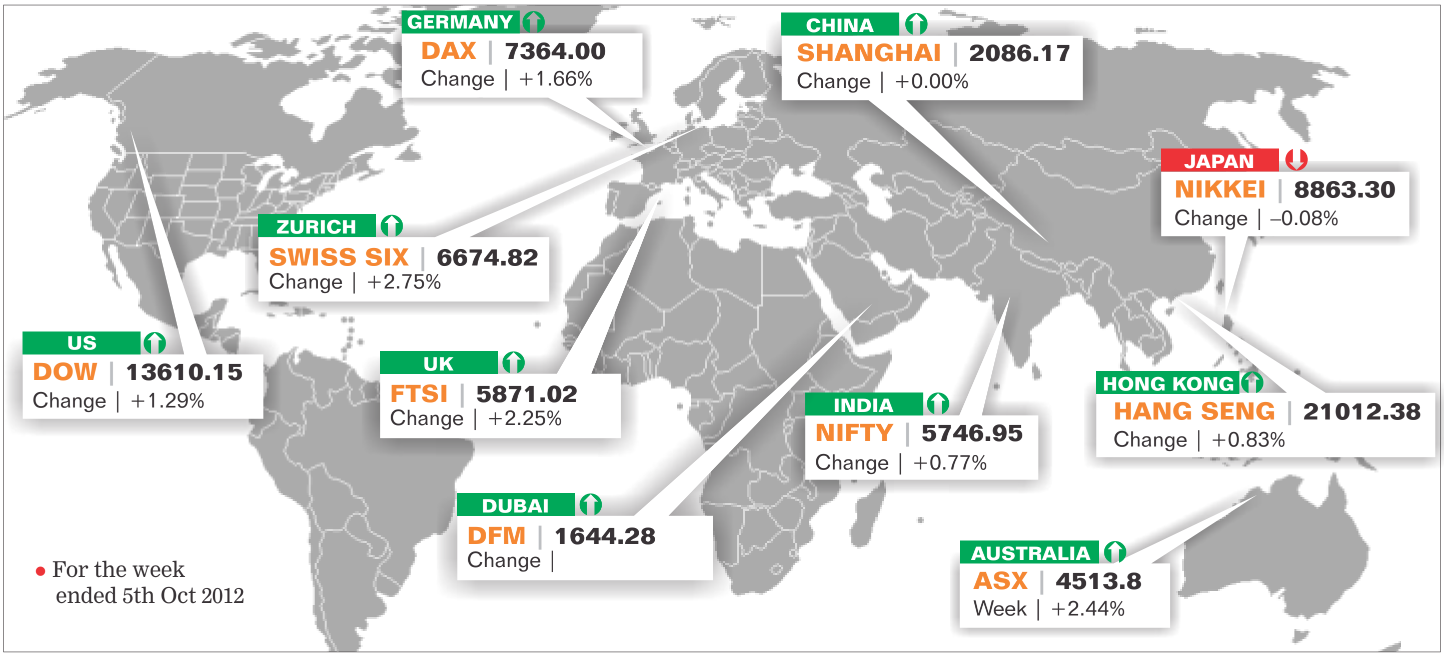
Global slowdown fear looms large

A report on *page 2*

EQUITY | COMMODITY | CURRENCY

World Markets

Asian markets closed on a mixed note for the week with HANGSENG leading the region. It closed the week gaining 0.83% at 21012.38 followed by NIFT gaining 0.77% at 5746.95 while SHANGAI COMPOSITE remained closed for the week. NIKKEI closed marginally negative -0.08% at 8863.30 for the week.



Global market performance

- **DOW** – DOW after trading around 13600.00 levels failed to maintain its upward momentum which resulted in a correction last week, the price point around 13350.00 turned to be a pivot zone from where Dow managed a swing – up closing at 13610.15 (+1.29%) for the week. Immediate support is at 13325.11 levels while resistance is at 13650.00 levels.
- **EUROPEAN MARKETS** – Both FTSE & DAX gained 2.25% & 1.66% respectively for the week, FTSE faces immediate resistance at 5950.00 levels while DAX faces resistance at 7485.00.
- **NIFTY** – While the overall trend remains intact towards an immediate target around 5900.00 levels, a minor correction is possible testing 5500.00 levels below 5690.00.
- **COMMODITY (International) MARKETS** – GOLD continues to face immediate resistance at $1790.00 - $1800.00 levels, inability to breakout beyond the resistance area could lead to a correction with support at $1765.00 & $1730.00 respectively, COPPER faces immediate resistance at 8400.00 levels with a strong possibility of revisiting 8100.00 levels in the short term. Both GOLD & COPPER are currently in" Overbought" territory while CRUDE is expected to stay range bound in the short term.

- **CURRENCIES** – DOLLAR INDEX has immediate resistance at 80.40 levels with a strong possibility of the current correction testing 78.00 levels.

Global slowdown fear looms large

Better than anticipated economic reports out of the U.S. showed growth in the Service Industries as well as in Employment. According to the Institute for Supply Management, the Index of non-manufacturing businesses climbed from 53.7 in August to 55.1 in September and the New Jersey-based ADP Employer Services revealed that private employers added 162,000 jobs last month. The nation's Labor Department however reported that applications for Unemployment Benefits rose by 4,000 to 367,000 during the week that concluded on September 29th.Economists predicted that the number of people seeking assistance would increase to 370,000. And according to strategists, the releases are expected to show that the Unemployment rate went up. Separate news indicated that U.S. Factory Orders slipped slightly by 5.2 percent in August.

Market sentiment took a further hit as a number of countries including China, Australia and the U.K. reported a slowdown in growth. And in the E.U., Services PMI remained below the 50 level mark confirming that it remains in contraction territory. Disappointing metrics out of the U.K. showed employment in the Services sector declining for the first time in 10 months, suggesting that the country may not have come out of its recession just yet.

INDIAN CONTEXT:

BIG REFORMS AGAIN: CABINET CLEARS FDI IN INSURANCE, PENSION

In a second round of bold and politically contentious reforms, the Cabinet has cleared proposals to allow more Foreign Direct Investment or FDI in the insurance and pension sectors.

- Raising the cap on FDI in insurance from 26% to 49%, and allowing up 26% in the pension funds. These will now need Parliament approval. The Cabinet also cleared the revised draft of the Companies Bill.
- Insurance reform is widely seen as crucial because credible estimates say the sector needs a capital infusion of over Rs. 62,000 crore or $ 12 billion over the next five years. Domestic and foreign insurers, who have invested much money in India over the last decade, have been lobbying the government for years to raise the FDI limit to 49 per cent from 26 per cent.
- Along with raising the FDI limit, the insurance amendment bill aims to strengthen regulation of the sector and allow foreign re-insurers to enter the Indian market. Reinsurance is the insurance that is purchased by an insurance company to insure the assets that it is covering.

Nifty watch

After trading sideways between 5638.00 – 5700.00 levels for a week (24th Sep – 29th Sep), Nifty opened the week managing to hold above 5700.00 levels. The subsequent trading sessions witnessed Nifty rallying towards 5800.00 levels finally closing the week at 5746.95 (+0.77%) for the week. The sharp spike seen in the chart testing 4900.00 levels was due to 59 erroneous trades executed by EMKAY Global on behalf of an institutional client, trading in Nifty was subsequently halted and was reopen for trading with Nifty trading down 40 points from its previous close.

While the trend remains intact at this juncture the interesting pattern that is worthy of notice is that Nifty is in "Overbought" territory at current levels, in addition the price patterns observed this week are showing signs of fading momentum around current levels, a close below 5690.00 will increase the possibility of a correction. While we maintain our 2nd target at 5900.00 levels the correction is expected to test 5500.00 levels which could serve as a good entry point.

Bank Nifty

The indices after spiking out from its trading band tested a high of 11745.00 before retracing back within its trading band between 11321.00 – 11527.00 levels, it closed at 11511.40 (+0.48%) for the week. The indices is currently in " Overbought" zone which increases the possibility of a correction emerging around current levels with a confirmation once it trades below 11300.00, with our target of 11700.00 achieved this week, we expect a short term correction to emerge below 11300.00 levels with a possibility of testing 10800.00 – 10900.00 in the short term.

MUTUAL FUND PICKS

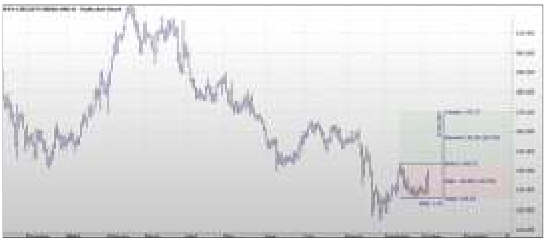
FUND	1 Month	3 Months	1 Year	3 Years	NAV
Fidelity Equity Fund (G)	6.5	8.2	15.2	9.8	36.5
UTI Oppurtunies Fund (G)	8.1	7.9	21.2	11.4	30.8
ICICI Pru Discovery Fund (G)	8.6	8.3	31	14	54
HDFC Top 200 Fund (G)	11	7	19	8.3	216

PATH TO PROFITABILITY

Stocks to Watch

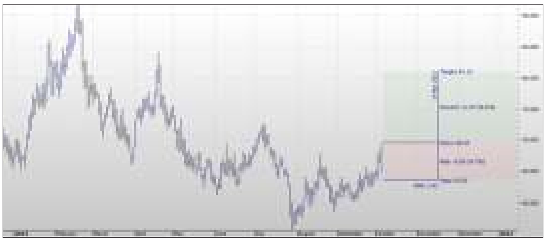
We have two fresh recommendations for the week, however we advise taking long positions only if Nifty trades above 5700.00 levels. We advise against initiating fresh positions if Nifty slides below 5700.00 levels.

OPTO CIRCUITS: Since the beginning of the year Opto Circuits has been in a downtrend, The trend shift that emerged at 225.00 levels managed to push the stock down to a low of 117.00 levels where the stock seems to have bottomed out. There is a strong possibility of an upward swing emerging once the stock manages to trade above 144.00 levels, We advise initiating long positions around 144.00 with target at 170.00 levels for a 1-2 month investment horizon.



CMP: 138.05 **TARGET:** 170.00 **Return:** 18.50% **Risk:** -12.06%

ESCORTS LTD: Escorts tested a high of 93.30 on 17th February 2012, since then it had been in a downtrend which seems to have bottomed out around 55.00 levels. Since testing its lows the stock has been consistently building strength with a strong possibility of an upward swing once it closes above 70.00 levels. We advise initiating long positions around 70.00 levels for a target of 81.00 for a 1-2 month investment horizon.



CMP: 68.80 **TARGET:** 81.00 **Return:** 16.6% **Risk:** – 8.7%

Kotak Bond Fund

About Kotak Bond

The investment objective of Kotak Bond is to creating a portfolio of debt and money market instruments of different maturities so as to spread the risk across a wide maturity horizon and different kinds of issuers in the debt market.

The scheme offers play on interest rates by managing duration actively. Duration is increased if the view is that of falling interest rates and vice versa. The portfolio is well diversified with a mix of good credit quality debentures, bonds and government securities.

Why Kotak Bond Fund

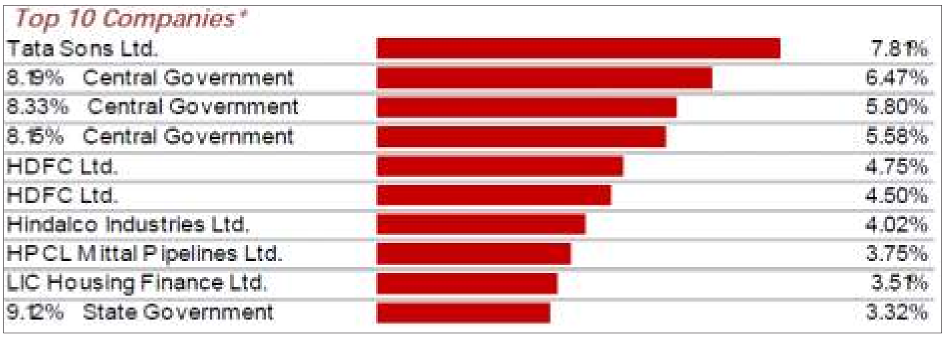
The CRR cut is further likely to render support to the short end of the yield curve, which has already seen some easing. The CRR cut for liquidity infusion may mean no OMOs in the immediate future, and hence could mean a sentiment dampener for G secs in the near term.

However lingering expectations of rate cuts going forward would mean a range bound trading market for G Secs in the 8.10-8.20% band, and maybe test 8% levels in the coming months.

Risks to G sec yields would be the expected borrowing calendar for the 2nd half. We do not expect any major negative surprises on that front for now. We would continue to recommend investors to add durations to their fixed income portfolio, through short term and long duration income funds.

Kotak Bond Fund Performance (As on 01 Oct, 2012) – Annualized Return

Periods	Kotak Bond Scheme Plan A
3 months	10.81%
6 months	13.29%
9 months	12.12%
1 year	13.53%



P2P STRATEGY

Commodity Strategy

- Initiate long positions in gold around current levels for a target of 31300.00
- Initiate long positions in silver for a target of 62500.00
- Initiate long positions in crude for a target of 4750.00.

Equity Strategy

- initiate short positions in NIFTY only below 5680.00 levels for a target of 5500.00.
- initiate short positions in BANK NIFTY only below 11300.00 for a target of 10900.00.

Currency Strategy

- Initiate short positions in USDINR at current levels or at 52.25 (if there is a pullback) for a target of 51.00

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PATERSON COMMODITIES

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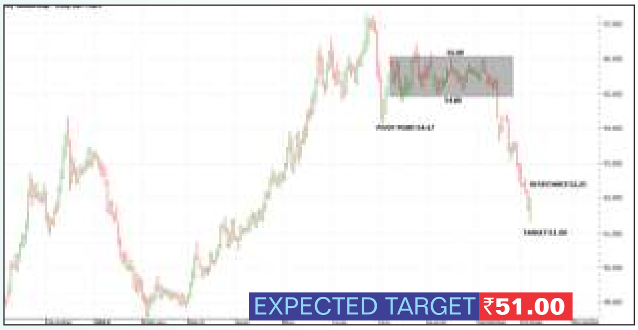
P2P PATH TO PROFITABILITY

Currency & Commodities

USDINR

USDINR after trading in a band between 54.80 – 56.00 levels for the past 2 months slipped below the crucial 54.80 levels three weeks earlier. The possibility of a trend shift strengthened once the pivot area of 54.17 was broken 2 weeks back. After retracing to 53.00 levels it slid once again testing a low of 51.35 before closing at 51.90 (-1.78%) for the week. While the current target is expected at 51.00 levels there is a possibility that the currency pair could retrace to 52.25 before slipping down towards the target area.



Dollar index to trade weak

After breaking below its trend testing level at 81.39 levels, we continue to maintain out bearish view on the Dollar Index. It closed at 79.43 (-0.71 %) for the week, immediate targets are at 78.00 & 77.00 respectively with immediate resistance at 80.40 levels.

Gold-MCX

Gold is expected to trade in a band between 31100.00 – 31350.00 levels for the week. A close above 31350.00 could trigger a swing up towards 31500.00 levels, it closed at 31167.00 for the week.

Crude-MCX

The correction that started at 5428.00 levels tested fresh lows at 4600.00 levels before pulling back to close at 4678.00 for the week. At current levels Crude is trading close to its support levels raising the possibility of a rally from current levels. Immediate resistance is at 4773.00 levels while support is at 4522.00 levels, there is a strong possibility that Crude might trade within this band going forward, however a breakout above 5773 levels could lead to a rally towards 4900.00 levels.

Copper-MCX

The strong correction that emerged at 462.00 levels tested a low of 432.60 before bouncing up to test a high of 337.00 followed by a retracement closing at 433.60 . It is too early to take a call on whether the correction has completed at 433.00 levels at this juncture, however a close above 442.00 levels could lead to a target of 446.00 while a close below 437.00 could lead to 431.00 levels.

Why oil prices can come down

- Excess supply by Saudi Arabia & normalcy back in supplies from Middle East countires after the recent ARAB uprising crisis.
- Less demand likely from India in near future as the government is in the process of cutting fuel subsides and linking prices to global prices.
- Weak global growth even after the US FED & ECB announced quantitative easing measures.

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