Fixed Income Markets :
Current Environment and Outlook

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Macro Events

Domestic

- The Reserve Bank of India (RBI) hiked the repo rate by 25 bp and the reverse repo rate by 25 bp. After the decision, the reverse repo rate moved up to 5.50% and the repo rate to 6.50%. The cash reserve ratio (CRR) remains at 6.00%.

- Industrial production (IIP) fell back deeply to a low of 2.7% in Nov'10 after having expanded 11.3% YoY in Oct '10. The cumulative growth for the period April- November, 2010-11 stands at 9.5% over the corresponding period of the previous year.

- India's (Core) Infrastructure sector output rebounded to 6.6% in Dec'10 YoY, from 3% in Nov'10. The six core industries —crude oil, petroleum refinery products, coal, electricity, cement and finished steel — had grown by 6.2% in Dec'09. Output in the steel and petroleum sectors rebounded sharply higher while production of cement remained weak.

- Inflation, as measured by the WPI Index, rose sharply to 8.43% YoY in Dec'10, after having tread lower for 7 months to 7.48% in Nov '10. The surge in food prices was the single biggest factor affecting overall Inflation. Food Inflation has risen to 17.1% for the week ended Jan,22 '11 from 8.9% in the last week of Nov'10.

- India's Fiscal Deficit during April to Dec FY11 was down 45% YoY coming in at Rs.1,70,000 crore which is 45% of the budget estimate of Rs.3,81,400 crore.

International

- Economic growth measured by GDP, continued its steady rise in the US and Eurozone, while growth in the U.K saw a sudden fall. The unemployment rate in the developed economies, continues to improve slowly.

- US GDP growth rate moved higher for a second consecutive quarter to 3.2% QoQ in Q4'10 from a 2.6% rate in Q3'10. GDP in the UK fell into negative territory for the first time since the 2001 recession, owing to adverse weather conditions. Growth for Q4'10 came in at a negative 0.5% QoQ way below a 0.7% rise witnessed in Q3'10.

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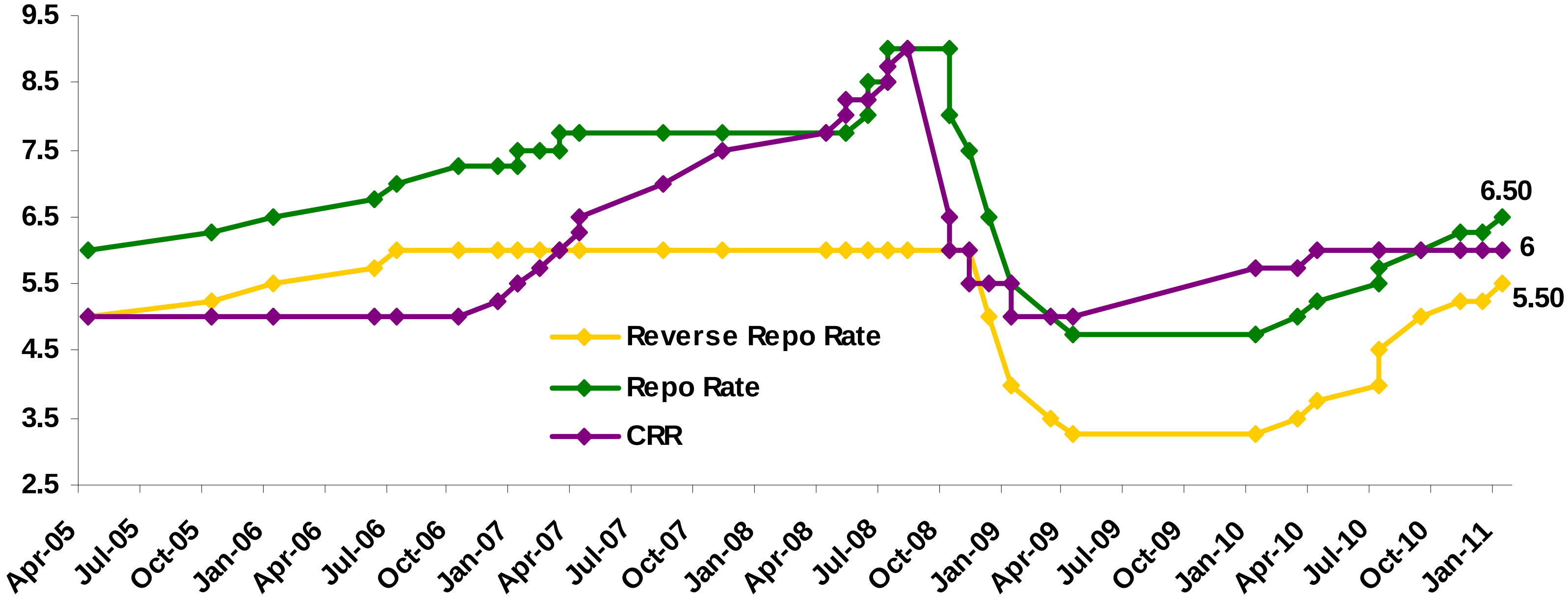
RBI Mid-quarter Policy Review (Highlights)



- The Reserve Bank of India has increased the repo and reverse repo rates by 25bps.

- The CRR and SLR rates has been kept unchanged at 6% and 24% respectively. The additional liquidity support to SCBs under LAF has been extended till 8th April 2011.

- With this increase, since mid-March 2010, RBI has cumulatively increased the repo rate by 175 bps and the reverse repo rate by 225 bps. Additionally, the CRR was increased by 100 bps.

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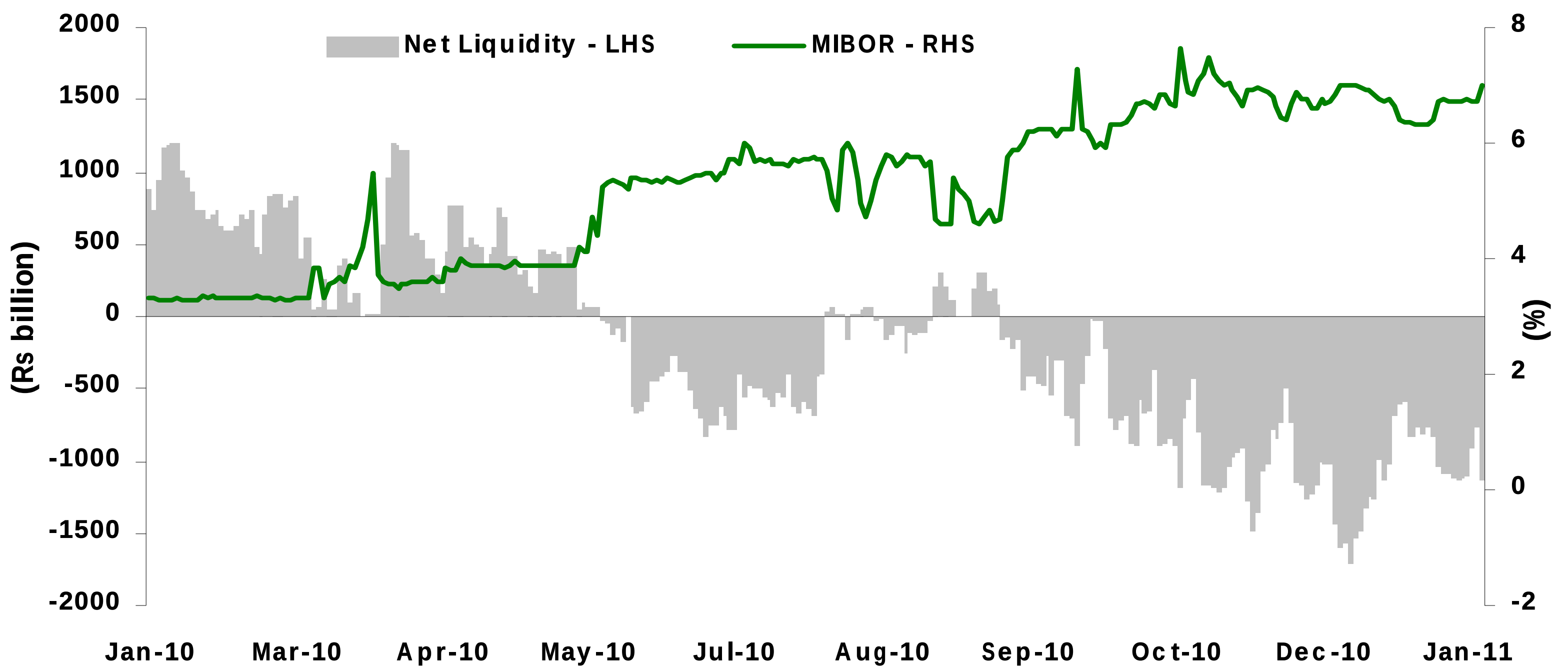
Source: RBI

Liquidity – remains extremely tight



- The daily average borrowings by all the banks from RBI under LAF in the month of January'11 was around Rs 91,000 crore (Rs 1,19,000 crore previous month).
- The daily average MIBOR over the month of January'11 dropped to 6.59% from 6.79% previous month.

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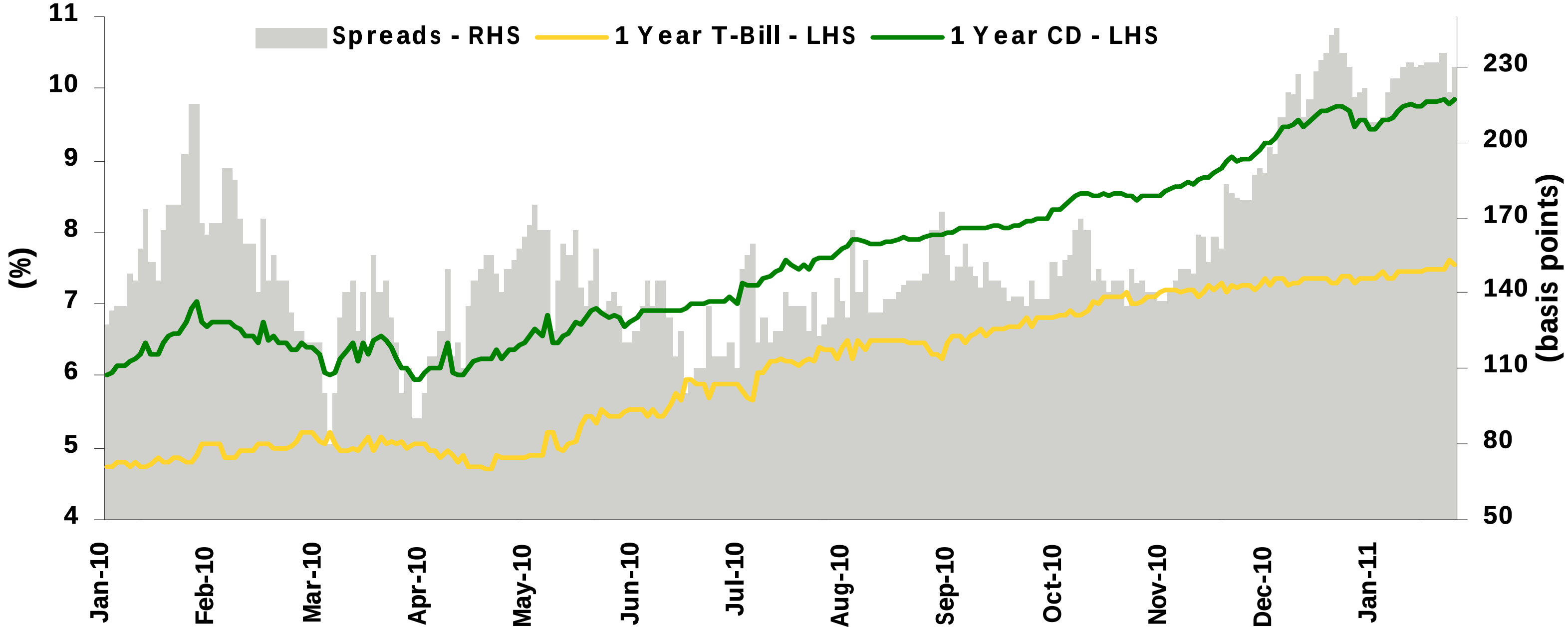
Source: Bloomberg

Money Market – rates remain high amidst tight liquidity



- The money market moved higher over the month of January’11. The 3 month bank CD rates moved up by over 40bps during the month after falling by around 30bp in the first week.
- The credit spreads of very short papers moved convincingly beyond 200 bps and currently close to 250bp

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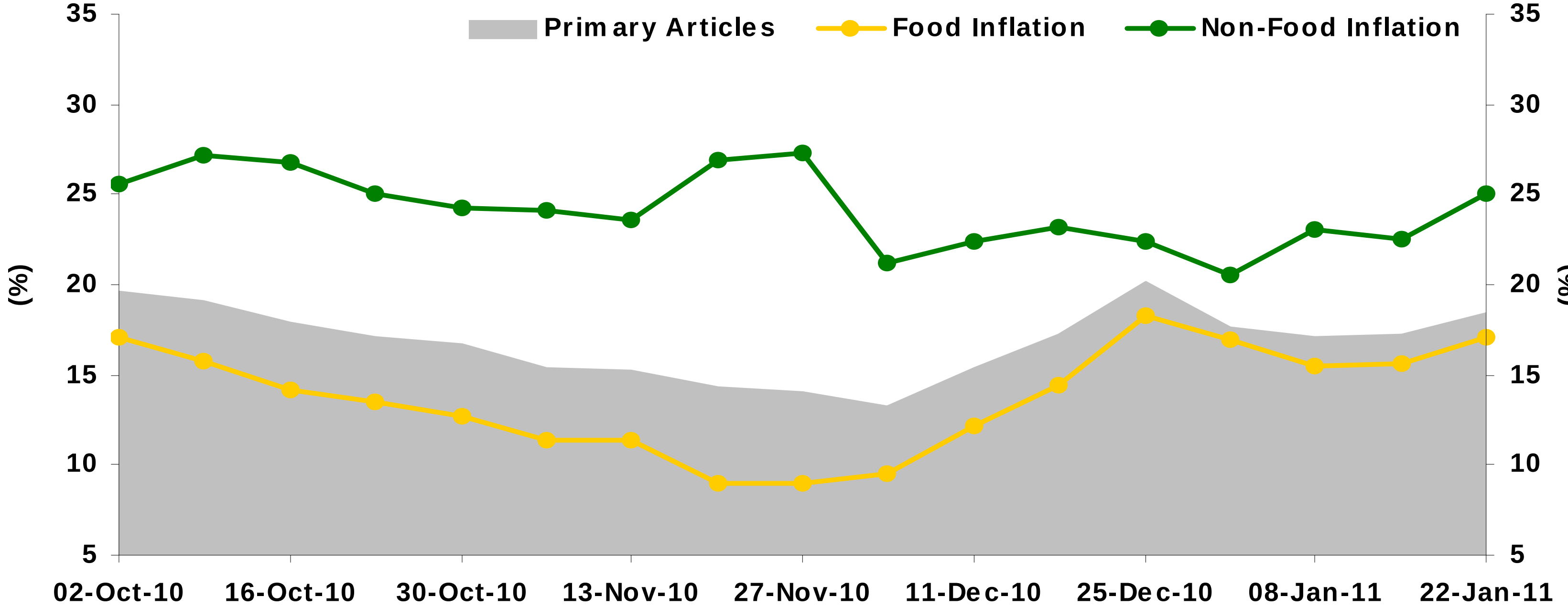
Source: Bloomberg

Inflation Dynamics - Food Inflation remained stubborn in January



- Food price Inflation which saw a sharp reversal in December remained sticky in the month of January. This stubbornness is likely to put upward pressure on the overall WPI Inflation rate.
- India's Food inflation fell marginally to 17.1% in the week to Jan 22, 2011 from 18.3% for the week ending Dec 25, 2010. The high food inflation has been attributed to a surge in prices of Fruits and Vegetables, prices of which have risen over 80% since November.

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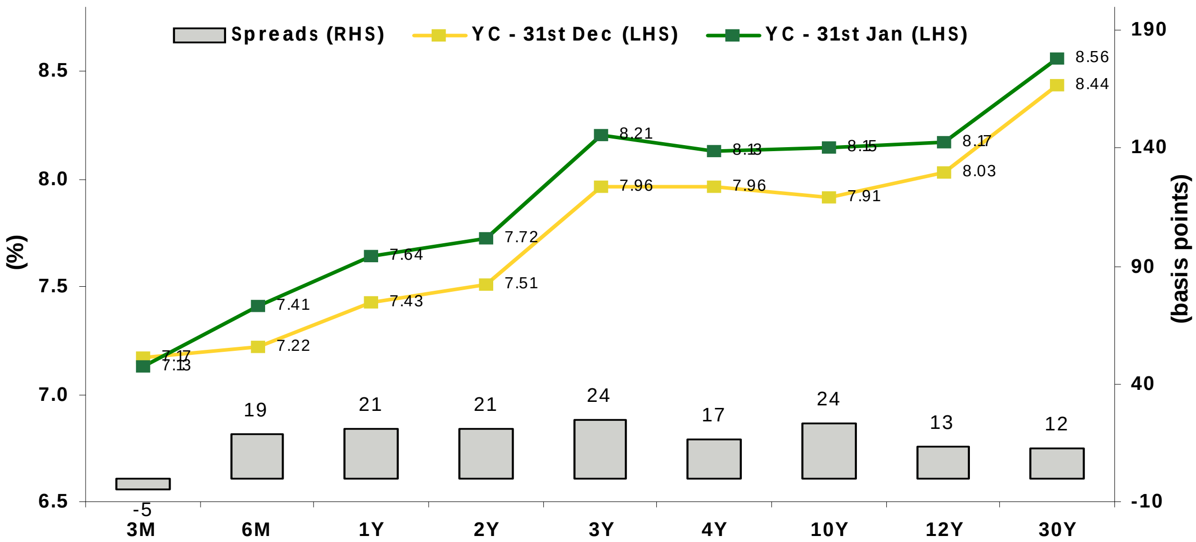
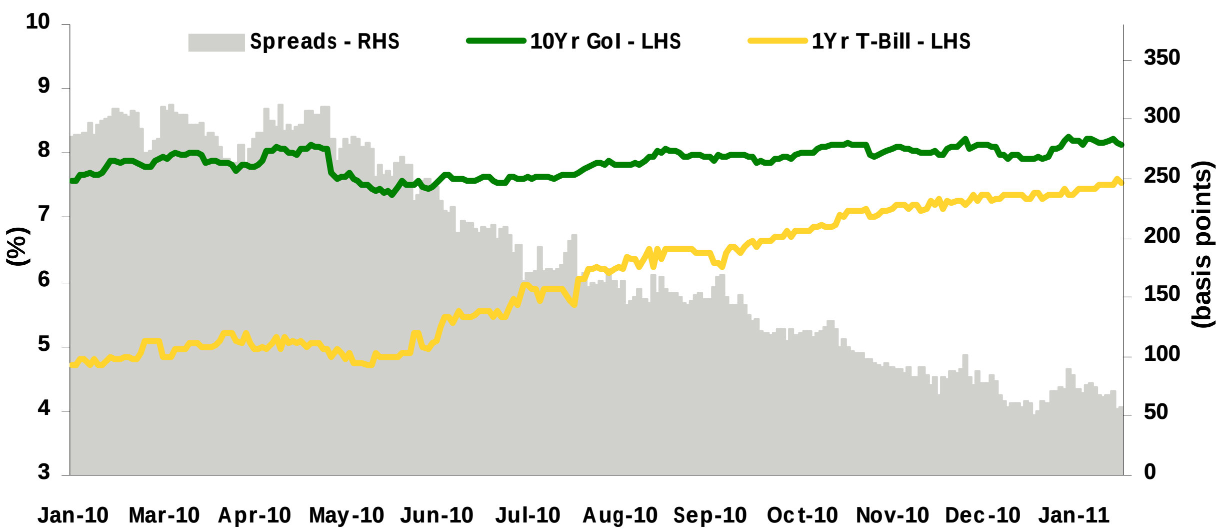
Source: Bloomberg

G-Sec Yield Curve – shifted higher





- The G-Sec yield curve saw an upward (parallel) shift with yields on all segments of the curve moving higher in the month of January.
- The yield on the 10yr benchmark rose 24 bps over the month of January'11 to 8.15%.
- In the latest T-Bill Auction on Jan 25, the 91-day T-bill was issued at 7.23% and the 364- day paper yielded 7.59%.
- Current 10yr vs.1yr GOI spread was at 55 basis points during January. The spread has averaged 200 bps during the last year

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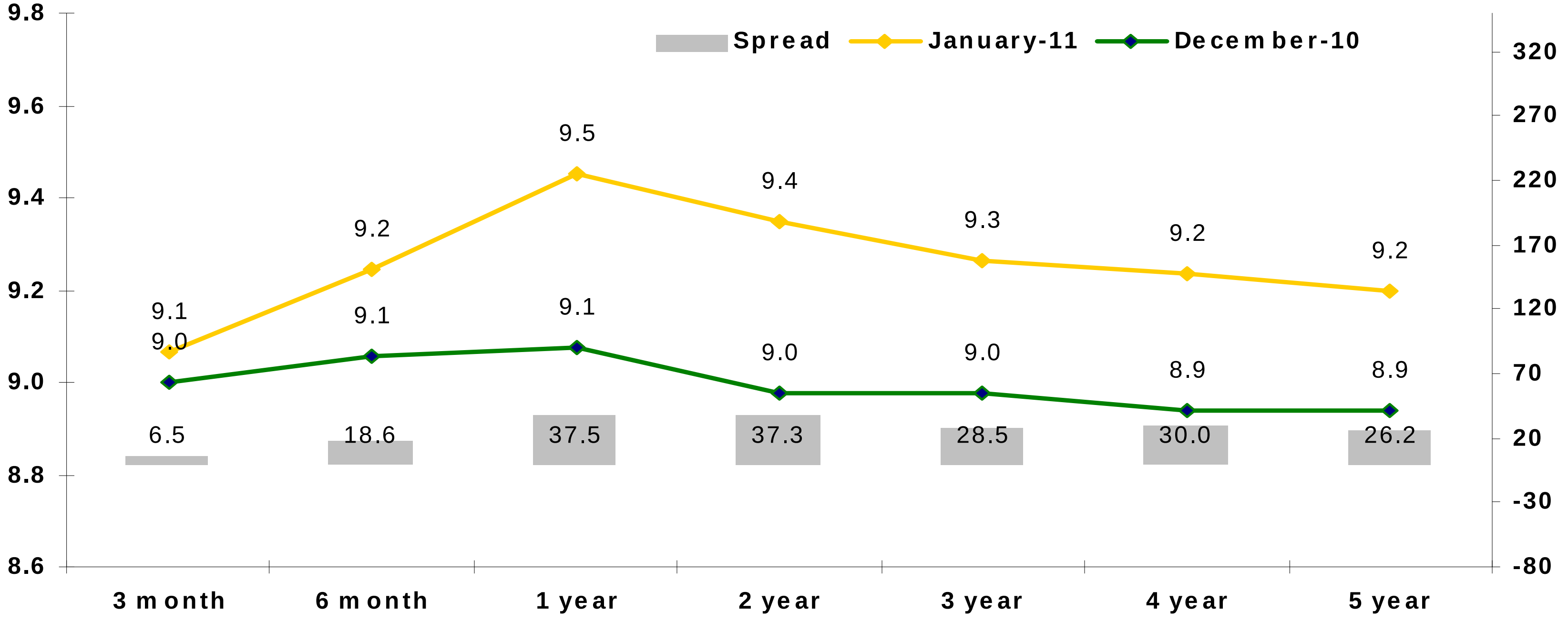
Source: Bloomberg

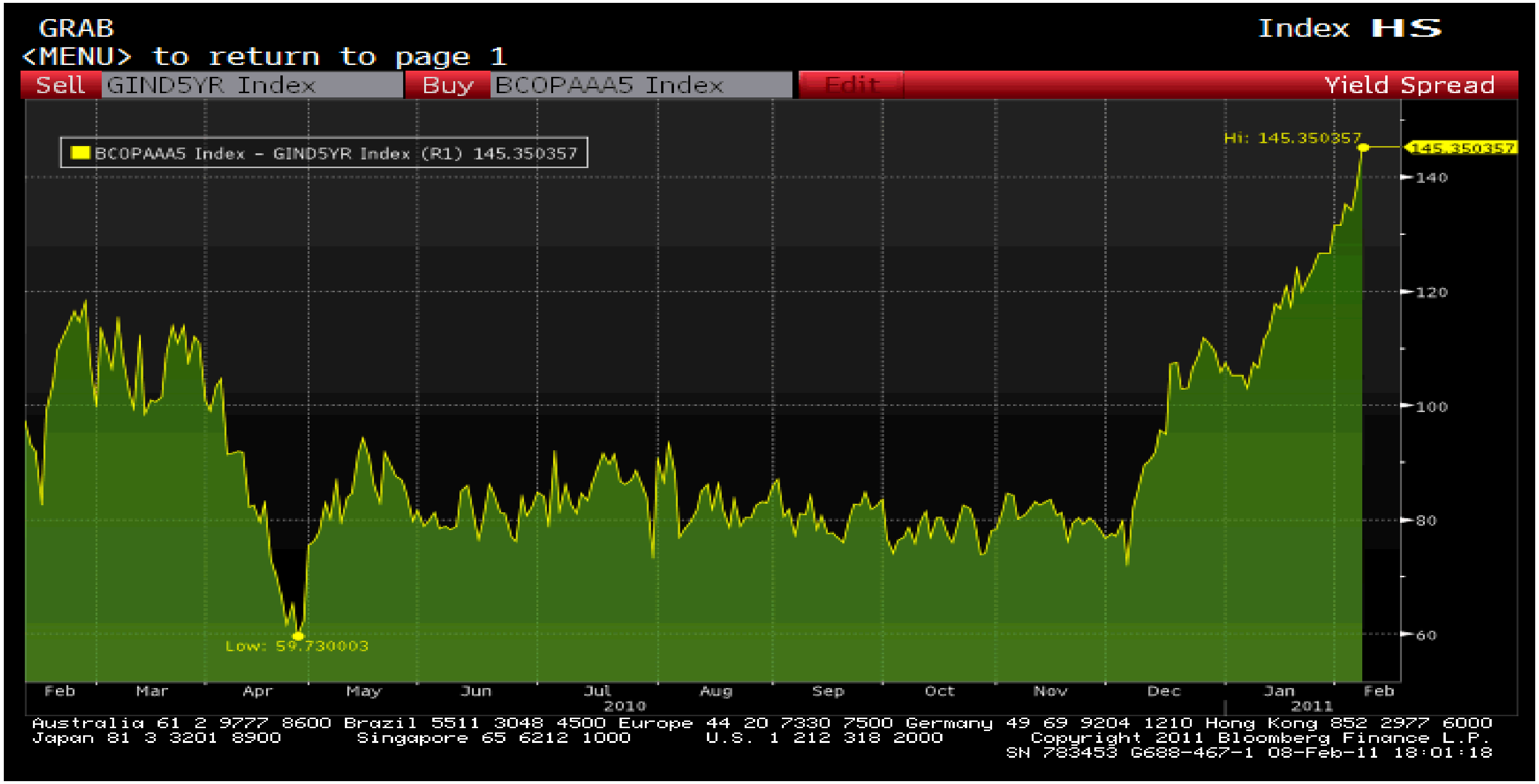
Corporate Bond yield curve – Upward Shift



Source: Bloomberg. Indian AAA Composite Curve.

- The acute liquidity deficit scenario pushed up the yield curve.
- The inversely shaped yield curve witnessed an upward shift with yields above the 6 month segment rising the most.

Corporate Bonds spread – unchanged



- The 5 year AAA corporate bond credit spread over corresponding 5-year gilt averaged 116 basis points over January 2011 rising 19 bps over December 2010.

- The 5 year AAA corporate bonds averaged 9.05% during the month of January 2011

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Source: Bloomberg

Religare MF: Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- The liquidity situation over the month of February 2011 is expected to improve over previous quarter.

- Although the liquidity situation over this month might temporarily improve, the situation over March is expected to turn sharply deficit.

- RBI's credit policy review in the month of January 2011 largely revolved around inflation and food inflation. With continued efforts to rein in inflation by RBI we expect further rate actions.

- GOI annual budget, fiscal deficit and borrowing programme for 2011-12 will determine supply of g-secs over the next fiscal year. The yield curve might steepen with short term yields coming down and longer end moving up. Improved liquidity and elevated inflation situation might dictate the shape of the yield curve over the next few quarters.

- The yields of long term papers will closely track RBI's rate action in the month of March'11 and changing inflationary conditions. Both elevated food and non-food inflation in the domestic market, high international crude oil prices will determine currency movement and rates.

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Portfolio Actions during the month

- **Religare Liquid Fund**
  - High quality, very well diversified credit mix. 48 separate credit exposures
  - Managing a liquid low duration portfolio

- **Religare Ultra Short Term Fund**
  - Managing a low duration in line with the current liquidity conditions and rising yields.
  - Very well diversified portfolio. 33 separate credit exposures

Religare Short Term Plan
  - Continue to maintain a low duration with rising yield and hawkish RBI rate stance.

- **Religare Credit Opportunities Fund**
  - A low duration of around 3.5 months so as to reduce interest rate risk and maintain a high accrual.

- **Religare Active Income**
  - Portfolio duration in line with the liabilities of the portfolio.

Ideas for investors

- The current attractive yield in the market and the inverse shape of the yield curve opens up several opportunities for the fixed income investor.

- Investors with a horizon of 2-3 weeks can look to invest in the Religare Ultra Short Term Fund.

- The Religare Short Term Income Plan and Religare Credit Opportunities Fund offers attractive accrual with reduced interest rate risk.

- The Religare Medium Term Bond Fund offers higher current yield and a highly liquid portfolio. The present duration of around 1 year opens up opportunities of capital appreciation over a 6 month investment horizon for investors with moderate risk appetite.

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