

Fixed Income Markets : Current Environment and Outlook

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Macro Economic Events

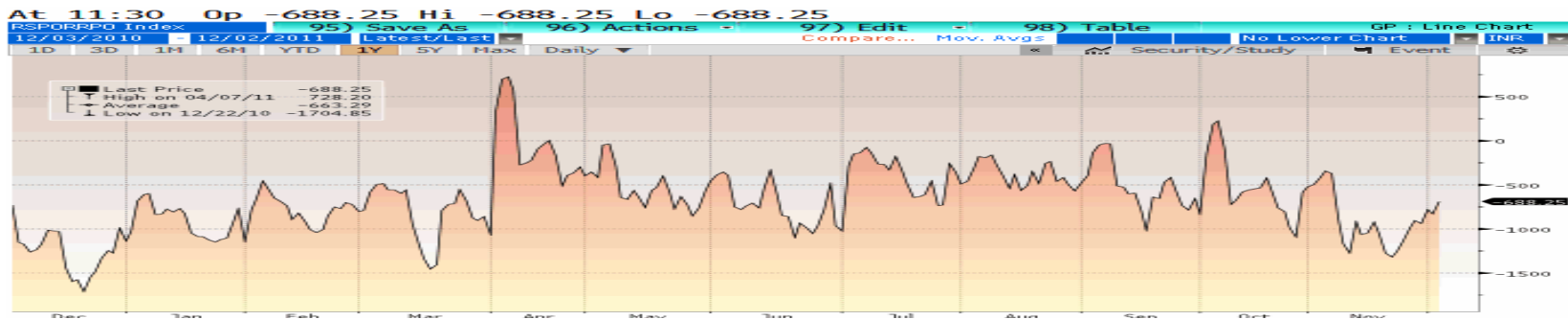
Domestic

- There were visible signs of a slowdown across the economy.
- The 2nd quarter GDP YoY growth was at 6.9% compared to 7.7% in the previous quarter.
- There was a sharp deterioration of the trade and current account balances.
- The exports growth for sept and Oct'11 dropped from 44.3% to 36.4% and 10.8% resp. The imports growth for Sept and Oct'11 also dropped from 41.8% to 17.2% and 21.7% resp.
- The monthly WPI continues to rule high at 9.73%.

International

- The crisis in the EURO continues well over the month Nov'11.
- There were visible signs of hardening in yields across sovereign papers across Europe.
- The unemployment rate in US kept on rising.
- China dropped its RRR by 50bp from 21% to 20.5%.
- Dollar strength continues across many EM currencies.

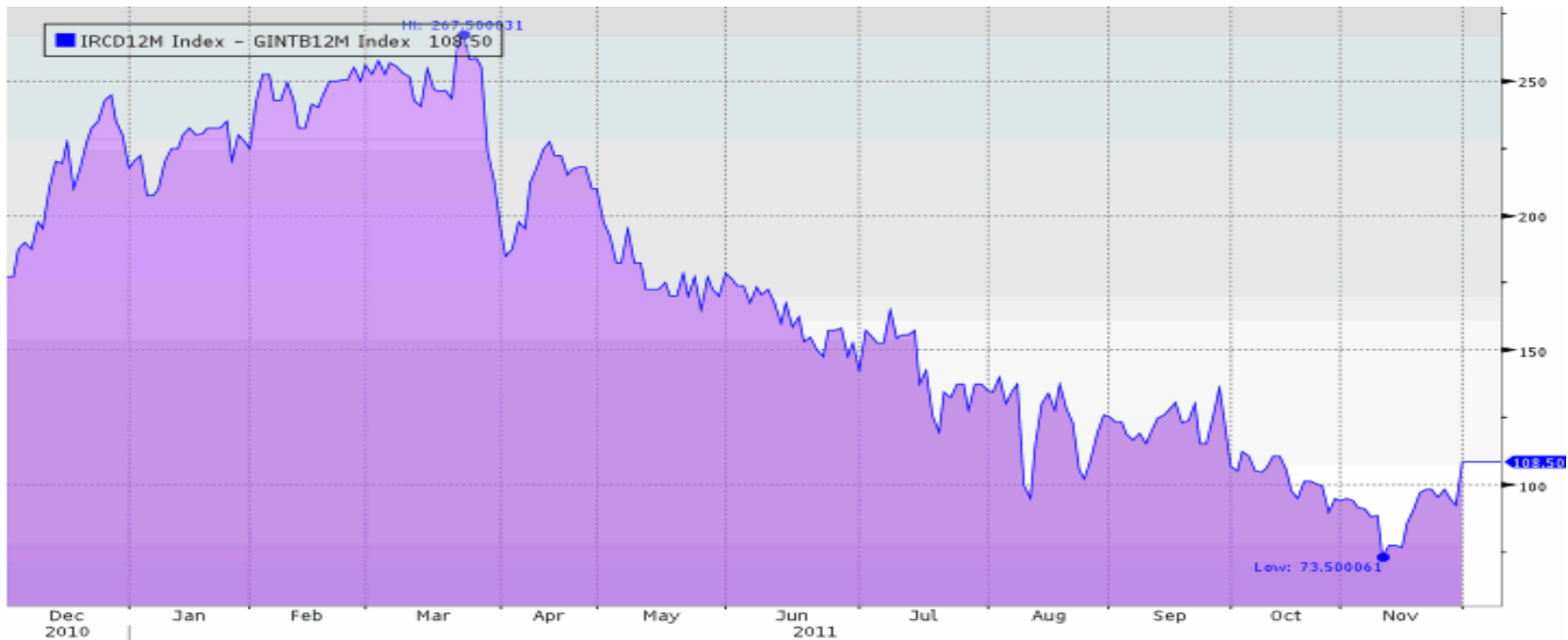
Liquidity



- The liquidity conditions deteriorated over the month. Volatile INR and intermittent RBI intervention sucked out some more INR liquidity from the markets.
- Hence, MIBOR rates moved higher over the month of Nov'11

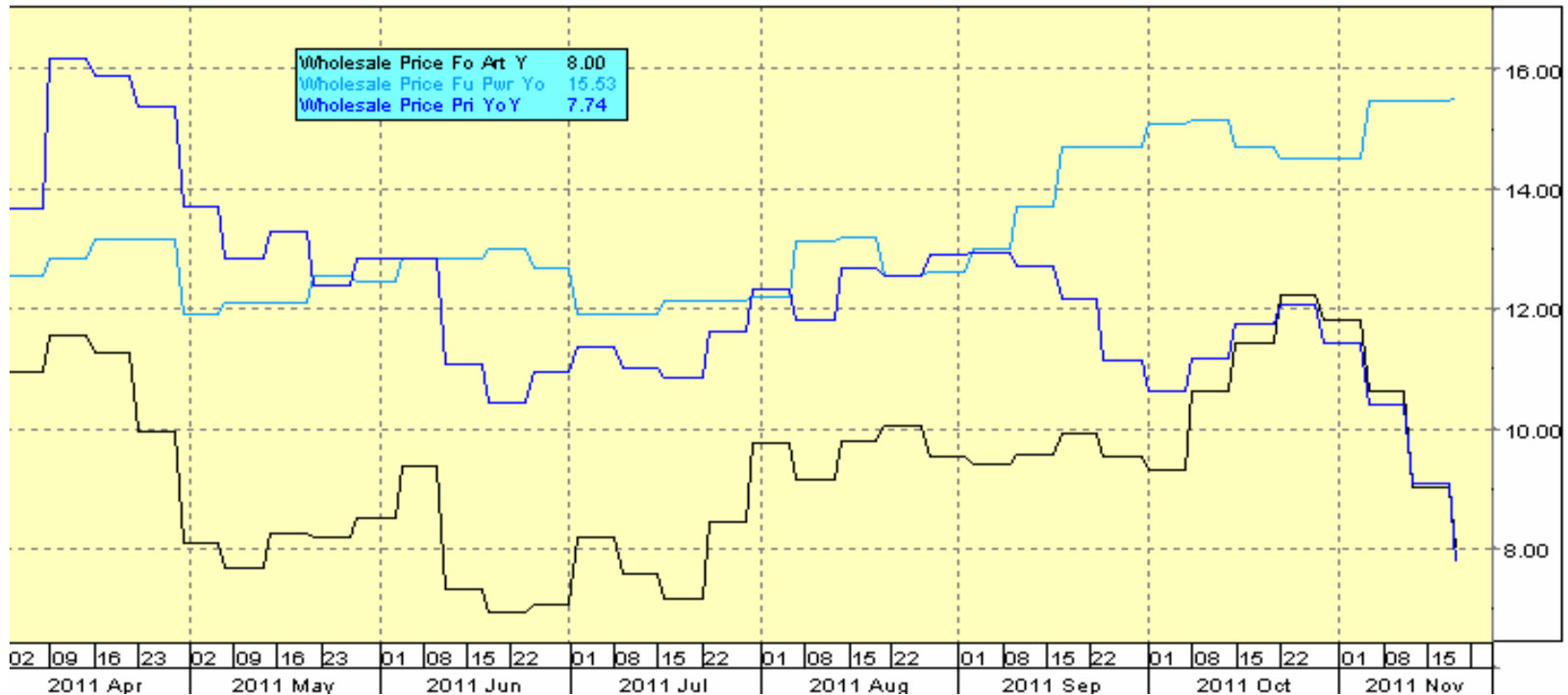


Money Market (spread between 12M T-bill & CD)



- The credit spreads of 12m CD touched a low in Nov'11 over 12 month T-bills.
- The extra FII limits in Gilts pushed the primary market cut-off of t-bills lower, and the credit spreads widened from the lows in the latter half of the month.

Inflation Dynamics - Food & Non-Food Inflation witnesses a steep fall



- The food inflation dropped to a low of 8% in the month of Nov'11
- The primary basket inflation also moved lower to 7.74% over the month.
- This movement is primarily attributed to higher base effect.

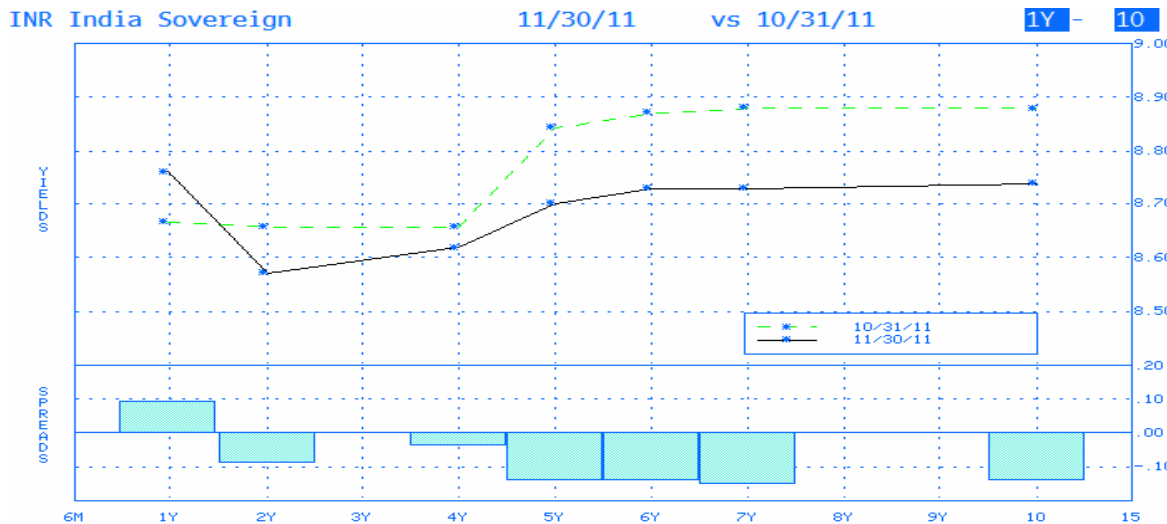


G-Sec Yield Curve - downward shift



- Several G-sec auctions also devolved on the primary dealers over the months of Oct and Nov'11.

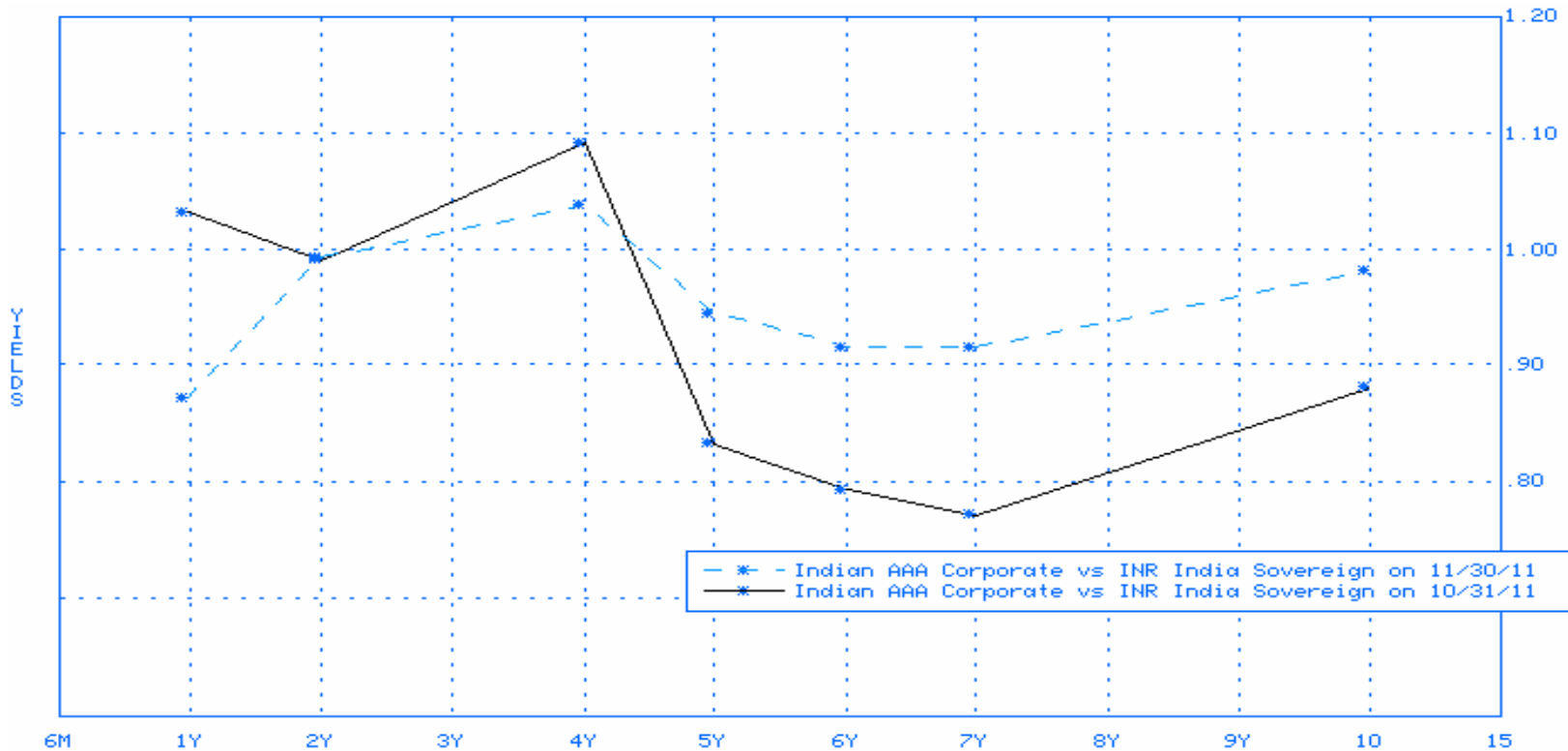
- The announcement of a Rs10,000 crore OMO by RBI improved the market sentiment, and yields started moving lower thereafter.



- The increase in the FII corporate bond and gsec limits also helped improve the market sentiment further and sovereign yields moved lower.



Corporate Bonds Spread



- The corporate credit spreads widened over the month.
- The widening stemmed due to downward movement of the sovereign yields.

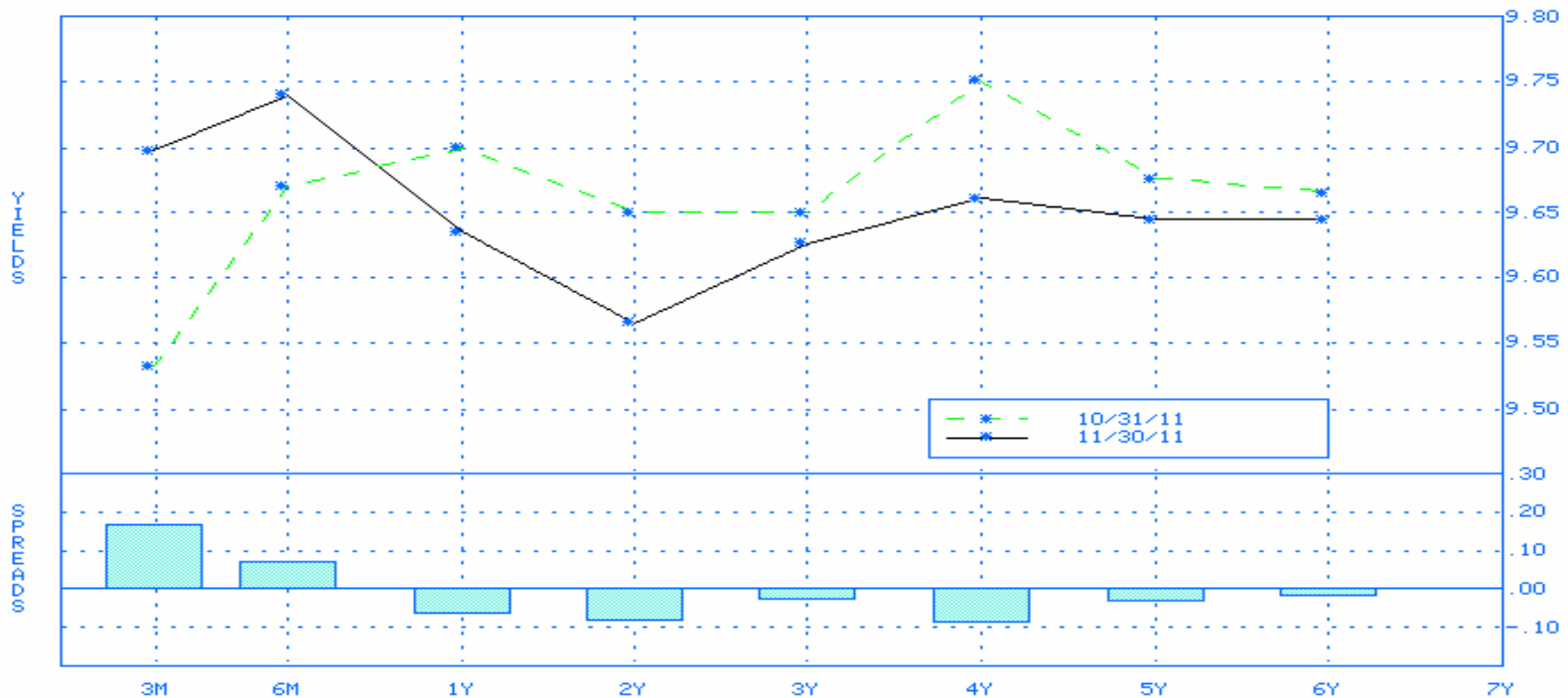
Corporate Bond yield curve – shifts downward

Indian AAA Corporate

11/30/11

vs 10/31/11

3M - 6Y



Source: Bloomberg. Indian AAA Composite Curve.

- The corporate bond yields moved lower compared to the previous month.
- The downward shift was lower compared to the movement of the sovereign yields.

Religare MF: Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- Improving deposit growth within the banking system is expected to improve the liquidity situation within the system.
- Some visible improvement is noticed in the M3 growth and money multiplier as well. In time the yield curve is expected to steepen out.
- While the RBI governor expects some softening in the overall WPI levels and retains the March end target of 7%, it appears that the whole economy is getting re-adjusted to a new 'normal' inflation in an environment of higher food prices, and higher real wages.
- The government bond yields are expected to experience volatile price movement amidst fiscal strain, higher borrowing and weaker INR.
- Credit spreads are also expected to widen from the current levels.
- Domestic inflation might witness some further softening due to sluggish global growth, dropping commodity and energy prices and a higher statistical base effect.

Portfolio Actions during the month

- Religare Liquid Fund
 - The fund has continued to maintain a low duration. Liquid fund is maintaining a well diversified portfolio.
- Religare Ultra Short Term Fund
 - The fund has also maintained a low duration & a well diversified portfolio.
- Religare Short Term Plan
 - The fund has increased duration to over 13 months over the month, by aligning in high liquid & superior credit 1-2 year corporate bonds.
- Religare Credit Opportunities Fund
 - The fund has been successfully investing in mispriced credits with low interest rate risk.
- Religare Active Income
 - The fund has increased duration around 1 year, and invested in a mix of money market assets and short maturity debentures.

Ideas for investors

- In an environment of stiff inflation and deficit liquidity, investors are encouraged to select funds in line with their investment horizon.
- The ***Religare Credit Opportunities Fund*** offers attractive opportunity for investors with short investment horizons of 1-3 months and moderate level of credit risk appetite. The fund is ideally positioned to capture mis-priced risk in an environment of deficit liquidity and varying credit spreads of short maturity papers.
- The ***Religare Short Term Income Plan*** offers attractive accrual with reduced interest rate risk. Ideal for investors with 3-6 months investment horizon.
- The ***Religare Medium Term Bond Fund*** offers higher current yield and moderate interest rate risk. The present duration of around 12 months opens up opportunities of capital appreciation over a 6-9 month investment horizon for investors with moderate risk appetite.
- The ***Religare Active Income Fund*** The portfolio intends to run a duration between 12-18 months. It opens up opportunities of capital appreciation in an environment of yield curve steepening and active duration management. It is intended for investors with moderate risk appetite.

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