

# Fixed Income Markets : Current Environment and Outlook

Sujoy Das, Head of Fixed Income  
October 2011

# Macro Economic Events

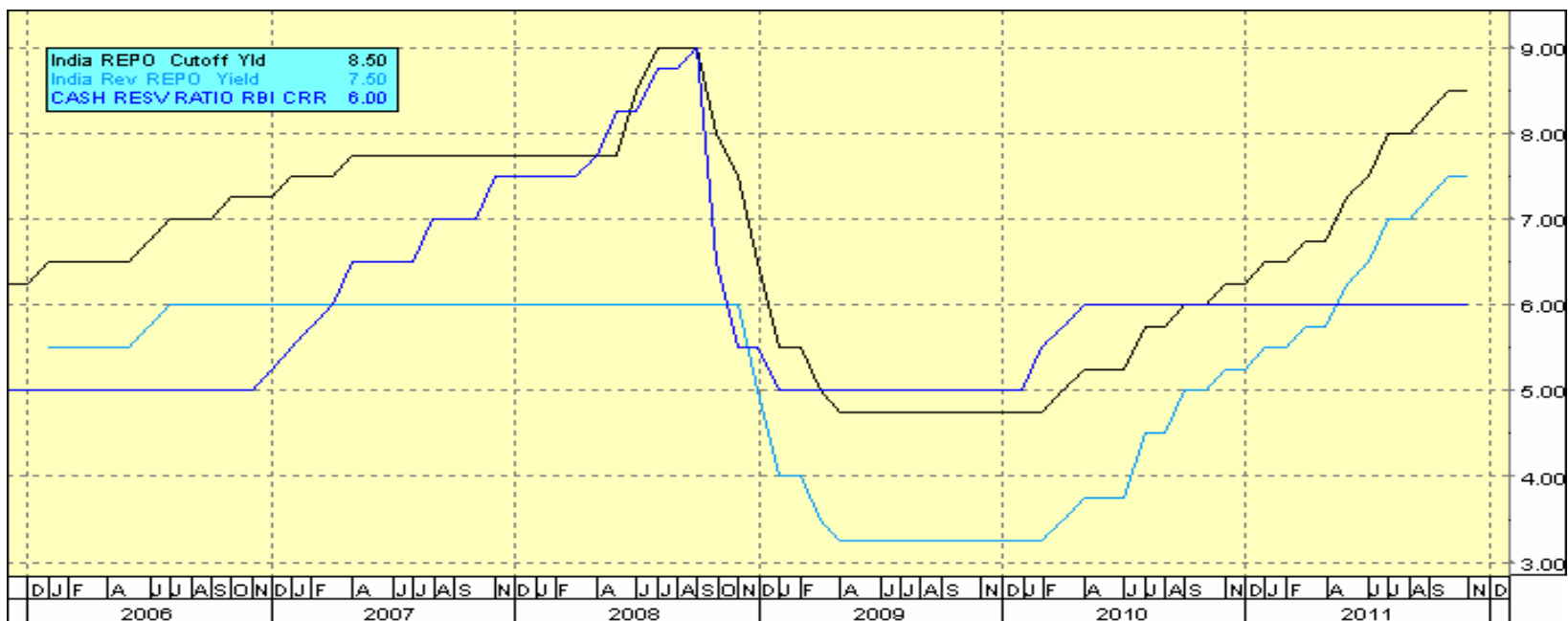
## Domestic

- On the external front, both the export and import growth numbers moved lower from 81.8% to 44.3% and from 51.5% to 41.8% respectively.
- The domestic industrial production for Aug'11 moved higher compared to July'11 from 3.3% to 4.1%.
- The WPI inflation for the month of Sept'11 stayed elevated at 9.72% compared to 9.78% previous month.
- Inflation remained high for the major part of the month on account of primary articles, fuel & power and manufactured products.
- RBI raises repo rate by 25bp to 8.50%.
- Margins of corporate in Q1 of 2011-12 moderated across sectors compared with their levels in Q4 of 2010-11. A classification of companies indicated that the intermediate goods segment registered the maximum decline in margins, reflecting the impact of commodity prices. Other segments saw lower margin compression, suggesting that pricing power was gradually reducing.

## International

- The US saw a stronger than expected 2.5% GDP increase in the third quarter at the fastest pace in a year. This was fuelled by higher consumption by US households and business investment.
- European Union leaders have reached an agreement on the broad outline of a comprehensive strategy to resolve the euro-zone debt crisis, including a 50% write-down of Greece's debts.
- ECB reduces the key rate by 25bp to 1.25%.
- UK has had the highest household savings rate, at 7.4%.

# RBI- continues on its path of tightening rates



- As expected by the market participants, RBI Governor raised the repo rate by 25bp to 8.50% Accordingly the reverse repo rate also stands changed to 7.50%
- High inflation has prompted RBI to raise rates over the last 18 months.
- However, RBI governor feels that any rate action in December'11 might be 'unwarranted' due to the pass through effect of the monetary policy and softening of global commodity prices.

# Liquidity



- The daily average borrowings by all the banks from RBI under LAF in the month of October'11 was around Rs.50,000 crore (Rs.52,000 crore previous month).
- The daily average MIBOR over the month of Oct.'11 was at 8.27% (8.15% previous month).

# Money Market (spread between 12m Tbill & CD)

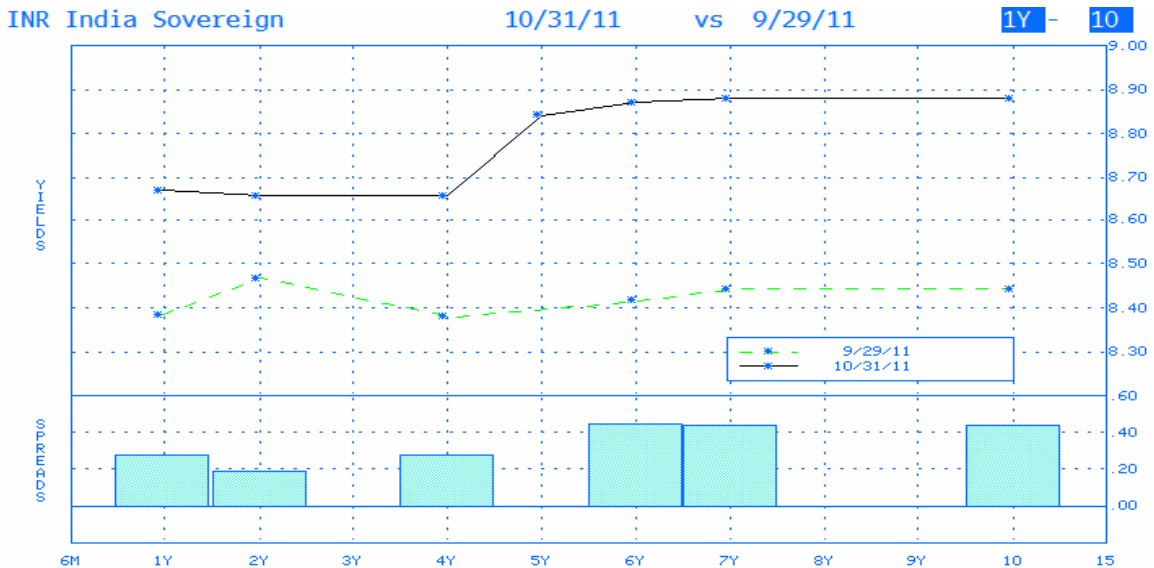


- The spreads between 12M CD and T-Bill has contracted over the previous 8 months.
- There has been a steady drop over this period.
- Currently, 12 m CD are valued at 90bp over T-Bill vs a one year average spread of 1.76%.





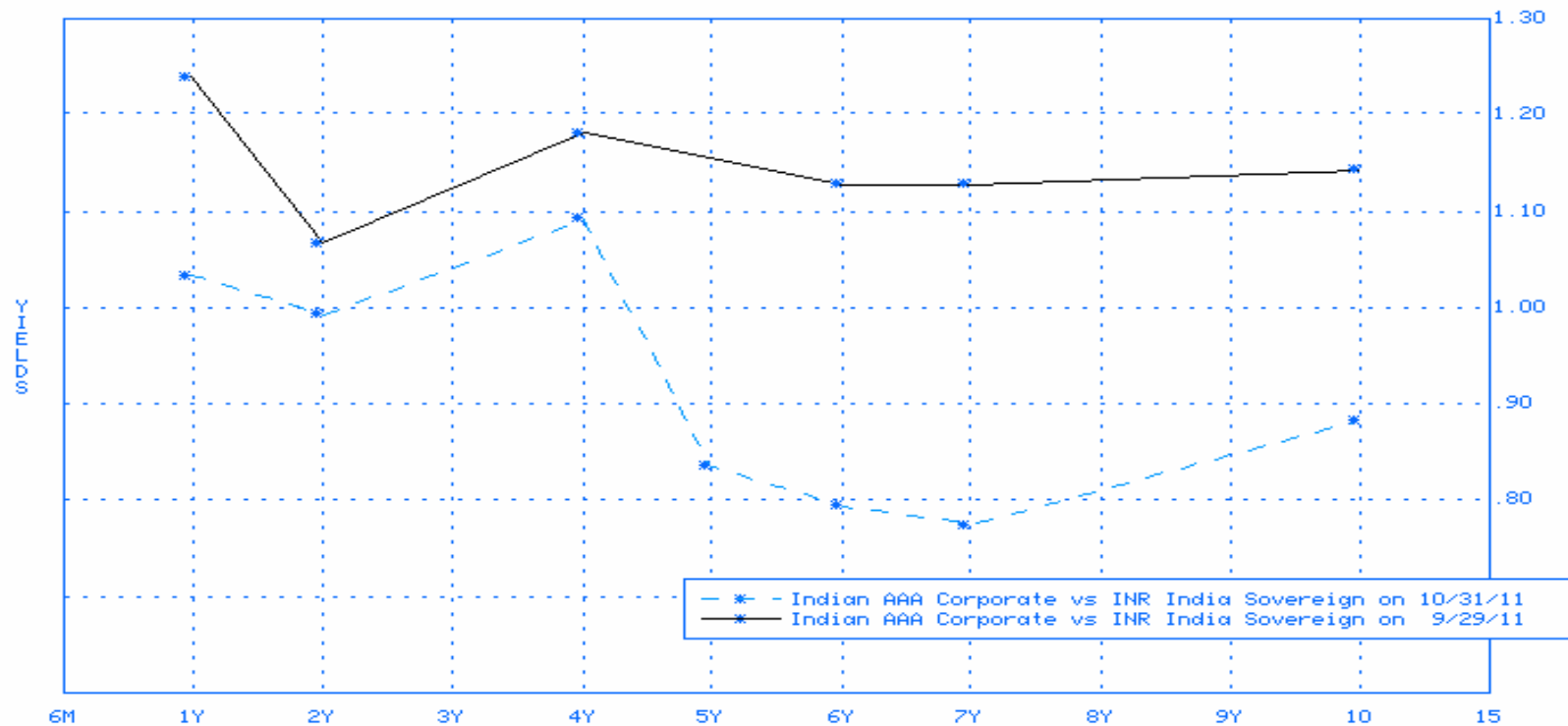
# G-Sec Yield Curve - upward shift



- The sovereign market went through a phase of bearish undertone over the previous month.
- The yields moved higher compared to the previous month end.
- The bearish undertone in the market was largely due to the extra borrowing programme of the government.
- The primary auctions in the month were unsuccessful at the current yields and part devolved on the primary dealers.



# Corporate Bonds spread - stable



- The credit spreads contracted over the month as the corporate bond yields did not react as much with the bearish undertone of the sovereign market.
- Over all, the sovereign papers under-performed compared to the corporate debt.

# Corporate Bond yield curve – shifts upward

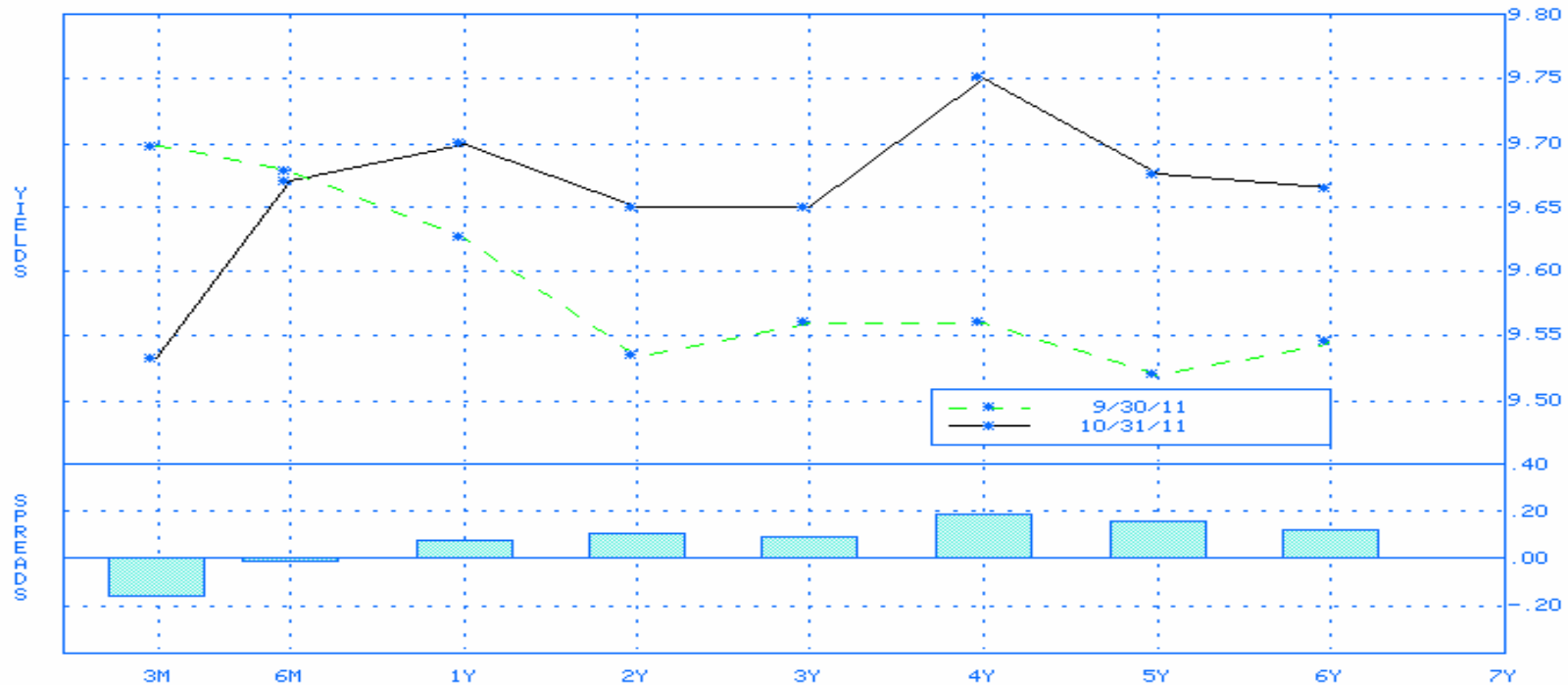
Indian AAA Corporate

10/31/11

vs 9/30/11

3M -

6Y



- The AAA corporate bond yield curve shifted upwards in the month of October 2011.
- The upward shift of the curve was primarily due to the bearish undertone in the sovereign segment of the market.
- The curve has turned little steeper than before.

# 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 further bearish tendencies and credit spreads are also expected to widen from the current levels.
- Domestic inflation might witness some 'temporary' 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 8 months over the month, by aligning in high liquid, high 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 maintained a duration below 1 year, and invested in a mix of low duration money market assets and short maturity debentures. The fund had also indulged in some g-sec trades over the month.

# 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 2-4 months investment horizon.
- The ***Religare Medium Term Bond Fund*** offers higher current yield and moderate interest rate risk. The present duration of between 8-9 months opens up opportunities of capital appreciation over a 3-6 month investment horizon for investors with moderate risk appetite.
- The ***Religare Active Income Fund*** The portfolio intends to run a duration between 8-12 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.

# Disclaimer

**Disclaimer:** This presentation is for information purposes only and is not an offer to sell or a solicitation to buy any mutual fund units/securities. These views alone are not sufficient and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party. All opinions, figures, charts/graphs and estimates included in this presentation are as of this date and are subject to change without notice. Neither Religare Asset Management Company Limited (Religare AMC), nor any person connected with it, accepts any liability arising from the use of this information. The data used in this material is obtained by Religare AMC from the sources which it considers reliable. While utmost care has been exercised while preparing the presentation, Religare AMC does not warrant the completeness or accuracy of the information and disclaims all liabilities, losses and damages arising out of the use of this information. The recipient of this material should rely on their investigations and take their own professional advice. Mutual Fund and Securities Investments are subject to Market Risks. Performance of the Sponsor(s) has no bearing on the expected performance of the Mutual Fund or any of its Scheme(s).

MKTG/RoundupDebt/1011/CO0125



# Get In Touch

## Corporate Office:

Religare Asset Management Company Limited  
3rd Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road,  
Vile Parle (East), Mumbai - 400 057  
T +91 22 67310000 F +91 22 28371565

Call: 1800-209-0007 > sms 'Invest' to 56677  
[www.religaremf.com](http://www.religaremf.com)

