

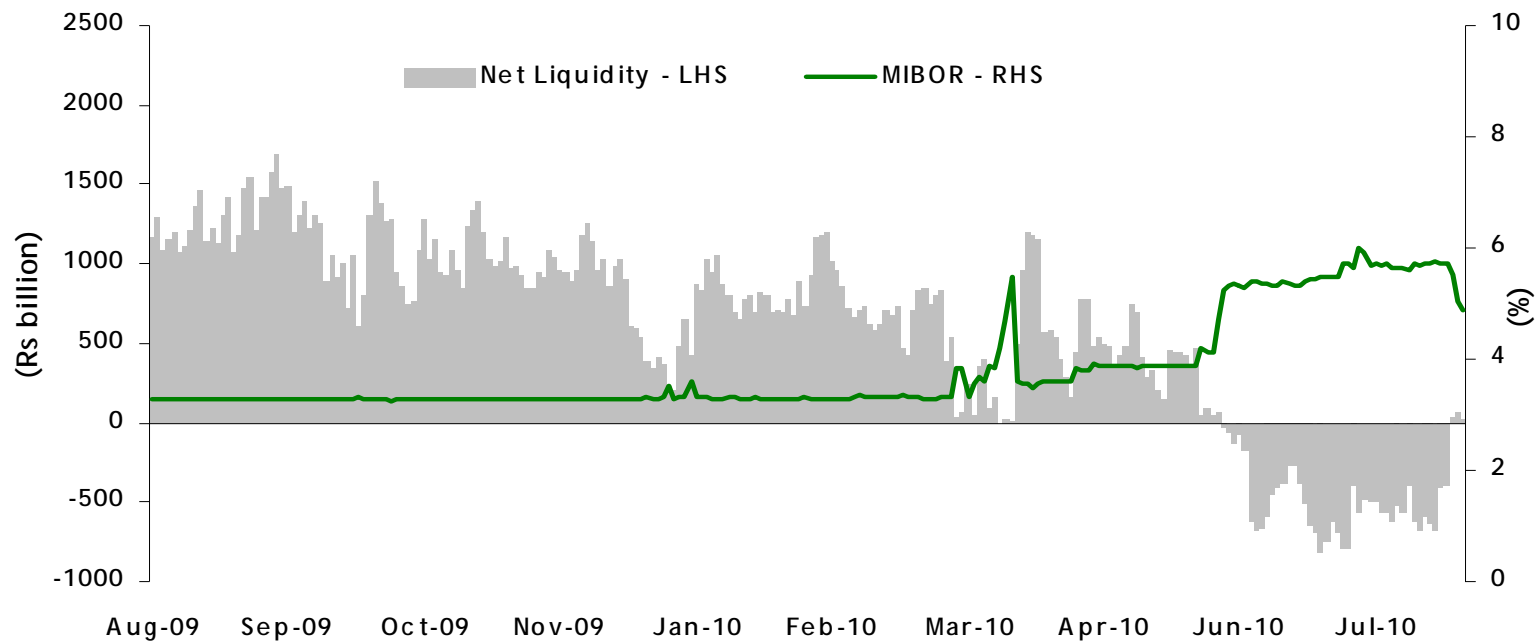
Fixed Income Markets : Current Environment and Outlook

Ashish Nigam, Head of Fixed Income
July 2010

Macro Events

- In the First Quarter Review of Monetary Policy, RBI narrowed the LAF corridor, endorsed tight liquidity conditions as part of its stance.
- RBI hiked the Reverse Repo rate by 50 bps and Repo rate by 25 bps, but left CRR Unchanged.
- The policy statement made it clear that containing inflationary pressures was the predominant consideration and that RBI would continue with the process of normalizing policy rates.
- RBI revised FY11 GDP growth estimate to 8.5% from 8.0% It also revised its WPI inflation estimate for March 2011 to 6.0% from 5.5% earlier.
- May Industrial production was up 11.5% YoY. April numbers were revised downwards to 16.5% YoY from 17.6% earlier. After growing strongly at over 10% since October, the growth rate is likely to ease to a more sustainable level during the rest of the year.
- Growth in the six major infrastructure industries, which constitute the core sector, slowed to 3.4% in June from 5% in May, the lowest performance in 10 months. The Core sector had expanded by 6.3% in June last fiscal.
- Inflation for the month of June , as measured by the WPI Index, came in at 10.6% YoY led by primary articles up 16.3%, fuel up 14.3% and manufactured products up 6.7%. Similar to the giant upward revision to the March data last month, April data saw a revision from 9.6% to 11.2%.
- Economic growth measured by GDP is now in the positive territory for the US, UK and the Euro zone, though the unemployment rate continues to remain high. US GDP grew 2.4% YOY in Q2'10 ,slowing down from a 3.7% rate in Q1'10. GDP growth in the UK for Q2'10 rose by 1.6% on the year, the biggest increase in two years and beating all expectations.
- The global economic recovery is building steam led by strong growth in Asia although, the sovereign debt crisis in Europe is presenting risks to the recovery.

Liquidity - easing helps rates soften



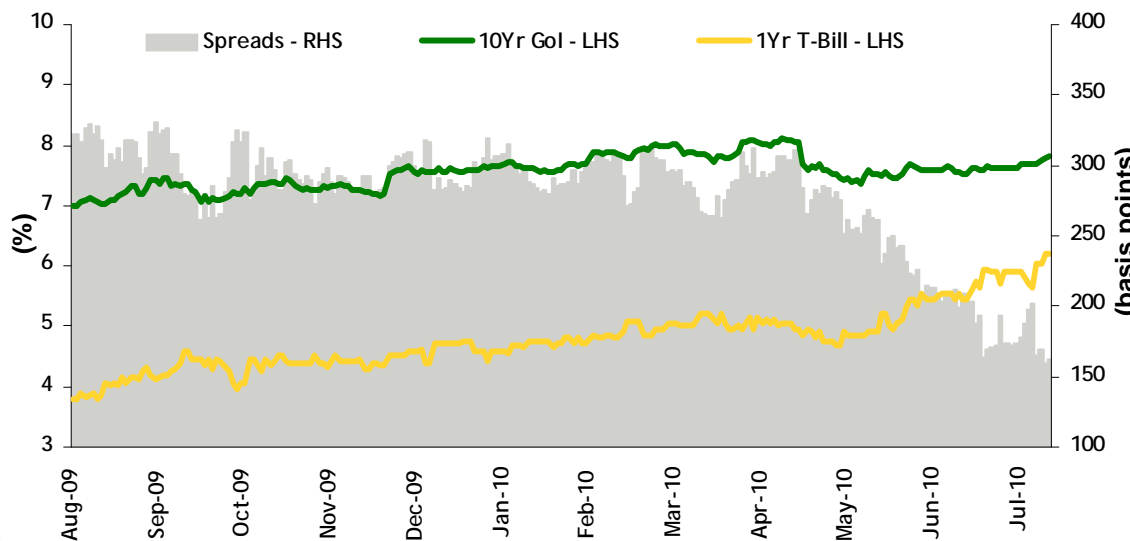
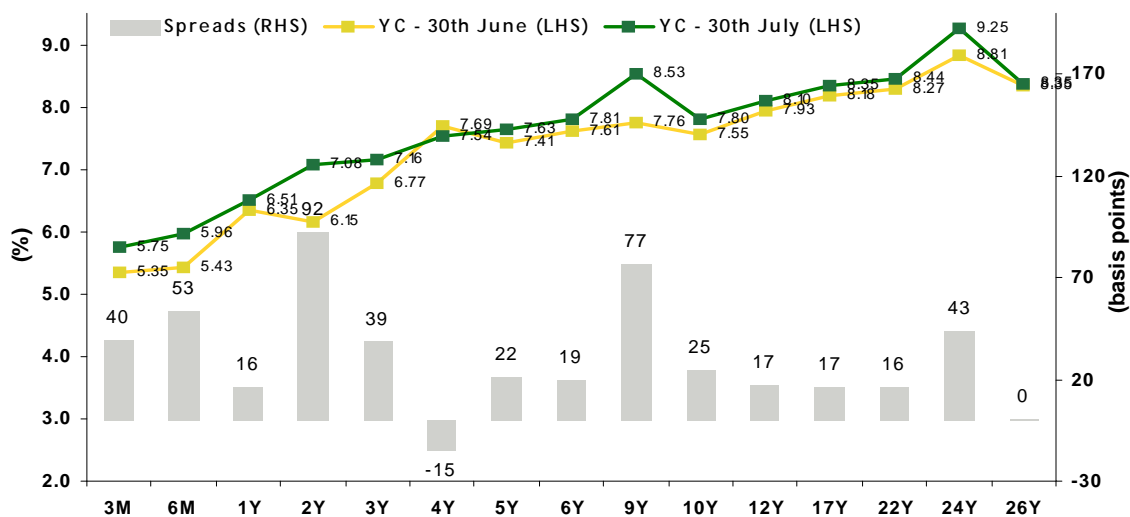
Source: Bloomberg

- Liquidity in the system improved marginally towards the end of July with the amount on the daily RBI LAF reverse repo coming back into positive territory
- MIBOR rates went lower than 5% at the end of July from over 6% at the end of last month helped by easier liquidity conditions



Source: Bloomberg

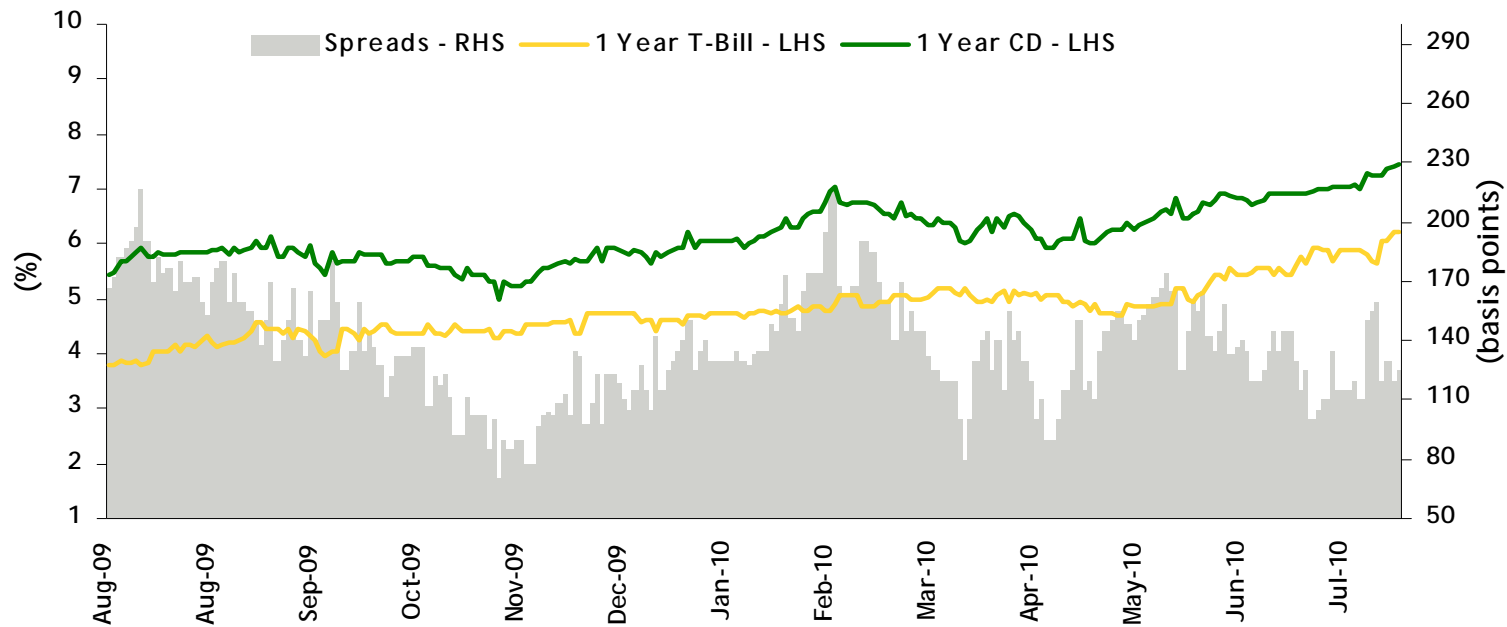
G-Sec Yield Curve - upward shift



- The G-Sec yield curve shifted upwards with yields across the entire maturity spectrum moving higher during the month.
- The yield on the 10yr benchmark rose 25 bps to 7.8% during July.
- In the T-Bill Auction held on July 28, the 91-day T-bill was issued at 5.74% and the 364-day paper yielded 6.30%.
- Current 1yr vs. 10yr GOI spread fell by 55 bps to 155 basis points during the month. The spread has averaged 260 bps in the last year.



Money Market - rates lower amidst easing liquidity

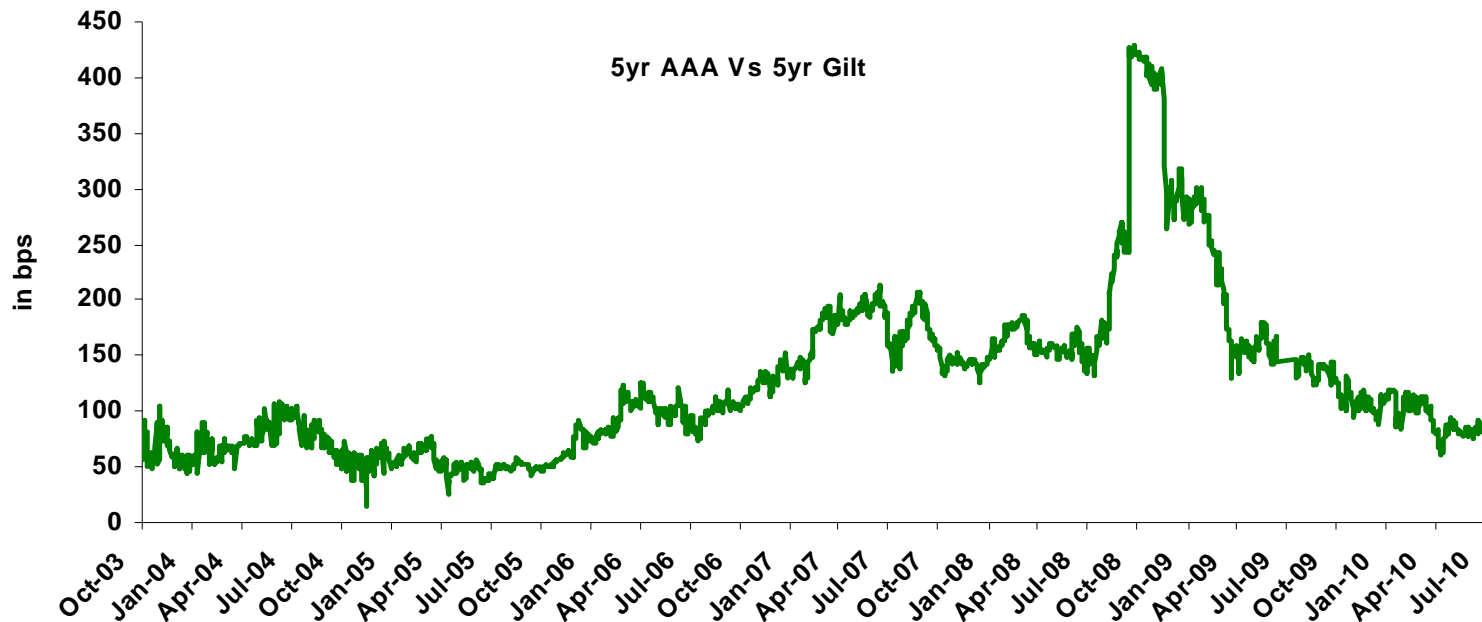


Source: Bloomberg

- Money market rates eased slightly amidst easier liquidity in the market.
- Spreads between 1 Year CD's and T-Bill's ended the month at 130 bps while spreads between 1 Year CP's and CD's were 30bps. Overall, 1 Year CP's traded at a spread of 160 bps over 1 year T-Bills.



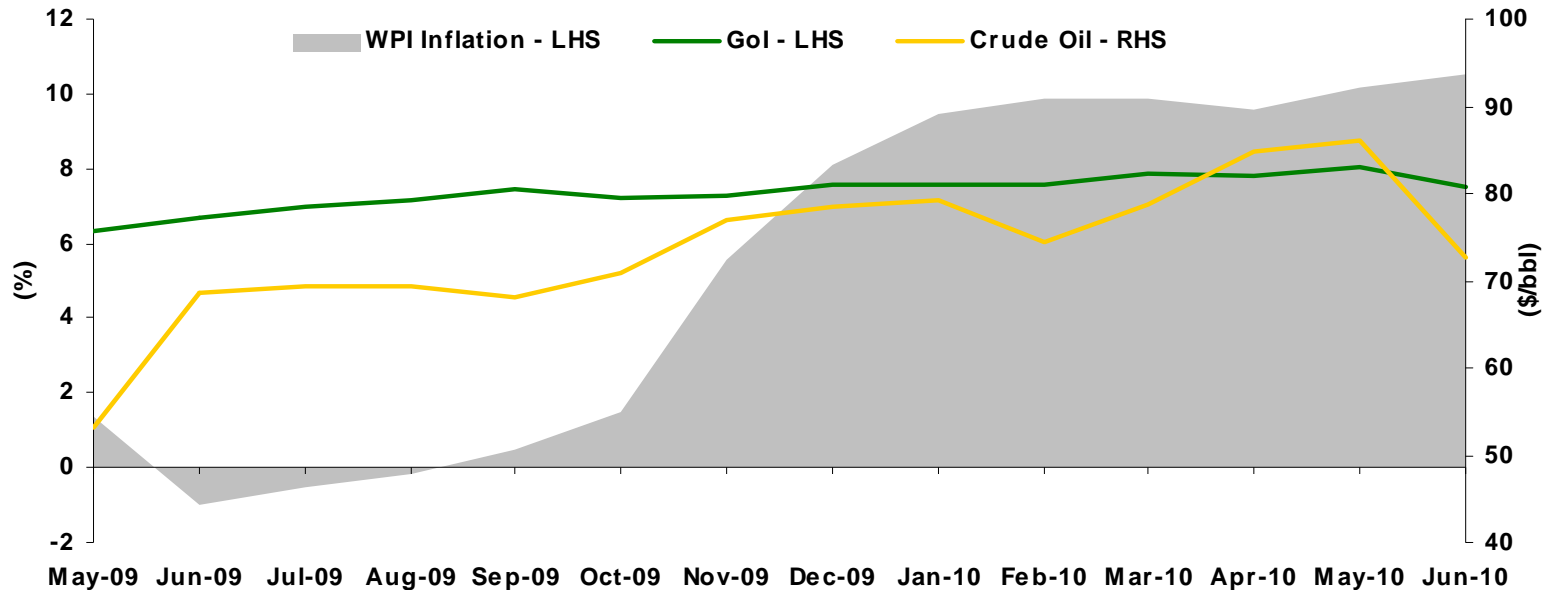
Corporate Bonds spread - unchanged



Source: Bloomberg

- Spreads of 5-Year AAA corporate bonds over their corresponding benchmark sovereigns, widened marginally by 5 bps during July to 90 bps.
- The yield on the 5 year AAA corporate paper closed the month at 8.5% rising 30bps from the end of June.

Crude and Inflation Dynamics



Source: Bloomberg

- Inflation, as measured by the WPI Index, was at 10.6% (YoY) in June. April data saw a revision from 9.6% to 11.2%. Inflation should tread lower in the coming months due to the favorable base effect.
- Crude Oil prices (NYMEX Crude Oil Barrel) rose steadily higher from \$73 to \$79 during the July.

Religare MF: Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- Global economic data is suggesting a sluggish revival in the global economy. Data has been coming in mixed with a slowing down of the Chinese economy and flatter economic growth numbers for the U.S and Europe. The lack of sustained job creation is hampering growth prospects in the U.S.
- The European fiscal crisis has pushed back expectations of aggressive rate actions in emerging economies while prolonging the extremely accommodative stance in the developed world.
- U.S. yields expected to stay low as there is still no clear sign of a recovery being underway.
- Systemic liquidity is likely to turn positive and stabilize in the month of August.
- Yields at the short end likely to normalize in August as liquidity conditions are likely to improve.
- Yields at the long end are expected to remain range bound and take cue primarily from global developments. Demand side inflationary pressures, however, likely to put pressure on yields.
- The RBI continued its rate hiking cycle with a rate hike during the credit policy review on July 27th. It is likely to increase the policy rates again in the coming months as it moves its focus from supporting growth to controlling prices.

Portfolio Actions during the month

- **Religare Liquid Fund**

The Fund maintained a low duration in anticipation of continued tight liquidity conditions going forward. The Fund would look to increase duration during the month once liquidity eases

- **Religare Ultra Short Term Fund**

The Fund reduced duration in anticipation of tighter liquidity conditions. The fund also reduced its MTM asset allocation to below 10% to reduce the volatility in returns

- **Religare Short Term Plan**

The Fund maintained exposure to the 1-2 year segment while increasing exposure to liquid CDs in the 3-6 month segment.

- **Religare Credit Opportunities Fund**

The Fund is a mix of CPs and NCDs and will continue to look at names available at attractive yields.

- **Religare Active Income**

The Fund continued to have a lower duration in line with the liability profile of the Fund

Ideas for investors

- Risk-averse investors should continue to look at short end of the yield curve.
- Yields at the long end have risen due to inflationary concerns and RBI's stance on the liquidity. The benchmark 10Y gilt is expected to trade in a range of 7.75%-8.00% for H1, but with fiscal position improving going forward and inflation expected to taper off due to base effect gilts may surprise on the positive side.
- Investors with an investment horizon of 3-6 months may also look at investment in Religare Short Term Fund and Religare Credit Opportunities Fund as with the new MTM norms, these funds are expected to outperform the Ultra Short Term category by 25-50 basis points.

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/0710/CO0125

