

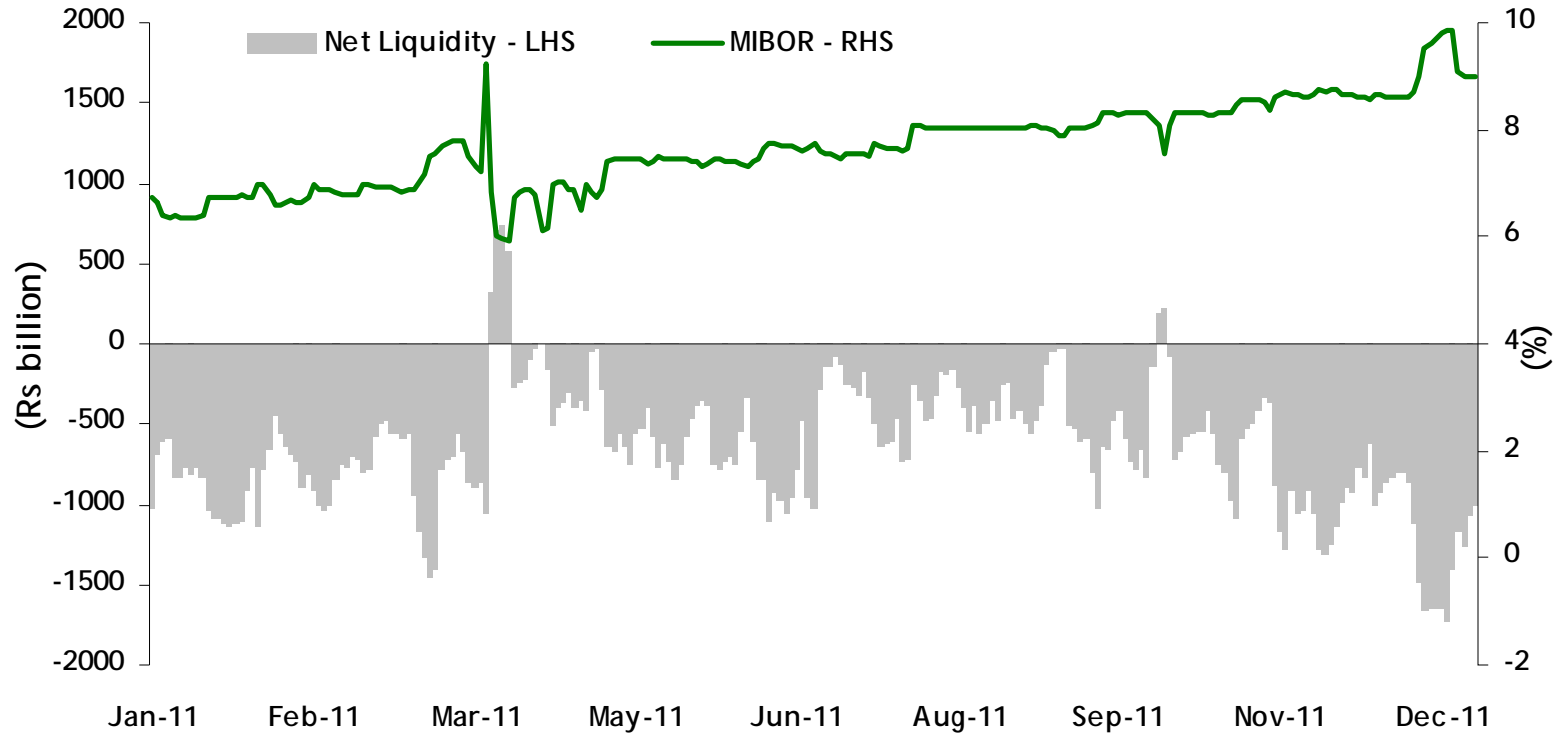
# Fixed Income Markets : Current Environment and Outlook

Sujoy Das, Head of Fixed Income  
December 2011

# Macro Economic Events - Domestic

- The slowdown of economic growth continued over the month of Dec'11
- IIP data for Oct'11 posted -5.1% against 1.9% in Sept'11
- The food inflation moved lower on back of lower green vegetable prices over the month
- The food articles inflation touched a low of 0.42% in Dec'11 end
- The fuel, power light inflation basket ruled high at 14.60% towards the end of Dec'11
- The current account deficit in the 3Q11 widened to \$ 16.89 billion from \$ 15.83 billion in the 2Q11

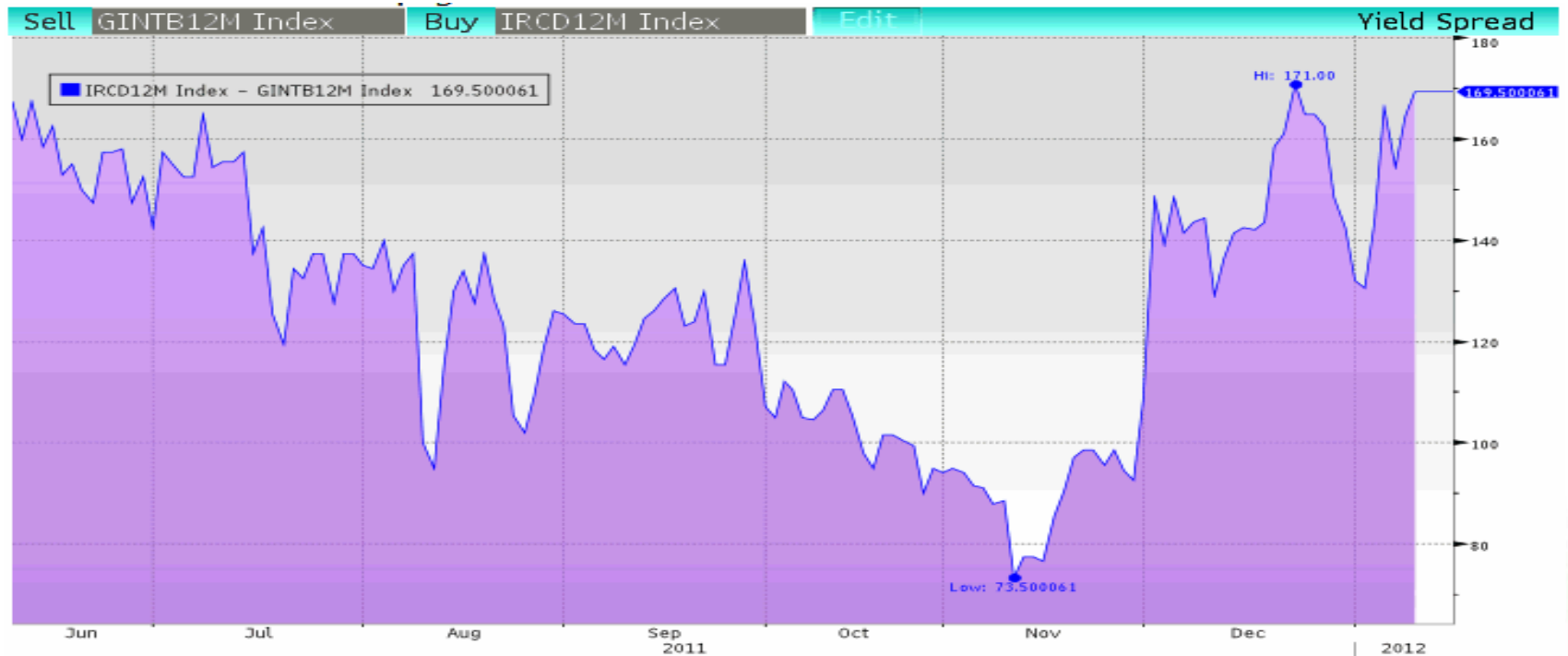
# Liquidity



- The liquidity conditions deteriorated over the month of Dec'11
- The overnight MIBOR rates also moved higher



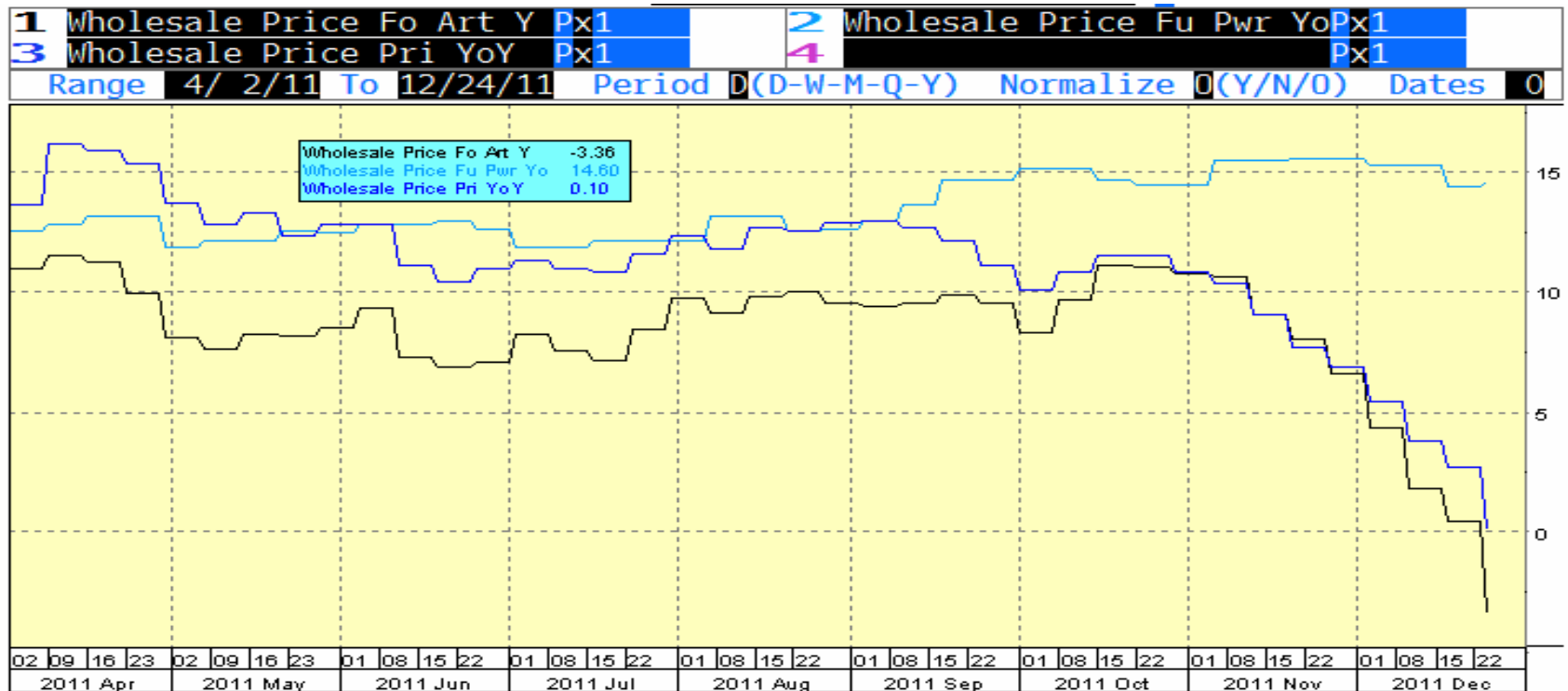
# Money Market (spread between 12m Tbill & CD)



- The credit spreads of money market assets widened
- The spreads are almost at a 6month high



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



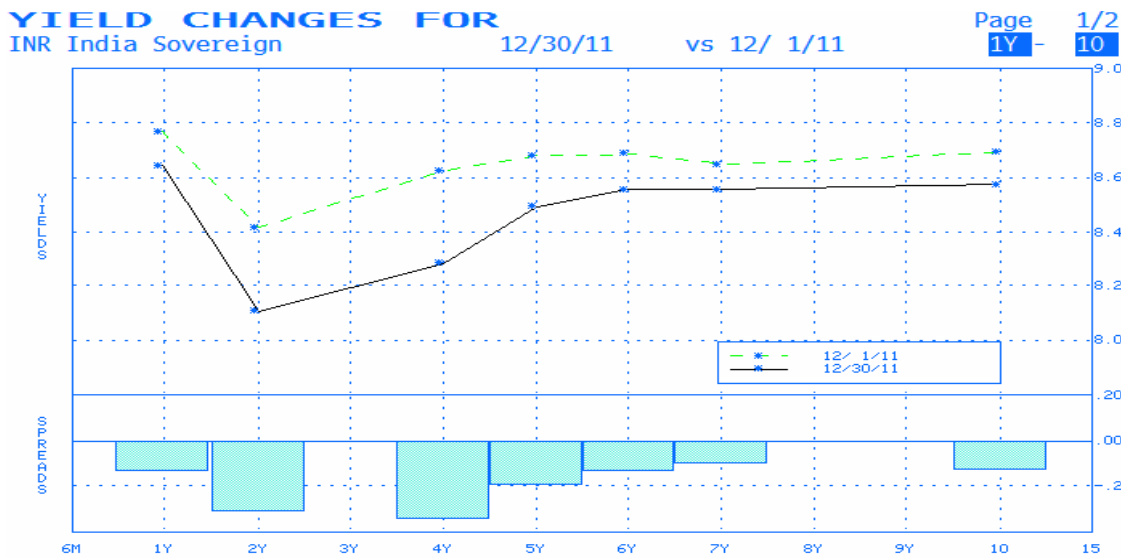
- The food and primary articles index moved lower over the last few weeks of Dec'11.
- The fuel index stayed beyond 14%.
- The drop in weekly inflation is because of favorable base effect and drop in prices of green vegetables.



# G-Sec Yield Curve - downward shift



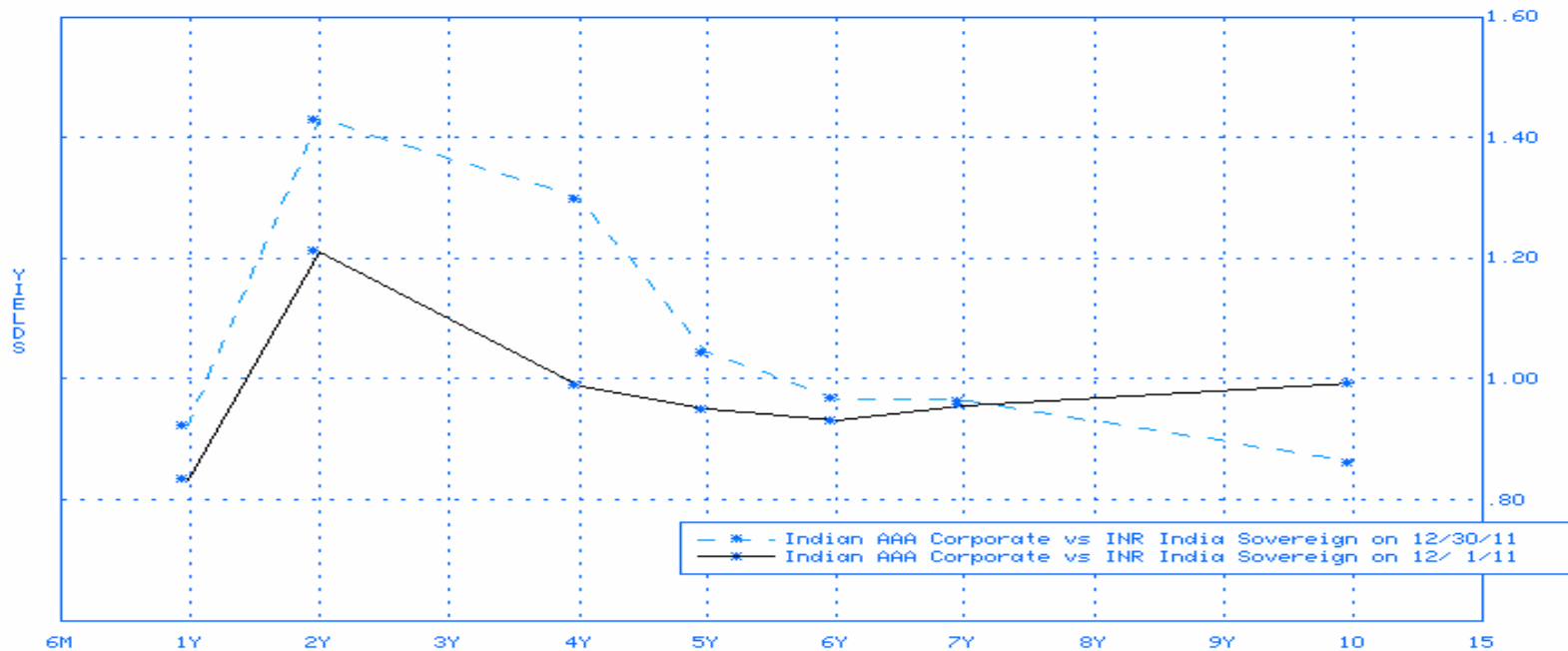
- The sovereign curve moved lower.
- The move was propelled by positive comments from RBI governor and successful OMOs.
- The entire yield curve moved lower over the month.
- The sovereign segment outperformed the credits.



# Corporate Bonds spread - stable

MULTIPLE HISTORICAL CURVES

1Y - 10 Page 1/2



- The 10 year AAA credits moved lower over the month.
- The credit spreads widened for the rest of the spread curve.

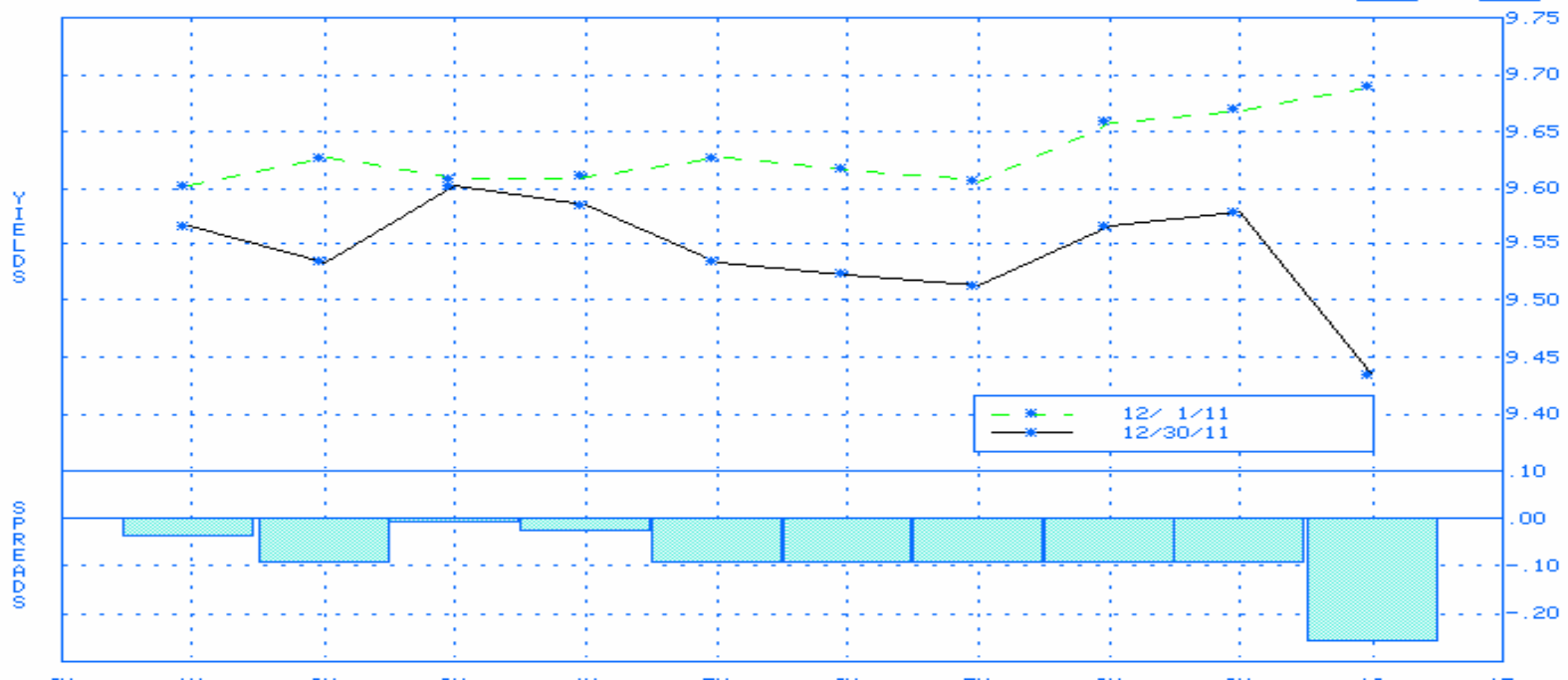
# Corporate Bond yield curve – shifts downward

Indian AAA Corporate

12/30/11

vs 12/ 1/11

1Y - 10



Source: Bloomberg. Indian AAA Composite Curve.

- The AAA corporate curve witnessed bull flattening over Dec'11.
- The 10 year maturity papers outperformed the market.



# Religare MF: Fixed Income Outlook and Opportunities

# Fixed Income Market Outlook

- Steady improvement in the deposit growth within the banking system over the months will in time improve the liquidity situation within the system
- Liquidity improvement measures are also expected from RBI
- IIP growth in the near term is expected to go through some lull and is expected to pick up as the whole economy readjusts to higher inflation
- The stressed fiscal situation might be the biggest structural issue for the Indian economy.
- The trade deficit might continue at the present level with a deteriorating bias due to the slow down in the importing economies.
- The near segment yields (3-12 month) might witness some softening in yields as liquidity conditions improve from the beginning of April '12.
- Changes in the monetary policy stance by RBI will change the market conditions.
- From a boarder point of view, RBI is not expected to pursue any major change in the monetary policy as the current softening of food inflation is expected to be a temporary phase.

# 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 maturity to close to 15 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 to around 1 year, and invested in a mix of money market assets and short maturity debentures.



# Ideas for investors

- In a developing environment of dropping food and primary inflation and possibility of changing RBI stance, investors are encouraged to select funds longer than 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 Plan*** offers attractive accrual with reduced interest rate risk. Ideal for investors with 3-12 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 9-15 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 varied investment horizon (atleast 3 months) with moderate risk appetite.

# Disclaimer

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# 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)

