Fixed Income Markets :

Current Environment and Outlook

Ashish Nigam, Head of Fixed Income

April 2009

Macro Events

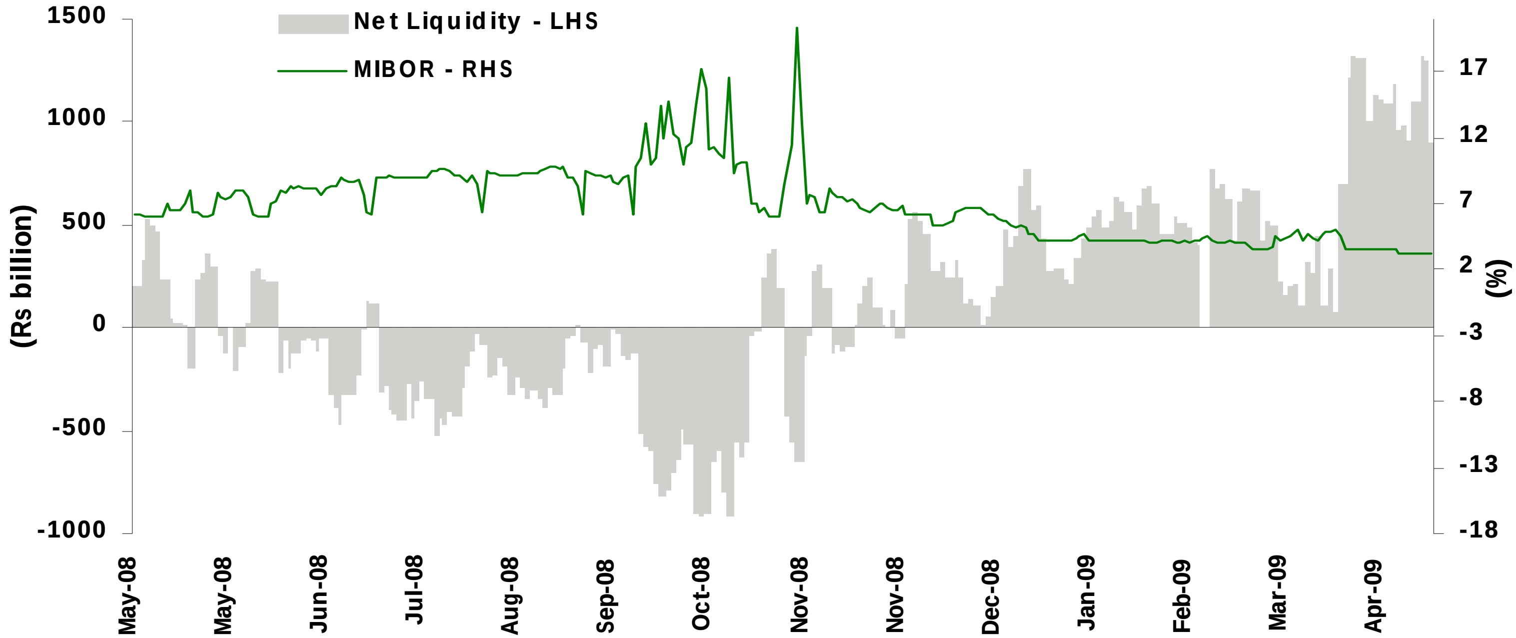
- Monetary Policy : RBI cut the Repo and Reverse Repo rates by 25 bps each to 4.75% and 3.25% respectively. Repo rate has now been reduced by 425 bps from its peak of 9% in August 2008

- Industrial Production : February IIP (Index of Industrial Production) -1.2% versus 9.5% year-on-year, more or less in line with estimates. January IIP revised to 0.4% versus -0.5% (provisional figures)

- Global Economy : Global economic data releases for the first 3 months of 2009 showed sharp contractions in GDP (Economic Output) across the major/developed economies. However, a finer analysis of the numbers gave hope that these economies are showing signs of a bottom. China's GDP too has slowed significantly this year

RELIGÁRE MUTUAL FUND

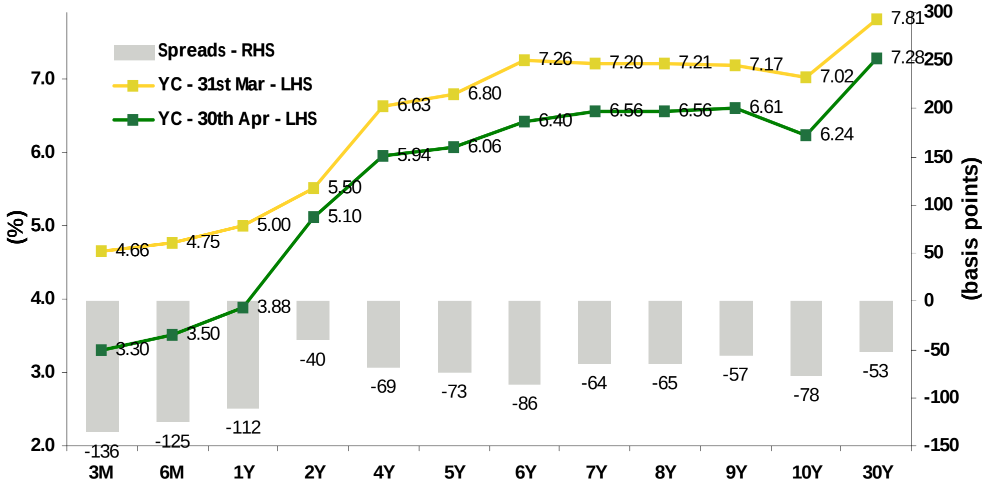
Liquidity – continues to be comfortable

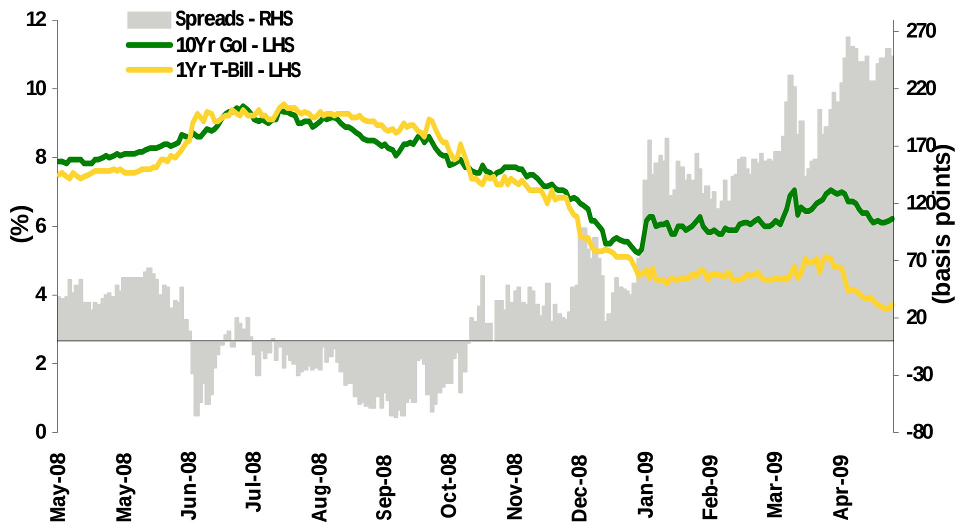


Source: Bloomberg

- Liquidity conditions remained buoyant in the month of April. Daily RBI LAF Reverse Repo in excess of INR 100,000 crores
- MIBOR rates softened significantly to 3.3% levels from 4-5% last month

G-Sec Yield Curve – witnessed further steepening

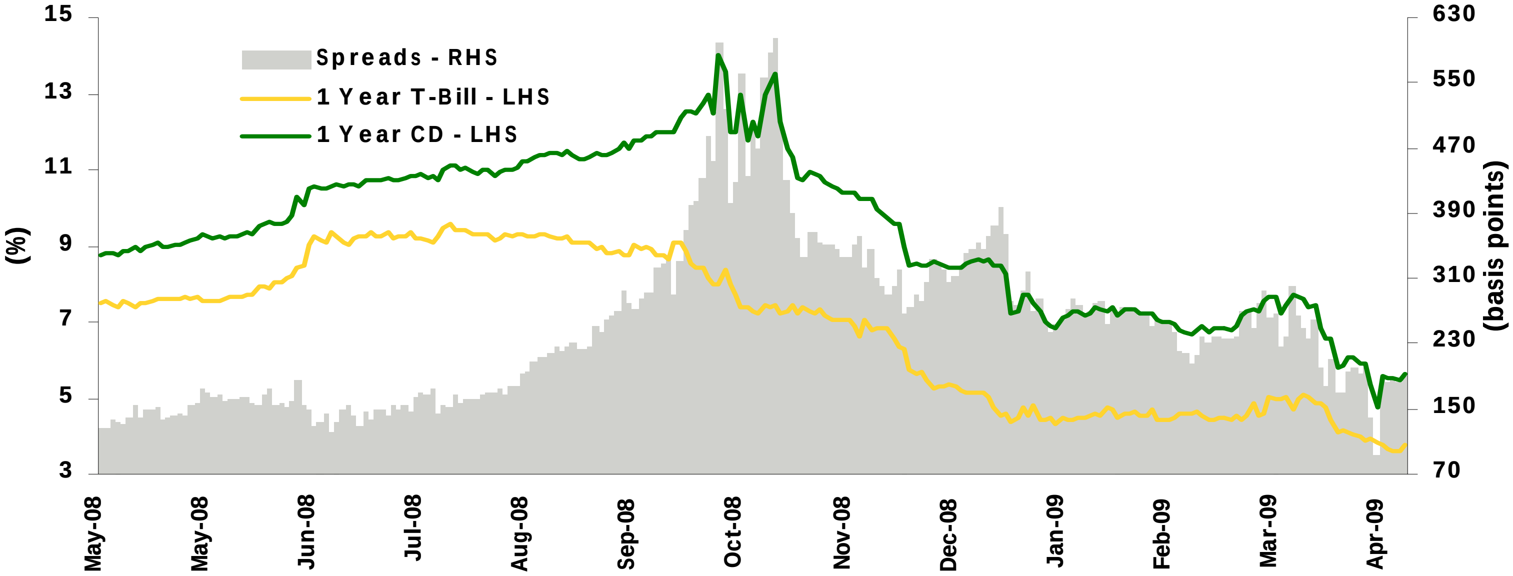




- G-Sec Yield Curve shifted downwards and steepened marginally with the rates at the short end falling more then the rates at the long end of the curve
- The 10Yr benchmark yield was significantly down to 6.2% compared to over 7% at the start of this month
- In the T-Bill Auction results on Apr 22' 09, 91-day bill issued at 3.35% and the 364-day paper yielded at 3.75%, reporting lower cut-offs
- Current 1Y vs. 10Y GOI spread widened to 248 basis point as against the mean spread of 59 basis point over last 1 year. We expect the current spread to compress and revert to the mean

Source: Bloomberg

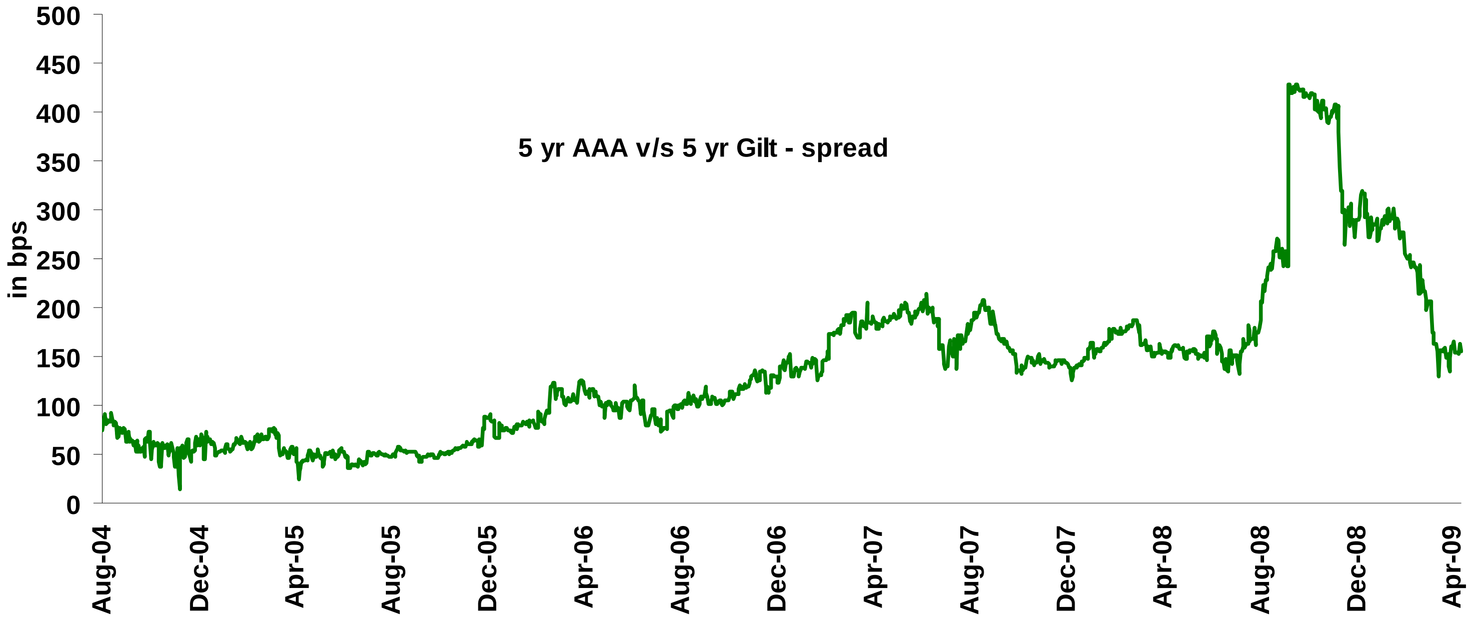
Money Market- continuing compression in spreads over sovereign



Source: Bloomberg

- Money market rates dipped sharply by over 150 basis points due to excessive liquidity in the system
- Spreads between 1 Year CD's and T-Bill's eased by 70-75 basis points, though CP's and CD's widened by about 30 basis points.
- Spread compression indicates reduced risk aversion and demand for short-term assets

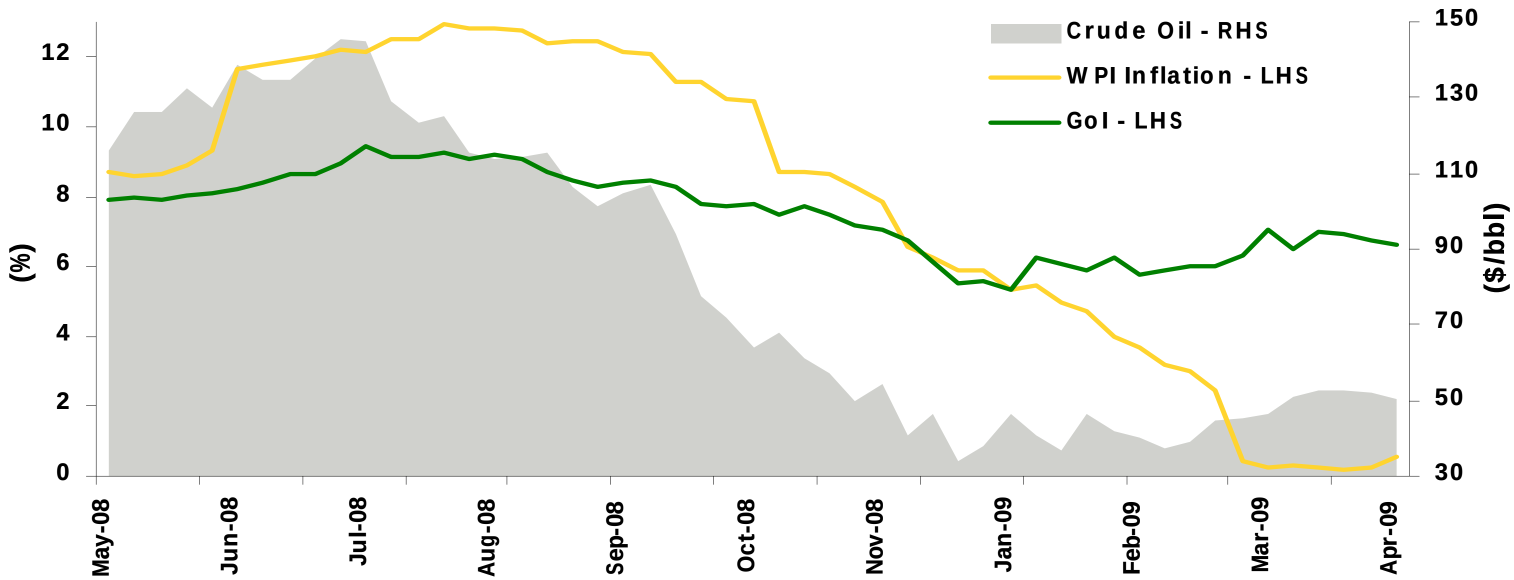
Corporate Bonds- further compression in spreads



Source: Bloomberg

- Spreads of corporate bonds over their corresponding benchmark sovereigns witnessed further compression by about 20 basis points
- The 5 year corporate paper yield softened from 8.5% to 7.6% during the month

Crude and Inflation Dynamics

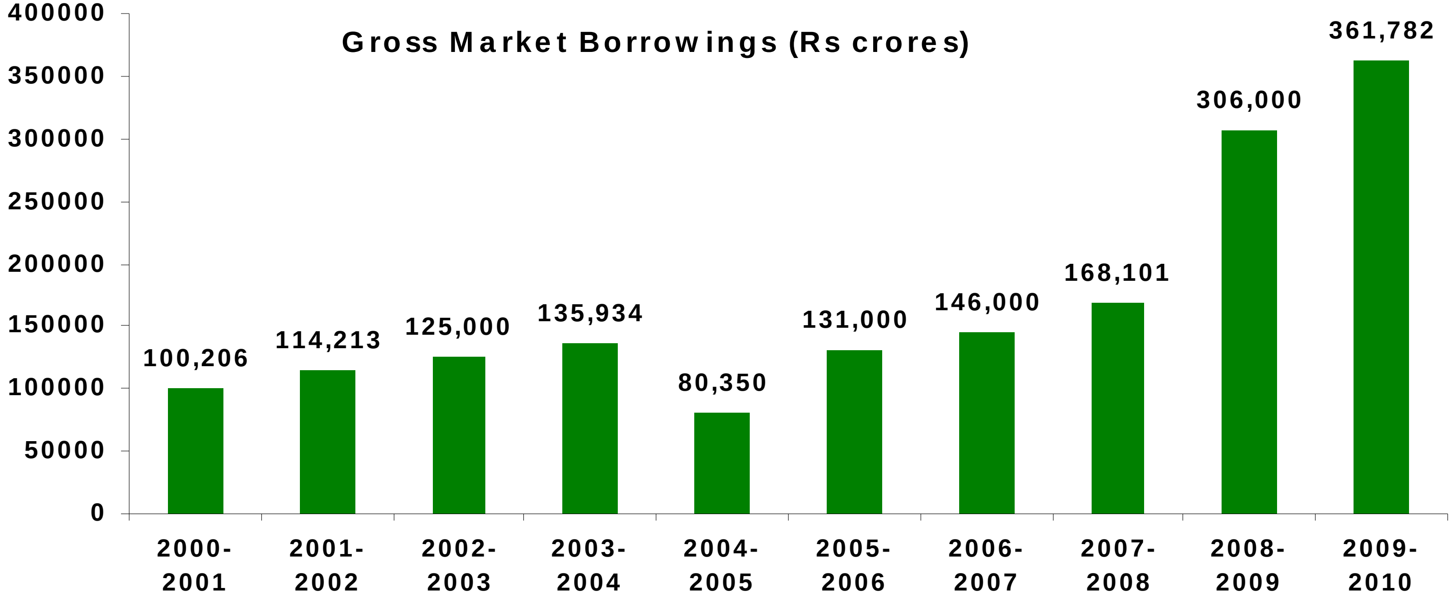


Source: Bloomberg

- NYMEX Crude remained range bound ($46 to $51 a barrel) during the month closing marginally higher at $51.12 a barrel from the previous month

- The WPI Inflation rate rose to 0.70% for the week ended Apr 25, 09 from 0.18% on Apr 04 ' 09. The rise in prices has led to a rise in the WPI index, pulling inflation upward despite the continuing (higher) base effect of last year

Government’s borrowing program



Source: indiabudget.nic.in

- GoI supply, net of OMO and maturity, was negative for the month of April by INR 3000 crores

- The market will continue to witness volatility though the RBI is to ensure “non-disruptive” borrowing program

RELIGARE MUTUAL FUND

Religare MF: Fixed Income Outlook and Opportunities

RELIGARE MUTUAL FUND

Fixed Income Market Outlook

- Macro data across the globe likely to show further signs of bottoming out
- The conclusion of the general elections this month is likely to be the key factor for deciding the direction of the markets
- RBI expected to ensure easy liquidity in the system
- Though RBI has tried to soften the impact of a huge GoI borrowing program by announcing corresponding OMO buyback, market remains concerned on fiscal deficit
- Yield curve expected to steepen further with easing on the short end of the curve, due to liquidity over-hang in the system
- Spread compression likely to stop due to increased supply

RELIGARE MUTUAL FUND

Ideas for investors

- Consider investing in portfolio with a mix of PSU corporate bonds and gilts
- Income Funds expected to deliver double digit returns over 1 year horizon
- Volatility to continue in bond market, investors could consider Short Term Plan to avail superior returns than Ultra Short Term, while looking to hedge on volatility

RELIGARE MUTUAL FUND

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 Private 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 Risk. Performance of the Sponsor(s) has no bearing on the expected performance of the Mutual Fund or any of its Scheme(s).

RELIGÁRE MUTUAL FUND