

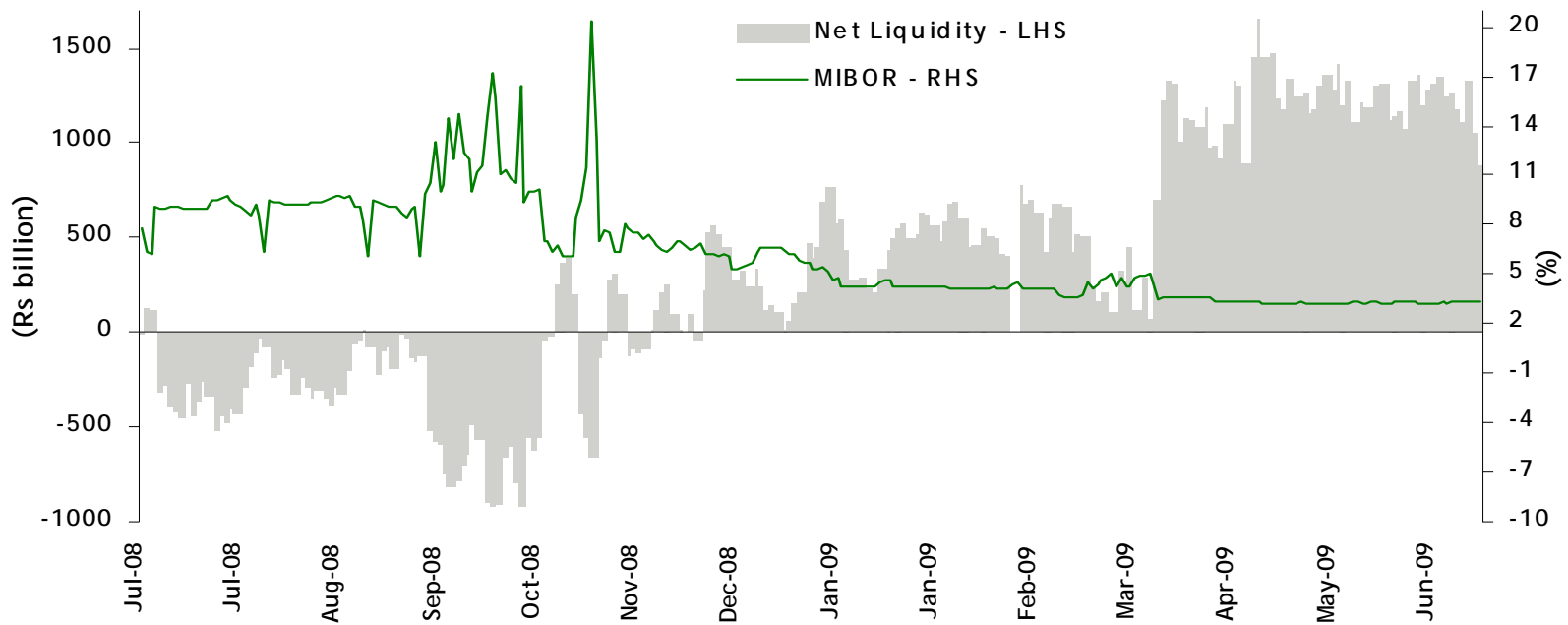
Fixed Income Markets : Current Environment and Outlook

Ashish Nigam, Head of Fixed Income
June 2009

Macro Events

- The Government presented its Annual Union Budget on July 06, 2009. Given the wide ranging reform measures mooted in the Economic Survey, the market expected a strong reformist Budget from the newly formed government
- In April, industrial growth, as measured by the Index of Industrial Production (IIP), turned positive at 1.4%, after remaining negative in 3 of the last 4 months, with as many as 11 out of 17 industry groups showing positive growth. Besides, crude oil, petroleum refinery products, coal, electricity, cement and finished steel grew by 2.8% in May
- The government raised prices of Petrol and Diesel in a move that is likely to further push up the inflation rate later in the current fiscal year
- Economies across the globe showed stronger signs of a possible turnaround. UK industrial production posted its first monthly increase for 14 months in April. Japanese industrial output jumped 5.9% in May as car and electronic production pulled out of a deep slump. However, Unemployment in the US turned unexpectedly worse adding to fears that the economic growth during the recovery will be flatter and slower than previously forecast

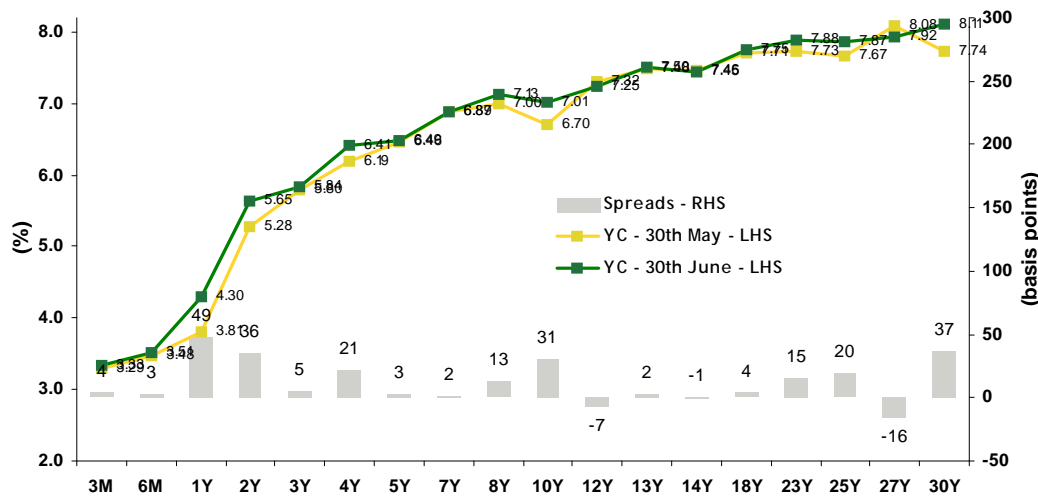
Liquidity - remains abundant



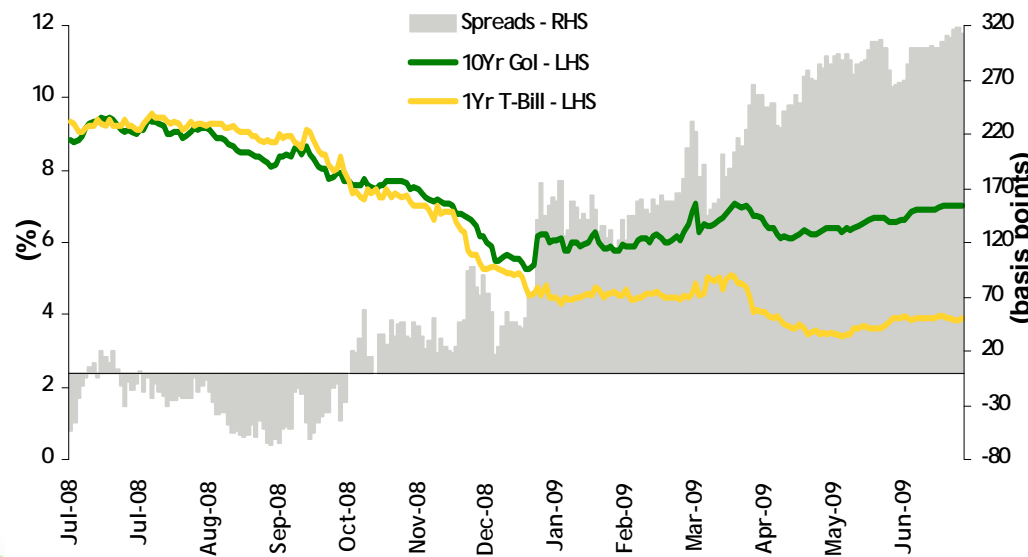
Source: Bloomberg

- The system remained flushed with liquidity during the month of June with the daily RBI LAF reverse repo averaging INR 1,20,000 crore during the month
- MIBOR rates remained flat, trading in a thin band, averaging around 3.3% during the month

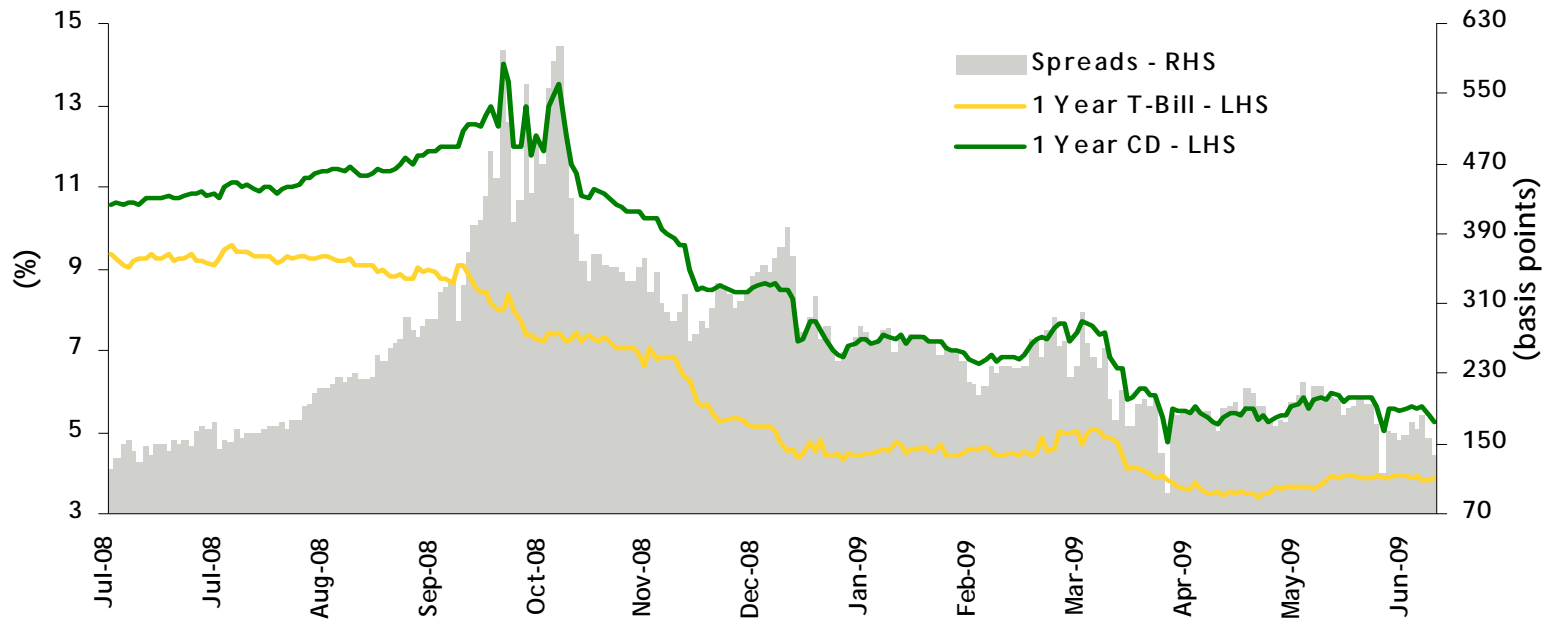
G-Sec Yield Curve - Steepens further



- G-Sec yield curve shifted upwards and steepened as the rates at the long end rose and the rates below 1 year softened
- The 10yr benchmark yield rose to 7.01% from 6.69% at the start of this month
- In the T-Bill Auction results on July09, 91-day T-bill issued at 3.11% and the 364-day paper yielded 3.81%, reporting lower cut-offs on the short end and higher cut offs on the long end as compared to the previous month
- Current 1yr vs. 10yr GOI spread widened further to 315 basis point as against the mean spread of 105 basis point over the last 1 year. We expect the current spread to compress and revert to the mean



Money Market - Spread Compression

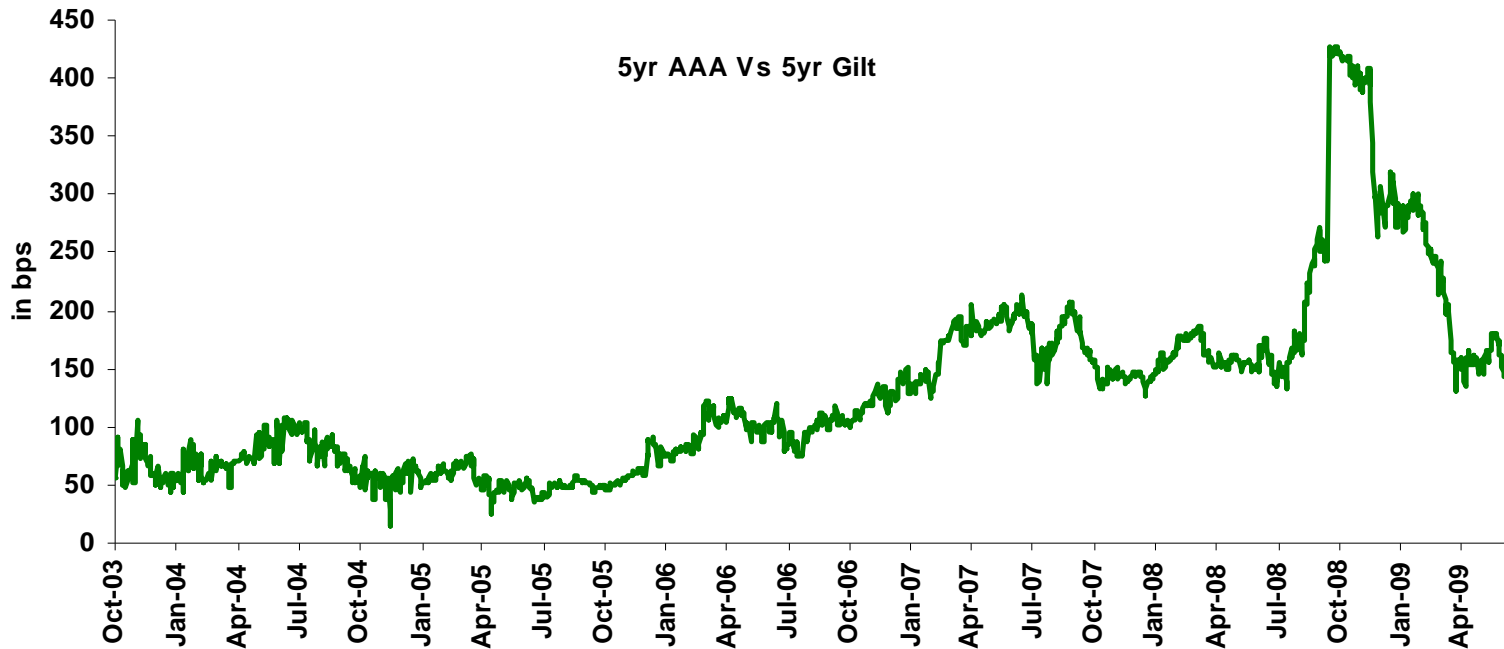


Source: Bloomberg

- Money market rates continue to remain at low levels due to ample liquidity in the system
- Spreads between 1 Year CD's and T-Bill's narrowed by 70-75 basis points, though CP's and CD's widened by about 60 basis points. Overall, 1 Year CP's spreads compressed 10-15 bps over T-Bills
- Spread compression does not necessarily indicate reduced risk aversion and but demand for short-term assets due to liquidity overhang



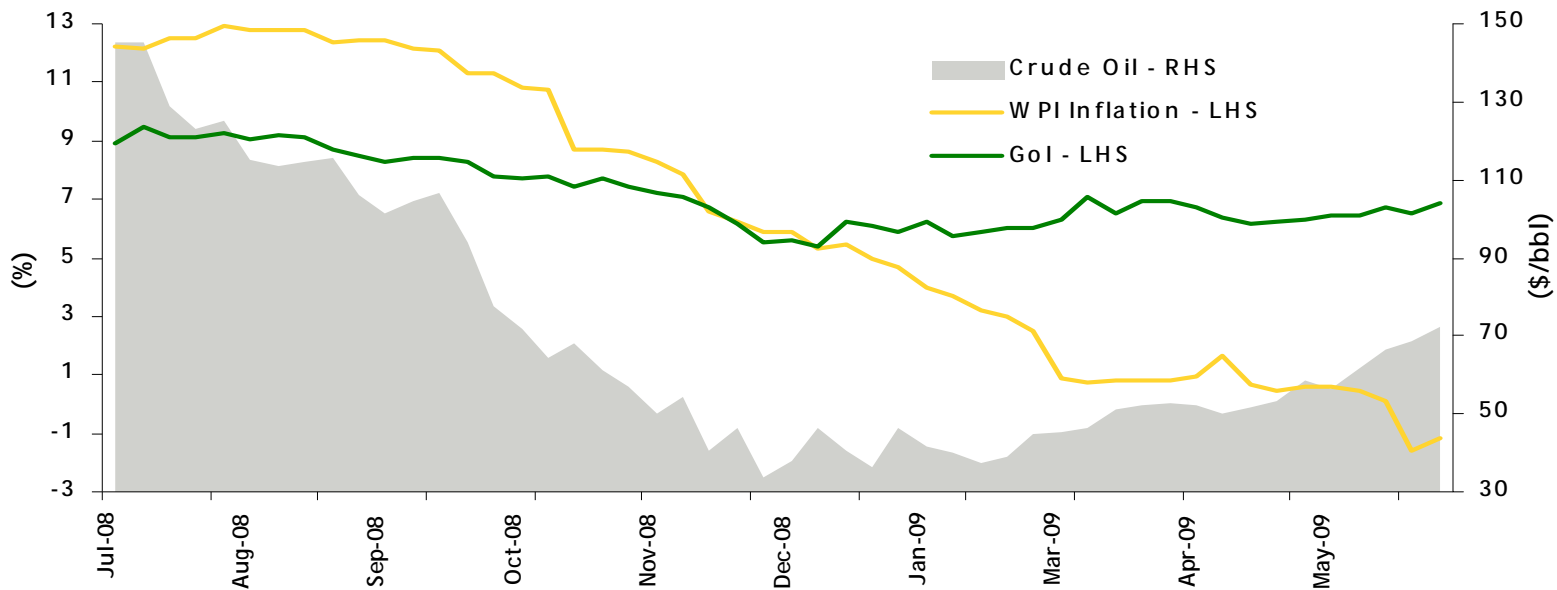
Corporate Bonds spread - compression to halt



Source: Bloomberg

- Spreads of 5-Year AAA corporate bonds over their corresponding benchmark sovereigns compressed by about 20 basis points in the month of June
- The 5 year corporate paper yield fell to 7.9% at the end of June from 8.1% at start of the month

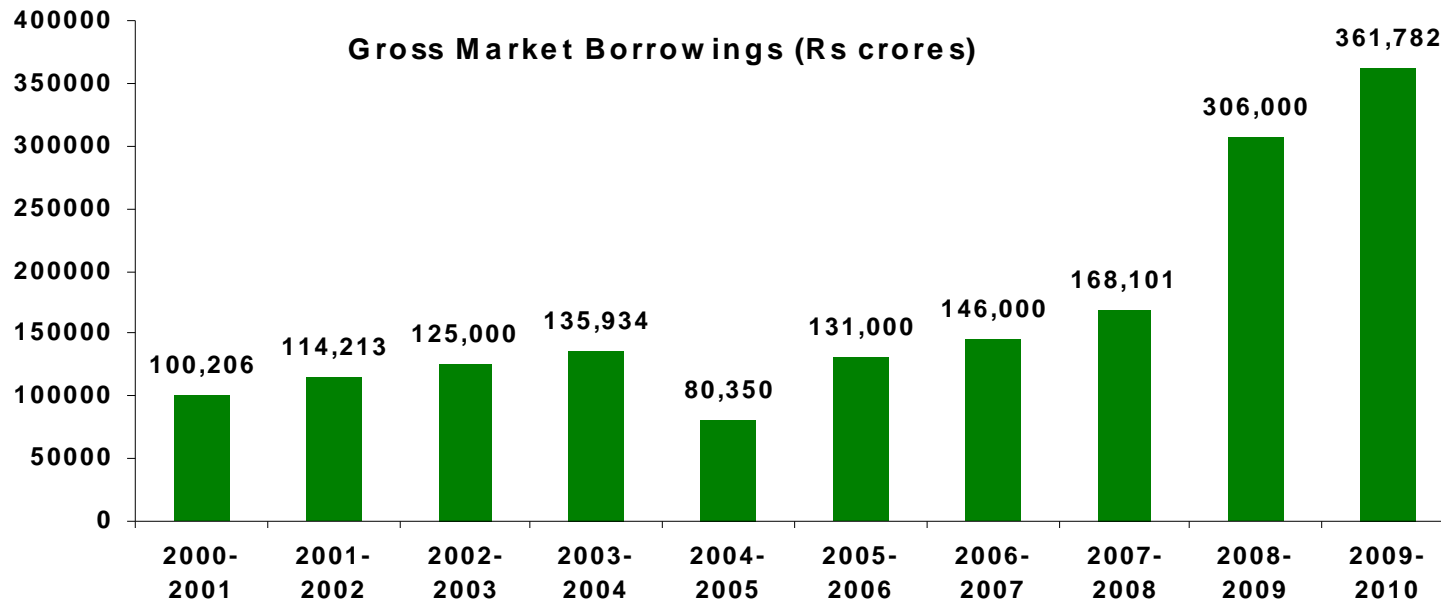
Crude and Inflation Dynamics



Source: Bloomberg

- Crude Oil prices rose at a more subdued pace when compared to the rise witnessed in the previous month, hitting a high of \$72.7 a barrel before correcting slightly. NYMEX Crude closed June marginally higher at \$69.9 a barrel from \$66.3 a barrel at the end of May
- WPI Inflation fell into the negative territory (Deflation) and was at -1.30% for the week ended June 20, 09. Inflation is likely to remain below zero for 8-10 weeks due to the high base effect of last year (caused by the sharp rise in international crude oil and commodity prices). The prices in the current year (week on week) continue to rise

Government's borrowing program



Source: indiabudget.nic.in

- GoI supply, net of OMO and maturity, was positive for the month of June by INR 28000 crores
- The market will continue to witness volatility though the RBI is to ensure “non-disruptive” borrowing program

Religare MF: Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- Government borrowing number increased from INR 3.6 trillion, as announced in Interim Budget to INR 4.51 trillion
- Fiscal deficit slips from 6.2% to 6.8% of GDP
- No clear road map to contain fiscal deficit
- RBI expected to support the borrowing program, may increase the OMO buy-back amount
- Liquidity expected to remain easy
- Inflation not a worry for near-term
- Gilts supply and easy liquidity will steepen the yield curve further
- Demand for short maturity assets to continue, but any sharp easing not expected in yields of CPs and CDs as the spread over Treasury Bills have narrowed to 15 basis points

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

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).