

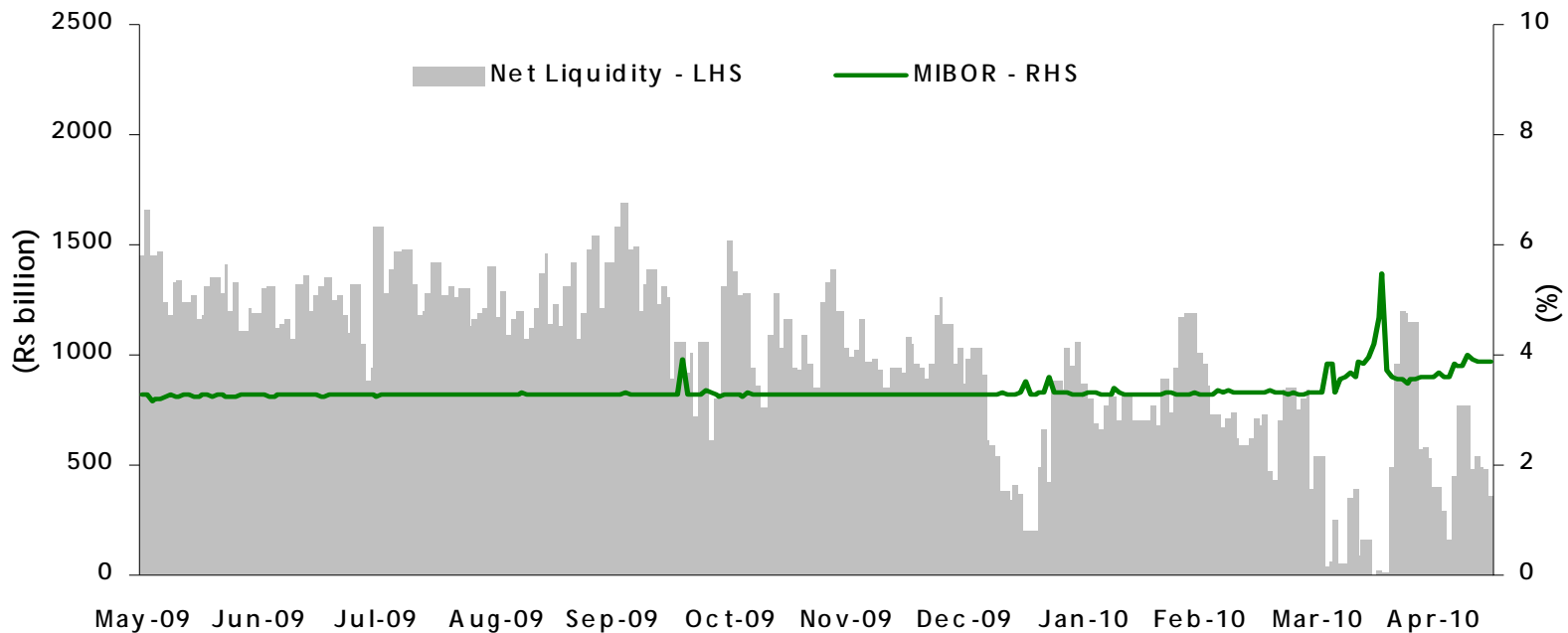
Fixed Income Markets : Current Environment and Outlook

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Macro Events

- RBI in its monetary policy meeting has raised all key policy rates by 25bps. (*Repo: 5.25%; Reverse-repo: 3.75%; CRR: 6%*). RBI has pegged FY11 GDP at 8.0% and March 11 inflation to moderate to 5.5%
- Industrial production continued to post robust trends, growing a strong 15.1% (YoY) in February compared to 16.7% (YOY) in the previous month. With industrial production averaging 10.1% during Apr-Feb FY10 (vs. 3% last year) the economy is now showing clear signs of a demand revival
- Six major infrastructure industries, which constitute the core sector, registered a robust growth of 7.2% in March. The growth was primarily on account of increase in steel, cement and electricity production. The cumulative growth for the entire financial year stood at 5.5%, significantly higher than the 3% last year
- Inflation rate, as measured by the WPI, rose further to 9.9% (YoY) in March from 9.89% in the previous month
- Economic growth measured by GDP is now in the positive territory for the US, UK and the Euro zone. US GDP grew 3.2% (YoY) in Q1'10. GDP growth in the UK was in positive territory for the second straight quarter in Q1'10, following six consecutive quarters of contraction

Liquidity - remains comfortable



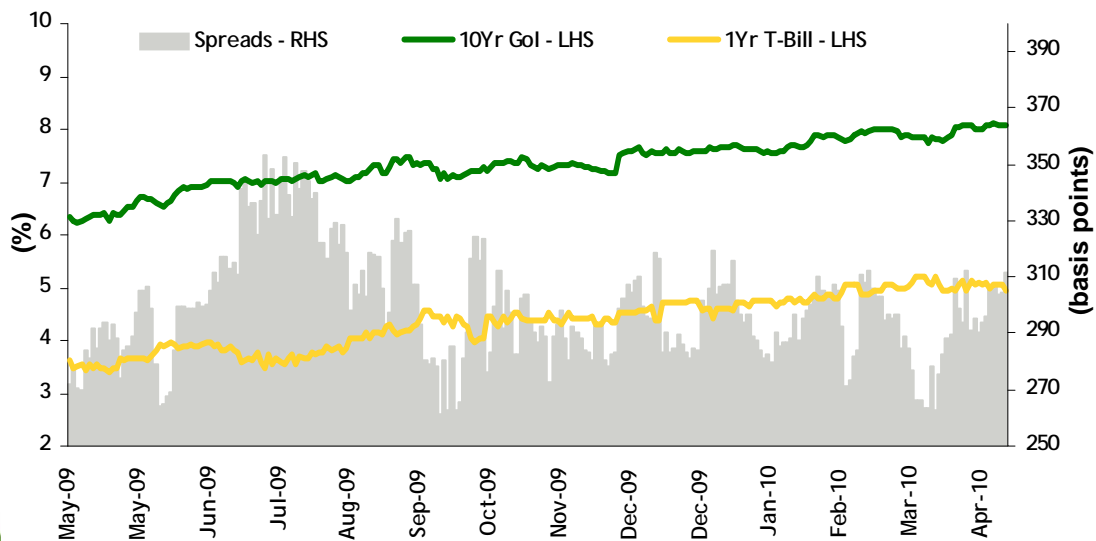
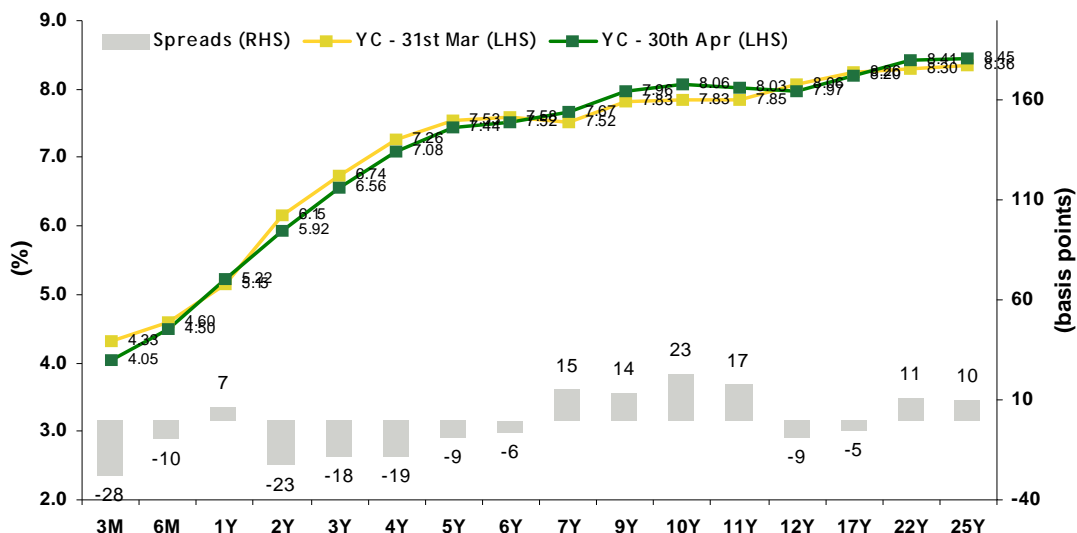
Source: Bloomberg

- Liquidity improved to pre-march'10 levels, with the daily RBI LAF reverse repo average at a comfortable INR 65,000 crore in April
- MIBOR rates moved higher following the hikes in RBI policy rates to 3.9% from 3.6% earlier, at the end of April



Source: Bloomberg

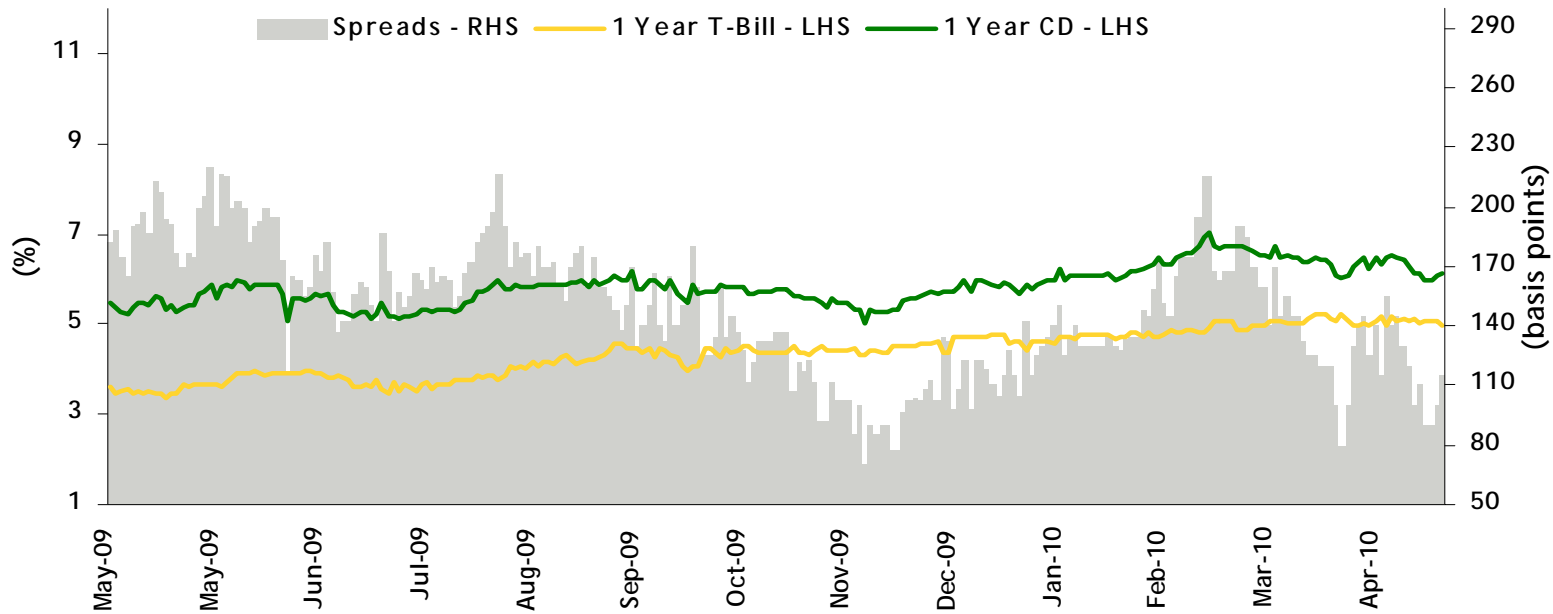
G-Sec Yield Curve - significantly steeper



- The G-Sec yield curve steepened with a rise in yields at the medium and the long end of the curve, while yields on the short end fell
- The yield on the 10yr benchmark rose during the month closing at 8.1% from 7.8%
- In the T-Bill Auction held on Apr 21, the 91-day T-bill was issued at 4.17% and the 364-day paper yielded 5.09%
- Current 1yr vs.10yr GOI spread rose by 50bps to over 300 basis points during the month. We expect the current spread to revert to the mean



Money Market - rates unchanged amidst easy liquidity

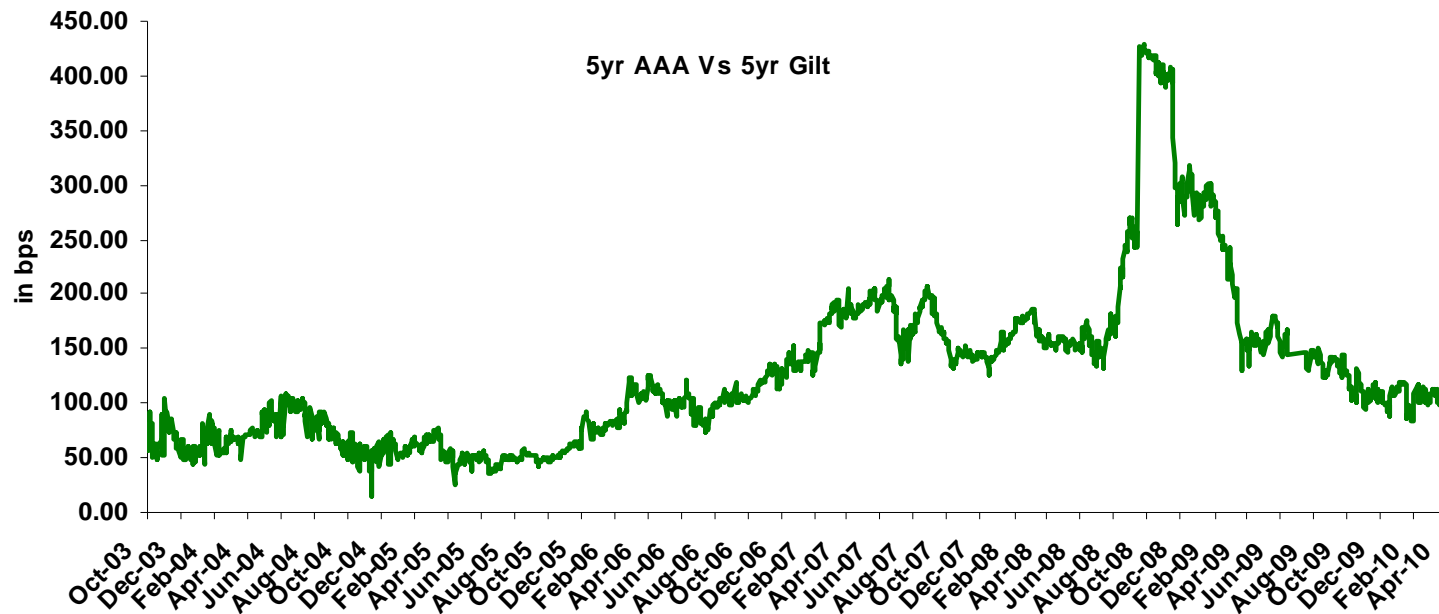


Source: Bloomberg

- Money market rates were unchanged amidst comfortable liquidity in the market
- Spreads between 1 Year CD's and T-Bill's ended unchanged during the month



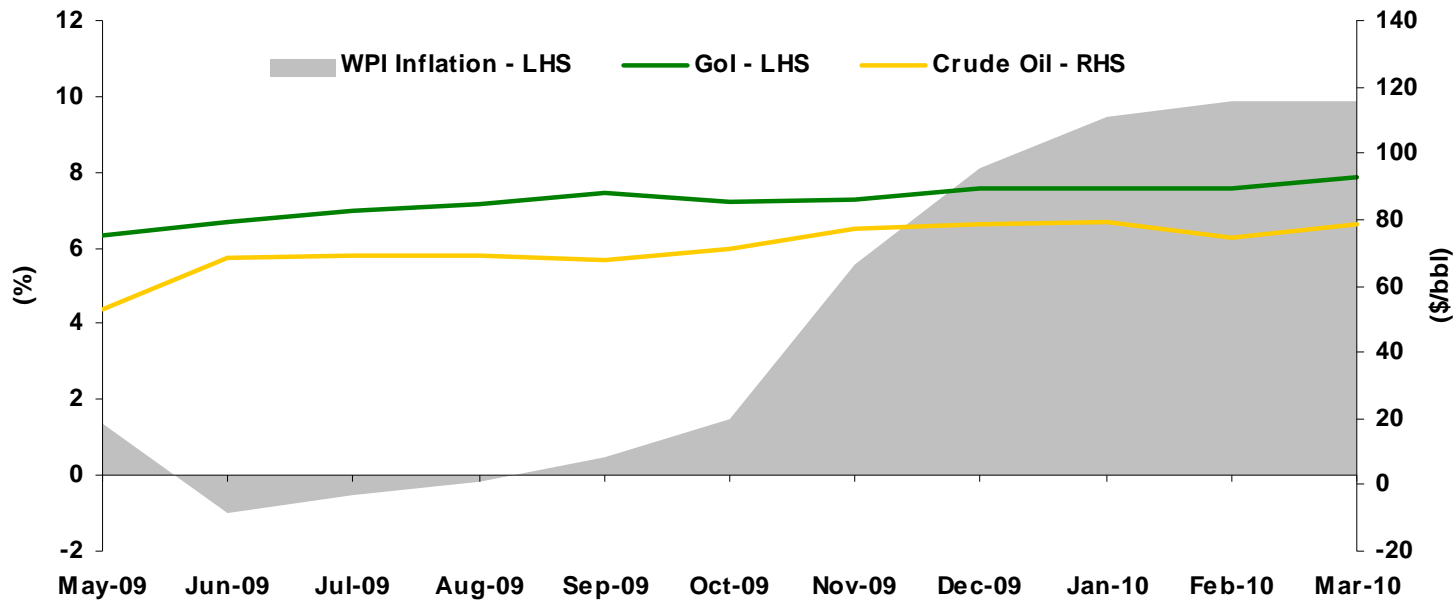
Corporate Bonds spread - contraction over sovereigns



Source: Bloomberg

- Spreads of 5-Year AAA corporate bonds over their corresponding benchmark sovereigns, contracted by 25 bps during the month to 75 bps, due to fall in yields on the AAA corporate bonds
- The yield on the 5 year AAA corporate paper fell from 8.5% to 8.2% during the month

Crude and Inflation Dynamics



Source: Bloomberg

- Crude Oil prices (NYMEX Crude Oil Barrel) traded between \$82 to \$86 in April
- WPI Inflation further climbed to 9.9% in March from 9.89% in the previous month.

Religare MF: Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- Global economic data continues to point towards recovery gaining traction
- Crisis in Greece and other parts of Europe will weigh on the bond and currency markets
- US Treasuries expected to rally on the backdrop of Europe fallout
- Liquidity in the system expected to remain easy due to lower than estimated credit off-take, possible RBI intervention in Forex market and FII inflows
- Greece crisis may ease of pressure on the domestic gilt yields
- Inflation is expected to start trending downwards and IIP should continue in double digits
- RBI has now embarked upon its rate hiking cycle and it is likely to increase the policy rates once again in its July Credit Policy review

Ideas for investors

- Risk-averse investors should continue to look at short end of the yield curve
- Yields at the long end have declined in the recent past on account of less than expected 1H borrowing numbers. However, inflationary pressures are likely to remain a concern and with continuous supply, yields are likely to continue to move higher targeting 8.00%-8.40% range on the 10 year benchmark. Investors with an investment horizon of greater than 6 months can look to invest in long duration products at that time
- Investors with an investment horizon of 3-6 months may also look at investment in Short Term Fund and Credit Opportunities Fund

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