

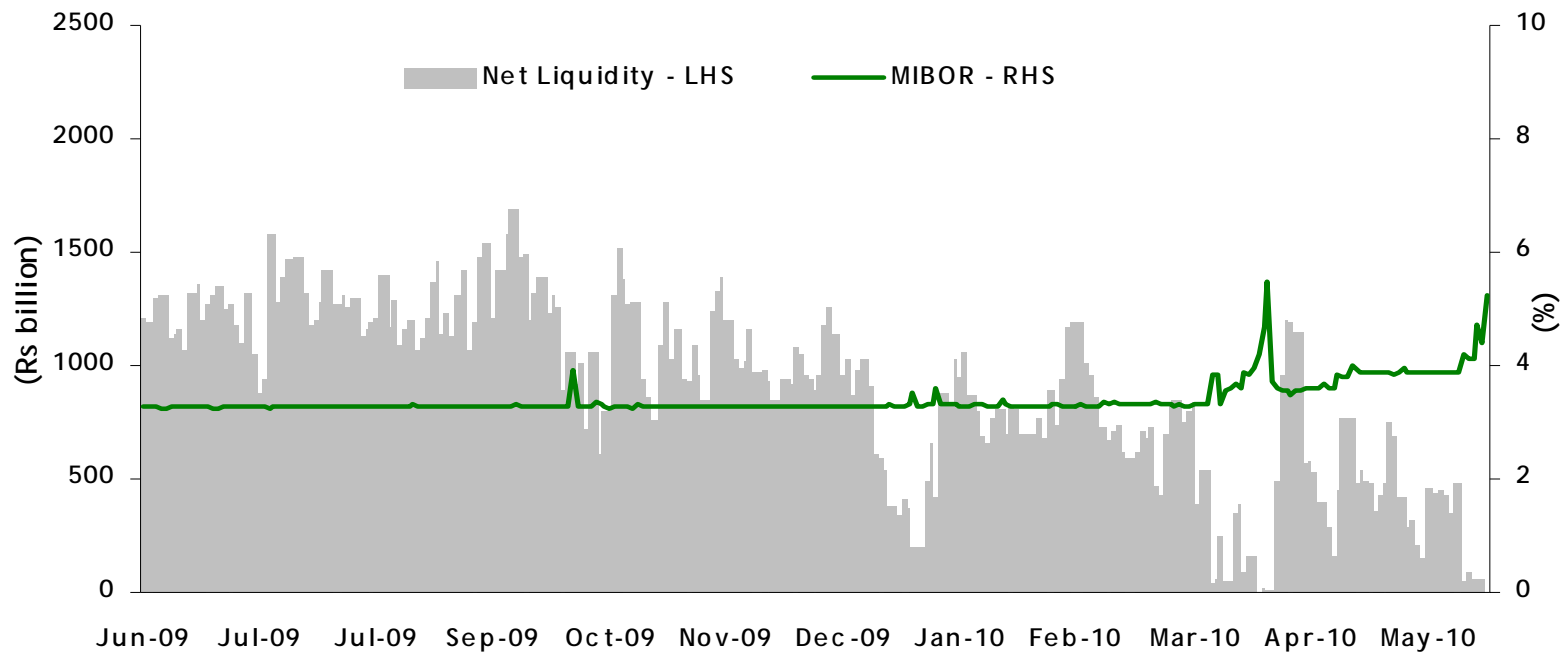
# Fixed Income Markets : Current Environment and Outlook

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# Macro Events

- The release of the 4Q FY10 GDP data showed the Indian economy growing strongly at 8.6% during the quarter. There were upward revisions to 2Q and 3Q, FY10 GDP data
- The full year FY10 GDP was revised up to 7.4% from 7.2%, estimated earlier, due to upward revisions in Agriculture to 0.2% from -0.2% and Industry to 9.3% from 8.2% and downward revision to Services to 8.5% from 8.7%
- Industrial production (IIP) continued its surge, growing a strong 13.5% (YoY) in March compared to 15.1% (YOY) in the previous month. After growing at over 15% since December, the growth rate now seems to have eased to a more sustainable level. With IIP averaging 10.4% during FY10 (2.8% in FY09) the economy is showing clear signs of a revival.
- Six major infrastructure industries, which constitute the core sector, registered a growth of 5.1% in April from 7.2% in March. The cumulative growth for the financial year FY10 stood at 5.5%, significantly higher than the 3% last year
- Inflation, as measured by the WPI, fell to 9.6% (YoY) in April from 9.9% in the previous month. The rate eased (lower) after having risen for 9 consecutive months to March.
- Economic growth measured by GDP is now in the positive territory for the US, UK and the Euro zone. US GDP grew 3% (YoY) in Q1'10. GDP growth in the UK for Q1'10 was revised higher
- 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 - tightens taking rates higher



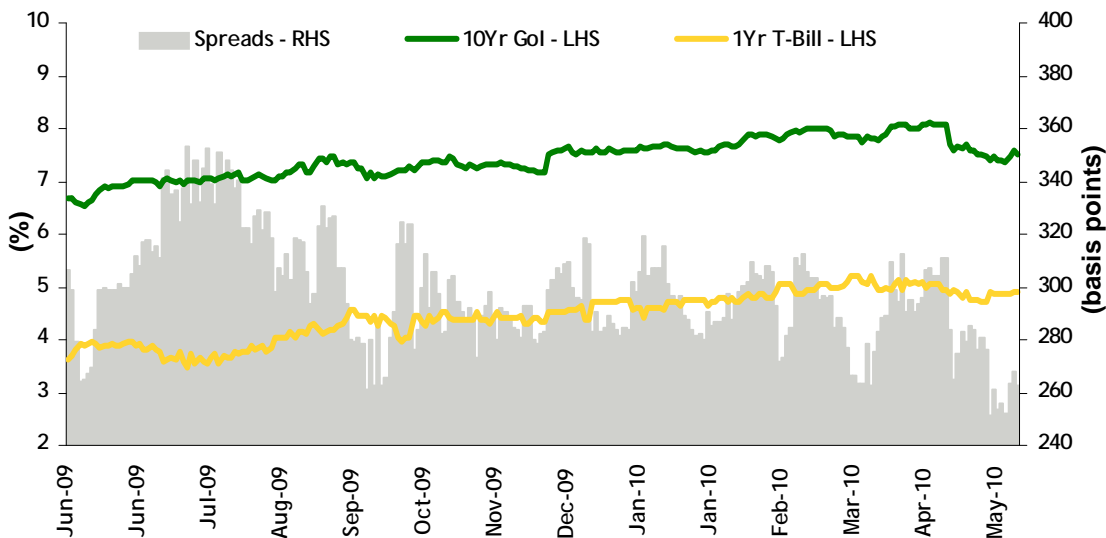
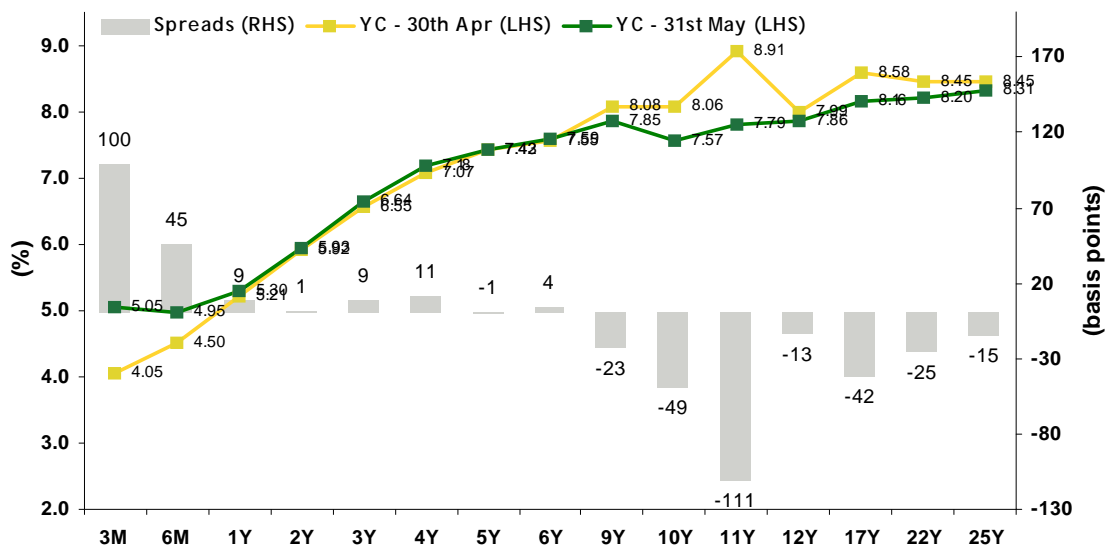
Source: Bloomberg

- Liquidity tightened considerably following the higher than anticipated 3G auction numbers, with the amount on the daily RBI LAF reverse repo falling to just INR 500 crore at the end of May with an average of just above INR 40,000 crore during the month
- MIBOR rates moved higher to 4.9% at the end of May from 3.9% at the end of last month



Source: Bloomberg

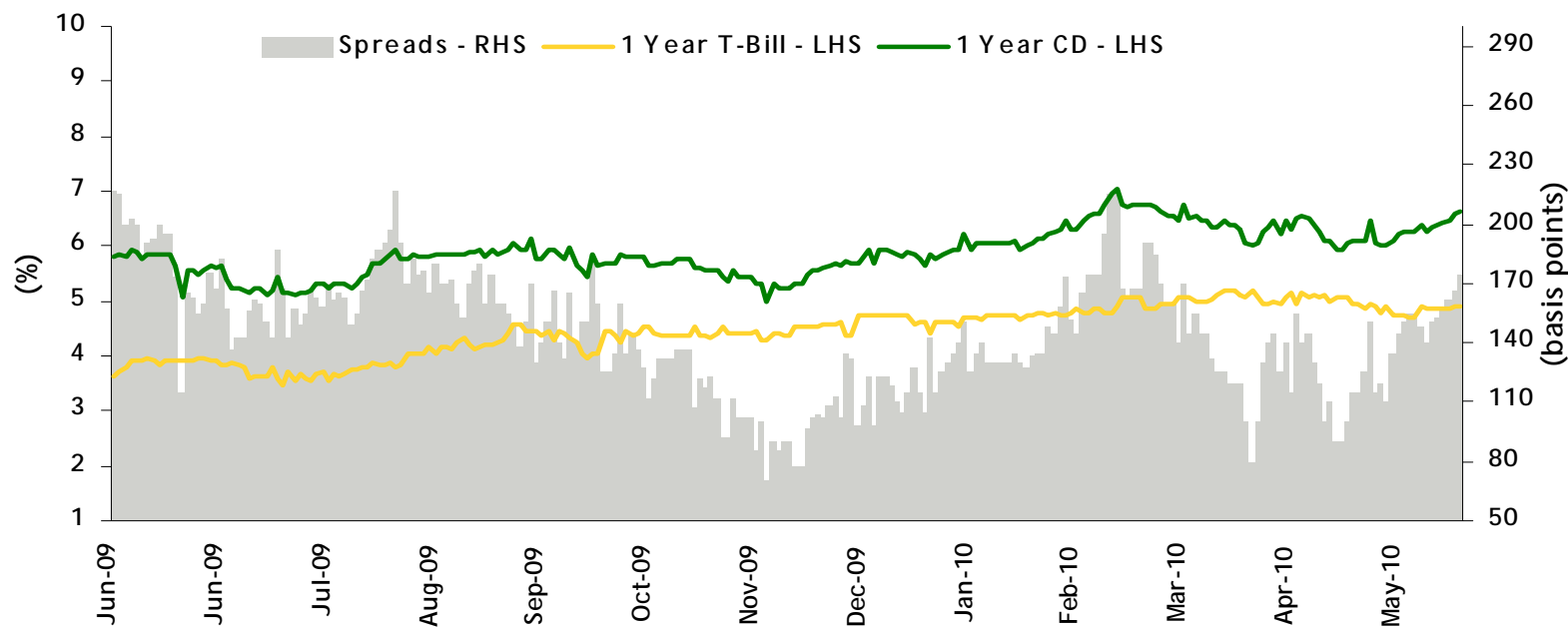
# G-Sec Yield Curve - significantly flatter



- The G-Sec yield curve significantly flattened with a sharp fall in yields at the medium and the long end of the curve, while yields on the short end rose.
- The yield on the 10yr benchmark fell steeply from 8.1% to 7.5% during the month.
- 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 fell by 45 bps to 240 basis points during the month. The spread has averaged 280 bps in the last year.



# Money Market - rates higher amidst tight liquidity



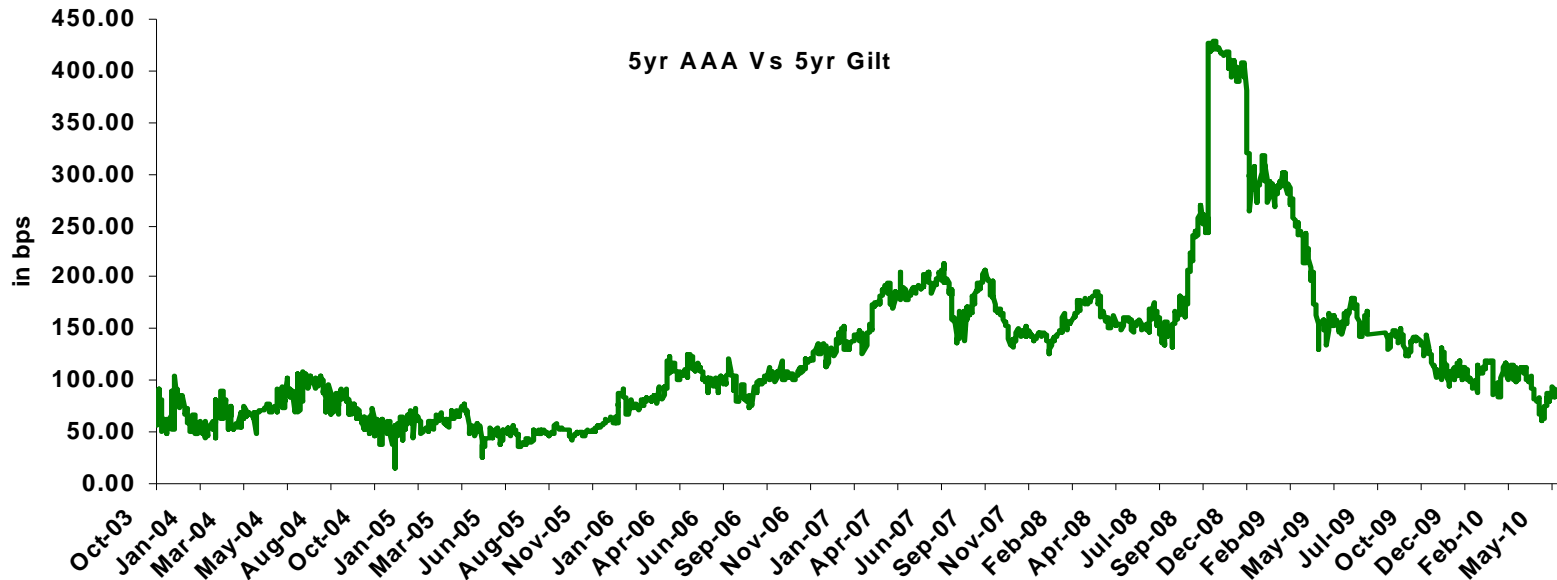
Source: Bloomberg

- Money market rates rose amidst tight liquidity in the market
- Spreads between 1 Year CD's and T-Bill's ended the month at 170 bps while spreads between 1 Year CP's and CD's were a negative 5bps. Overall, 1 Year CP's traded at a spread of 165 bps over 1 year T-Bills



Source: Bloomberg

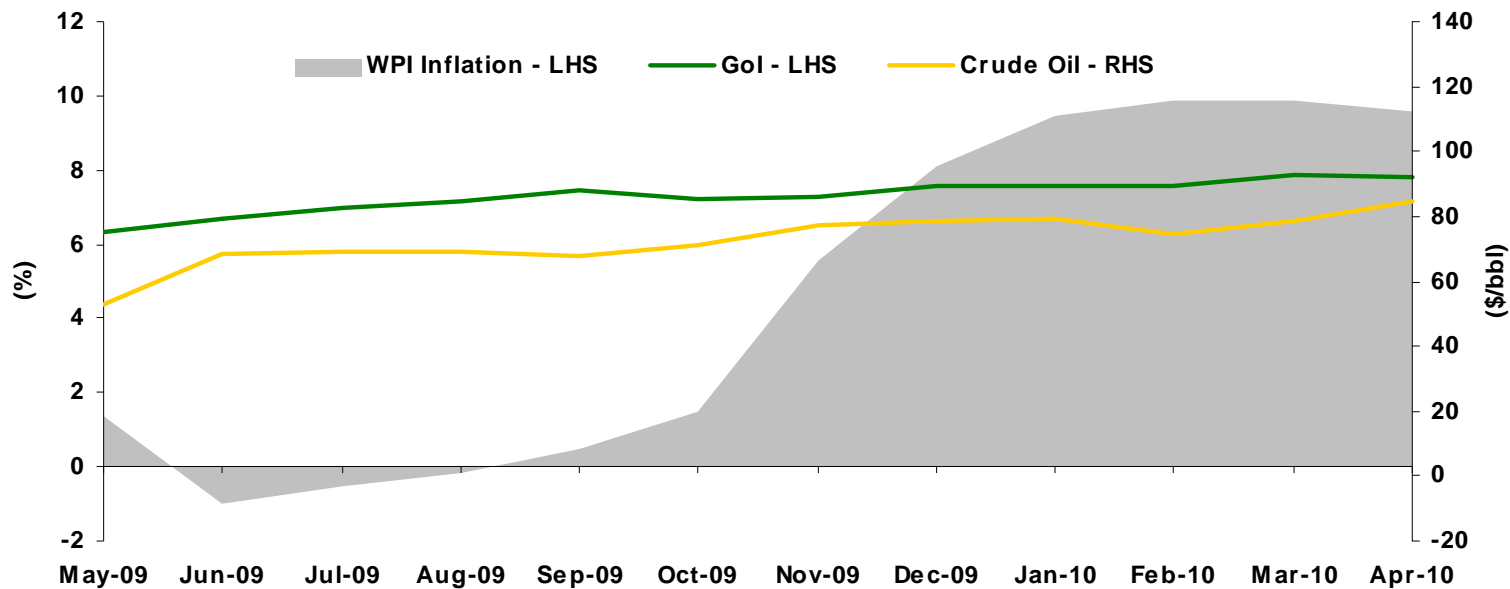
# Corporate Bonds spread - unchanged



Source: Bloomberg

- Spreads of 5-Year AAA corporate bonds over their corresponding benchmark sovereigns, marginally widened by 5 bps during the month to 80 bps
- The yield on the 5 year AAA corporate paper closed the month unchanged at 8.2%

# Crude and Inflation Dynamics



Source: Bloomberg

- Inflation rate, as measured by the WPI, fell to 9.6% (YoY) in April from 9.9% in the previous month. The rate eased (lower) after having risen for 9 consecutive months to March
- Crude Oil prices (NYMEX Crude Oil Barrel) fell sharply lower to \$74 at the end of May from \$86 at the end of April

# Religare MF: Fixed Income Outlook and Opportunities

# Fixed Income Market Outlook

- Global economic data continues to point towards recovery gaining traction albeit at a slow pace
- 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 market aligns itself to the fact that economic recovery remains fragile
- Systemic liquidity likely to remain under pressure for the month of June and then return to surplus mode
- Yields at the short end likely to fall significantly by July as liquidity conditions are likely to improve
- Yields at the long end also likely to move lower as the market factors in lower supply side inflationary pressures and lowering of overall government borrowing on account of more than expected inflows from 3G auctions and disinvestments. Demand side inflationary pressures, however, need to be watched closely.
- 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

# Portfolio Actions during the month

- **Religare Ultra Short Term Fund**  
The Fund reduced duration on anticipation of tighter liquidity conditions. The Fund would target adding liquid papers at attractive rates in the month of June as yields are likely to correct sharply once liquidity conditions normalize.
- **Religare Short Term Plan**  
The Fund reduced exposure to the 1-2 year segment while increasing exposure to liquid CDs in the 3-6 month segment. The Fund also increased cash position on anticipation of higher short term rates
- **Religare Liquid Fund**  
The Fund maintained a lower duration on anticipation of tighter liquidity conditions in the month of June. The Fund would look to add 3 month assets during the month at higher yields.
- **Religare Credit Opportunities Fund**  
The Fund had considerable maturities in the month of May and June and the Fund is looking to add 3-6 month assets 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 fallen significantly after breaching the 8% mark for the 10 year gilt. Yields are likely to head lower on a) expectations of less hawkish central bank following euro-zone scare b) lower supply side inflationary pressures and c) lower than expected government borrowing program. Investors with a 6-12 month horizon should continue to stay invested
- Investors with an investment horizon of 3-6 months may also look at investment in Short Term Fund and Credit Opportunities Fund as the current liquidity squeeze is likely to end by next month leading to a sharp correction in yields at the short end

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