

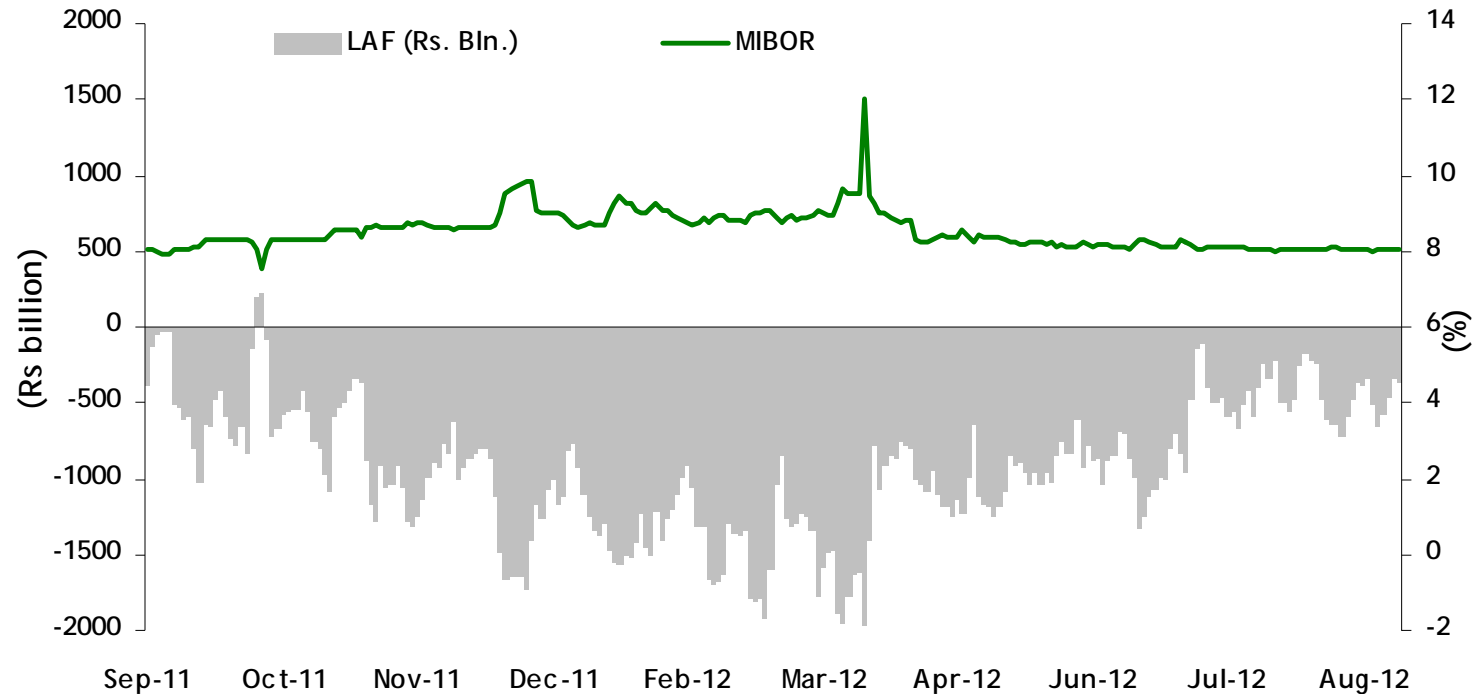
Fixed Income Markets : Current Environment and Outlook

Sujoy Das, Head of Fixed Income
August 2012

Macro Economic Events - Domestic

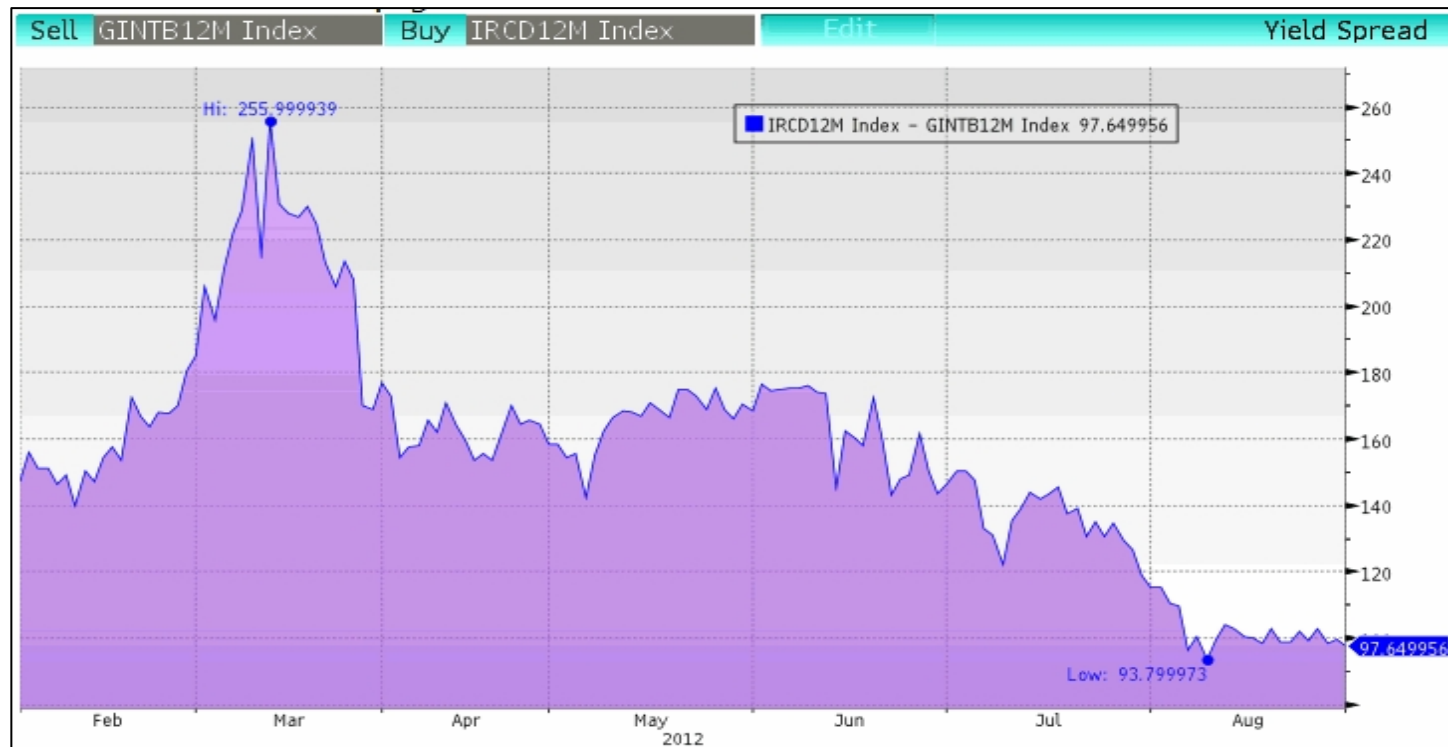
- External sector:
 - Exports have been negative for the month of July'12, which was at 14.8% (vs. -5.4% previous month)
 - Imports too have been negative at 7.6% (vs. -13.5% previous month)
- Domestic Growth:
 - IIP growth was -1.8% for June 2012 (vs. 2.4% previous month)
 - Q1FY'13 GDP growth was 5.5% (vs. 8% same quarter previous year)
- Inflation:
 - WPI inflation was 6.87% for July'12 (vs. 7.25% in June'12)
 - CPI inflation was at 9.86% in July'12 (vs. 10.02% in June'12)

Liquidity



- The deficit liquidity conditions have shown improvement. The liquidity on an average for the month has remained negative by Rs. 453 billion

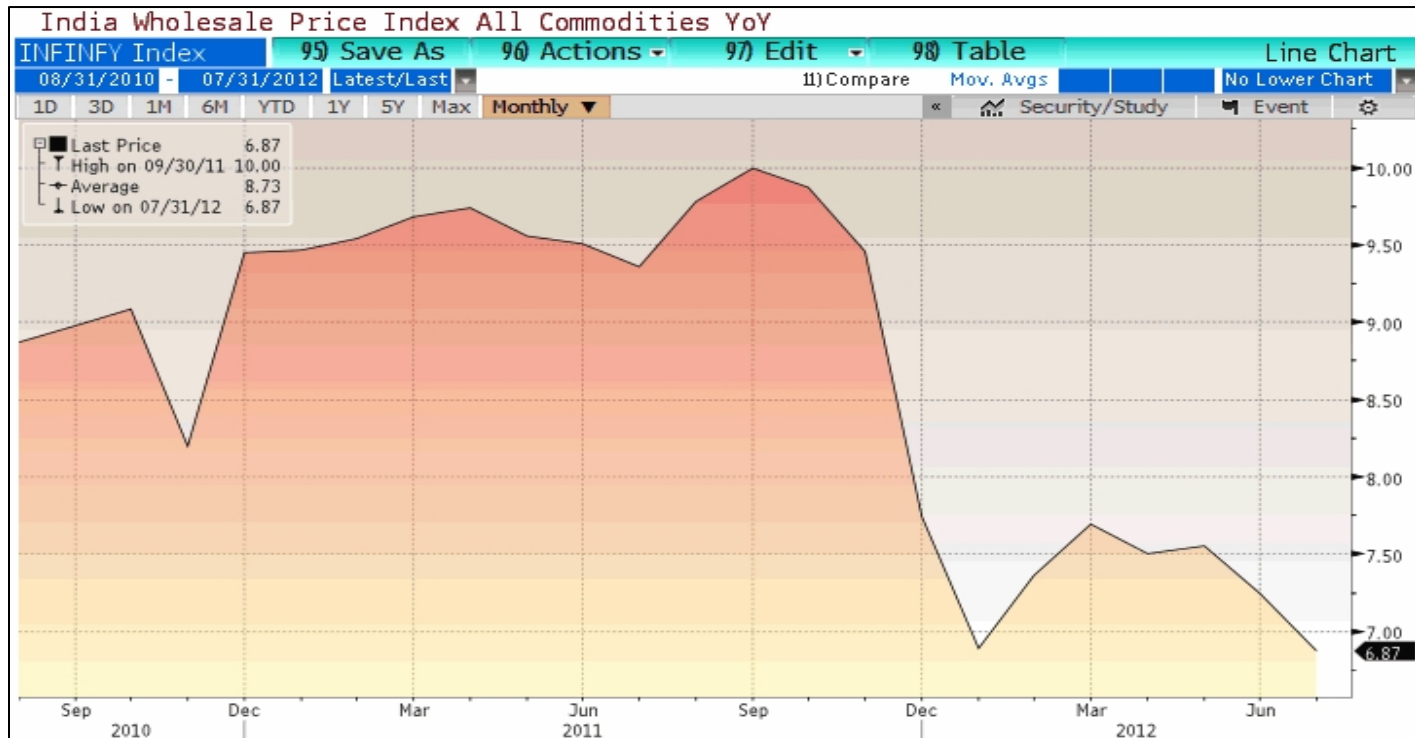
Money Market (spread between 12m T bill & CD)



- Easy liquidity conditions have contracted the spread over the T - bill yields
- The yields have also fallen by about 10bps in absolute terms



Inflation Dynamics



- The WPI inflation has shown some marginal softening
- The food inflation continues to rule high

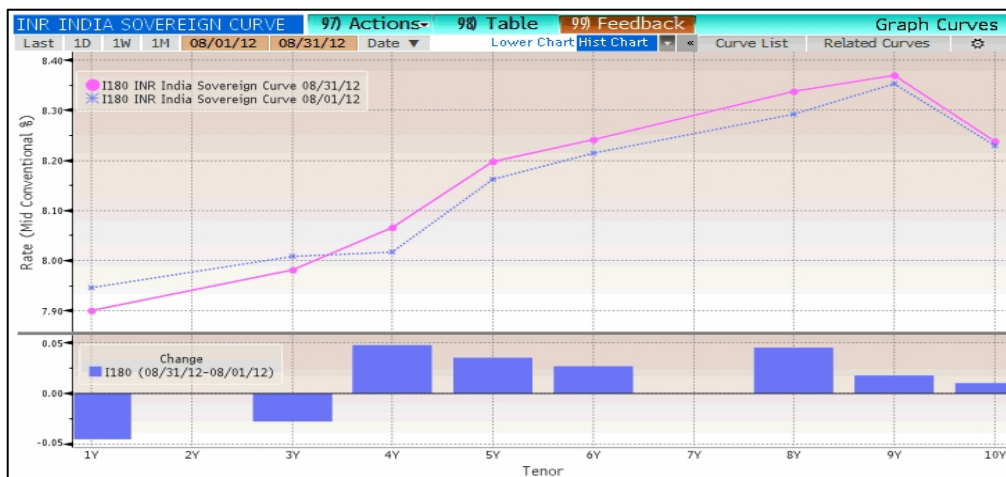
G-Sec Yield Curve - moved sideways

10 Year G – Sec Yield Curve



- The 10 year benchmark yield remained unchanged over the month
- The yields generally moved sideways within a band of 5-8 bps
- A marginal drop in the WPI inflation and negative IIP growth data led to some short rally in the sovereign market

G – Sec Yield Curve Change



Corporate Bond Spreads contracted



- Easy liquidity conditions and lower primary supply led to some marginal credit spread contraction in Aug'12



Religare MF: Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- Relatively easy liquidity condition is expected to keep the yields at the current level with a declining bias
- However, the liquidity conditions might deteriorate temporarily in Sept'12 due to the corporate advance tax related outflows and rising currency in circulation with public, around the festive season
- The credit risk premium has been on the rise over the last 2 quarters. The credit conditions may deteriorate further
- Expect risk aversion to continue in the financial markets and yields of sovereign & superior quality papers to witness a downward decline
- Since, the headline inflation has not yet shown any signs of cooling off, uncertainty prevails about the timing of any rate reduction cycle from RBI
- In the unlikely event of any rate reduction, further downward movement of the yield curve beyond this point seems unlikely
- However, a small probability of further decline in yields stays in case the system liquidity turns positive and the overnight rates move closer to 7%
- An improvement in the liquidity conditions hinges on a possible CRR reduction by RBI and/or OMO auctions along with foreign inflows
- All actively managed duration funds composed of short duration corporate bonds and long duration gilts may deliver better returns for investors with 3-6 month investment horizon

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 and followed the ladder approach to investments

- Religare Ultra Short Term Fund

- The fund has also maintained a low duration & a well diversified portfolio. The fund also invested upto 15% of the fund in 91 days plus maturity assets

- Religare Short Term Plan

- The fund has very actively changed duration with changing market conditions. The bulk of the assets are in the 6-12 month space

- Religare Credit Opportunities Fund

- The fund has been successfully investing in mispriced credits with low interest rate risk

- Religare Active Income Fund

- The fund has been actively trading in the liquid PSU credit segment apart from the 10 year plus gilt segment. The duration of the fund has been actively managed within the 12-30 months range along with exposure in the 10 year plus liquid gilts segment



Ideas for investors

- The market opens up opportunities for investors in an environment of a moderating GDP growth, higher inflation and hawkish RBI stance. Investors are encouraged to select funds maintaining longer duration than their investment horizon. Moreover, investors are encouraged to rebalance in 3-6 months
- The ***Religare Credit Opportunities Fund*** offers an 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 accrual with reduced interest rate risk. Ideal for investors with 3-9 months investment horizon
- The ***Religare Medium Term Bond Fund*** offers higher current yield and moderate interest rate risk. The present duration of around 20 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 18-48 months. It opens up opportunities of capital appreciation in an environment of the yield curve steepening and active duration management. It is intended for investors with varied investment horizon (at least 3 months) with moderate risk appetite



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. This document alone is 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 figures, charts/graphs and data included in this document are as on date and are subject to change without notice. The data used in this document is obtained by Religare AMC from the sources which it considers reliable. While utmost care has been exercised while preparing this document, 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 content of this document is intended solely for the use of the addressee. If you are not the addressee or the person responsible for delivering it to the addressee, any disclosure, copying, distribution or any action taken or omitted to be taken in reliance on it is prohibited and may be unlawful. The recipient(s) before acting on any information herein should make his/their own investigation and seek appropriate professional advice.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully

MKTG/RoundupDebt/0812/CO0639



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

