

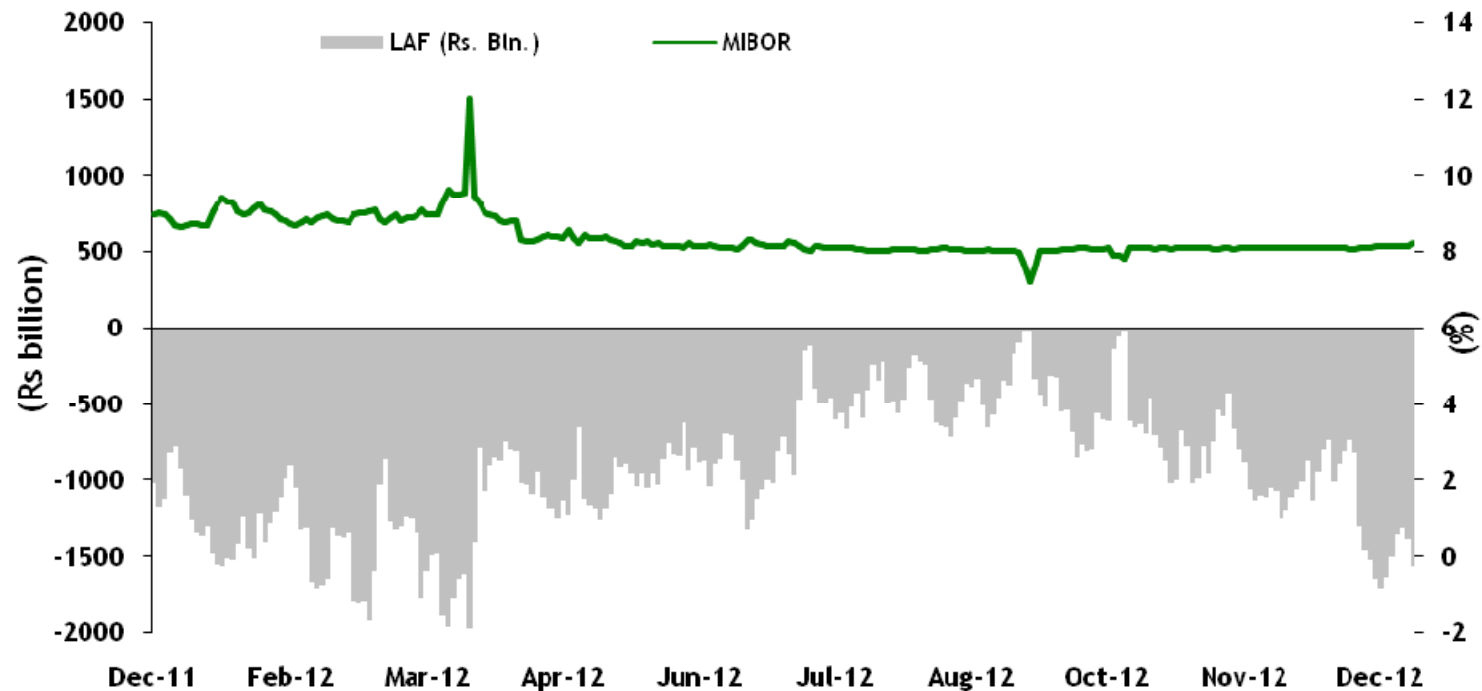
Fixed Income Markets : Current Environment and Outlook

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Macro Economic Events - Domestic

- The macro economic conditions have started exhibiting some signs of bottoming out
- IIP data for November 2012 fell to -0.1% (vs. 8.3% previous month)
- The WPI inflation has also been at 7.18% down from 7.24% in the previous month
- However, the CPI inflation moved higher to 10.56% from 9.9%
- Current Account Deficit (CAD) widened to \$22.31 billion (quarter ended September 12) from \$16.38 billion (quarter ended June 12). The imports of gold have been probably one of the reasons for the drop in CAD

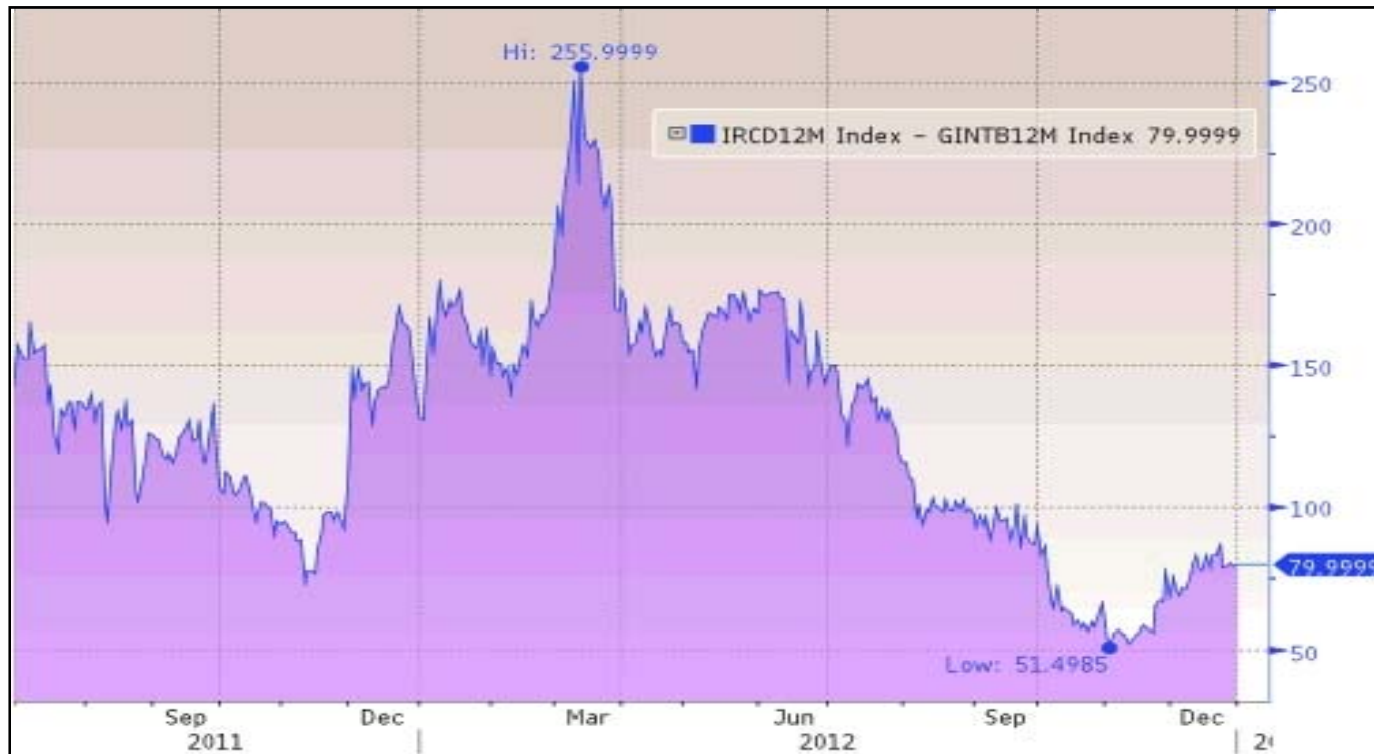
Liquidity



- The advance tax outflows of Dec'12 has sucked out liquidity from the system. The liquidity on an average for the month has remained negative by Rs. 1,212 billion.
- The CRR reduction and the buy-back of G-secs helped alleviate the conditions



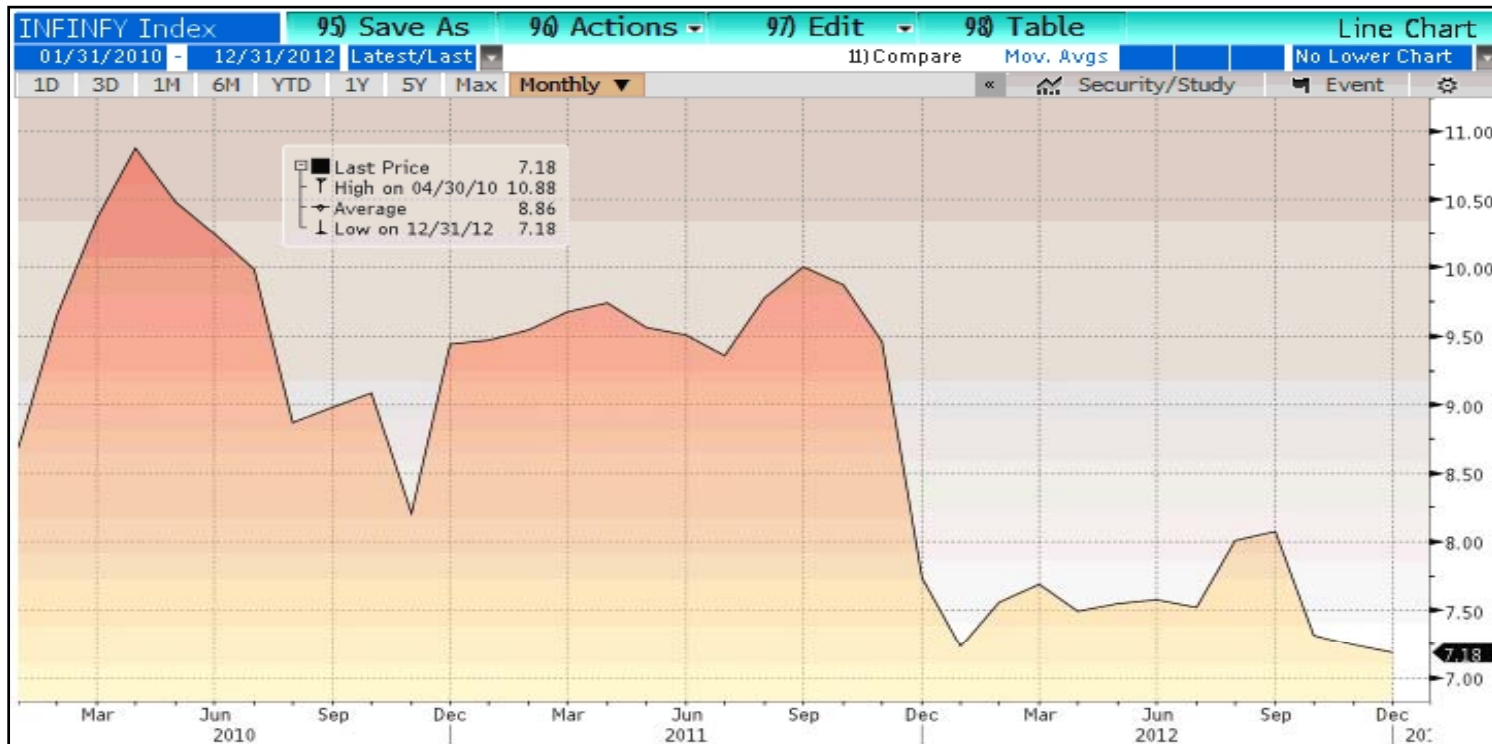
Money Market (spread between 12M T bill & CD)



- The yields of money market papers of all maturities hardened over the month
- The deficit liquidity and primary supply of bank CDs pushed the yields northwards



Inflation Dynamics



- Finally the WPI inflation has come below RBI's baseline projection of 7.5%
- It might be at these levels for the next few months



G-Sec Yield Curve

10 Year G – Sec Yield Curve



- The announcement of OMO by RBI after almost 6 months of gap helped in improving the market sentiment and therefore yields moved lower
- The rally in gilts was steady and picked up momentum from the second half of the month
- In spite of a no rate reduction by RBI, the postponement of auction and data about excess cash of GOI with RBI added to the rally
- The drop in yields seen in both the 5 year and 10 year bonds, was almost equal. However, the 30 year bond dropped by about 16bps over the month. (4 bps more than the drop in 10 year)
- The rally in gilts led to their outperformance over corporate bonds

G – Sec Yield Curve Change



Corporate Bond spreads widened



- The yields of corporate bonds moved lower over the month
- However, the spreads widened as the gilts outperformed



Religare MF: Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- The notable positives are:
 - Re-starting of OMO by RBI (by way of purchases of GOI securities)
 - Possible increase in the FII limits for Indian debt securities
 - Growing risk aversion amongst financial market participants
 - Drop in core & WPI inflation. Current levels are below RBI's base level projection
 - Possible rate reduction by RBI beginning from early 2013
- The possible risks are:
 - Delayed decline in inflation from current levels & RBI postponing any rate reduction
 - Increased market borrowing by GOI beyond market absorption capacity and pursuing a high fiscal deficit over the next financial year
- However, we feel while the current drop in inflation is a positive sign, given the suppressed inflation, the present trend might not be sustainable. Hence, while a rate easing is expected to pan out over the next two quarters, it might not be long drawn
- In the meanwhile we expect sovereign papers to outperform due to its longer maturity and risk aversion psyche amongst market participants
- Investors should increasingly select funds maintaining duration longer than their investment horizon

Portfolio Actions during the month

Religare Liquid Fund

- The fund has continued to maintain a low duration. It is maintaining a well diversified portfolio and following the ladder approach to investments

Religare Ultra Short Term Fund

- The fund has also maintained a low duration & a well diversified portfolio. In light of the possible benign rate environment over the quarter the fund has extended duration upto 6 months

Religare Short Term Fund

- The fund has very actively changed duration with changing market conditions. The bulk of the assets are in the 1-3 years segment

Religare Credit Opportunities Fund

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

Religare Active Income Fund

- The fund has been actively trading in the liquid PFI credit segment apart from the 10 year plus gilt segment. The fund has maintained a higher allocation to gilts over the previous month. The duration of the fund has been actively managed within 4 – 7 years range along with exposure in the 10-30 year liquid gilts segment

Religare Gilt Fund – Long Duration Plan

- The fund has been actively trading in the liquid 10 year plus gilts. Its investing upto 30 years gilts. Currently maintaining a duration of over 7 years



Ideas for investors

- The market opens up several opportunities for investors in an environment of a moderating GDP growth, high inflation and forward guidance of an easing cycle by RBI. Investors are encouraged to select funds, which are maintaining longer duration than their own investment horizon. Moreover, investors are encouraged to rebalance over 6-12 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 superior credit spreads of short maturity papers
- The **Religare Short Term Fund** offers accrual along with a contained 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 24-30 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** – offers a superior mix of corporate debt and gilts and runs a duration between 48-84 months. It opens up opportunities of capital appreciation in an environment of the yield curve steepening through active duration management. It is intended for investors with varied investment horizon (at least 3 months) with moderate to high risk appetite
- The **Religare Bank Debt Fund** – a thematic high credit quality portfolio comprising of bank CD and bank bonds, along with a small allocation to gilts. It's a superior investment allocation for credit risk averse long term investors, looking for stable returns, along with some capital appreciation from a well regulated credit class over a 1 year investment horizon
- The **Religare Gilt Fund – Long Duration Plan** – It opens up opportunities of capital appreciation in an environment of risk aversion and hence higher demand for gilts. An actively managed gilt portfolio during phases of low credit spreads is intended for investors with varied investment horizon (at least 3 months) with moderate to high risk appetite.



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



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