Fixed Income Markets :
Current Environment and Outlook

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Macro Economic Events - Domestic

- The macro economic data continues to paint a bleak growth picture of the economy

	Jan 13	Dec 12
IIP	2.40%	-0.49%
Imports	6.10%	6.30%
Exports	0.80%	-1.90%
[1]CPI	10.91%	10.79%
[1]WPI	6.84%	6.62%
[2]GDP	4.50%	5.30%

- Apart from the drop in WPI inflation rest of the economic data pointed at low economic growth

[1]Data is for the month of Feb 13 v/s Jan 13
[2]Data is for the 3rd quarter FY 14 v/s the previous quarter

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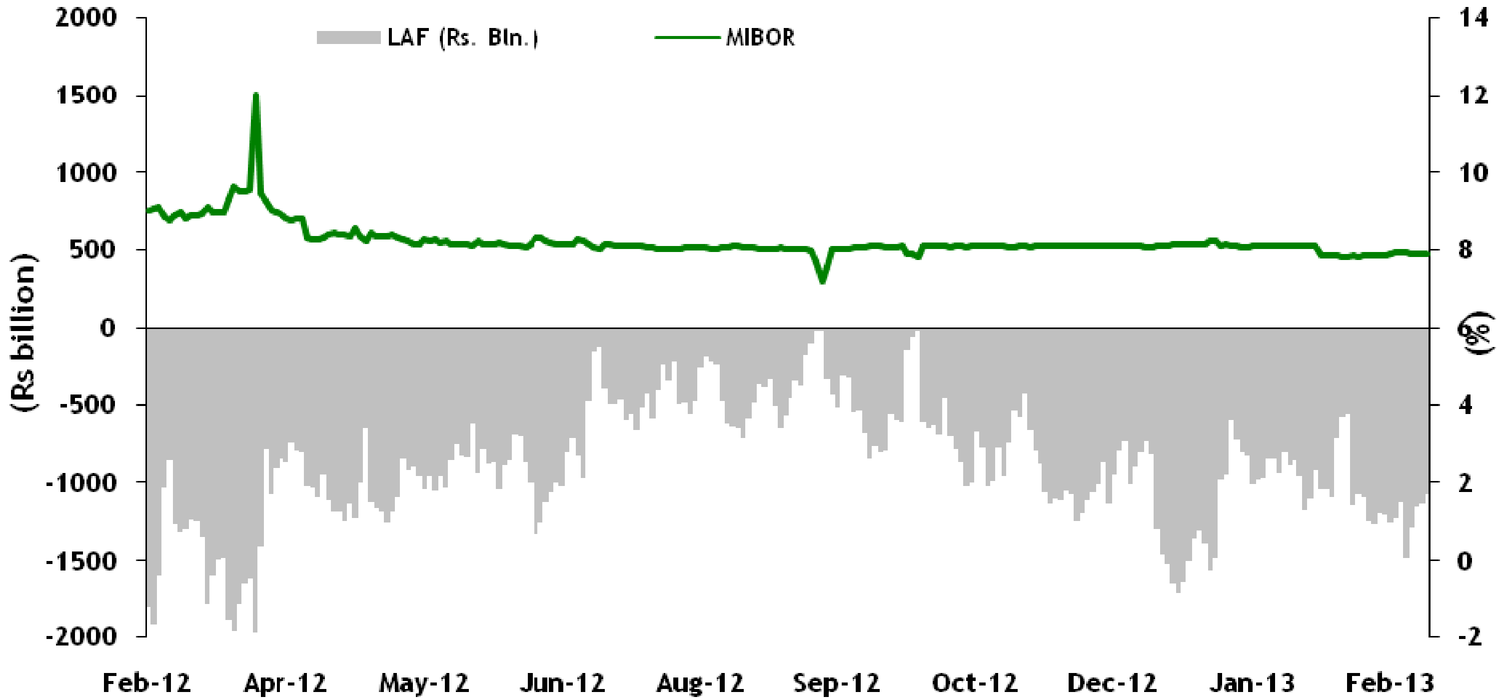
Liquidity



- The borrowings by the banks under LAF was slightly higher in Feb’13 over Jan’13
- The daily average borrowing was around Rs 1.1 lakh crore

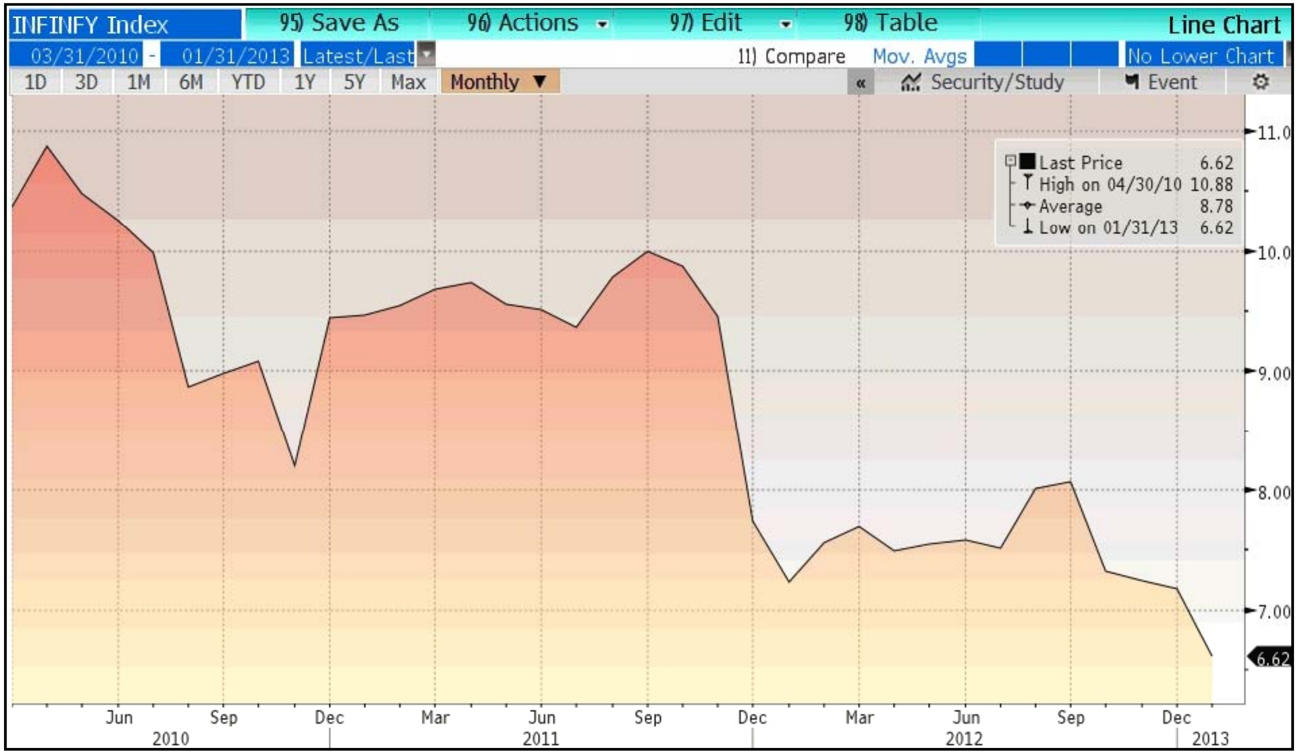
Source: Bloomberg. LAF: Liquidity Adjustment Facility.
MIBOR: Mumbai Inter-Bank Offer Rate

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

- The higher supply of Bank CDs in the primary market pushed up the yields and credit spreads
- The spreads were higher by about 20 bps compared to Jan'13

 Source: Bloomberg

Inflation Dynamics

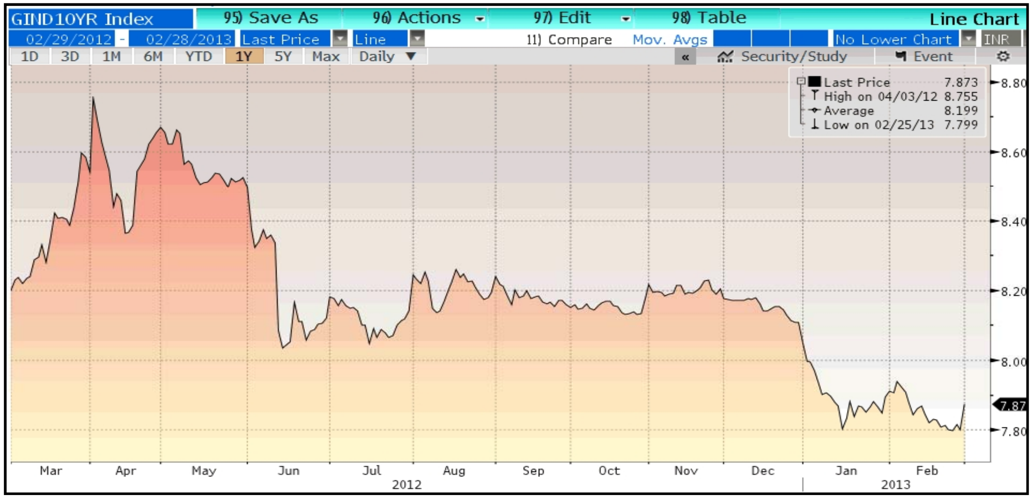


- The WPI inflation has cooled off compared to the previous months
- The non-inclusion of certain input costs probably has led to the quick decline
- The higher base of the previous year is also helping to bring down the number

 Source: Bloomberg

G-Sec Yield Curve

10 Year G – Sec Yield Curve

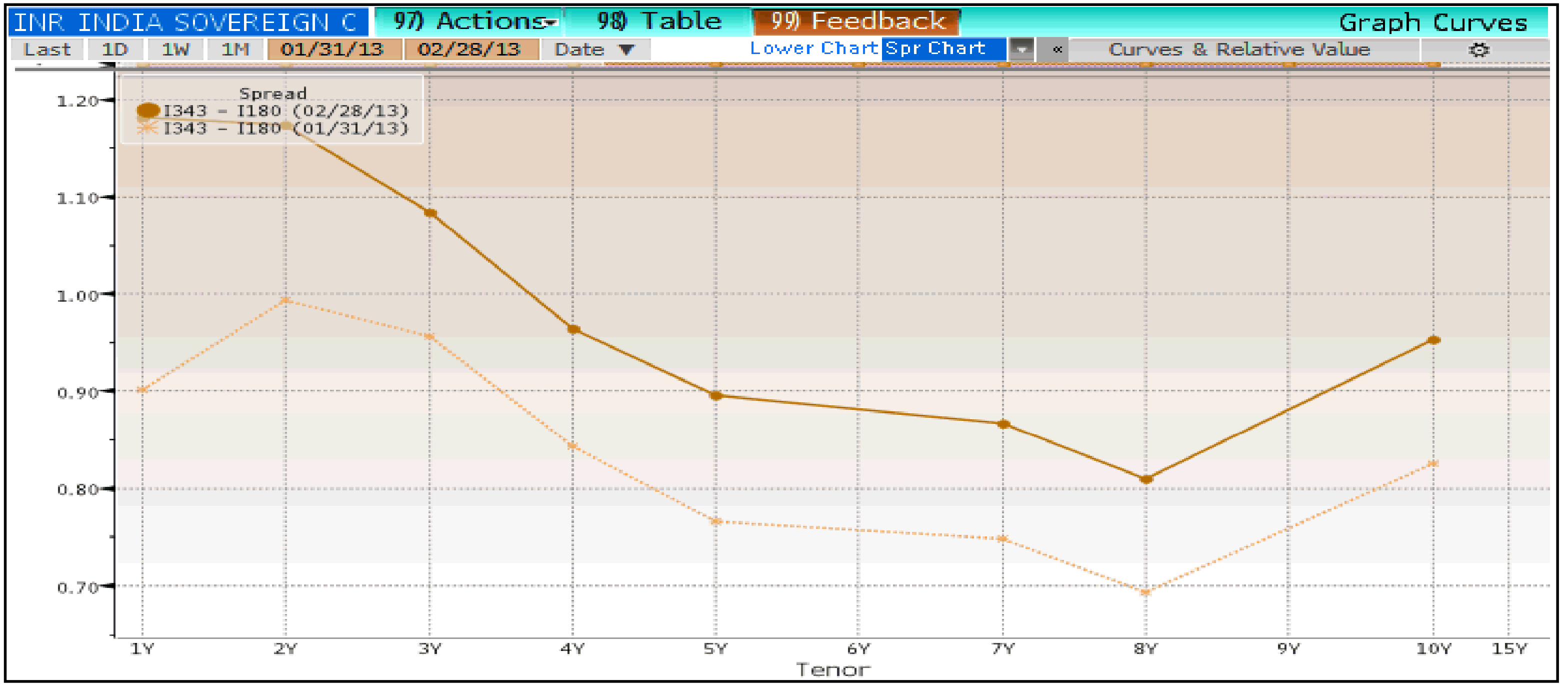


G – Sec Yield Curve Change

- Despite the rate reduction by RBI in January , G-sec yields had hardened. However post the announcement of OMO by RBI in February, the yields moved lower and touched a low of 7.79%
- The 4.8% fiscal deficit is in line with expectations, but a higher gross borrowing figure pushed the yields higher post the budget
- The additional borrowing of Rs. 50,000 cr of longer maturity securities for buy back of shorter maturity G-secs is expected to steepen the shape of the yield curve and has worked against all long duration gilts by approx 10bps

 Source: Bloomberg

Corporate Bond spreads widened



- The yields of corporate bonds hardened while the G-sec yields softened over Feb’13. Hence, the credit spreads widened quickly over the month

Source: Bloomberg. I343: Indian PSU AAA Curve,
I180: INR Indian Sovereign Curve

Religare MF: Fixed Income Outlook and Opportunities

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Fixed Income Market Outlook

- The market is expected to move sideways till March end and investors may expect some monetary easing from RBI. Moreover, the drop in GDP growth, lower IIP, Core and WPI inflation are in favor of pursuing a benign rate environment by RBI, a sticky inflation might limit the rate reductions

- The drop in WPI inflation to 6.62% and Core inflation is a clear positive for further rate cuts from RBI. It seems even the Feb & Mar’13 WPI inflation might be within the RBI target of 6.8%. The inflationary expectation is high as the CPI inflation stays in double digits

- The fiscal deficit (to percentage of GDP) for FY14 at 4.8% is a positive and should work in favor of softening yields and may have a positive effect on the sovereign rating over a long term. However, the higher gross borrowing figures is expected to create volatility in the gilts market from Apr’13. While the buy back of shorter maturity gilts by issuing longer maturity G-secs is expected to steepen the shape of the yield curve it will work in favor of short to medium maturity assets

- The other small steps towards fiscal consolidation might have a positive effect for decline in yields over time. However, the widening current account deficit is creating pressures on the currency and the fear of sovereign rating downgrade stays

- Based on our assessment of the economic & market parameters, we feel the risk reward matrix is still in favor of staying invested in bonds

- The money market rates might be elevated in the current month as the liquidity situation deteriorates post the advance tax outflows, the yields might soften in the new FY as the government spends the tax collections

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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 volatile rate environment in the money market space the fund is maintaining a low duration

- **Religare Short Term Fund:** The fund has maintained duration around 15 months. 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 allocation to gilts has been suitably altered with changing market. The duration of the fund has been actively managed within 4 – 7 years

- **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 6 years

- **Religare Gilt Fund – Short Duration Plan:** The fund has been actively trading in the liquid segment of the gilts market. Its maintaining an average maturity within 3 years

- **Religare Bank Debt Fund:** The fund is invested in the Bank CD and Bank Bonds segment. Its maintaining a modified duration around 3 years

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Ideas for investors

- The market opens up several opportunities for investors in an environment of a moderating GDP growth, moderating inflation and lower inflation target for March’13 by RBI. Investors are encouraged to select funds, which are maintaining a longer duration than their individual investment horizon. Moreover, investors are encouraged to rebalance over next 6-9 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 3-6 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 6-12 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 industry 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 risk aversion is intended for investors with varied investment horizon (at least 3 months) with moderate to high risk appetite

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Note: The above product positioning and intended duration is based on current view and is subject to change from time to time.

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

MKTG/RoundupDebt/0213/CO0770

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