Fixed Income Markets :
Current Environment and Outlook

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Macro Economic Events - Domestic

- There appears a dampening picture and a real slow down in the capex cycle amongst corporate sector
- The rising inventory level is dissuading any capacity expansion

	Feb 13	Jan 13
[1]IIP	2.40%	-0.50%
Imports	2.60%	6.30%
Exports	4.20%	-2.10%
CPI	10.91%	10.79%
WPI	6.84%	6.62%
[2]GDP	4.50%	5.30%
[2]CAD	-32.63 USD Bn	-22.63 USD Bn

[1]Data is for the month of Jan 13 v/s Dec 12
[2]Data is for the 3rd quarter FY 14 v/s the previous quarter

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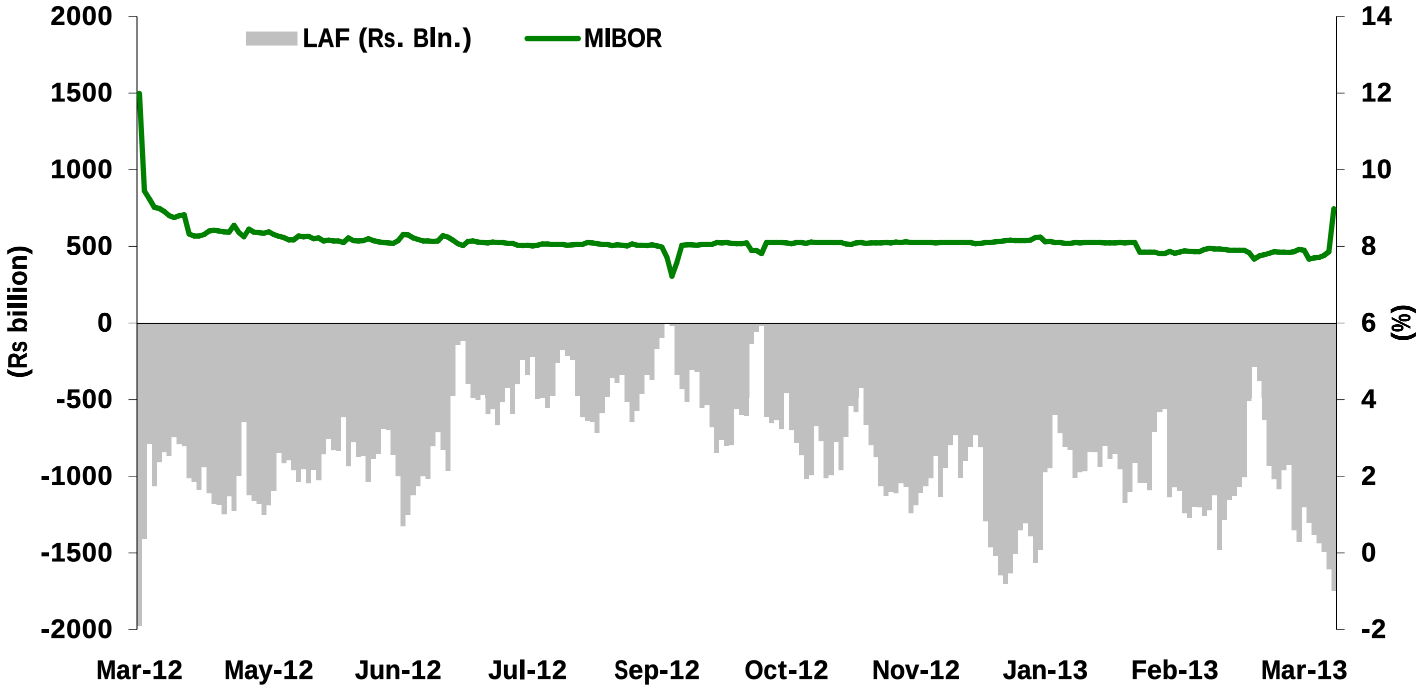
Liquidity



- The liquidity conditions deteriorated over the month. The liquidity on an average for the month has remained negative by Rs. 1089 billion
- The daily average borrowing was higher compared to Feb'13, largely due to the outflows pertaining to advance tax

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

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

- The 12m CD yields came off from the peak
- There was a notable decline in the credit spreads as well

 Source: Bloomberg

Inflation Dynamics

- The WPI & Core inflation has witnessed some decline
- The CPI and Food inflation continues to rule high

 Source: Bloomberg

G-Sec Yield Curve

10 Year G – Sec Yield Curve

G – Sec Yield Curve Change

- The G-sec yields were choppy compared to the previous month. After touching the low of 7.80% the yields started to move higher fearing the excess supply of G-secs in the new FY. The announcement of the borrowing calendar also added to the nervousness
- The yields started to harden and moved close to 7.98% over the next 3 weeks. Despite the announcement of Rs 10,000 crores OMO, the yields continued to move higher
- There were some early signs of credit spread contraction observed at the far end of the curve. The yields of corporate bonds did not harden as much compared to the sovereign yield curve

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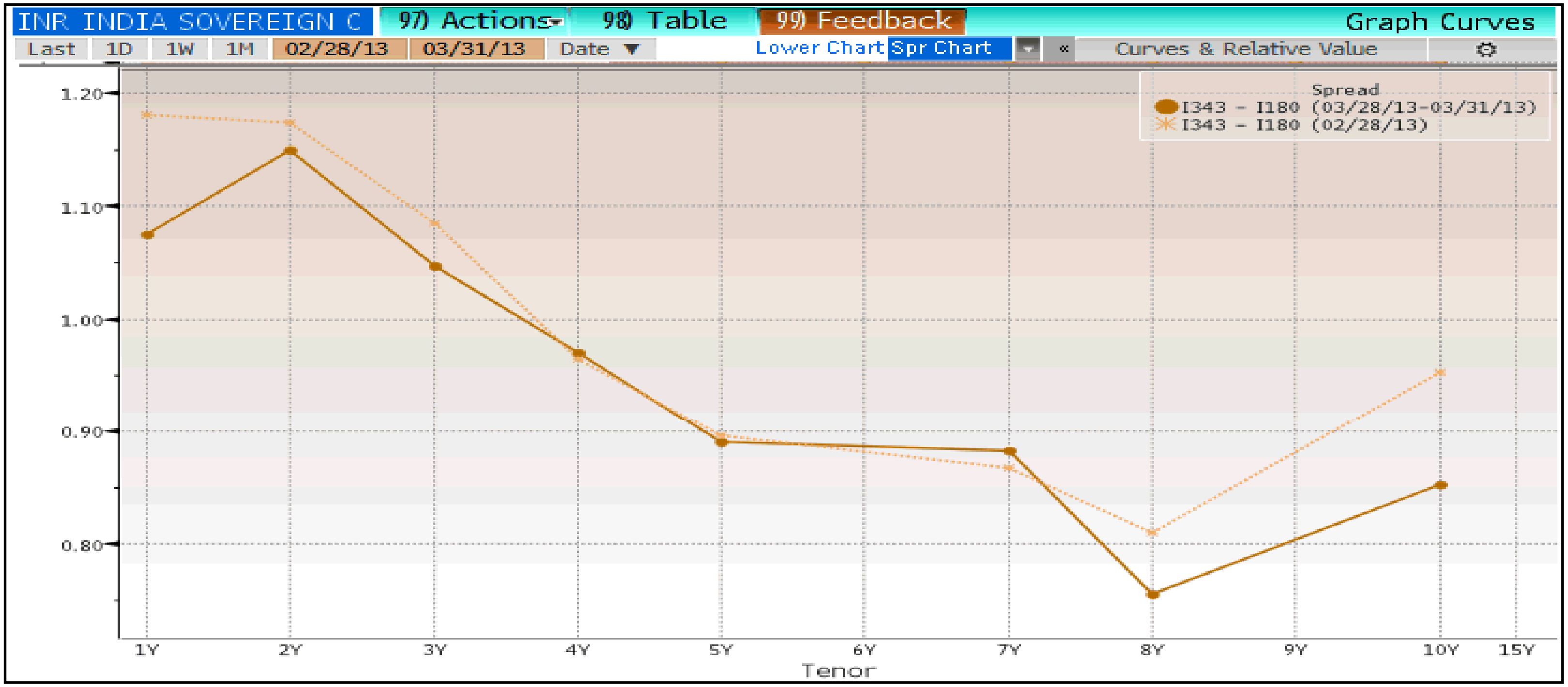
 Source: Bloomberg

Corporate Bond spreads widened



- The longer segment displayed some credit spread compression

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

Religare MF: Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- Fixed income market over the following month is expected to behave favorably at both the shorter and longer segment of the curve

- At the longer segment of the curve, some credit spread contraction is also expected as the supply of gilts will weaken the sentiment of investors, but might work in favor of corporate bonds as the supply might be lower as compared to the previous few months

- Supported by a possible improvement in the liquidity conditions on back of RBI induced liquidity enhancement measures (OMO and CRR reduction) and government spending, the yields of most short maturity assets are expected to soften over the months

- Based on our assessment of the economic & market parameters, we feel the risk reward matrix is in favor of staying invested in the debt market. However, while the drop in GDP growth data, IIP data and the core and WPI inflation are in favor of pursuing a benign rate environment by RBI, a sticky inflation might limit the rate reductions

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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 and 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 reduced with changing market. The duration of the fund has been actively managed within 2-7 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 between 3-7 years
- **Religare Gilt Fund – Short Duration Plan:** The fund has been actively trading in the liquid segment of the gilts market. It's 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 core inflation. 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 24-84 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

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/0313/CO0778

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