

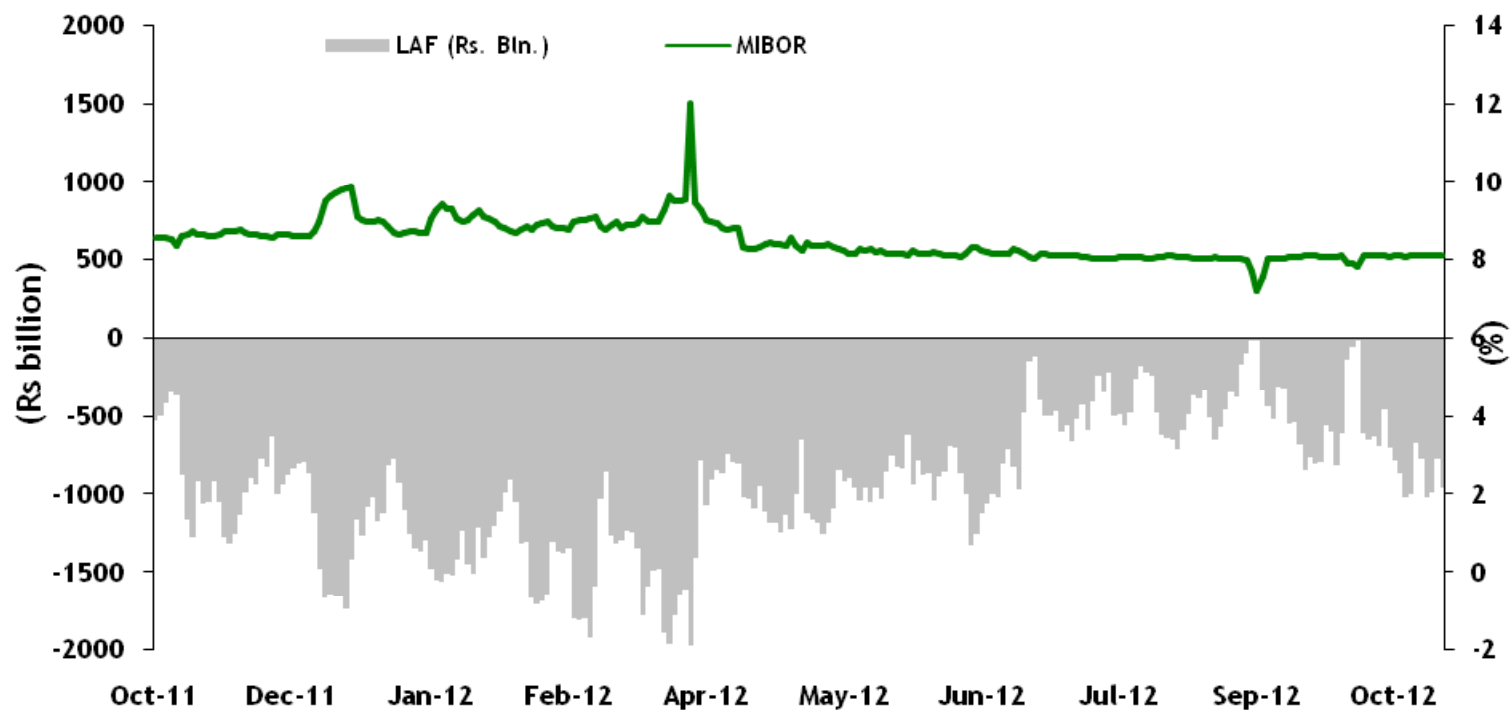
Fixed Income Markets : Current Environment and Outlook

Sujoy Das, Head of Fixed Income
October 2012

Macro Economic Events - Domestic

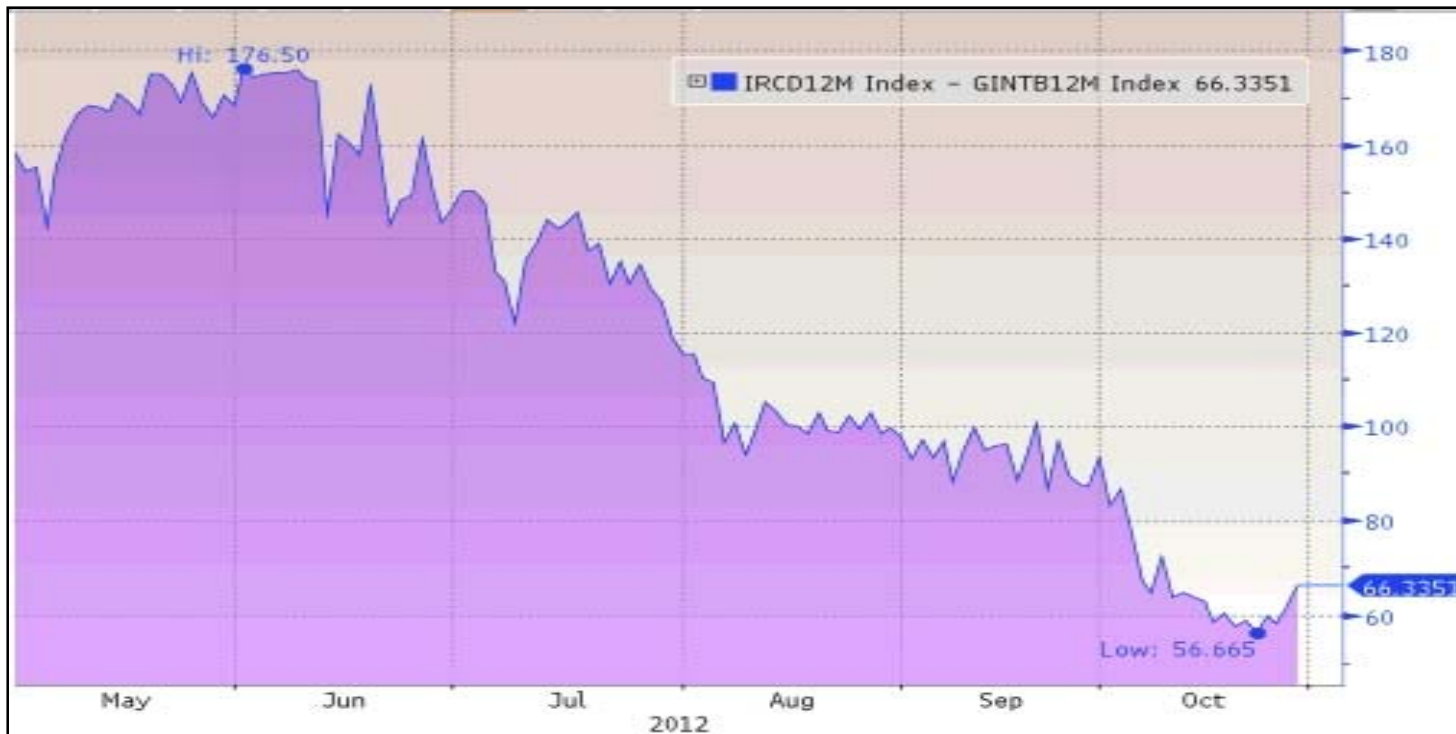
- Exports have been negative for the month of Sept' 12, which was at 10.8% (vs. - 9.7% previous month).
- Imports too have been negative at 5.1% (vs Aug'12 -5.1%).
- IIP growth on YoY basis was -0.4% for September 2012 compared to 2.3% in previous month.
- The headline WPI inflation was 7.45% for Oct'12, compared to 7.81% in September' 12.
- A slowdown in the economic activity has moderated the M3 growth to 13.1% in Oct'12.
- Disaggregated data show that barring agriculture, credit growth has decelerated across major sectors, particularly infrastructure.

Liquidity



- The liquidity deficit conditions deteriorated over the month due to the increase in currency in circulation. The liquidity on an average for the month has remained negative by Rs. 671 billion.

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



- The yields of money market securities traded within a band of 20bps.
- The spreads widened marginally.



Inflation Dynamics



- The average WPI inflation is higher than RBI target of 7.5% for March'13.
- The complete pass through of the diesel price hike will have deeper impact on inflation.



G-Sec Yield Curve - marginal drop

10 Year G – Sec Yield Curve



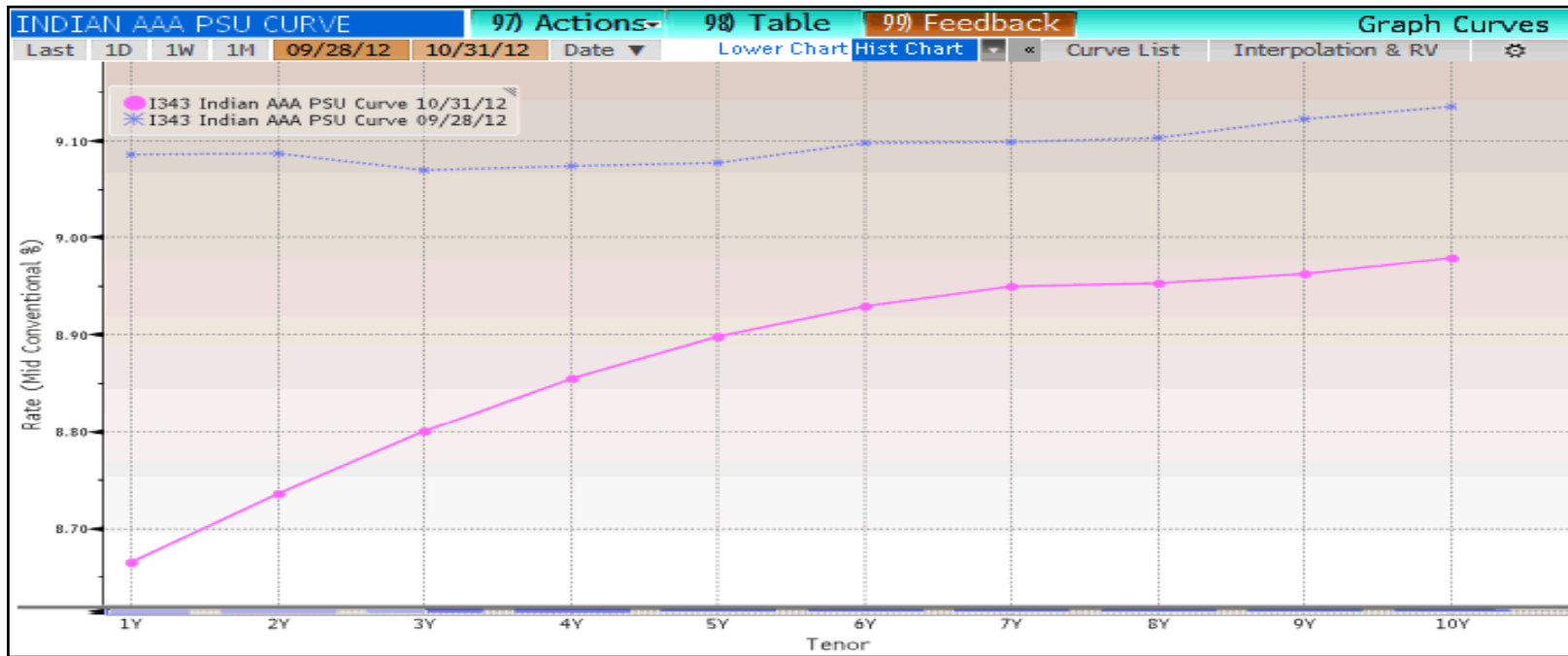
G – Sec Yield Curve Change



- There was a small drop in the yields of sovereign papers over the month.
- The drop in yields was initially led by an investor demand .
- The yields did not move below 8.12% since the repo rate was unchanged by RBI at 8%.
- The fear of additional market borrowing continues.
- The disappointment of no rate cut by RBI hardened the yields by about 10bps.



Corporate Bond Yields moved lower



- The corporate yield curve came off sharply over the month due to strong investor demand for corporate assets across the curve.



Religare MF: Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- By the first quarter FY14, the liquidity condition is expected to be comfortably surplus ,due to RBI actions on CRR and Government spending in the new FY.
- This is expected to have a softening bias on the yields of money market securities.
- Risk aversion is expected from investors and top quality credits, including Public Financial Institutions (PFI) are expected to outperform during this phase of deterioration in the asset quality within the financial system.
- While WPI inflation continues to worry the policy makers, some token rate reduction by RBI is expected before March'13 end.
- Based on the forward guidance of a rate easing stance by RBI, the present quarter provides an excellent opportunity for investors to consider income funds with duration longer than their investment horizon.
- The risk-return matrix is tilted in favor of a capital gain over the next 6-12 months.

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 25% 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 1-3 years space.

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 duration of the fund has been actively managed within the 2 – 5 years 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, high inflation and forward guidance of an easing cycle by RBI. Investors are encouraged to select funds maintaining longer duration than their investment horizon. Moreover, investors are encouraged to rebalance every 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 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 24-60 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/1112/CO0675



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

