Fixed Income Markets :
Current Environment and Outlook

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September 2012

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Macro Economic Events - Domestic

- The macro data released over the month of September'12 continued to display moderating growth and higher headline inflation
- IIP growth on YoY basis was 2.7% for August 2012 compared to -0.2% previous month
- The headline WPI inflation was 7.55% for August'12 compared to 6.87% in July'12
- The CPI inflation was at 10.03% in August'12 compared to 9.86% in July'12
- Exports have been negative for the month of August'12, which was at 9.7% (vs. -14.8% previous month)
- Imports too have been negative at 5.1% (vs. -7.6% in July'12)

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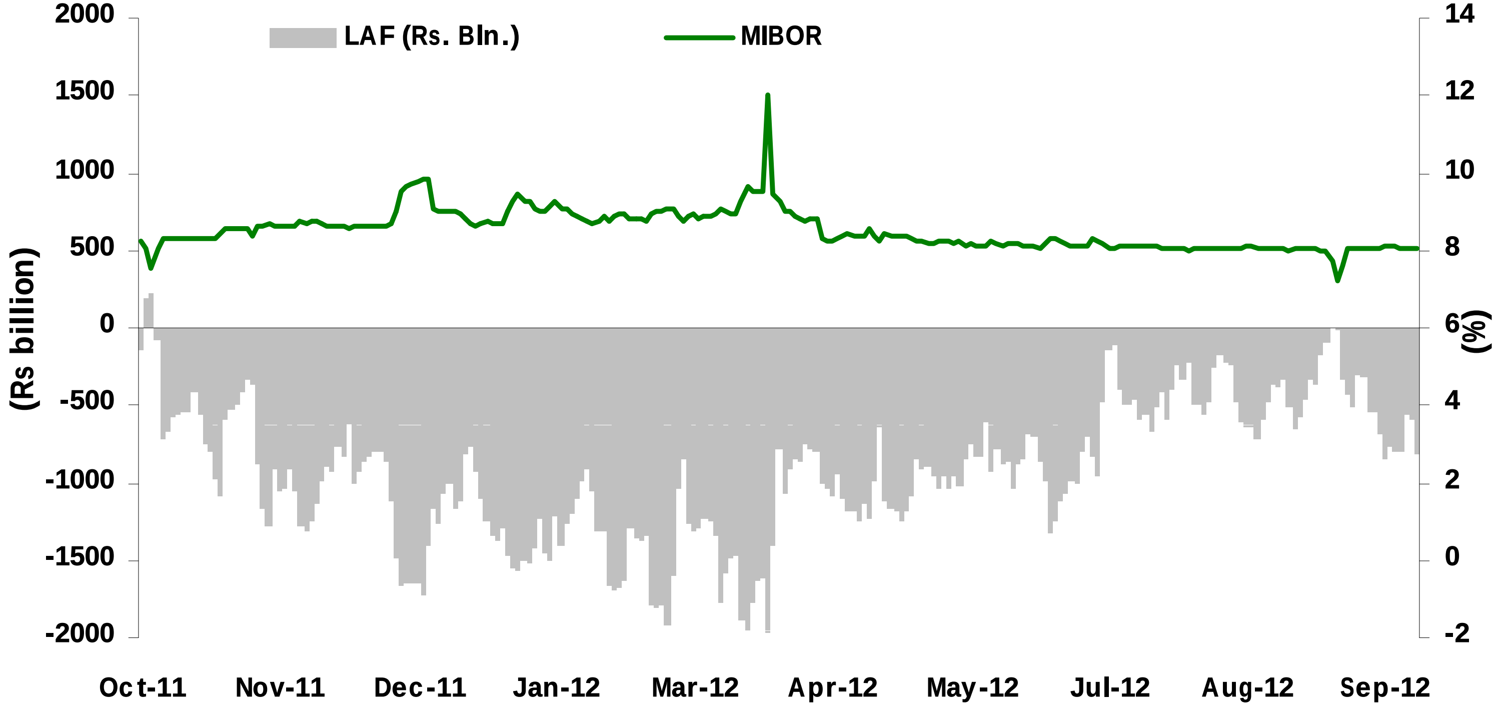
Liquidity



- The liquidity conditions within the banking system post the advance tax outflows deteriorated further. The liquidity on an average for the month has remained negative by Rs. 482 billion

- The CRR reduction infusion of Rs 17,000 crore was timely

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Source: Bloomberg

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

- There was some small compression in the credit spreads of money market assets
- Credit spreads of only superior credits are compressing amidst wide spread risk aversion

Source: Bloomberg

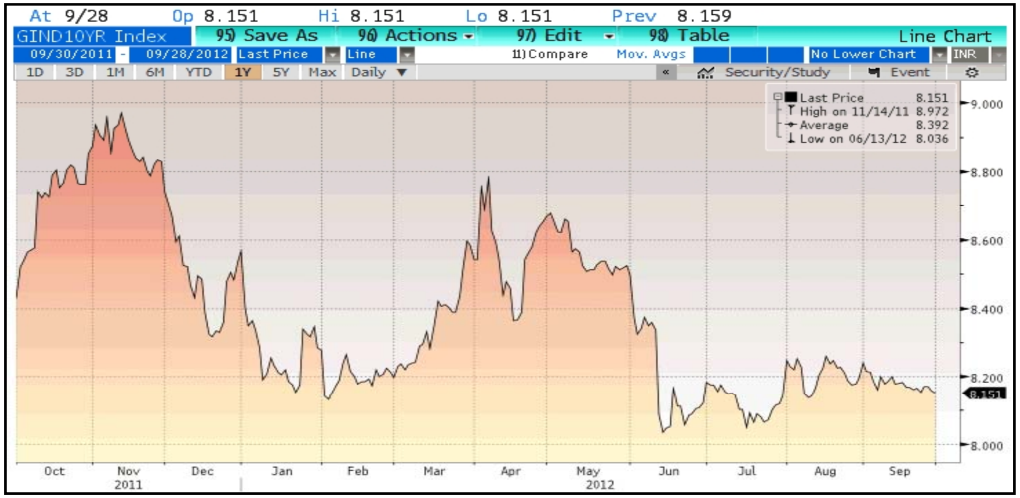
Inflation Dynamics

- High inflation worries continue and the fear of higher inflation due to diesel price hike

Source: Bloomberg

G-Sec Yield Curve – marginal drop

10 Year G – Sec Yield Curve



G – Sec Yield Curve Change

- There was a marginal drop in the 10 year benchmark sovereign yields over the previous month
- Initially the yields dropped marginally amidst a higher than expected WPI inflation, along with expectations of a rate reduction from RBI
- However, no rate reduction by RBI disappointed the market participants
- In general there was a drop in yields across the yield curve for most of the maturity segments

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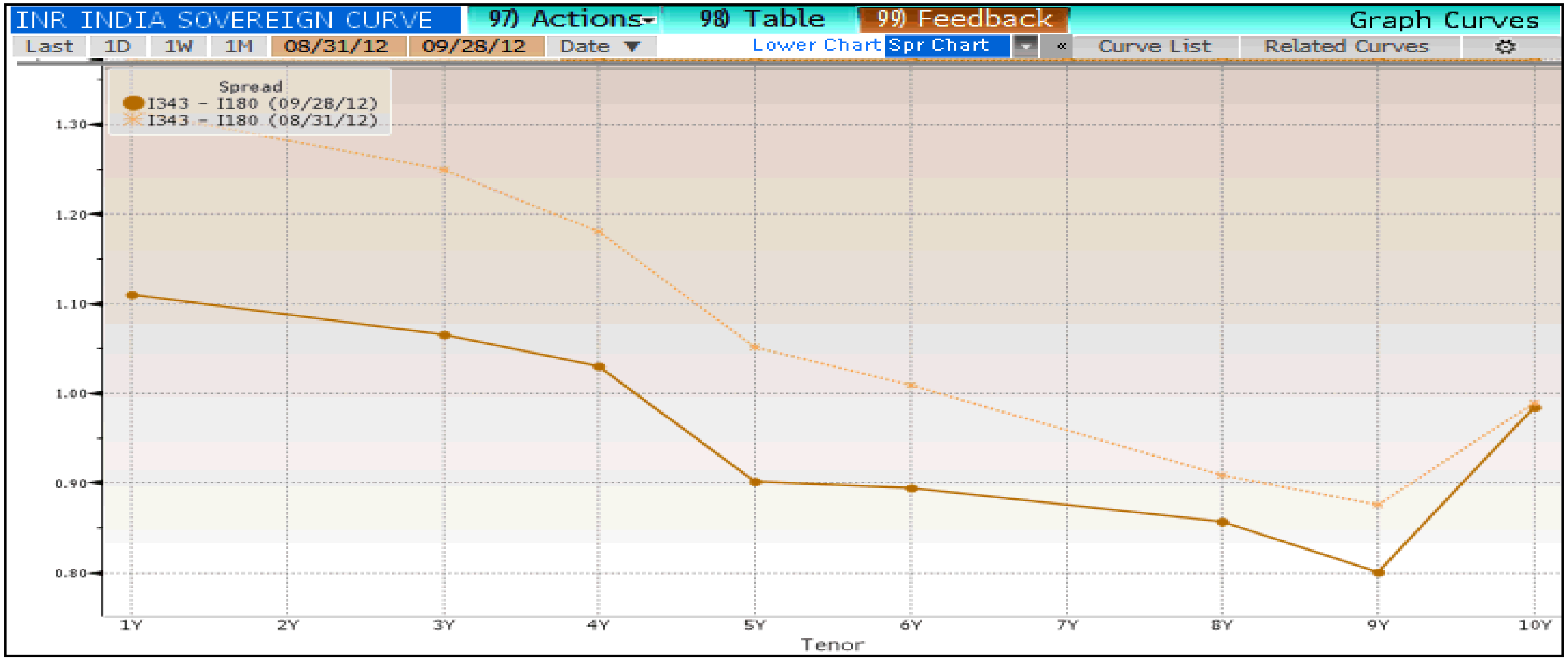
Source: Bloomberg

Corporate Bond Spreads contracted



- The credit spreads compressed sharply across maturities as market players bought more of corporate credits for higher absolute yields
- The drop in credit spreads was witnessed more in shorter maturity assets compared to the drop in spreads for 5 year plus securities

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Source: Bloomberg. I344: Indian AAA Corporate Curve, I180: INR Indian Sovereign Curve

Religare MF: Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- The decline in money market yields might get muted over time as the currency in circulation with public increases over time due to the onset of the festive season

- There has been serious deterioration in the asset quality within the financial system. The credit risk premium has been on the rise over the previous 1-2 quarters. We feel there might be some further deterioration in the credit conditions before any improvement

- Moreover in the absence of any drop in the repo rate, further drop in yields below 8% seems unlikely

- In an unlikely situation of an improved liquidity condition within the banking system there might be continued downward decline in the money market yields

- While market participants re-position for the upcoming RBI credit policy review towards end of Oct'12, the WPI inflation data for the previous month is expected to mute the downward decline in yields, as it is going to print a number post the Rs 5/l diesel price hike

- Expect the risk aversion to continue yields of superior quality papers to witness downward decline in yields along with credit spread compression

- Although the recent policy document of RBI is tilting towards pro-growth, but needs to be cognizant of the harmful effect of a lower interest rate regime during a phase of high inflation. Its effect on financial capital formation & possible drop in financial savings rate

- 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

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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 3-6 month and 2-3 years 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 PFI credit segment apart from the 10 year plus gilt segment. The duration of the fund has been actively managed within the 1 – 4 years range along with exposure in the 10 year plus liquid gilts segment

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Ideas for investors

- The market opens up opportunities for investors in an environment of a moderating GDP growth, high inflation and small alteration in the hawkish RBI stance. Investors are encouraged to select funds maintaining longer duration than their investment horizon. Moreover, investors are encouraged to rebalance every 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

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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

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