

## Key Market Highlights

- In a surprise move, RBI raised Repo rate from 4.75% to 5.00% and Reverse Repo rate from 3.25% to 3.50% on March 19, 2010 citing the risk of food price inflation translating into a more general inflation.
- India's IIP growth continued its strong performance with 16.7% growth for January 2010 v/s 17.6% growth for December 2009 (revised upwards from 16.8%).
- Export growth improved from 11.5% for January 2010 to 34.8% for February 2010.
- Import growth improved from 35.5% for January 2010 to 66.4% for February 2010.
- Inflation numbers continued its journey towards double digit, with WPI inflation coming at 9.89% for February 2010 v/s. 8.56% for January 2010, which was led by primary articles to 15.5% (food price inflation was high at 17.8%), fuel prices by 10.2% and manufactured products by 7.4%
- Credit growth further improved to 16.05% in mid March v/s 15.07% in mid February 2010.
- Deposit growth also improved to 18.14% in mid March v/s 16.59% in mid February 2010.

*Source: [www.rbi.org.in](http://www.rbi.org.in)*

## Borrowing Calendar

- RBI announced the borrowing calendar for first half of FY2010, with 63% of the borrowing to be completed during H1 FY2010.
- There is higher supply in 5-9 yr maturity papers, which could cause the yield curve to flatten going forward.
- Borrowing per week amounts to Rs.10,000-15,000 crs starting first week of April 2010.

*Source: [www.indiabudget.nic.in](http://www.indiabudget.nic.in)*

## Market Impact

- Government securities market was volatile during the month of March 2010. With IIP growth for January coming strong once again at 16.7% and inflation heading higher at 9.89% for February, the sentiment turned bearish and the yield on 10 yr benchmark bond breached 8.00% mark and went upto 8.02%. However, during the second half of the month, we saw buying interest in the market at this level as there was no economic data scheduled for release during the rest of the month and also due to lack of supply of G-sec. on March 19, 2010, RBI, in a surprise move, before the scheduled policy meeting in April, hiked the policy rates i.e. Repo rate and Reverse Repo rate by 25 bps each to 5.00% and 3.50% respectively. This caused further volatility in rates. However, there was consistent buying support seen around 8.00% for 10 yr benchmark bond and it settled at around 7.85% at the end of the month.
- RBI also announced the government borrowing calendar for H1 FY2010 and on expected lines, front loaded the borrowing programme with 63% of entire year borrowing (i.e. Rs 287,000 crs) slated to be borrowed during H1 FY2010. Going forward, as the supply hits the market, yields are expected to harden and may again breach 8.00% level by next few weeks. Also, during third week of April, RBI has its quarterly policy review meeting, where it is expected to continue with its exit of accommodative monetary policy stance with further 25-50 bps hike in Repo / Reverse Repo rate and CRR.
- Yield on 6.35% 2020 maturity G-sec bond, was flattish at 7.85% at the end of March 2010 from 7.86% at the end of February 2010. Yield on 6.49% 2015 bond softened by 5 bps from 7.56% to 7.51% during the month of March 2010.
- Corporate bond yields softened during the month with yield on 10 yr bonds softening from around 8.95% to around 8.85% during the month. Similarly, yield on three yr bonds softening from around 7.80% to around 7.60% during March.
- INR Swap curve also softened with 5 year swap rates coming down from 7.02% to 6.90%. The 2 year OIS rate was flattish at around 5.67-77% during the month.

## Our assessment

INR Yields were volatile during March on account of:

1. Robust Industrial production at 16.7% and a higher inflation at 9.89% which pushed up the yield of 10 year benchmark up to more than 8.00% mark. Expectation of good growth numbers and high inflation kept the yields up for the first half of the month.
2. However, during the second half of the month, buying interest was seen in the market as there was no economic data scheduled for release during rest of the month and due to lack of supply of bonds.
3. RBI hiked both Repo rate and Reverse Repo rate on March 19, 2010 which caused further volatility in the rates.
4. By the end of the month, yields softened again as market was expecting the borrowing calendar for H1 FY2010 to be less front loaded than previous year.

## Going Forward

1. Markets are expected to remain bearish in the near term as supply of bonds starts in the first week of April and the weekly supply of bonds is around Rs. 10,000-15,000 crs.
2. Also, the growth numbers are expected to remain strong and inflation is also expected to breach 10.00% for the month of March 2010.
3. RBI in its quarterly monetary review policy meeting, is expected to hike the policy rates by another 25-50 bps along with another CRR hike.
4. The corporate bond curve is also expected to remain bearish and would track movement of the base G-sec curve.

## Our Portfolio Strategy

### Recap - March 2010

1. In the ING Income Fund and ING Gilt Fund Provident Fund Dynamic Plan, we reduced duration as we had a bearish view on the interest rates.
2. In ING Short Term Income Fund we increased accrual assets to around 70-75% of the fund for steady accrual income. We also increased exposure to 3-6 month CDs, which were trading at attractive rates.
3. In ING Liquid Fund and ING Treasury Advantage Fund, we maintained a judicious mix of cash and very short term instruments. We also increased exposure to three month CDs, which were trading at good valuation and with liquidity expected to remain easy for next few months, the yields on 3 month papers would soften in April.

### Strategy going forward

1. In the ING Income Fund and ING Gilt Fund Provident Fund Dynamic Plan, we would look to actively manage duration to take advantage of any mispricing. We would continue to keep lower duration as markets are expected to remain bearish. However, if the market over reacts and yields are at a very attractive level, we would look to increase duration.
2. In the ING Short Term Income Fund we would have 70-75% exposure to accrual assets for steady income and have very low mark to market component as our view on short term rates is bearish.
3. In ING Liquid Fund and ING Treasury Advantage Fund, we would continue to maintain a judicious mix of cash and very short term instruments.

## Gilt Outlook Matrix

	Outlook	Key Drivers	Key Risks
<b>Short Term</b>	➤ Negative	<ul style="list-style-type: none"> <li>➤ Expectation of further tightening measures by RBI in the form of rate hikes along with CRR hikes</li> <li>➤ Supply would start in April with 10-15k cr of weekly borrowing</li> <li>➤ Concerns on high inflation</li> </ul>	<ul style="list-style-type: none"> <li>➤ Lower than expected inflation number</li> <li>➤ Weak growth numbers</li> <li>➤ Less than expected tightening by RBI in its quarterly monetary policy</li> </ul>
<b>Long Term</b>	➤ Negative	<ul style="list-style-type: none"> <li>➤ Rise in central bank policy rates</li> <li>➤ Continuous supply of G-sec bonds</li> </ul>	<ul style="list-style-type: none"> <li>➤ A possible “U” shaped recovery scenario for the world economy</li> </ul>

## Corporate Bond Outlook Matrix

	Outlook	Key Drivers	Key Risks
<b>Short Term</b>	➤ Negative	<ul style="list-style-type: none"> <li>➤ Bearishness in the underlying G-sec base curve as there are concerns on the inflation and govt borrowing</li> <li>➤ Expectation of tightening measures by RBI including rate hike and / or CRR hike</li> </ul>	<ul style="list-style-type: none"> <li>➤ Stability in inflation numbers</li> <li>➤ Weak growth numbers</li> </ul>
<b>Long Term</b>	➤ Negative	<ul style="list-style-type: none"> <li>➤ Continuous supply of G-sec bonds</li> <li>➤ Rise in central bank policy rates</li> <li>➤ Large investors in fixed income mutual funds can exit in one day</li> </ul>	<ul style="list-style-type: none"> <li>➤ Lower pick up in credit growth</li> <li>➤ A possible “U” shaped recovery scenario for the world economy</li> </ul>

## Month end levels

**Sovereign:** The yield on the ten year sovereign bond was flattish at 7.85% compared to 7.86% at the end of previous month.

**Credits:** The yield on the 1 year CDs softened from 6.80% in previous month to around 6.35%. During this month, the yield on a 10 yr AAA corporate bond softened from 8.95% at the end of February 2010 to around 8.85% at the end of March 2010.

**OIS:** 2 year rate was flat from 5.69% at the end of February 2010 to 5.68% at the end of March 2010.



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INVESTMENTS

[www.ingim.co.in](http://www.ingim.co.in)



**Investment Objective: ING Income Fund:** To generate attractive income by investing in a diversified portfolio of debt and money market instruments of varying maturities, and at the same time provide continuous liquidity along with adequate safety. **ING Gilt Fund Provident Fund Dynamic Plan:** The primary objective of the scheme is to generate relatively risk free return by investing in sovereign instruments issued by the central/state government as defined under section 2 of Public Debt Act, 1944. The scheme will not make investments in any other type of security such as shares, debentures etc. **ING Short Term Income Fund:** To generate attractive income by investing in a diversified portfolio of debt and money market instruments of varying maturities, and at the same time provide continuous liquidity along with adequate safety. **ING Treasury Advantage Fund:** The scheme would aim to provide an investment avenue for investors preferring good liquidity and an investment horizon of 2 – 6 months. The scheme would be able to achieve its objectives by investing in a portfolio of money market and debt instruments. **ING Liquid Fund:** To provide reasonable returns while providing a high level of liquidity and low risk by investing primarily in money market and debt securities. The aim is to optimize returns while providing liquidity.

**Statutory Details: Sponsor:** ING Group, **Trustee:** Board of Trustees of ING Mutual Fund, **Investment Manager:** ING Investment Management (India) Private Limited.

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