

Key Market Highlights

- Q4 GDP growth came at 8.6%, in line with estimates. Q3 GDP growth was revised upwards from 6.0% to 6.5%. FY11 GDP growth rate is expected to be around 8.0-8.5%.
- India's IIP growth continued its strong performance with 13.5% for March 2010.
- Export growth deteriorated from 54.1% for March 2010 to 36.2% for April 2010.
- Import growth also deteriorated from 67.1% for March 2010 to 43.3% for April 2010.
- Inflation numbers were flattish compared to last month with WPI inflation coming at 9.59% for April 2010 as against 9.90% for March 2010, which was led by primary articles 13.9% (food price inflation was high at 16.9%), fuel prices by 12.6% and manufactured products by 6.7%. Inflation is expected to plateau from here and slowly move lower as higher base effect kicks in.
- Credit growth further improved to 17.64% at the end of April 2010 v/s 16.98% in end March 2010
- Deposit growth deteriorated marginally to 15.31% at the end of April 2010 v/s 17.13% in end March 2010

Source: www.rbi.org.in, Bloomberg

Market Impact

- Government securities market was highly volatile during the month of May 2010. Concerns on Eurozone and a possible sovereign default, speculation on 3G auction impact on market, falling Euro currency and commodity prices were the key highlights of the month.
- Inflation continued to remain very close to the double digit mark at 9.59% for April as against 9.90% for March. The inflation figure released was as per market expectation and hence sentiment was neutral and inflation concerns took a back seat while focus shifted to global macroeconomic developments. The IIP fell from 15.1% in February to 13.5% in March reflecting a marginal slowdown in the industry which fueled the positive sentiment in the bond market.
- The 3 G auction ended this month with much higher than expected accruals of around INR 67 bn. With statements coming from the Finance Ministry that the money would go towards reducing fiscal deficit, market started factoring in a reduction in borrowing programme for the second half of FY10-11. As a result, the market sentiment remained buoyant.
- In the beginning of the month, a fresh 10 yr paper was issued which was aggressively absorbed by market participants. The 10 yr benchmark, traded in a wide range of 7.35%-8.00% during the month. With a fall in US treasury yields, sharp rise in PIIGS economies CDS, fall in global equities and fall in crude prices, sentiment in the G-sec market remained bullish and yields softened across the curve. However, by end of the month, there was a reversal across asset classes and reduction in risk averseness and consequently we saw the yields hardening and the 10 yr benchmark bond yield firmed up to 7.53%
- While volumes remained healthy in the 10 yr bond, the 12 yr bond i.e. 8.20% 2022 also remained a very liquid paper and outperformed the 10 yr bond on several occasions. The spread between the two bonds ranged between 19-29 bps.
- Corporate bond yields remained range bound with volumes concentrated in the 1 yr – 3yr bond segment. Volumes in the month of May were much lesser than in April. The shorter end of the corporate bond curve softened 5-20 bps tracking the Gsec curve.
- INR Swap curve softened with 5 year swap rates closing at 6.53%, as against previous month's closing of 6.83%. The 2 year OIS rate softened from 5.53% at the end of previous month to around 5.47% at the end of May 2010.

Our assessment

INR Yields were volatile during May on account of:

1. Fall in Industrial production growth from 15.1% to 13.5% has kept the sentiment upbeat while the market showed concerns on a higher inflation at 9.59%
2. Global macroeconomic developments and concerns on Eurozone kept market participants on their toes. Softening global treasuries, falling crude prices, and falling equities induced softening in interest rates.
3. The 3G auction accruals were more than what the market estimated and gave an additional sentiment boost in the market.
4. By the end of the month, we saw investor interest coming back towards risk assets and hence there was a reversal in interest rates and they firmed across the globe.

Going Forward

1. We expect markets to continue keeping a close watch on global environment and track the movements closely.
2. Markets are expected to remain volatile in the near term as on the one hand there is continuous supply of bonds of around Rs 11,000-15,000 crs per week, which would push the yields upwards.
3. Also, the growth numbers are expected to remain strong and inflation is also expected to remain in high single digit for the month of May 2010.
4. The government officials have also indicated that the global economic condition will be assessed and will be taken into consideration while shaping domestic policies.
5. The corporate bond curve is also expected to remain volatile and is expected to track movement of the base G-sec curve. The shorter end of the curve is expected to remain liquid and stable due to investor interest.

Our Portfolio Strategy

Recap - May 2010

6. In the ING Income Fund and ING Gilt Provident Fund Dynamic Plan, we managed duration actively. We had a high duration in the beginning as we had a bullish view on the interest rates looking at global factors. However, by the end of the month, when yields had softened we reduced duration.
7. In ING Short Term Income Fund we reduced the 1-2 year bonds exposure to around 20% of the fund.
8. In ING Liquid Fund and ING Treasury Advantage Fund, we maintained a judicious mix of cash and very short term instruments.

Strategy going forward

1. In the ING Income Fund and ING Gilt 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 around 20-25% exposure to 1-2 year bonds as there is strong buying interest in such assets. We would increase exposure to accrual assets to 50-55%, which are being traded at higher rates currently due to tight liquidity situation currently.
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 |
|-------------------|-----------|---|--|
| Short Term | ➤ Neutral | <ul style="list-style-type: none"> ➤ Fear of a double dip recession world over due to sovereign risk seen as a contagion spreading to financial and banking system as well ➤ Expectation of weak growth due to problems seen in Euro region | <ul style="list-style-type: none"> ➤ Quick and meaningful resolution of the Euro sovereign debt crisis ➤ Stronger than expected global / domestic growth numbers ➤ More than expected tightening by RBI of policy rates |
| Long Term | ➤ Neutral | <ul style="list-style-type: none"> ➤ Expectation of weak growth due to problems seen in Euro region. ➤ Reduction in Fiscal deficit due to good response to 3G auction and possibility of good mobilization due to disinvestment | <ul style="list-style-type: none"> ➤ Quick and meaningful resolution of the Euro sovereign debt crisis ➤ Stronger than expected global / domestic growth numbers ➤ More than expected tightening by RBI of policy rates |

Corporate Bond Outlook Matrix

| | Outlook | Key Drivers | Key Risks |
|-------------------|-----------|--|---|
| Short Term | ➤ Neutral | <ul style="list-style-type: none"> ➤ Expectation of continuing softness in the base G-sec Curve ➤ Expectation of weak growth due to problems seen in Euro region | <ul style="list-style-type: none"> ➤ Stronger than expected global / domestic growth numbers ➤ More than expected tightening by RBI of policy rates ➤ Higher than expected tightening in system liquidity |
| Long Term | ➤ Neutral | <ul style="list-style-type: none"> ➤ Expectation of continuing softness in the base G-sec Curve ➤ Expectation of weak growth due to problems seen in Euro region | <ul style="list-style-type: none"> ➤ Stronger than expected global / domestic growth numbers ➤ More than expected tightening by RBI of policy rates ➤ Higher supply of bonds due to higher issuance by PSU /Pvt sector issuers |

Month end levels

Sovereign: The new 10 year benchmark bond i.e 7.80% Govt bond maturing in 2020 closed at 7.53% by end of May 2010

Credits: The yield on the 1 year CDs hardened from 6.10% in previous month to around 6.50%. During the month, the yield on a 10 yr AAA corporate bond softened from 8.70% at the end of previous month to around 8.65% at the end of May 2010.

OIS: The 2 year OIS rate softened from 5.53% at the end of previous month to around 5.47% at the end of May 2010.



Mr. Ramanathan K

Chief Investment Officer – Single Manager Division, ING Investment Management (India) Pvt. Ltd.

INVESTMENTS

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 a shares, debentures etc. **ING Short Term Income Fund:** An open ended income Scheme which seeks to generate an attractive return for its investors consistent with capital preservation and liquidity by investing in portfolio of quality debt securities, money market instruments and structured obligation.. **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.

RISK FACTORS: Mutual Funds and securities investment are subject to the market risks, and there is no assurance or guarantee that the objectives of the Schemes will be achieved. As with any investment in securities, the NAV of the units issued under the Scheme can go up or down depending on the factors and the forces affecting the capital markets. Past performance of the Sponsors/ Mutual Fund or their affiliates does not indicate the future performance of the Scheme. The Sponsors and associates are not responsible or liable for any loss resulting from the operation of the Scheme beyond the initial contribution of Rs. 1 lakh made by them towards setting of the Mutual Fund. The names of the Schemes do not in any manner indicate either the quality of the Scheme or its future prospects and returns. The Schemes do not guarantee or assure returns. Please read the Scheme Information Document /Statement of Additional Information / Key Information Memorandum carefully before investing. **Important Disclosure:** This Document and the Information contained herein do not constitute a distribution, an endorsement, an offer to buy or sell or the solicitation of an offer to buy or sell any securities or any other financial products / investment products (collectively "Products") mentioned in this Document or an attempt to influence the opinion or behavior of the Investors/Recipients. All such Information in the Document should not be relied upon and does not constitute any investment advice and any use of the Information / any investments and investment related decisions of the Investors/Recipients are at their sole discretion & risk. Investors/Recipients must make their own investment decisions based on their own specific investment objectives, their financial position and using such independent professional advisors, as they believe necessary, before investing in any Products. This Document has been prepared on the basis of information, which may be already available in publicly accessible media or developed through analysis of ING Investment Management (India) Private Limited. Under no circumstances should this Information or any part of it be copied, reproduced or redistributed. ING may or may not have a position in or with respect to the Products mentioned. ING Investment Management (India) Private Limited, its affiliates/associates (collectively "ING"), their directors, employees, representatives or agents shall not be liable or responsible, in any manner whatsoever, to any Investor/Recipient or any other person/entity, for the performance/profitability/operations of the Products, the contents of any document (including the Terms of Offer) or any investments in the Products including any and all direct, special, punitive, indirect, or consequential damages (including lost profits), even if notified of the possibility of such damages.

Except for the historical information contained herein, statements in this publication, which contain words or phrases such as 'will', 'would', etc., and similar expressions or variations of such expressions may constitute 'forward-looking statements'. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. ING Investment Management (India) Pvt. Ltd undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof. The words like believe/belief are an independent perception of the Fund Manager and do not construe as opinion or an advice.