

ORANGE VIEW



F E A T U R E S

- Global Economic Outlook..... Pg 2
- Asian Economic Outlook..... Pg 4
- Indian Economic Outlook..... Pg 5
 - Equity Market Insights
 - Debt Market Insights
- Key Global Forecasts..... Pg 8

YOUR  TO INVESTMENTS

Global Economic Outlook

World

- Global equity markets delivered a stellar performance in March gaining 7.60% with all regions participating. Unsurprisingly, emerging markets outperformed developed markets by a large margin gaining 14.38%.
- Moderation in the pace of deterioration of certain economic indicators in the key US economy notably home sales and manufacturing data have provided a fillip to investor sentiment after many months of continuously deteriorating data flow.
- The ability of the Chinese government to prevent the world's third largest economy from sliding into a stagnating state has provided the other crucial motivation for a higher level of confidence.
- Repairing sentiment towards global economies has also boosted commodity prices both hard and soft. On the flip side, Gold prices have corrected as risk tolerance has increased.

United States

- Nearly \$13 trillion, an amount approaching the US GDP in 2008 has been spent or committed so far in saving the US economy from a protracted recession. This has stalled the downward spiral at least temporarily.
- Net exports, manufacturing data, housing sales, mortgage applications, durable goods etc. have all come in slightly better than the extremely depressed levels expected. All indicators however remain near record lows consistent with a sharply contracting economy.
- The supply demand balance has turned more favourable in the US economy as inventory adjustment has been sharp and swift. The drag from tighter credit conditions on growth also seems to be fading because of aggressive policy action. Coupled together, it presents a more encouraging growth scenario in 2H2009.

Europe

- During the past two quarters Europe's economic performance was broadly in line with the US. This correlation is about to be tested as European companies have been slow in adjusting their workforce. With the pace of job shedding now gaining momentum, European households will therefore see significantly weaker income gains in the coming months with fiscal support providing only a limited cushion.
- In line with other regions, Europe has also seen a mild moderation in the deterioration of economic indicators.

Japan

- The Japanese central bank has supported money markets via its 'quantitative expansion' operations. These have been complimented by JPY 2 trillion in cash handouts and an extraordinary level of fiscal stimulus, the most recent being announced last week totalling JPY 15.4 trillion (3% of GDP).
- Such aggressive intervention is likely to lead to an upward revision in growth estimates for the Japanese GDP in the last two quarters of 2009.
- While Japanese companies have reacted swiftly in reducing capacity expansion and destocking inventory, the adjustment in the labour force has been poor. As a result, corporate profit margins have plunged to their lowest level in decades.

Global Market Insights

Equities

- The equity market rally began as a few leading financial companies in the US and Europe indicated their return to operating profitability in 1Q2009. Expectation of bank profitability has been further bolstered by changes to fair-value from mark-to-market accounting rules approved by the FASB on April 2.
- While investor sentiment has clearly improved and markets have witnessed a smart rally it is only appropriate to be reminded that such bear market rallies are indeed the norm and have occurred in all previous bear markets e.g. mid seventies (first oil crisis), early eighties (second oil crisis), early nineties (US Savings & Loans crisis), early this decade (IT bubble), not to mention the early thirties (the great depression).
- These similarities do not automatically imply that the current bear market will also follow this pattern but it is better to realise that there is a high probability that markets will dip again providing an entry point for an ensuing rally. A neutral weighting is recommended as the risk of getting sucked in at the tail end of a bear market rally is now high. The US corporate earnings season as well as the ongoing stress test for US banks may provide the next opportunity.

Bonds

- Quantitative easing ("QE") spreads as more central banks across the globe shift to explicit measures, effectively limiting the upside risks for bond yields.
- Announcement of the US QE program pushed US bond yields lower, although after the initial sharp reaction, yields grinded higher on the back of continuing supply pressure, tentative signs of bottoming in underlying fundamentals and a rebound in risk appetite.
- We expect heavy bond issuance by governments on the back of aggressive fiscal pump priming, but this will be absorbed by increased savings and fundamentals which will dominate as drivers for the bond yields.
- With increasing expectations for a larger role (increased funding) by the IMF in stabilising emerging economies, pressure on the EUR on account of concerns about EU stability have diminished. Coupled with a reluctance to move to QE, EUR is likely to strengthen versus USD. JPY fundamentals continue to dereriorate (very weak growth, current account deficits), with JPY losing it's status as beneficiary of deleveraging flows.
- We recommend a neutral exposure to international bonds.

Returns

- Equity markets delivered a stellar month – a record one month rally – in many markets. Emerging markets outshone developed markets.
- Global bonds regained some lost ground in March, on the back of lower UST yields post Fed's QE announcement and a strong performance by EUR.

Equities Benchmark	March	Year-to-Date	12 Months
MSCI World (USD terms)	7.54%	-11.92%	-42.58%
Bond Benchmark	March	Year-to-Date	12 Months
World Govt Bond Index (USD terms, unhedged)	2.54%	-4.81%	-3.75%

Source - Bloomberg

Asia Pacific Economic Outlook

Overview

- Export growth remains deeply negative though the rate of decline is slowing.
- Further signs of stabilization in the Chinese economy is giving a boost to deeply cyclical sectors such as commodities and shipping.
- Current account positions have not worsened significantly as the collapse in exports are being matched with falling imports.
- Unemployment rates across the region are moving sharply higher and will add pressure to domestic demand.
- Economic growth in the region nevertheless should outperform the rest of the world.

China

- China's PMI continued to edge higher to 49 in February showing tentative signs of possible economic stabilization.
- While both exports and imports fell 25.7% and 24.1% respectively in February , the trade surplus contracted dramatically to US\$4.84 billion.
- Industrial profit year to date collapsed by -37.3% YoY.

North Asia

- Hong Kong's unemployment rate remains on an upward trend reaching 5.0%.
- While Korea's exports fell 17.1% in February it was nevertheless an improvement over last month and along with industrial production up 1.3% MoM in January this may point toward nascent signs of economic stabilization.
- Similar to Korea, exports and industrial production in Taiwan fell 22.3% and 27.1% respectively in February and though alarming, was an improvement over previous month.

South Asia

- Indonesia cut interest rates by another 25bps further loosening monetary policy.
- With industrial production falling 20.2% in Malaysia, the 4Q08 employment rate of 3.1% is sure to climb in the near future.
- The current account surplus increased in Thailand in February as imports fell a dramatic 43.5%, far outpacing the 11.1% decline in exports.
- The unemployment rate in the Philippines shot up to 7.7% in January and along with a meager 0.1% growth in OFW remittance poses downside risk to domestic consumption.

Pacific

- As unemployment rate picks up to 5.2% in Australia and a 9.9% YoY decline in 4Q08 dwelling starts, point to a bleak outlook for the domestic property market.

Asia Pacific Market Insights

Equities

- While export growth continues to be deeply negative, recent data points suggests some level of stabilization is occurring with the pace of decline moderating.
- Current account position may not be severely eroded on specific country level as dramatic export collapse has often been matched by equally dramatic fall in imports.
- Equity capital raising to shore up balance sheets is expected to continue in Asia though the quantum is likely to be significantly smaller than it's western counterparts.
- Earning growth estimates continues to be revised downwards as analysts adjust earnings downwards due the worsening global economic outlook.
- Many investors remain on the sidelines with regards to the recent equity market rally as market consensus is that this is no more than a bear market rally with fundamental economic outlook remaining weak in the near to medium term.

Bonds

- Supply concerns remained a dominant factor for Asian local currency government bonds, resulting in successive months of weak performance.
- Quite a few central banks (India, Thailand, Indonesia, Taiwan and Korea) in the region have embarked on, or are exploring, some form of "quantitative easing" - for eg., through bond buybacks or debt switches. In addition, authorities (notably in Malaysia and Thailand) have taken greater cognizance of demand supply dynamics through changes to issuance schedules.
- Going forward, we expect the monetary easing bias to gradually lose momentum with a bulk of rate cuts being behind us. However, we believe that the fundamentals continue to remain broadly bond-supportive, in form of weak growth, low inflation and accommodative monetary stance. The supply overhang, though, may result in phases of bond weakness.
- Asian currencies rebounded strongly during March on the back of increased risk appetite. For the foreseeable future, we expect Asian currencies to continue to be largely governed by risk appetite plays and broad USD moves.
- We recommend being neutral in this asset class.

Returns

- There was broad participation from Asian stock markets in the global equity rally with Korea and Indonesia leading. Signs of stabilisation in the Chinese economy was the key positive influence.
- Asian local currency debt recorded a positive return after two successive months of losses, as the rebound in Asian currencies more than offset the impact of modestly higher bond yields.

Equities Benchmark	March	Year-to-Date	12 Months
MSCI Asia Pacific Ex Japan (USD terms)	14.86%	-0.04%	-44.31%

Bond Benchmark	March	Year-to-Date	12 Months
HSBC Asia Local Bond Index (USD terms)	3.21%	-4.70%	-6.55%

Source - Bloomberg

Recommended Asset Exposures	
International Equities	Underweight
Asian Equities	Neutral
International Bonds	Neutral
Asian Bonds	Neutral
Cash	Overweight

Indian Economic Outlook

India

- RBI cuts Repo and Reverse Repo by 50 basis points
- Government announces Fiscal deficit for FY09 at 6% of GDP as against original budgeted deficit of 2.50% of GDP. Projects fiscal deficit for FY 10 at 5.50% of GDP
- Govt announces net market borrowings of INR 308,647 crs in FY10 vs INR 261,972 crs in FY09
- Interim budget estimates 6.90% growth rate in tax revenues and 5.80% growth in total expenditure where pan expenditure accounting for only a growth of 0.80%.
- Government cuts excise duty and service tax to result in a revenue loss of INR 30,000 crs
- Inflation falls to 0.31% in mid March vs 2.43% for end Feb 2009
- Credit growth slowed down to 19.33% in mid march vs 20.51% previous month. Deposit growth also slowed down to 20.86% in mid march vs. 23.05% previous month.

Source: www.rbi.gov.in

Indian Equity Market Insights

India

- Global markets rallied in March on back of US Bank rescue plan. Almost all indices were in positive returns with many indices registering double digit returns.
- Indian markets also went up on back of global cues, however underperforming the other global indices. BSE SENSEX has fallen by 1.8% since the beginning of this year.

FII and MF Trend (Inflows)

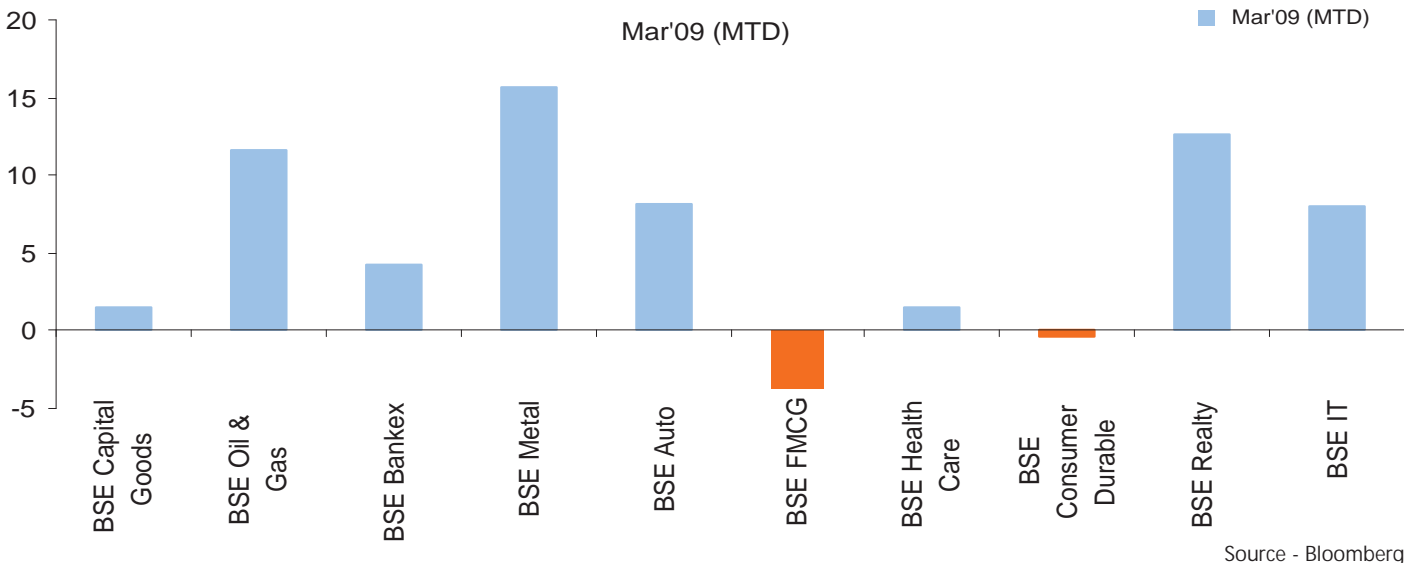
Category	Mar'09 (MTD)	YTD
FII	-100	-1500
Domestic MFs	100	500

- FIIs flows in the cash segment continued to remain negative. Till March 24, FIIs sold US\$198m worth of equities. MFs were a net buyer, however, with net flows of US\$107m
- Metals and Realty were the best performing sectors last month as risk appetite improved. We have a cautious view on both of these sectors due to deteriorating fundamental.

Source: ING IM Internal Research Team & SEBI

Snapshot of Sectoral Trend

% change compared to previous month.



Source - Bloomberg

ING Overview of Sectoral Trend

Industrial Manufacturing and Construction

- IIP data continues to disappoint with another month of negative growth. We don't expect a quick recovery in the manufacturing industry with overall slow down in investment activity leading to lower capital expenditures by corporate India. Even Government spending is unlikely to increase much in light of its huge fiscal deficit. However, we remain focused on companies with better revenue visibility.

Information Technology

- Most companies in US are in final stages of finalizing their IT budgets. The early indications suggest lower budgets with most clients asking for price discounts. In this uncertain environment, many companies are shying away from giving any kind of guidance. We expect a flat to negative growth for most IT companies in the next year. We maintain our cautious view on the sector.

Steel

- Indian steel companies are witnessing good volumes in the Jan-Mar quarter, driven by strong rural and semi-urban demand, import substitution and re-stocking. However, globally the prices are at low levels as the demand outlook continues to remain weak. The recent uptick in the base metal prices was primarily driven by a weaker USD and some re-stocking in China. Steel producers will again face some downwards pressure on prices once the new contracts for raw materials, which are expected to be significantly lower than last year levels, are inked. Another key risk for the Indian steel industry at the moment is the threat of low priced imports.

Media

- General slowdown in economy coupled with huge fragmentation in broadcasting space is hurting ad growth rates of all companies. We expect ad growth to fall significantly in next financial year with many companies cutting down on their ad budgets. In print space also, the advertisement is likely to witness zero or negative growth rate in the coming year. Ad spent on account of election is likely to provide some impetus but overall outlook remains challenging. We maintain our bearish stance on the media sector.

Telecom

- The competition in Telecom space is heating up with many new players in the process of launch in their services. Aircel expanded its operations in North India launching services in Delhi circle. We expect at least three more players in each circle by end of this year. We continue to maintain a cautious view on the sector in spite of high subscriber addition run rate, due to increasing competition and expected margin pressures.

Bank

- Loan growth for the sector has slowed down significantly to 18% YoY (lowest since April 2004). While deposits growth remains strong at 21% YoY. Margins for the banks during the March quarter are likely to come under pressure due to lower loan growth, lag effect of lower deposit cost, higher investments in GSecs and lower lending yields. Further, provisions on restructured assets would reduce overall profit growth for the banks.

Shipping, Shipyards and Logistics

- Sharp volume decline at ports in Jan-Feb would affect dominant exim segment. January and February months have been worse than December in terms of port volumes. The total port volumes (only 12 major ports data) have been about .9066 mn TEUs in Jan-Feb 2009 versus 1.123 mn TEUs in Jan-Feb 2008. March 2009 has seen an upward trend versus the downturn since October but it is too early to talk of sustained volume recovery. For instance, pendency levels at JNPT which went down to 1,000-1,100 TEUs during Jan-Feb (versus usual pendency of over 3,500 TEUs), are back at about 2,500-3000 TEUs. Domestic volumes are expected to remain more resilient and recover faster. Dry Bulk Index is feeling the pressure of lack of sustenance in economic activity. The restocking of Chinese raw material demand has slowed which may lead to correction in the sudden upsurge in dry bulk rates.

Pharmaceuticals

- US FDA concerns continue to weigh heavily on the sector. Most of the top brass including Sun Pharma, Ranbaxy and Lupin have small to major issues to be sorted with US FDA. On the domestic front, outlook is optimistic with most of the players seeing no slowdown. In the emerging geographies though, some players are trying to constrain sales due to prevailing liquidity issues in those markets. Rupee depreciation would be a positive sign for the sector, though the gains would flow in partially and from next year, due to current hedged positions. The earnings estimates for most of the companies in the sector are not prone to recessionary concerns. Overall the outlook for the sector is good, with some company specific risks.

FMCG

- The Consumer Goods sector seems to be set for some pricing action as companies focus their priorities on volumes and market share. Companies should witness margin expansion in the present quarter as the costs of commodities have come off significantly. However, the quantum of expansion could be lower than expected as some of it would be negated by the Rupee depreciation. With reports of investors starting to move out of defensive sector globally, an expensive valuation of the sector is a major concern. Pricing actions and volume numbers will be the key indicators to watch for. Players with diversified product portfolio are at relatively better position in the current scenario.

Cement

- On average, cement prices rose across India in the months of February and March due to strong demand on account of accelerated pre-election government infrastructure spending. The combination of higher cement prices and lower power and fuel costs should result in a margin expansion for cement companies during the 4th quarter of FY2009. However, we expect price increases to be a short-term phenomenon, as the Indian Cement Industry will see additional supply of more than 80 million tonnes in the next 2 years. This coupled with weakening demand growth of 7-8% should result in an over supply situation and put pressure on prices.

Auto

- The government's stimulus package, which included measures to reduce the duty on vehicles, improved credit availability to the sector, reduced interest rates, accelerated depreciation benefits and lowered fuel prices, combined with arrear pays and pay hikes to government employees under the 6th pay commission recommendations, has led to a revival in demand for cars and two wheelers. Further, the easing of commodity prices should result in higher margins for car and two wheeler companies in the 4th quarter of FY2009 and in FY2010. However, commercial vehicles, inspite of a marginal month-on-

month improvement continue to show a sharp year-on-year decline in sales. Demand for commercial vehicles is likely to pick up meaningfully only once industrial activity expands.

Source: ING IM Internal Research Team

Indian Debt Market Overview

Our portfolio strategy

Overall:

- 1) Increase duration
 - 2) Bond-Gsec spread contraction
- Remain at higher duration as less supply in the longer end will keep far end of the curve supported
 - We have got out of 5 year corporate bonds where spread have compressed from 245 basis points to 175 basis points as we do not see much value in 5 year bonds given that current buying is mainly driven by mutual funds who have got large flows in short term funds. We continue to be positioned lightly on the 10 year Corporate Bond segment as curve has steepened and a downward correction in yields on a rate cut by RBI will yield maximum duration impact at these elevated levels on the far end of the curve
 - Overall we maintain a high duration and overweight on Government Bonds at this stage

Macro Economic Matrix

FACTOR	Impact on Debt Market				
	Very Negative	Negative	Neutral	Positive	Very Positive
Economic Growth					✓
Credit Deposit Trends					✓
Fiscal Situation	✓				
Inflation					✓
Liquidity Situation					✓
External Sector			✓		
Monetary Policy Stance					✓

Fund Recommendations

- Short Term Funds: With credit spreads ruling around levels of 175 basis points these funds would be able to generate decent accrual income along with duration plays. With credit spreads expected to stabilize and moderate going forward, we expect the short term funds to perform well going forward and maintain our positive outlook for an investment horizon exceeding 6-8 months.
- Fixed income/Gilt Funds: Given the current environment, medium to long term horizon for fixed income funds continues to be positive, hence given that the risks are managed appropriately the returns in these funds would be on the higher end of fixed income category.
- Liquid funds: We expect liquid funds to generate steady returns going forward. These funds still remain the best avenue for risk-averse investors who do not wish to lock-in their investments.

	Key Drivers	Key Risks	Risk Rating
World Economy	<ul style="list-style-type: none"> Deleveraging of consumer, financial and corporate sectors Continued co-ordinated approach to the financial and economic crises 	<ul style="list-style-type: none"> Emerging markets decline into recession Protectionism emerges 	High Low
Global Equities	<ul style="list-style-type: none"> Prospects for economic growth Earnings growth and the extent of revisions 	<ul style="list-style-type: none"> Earnings downgrades surprise on the downside Availability of credit diminishes 	High Medium
Global Bonds	<ul style="list-style-type: none"> Accommodative monetary stance Collapsing growth and disinflation Increased G-20 & IMF support to EM economies Deficit spending & bond supply 	<ul style="list-style-type: none"> Return of risk appetite/ demand for risky assets Inflation replacing deflation Increasing fiscal deficits, rising public debt 	Low
Asian Equities	<ul style="list-style-type: none"> Extent Asia is impacted by the global economic slowdown International investors appetite for risk 	<ul style="list-style-type: none"> Earnings revisions surprise to the downside Valuations fail to halt market slide 	High High
Asian Bonds	<ul style="list-style-type: none"> Accommodative monetary stance Decelerating growth and disinflation Bond supply Increased G-20 and IMF support to EM economies 	<ul style="list-style-type: none"> Asian currency weakness Return of inflation Increased bond supply Higher G3 bond yields 	Low
Indian Equities	<ul style="list-style-type: none"> In the medium term, improvement in credit scenario since October and stimulus packages announced by Gol and RBI may support industry growth. While the fiscal situation remains precarious in India with deficit likely to touch double figures in FY09, adequate foreign exchange reserves and an anticipated improvement in the current account on the back of a fall in crude imports from FY10 onwards hold up hope. On the political front, a coalition government without Left Parties is good for the markets (as the government's ability to push reforms would be much higher). 	<ul style="list-style-type: none"> JIP growth may remain bleak in the future. Several industrial units continue to report production cuts. Further, job cuts across sectors have severely affected consumer and business confidence. Central government's projected gross fiscal deficit (5.5% of GDP) is likely to overshoot significantly to over 8% of GDP in FY10." Elections in 1QFY10 is the key event risk. 	Medium High Medium
Indian Bonds	<ul style="list-style-type: none"> Monetary policy stance to remain accommodative to support falling economic growth Inflation Stabilizing Easy liquidity 	<ul style="list-style-type: none"> Expansionary Fiscal policies and SLR cuts Pull back in oil prices and commodity prices Higher borrowing from government and high issuances by corporates 	High High High

Key Forecasts

	Real GDP				Inflation				90 Day Interest Rates* ING		10 Year Bond Yields ING	
	2009E#	ING	2010E#	ING	2009E#	ING	2010E#	ING	Actual 31-Mar-09	Forecast For Next 3 Months	Actual 31-Mar-09	Forecast For Next 3 Months
The World	-1.6	-	2.1	-	1.3	-	2.3	0				
USA	-2.8	0	1.7	-	-0.9	0	1.5	0	0.20	Steady	2.66	Steady
Europe	-2.6	0	0.5	-	0.6	0	1.5	0	0.68	Lower	2.99	Lower
Japan	-5.8	0	0.7	-	-1.1	0	-0.4	0	0.38	Steady	1.35	Steady
Australia	-0.3	-	1.7	0	2.1	0	2.4	0	3.14	Lower	4.42	Lower
China	7.0	-	8.3	-	0.2	+	1.7	0	2.25	Steady	3.16	Steady
Hong Kong	-3.4	-	2.4	-	1.1	+	1.4	0	0.90	Steady	1.95	Higher
India	5.2	0	7.8	-	5.3	-	5.3	-	4.72	Lower	7.01	Lower
Indonesia	3.4	-	4.7	-	6.2	0	6.3	0	9.33	Lower	12.66	Steady
Malaysia	-0.7	0	3.6	-	1.3	0	2.1	0	2.11	Steady	3.82	Steady
Philippines	1.9	-	3.6	0	4.1	0	4.8	0	4.61	Steady	8.16	Lower
Singapore	-4.7	0	3.2	-	0.1	0	1.5	0	0.67	Higher	2.03	Steady
South Korea	-3.0	0	3.5	-	1.9	-	2.3	-	2.43	Lower	5.17	Lower
Taiwan	-4.9	0	2.9	-	-0.8	+	0.9	0	0.54	Steady	1.54	Steady
Thailand	-1.6	0	3.2	0	-0.4	0	2.9	+	1.77	Lower	3.34	Lower

Consensus Forecast, ING Bias ("+" Higher, "0" in line, "-" Lower than Consensus Forecast)

* Australia 90 day BBSW Rate, Hong Kong, Malaysia, Singapore, Indonesia and Thailand 90 Day Interbank Rate, Japan and Korea 3 months CD Rate, China 1 Year Deposit Rate, India 90 Day Treasury Bill and Taiwan 90 Day Commercial paper Secondary Mkt

Asia Pacific Consensus Forecasts - Consensus Economics Inc.

Source: ING IM Internal Research Team

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