

Key Market Highlights

- Reserve Bank of India (RBI) hiked the Repo Rate and the Reverse Repo Rate by 25 bps each to 6.50% and 7.50% respectively in its mid-quarter policy review on June 16, 2011.
- RBI stated that inflation remained high and above comfort zone of RBI. RBI was particularly worried about the increase in the 'core inflation' i.e. non-food manufacturing inflation in the recent months after a brief decrease seen in April 2011.
- There was a new series of Index of Industrial Production (IIP) released which showed growth of 6.3% during April 2011 as against 8.9% in March 2011. The older index showed April growth to be 4.4% (market expectations at 6.6%). This was led by Mining growth of 2.2%, manufacturing growth by 6.9% and Electricity by 6.4%. Due to higher base effect and moderation in growth due to tighter monetary policy, the growth in IIP is expected to remain in mid to high single digit numbers for the next few months.
- Inflation for the month of May 2011 came at 9.1% compared to market expectation of 8.7%. Also March WPI inflation was revised upwards from 9.1% to 9.7%. The increase in inflation during March was led by Fuel Index by 12.3%, Primary articles by 11.3% and Manufactured products by 7.3%. Also, manufactured non-food products index posted rose by 7.2% compared with 6.3% in last month. Going forward, price hikes in domestic fuel prices will exert upward pressure on the headline inflation number.
- Export growth improved sharply to 56.9% for May 2011 compared to 34.4% for April 2011.
- Import growth also improved sharply to 54.1% for May 2011 compared to 14.1% for April 2011.
- Credit growth was flattish at 21.66% in end May 2011 vis-à-vis 21.24% in end April 2011.
- Deposit growth dropped a little from 17.26% in end April 2011 to 16.40% in end May 2011.

Source: www.rbi.org.in, Bloomberg

Market impact

Government securities market was positive during the month of June 2011

Market sentiment was positive at the beginning of the month as higher rates had attracted buying interest from the market participants. Also the IIP data came at a lower number of 4.4% according to the old index as against a market expectation of around 6.6% (data according to the new series was 6.3%). Due to this, there were expectations built that RBI may moderate its policy stance and may even refrain from hiking rates in its mid quarter policy review, which had a positive effect on the interest rates. However, WPI inflation for the months of May 2011 came higher at 9.1% as against market expectation of 8.7%. As a result the yields again climbed higher. RBI, in its mid quarter policy hiked rates by 25, which was expected by the markets.

In the second half of the month, there was weakness seen in both global equity markets and the commodity prices due to fear of the default by Greece on its debt. The resultant 'flight to safety' effect led to a fall in global bond yields as well as yields in Indian G-sec market and the yield on 10 year G sec touched a low of 8.19%. However, by the end of the month, yields hardened due to easing worries on Greece and higher supply pressure in the domestic G sec market in July 2011. Hence, the yield on 10 year G sec rose to 8.33% by end of June 2011.

Liquidity in the system continued to tighten for the first half of the month due to the quarterly advance tax outflow from the system. The net absorption by RBI under the LAF window crossed INR 1 Lakh crs on a couple of occasions. However, the situation improved by end of the month due to government spending as well as maturity of the Cash management bills.

Due to tight liquidity situation, CD rates continued to be high during the first half of the month. 3 month CD rates touched 9.50-60% while one year CD rates were at around 9.80-90% level.

However, towards the end of the month liquidity improved somewhat and also due to anticipated improvement in liquidity due to maturity of a dated security in first week of July 2011, there was a sharp fall in 3 month CD rates from 9.50-60% levels to around 8.40-50% levels. The fall in 1 year levels was lower and the 1 year CDs were being traded at around 9.70-75% by the end of the month.

INR Swap curve softened due to expectation of slow down in growth numbers going forward and expectation of better liquidity in early July. 1 year OIS softened from 8.20% by end of May 2011 to 8.07% by end of June 2011. However, the 5 year swap fell far more sharply from 8.12% at the end of the previous month to 7.77% by the end of June 2011.

Our assessment

INR Yields softened during June on account of:

1. IIP reading for April 2011 came at 4.4% according to the old index, which was lower than expectation of 6.6%. This raised concerns about the growth in the economy slowing down
2. In the second half of the month there were concerns in the global markets related to inability of Greece to meet its debt obligations. As a result, there was high interest seen in global bond markets and the yields dropped across the world.
3. Crude oil prices also softened due to possibility of weakness in global markets and concerns on growth in the developed economies.

Going Forward

1. Government securities market is expected to remain range bound due to possibility of weaker growth going forward globally as well as domestically, which would be positive for the bond markets as RBI may have to follow a more accommodative monetary policy stance.
2. On the other hand, inflation is expected to remain at higher levels for the next few months, which could push yields higher.
3. There is weekly supply of INR 11,000-12,000 till the end of first half of FY12. Also, the borrowing in the second half of the financial year could be higher than budgeted number due to possibility of higher food and oil subsidy, which seem to be insufficiently provided for in the budget.

Our portfolio strategy

Recap –June 2011

1. In the ING Income Fund and ING Gilt Fund Provident Fund Dynamic Plan, we had low duration at the beginning of the month. However, we increased duration moderately in the second half of the month with emerging concerns on global growth.
2. In the ING Short Term Income Fund we continued with higher exposure to 3-6 months money market papers as the yields were attractive in that segment due to strained liquidity.
3. In ING Liquid Fund and ING Treasury Advantage Fund, we maintained judicious mix of cash and very short term instruments.

Strategy going forward

- 1.
2. 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. If the yields harden significantly, we may add duration and if the yields soften substantially, we would reduce duration.
3. In the ING Short Term Income Fund we would continue have around 15-20% exposure to 1-2 year papers as there is good carry in these assets. We would continue to have 60-70% exposure to accrual assets, which are being traded at higher rates due to tight liquidity situation.
4. In ING Liquid Fund and ING Treasury Advantage Fund, we would continue to maintain a judicious mix of cash and very short term instruments. However, we would continue to give higher importance to ALM for these funds.

Gilt Outlook Matrix

	Outlook	Key Drivers	Key Risks
Short Term	➤ Neutral	<ul style="list-style-type: none"> ➤ Slow down in global growth as well as in the domestic growth which may lead to RBI shifting to an accommodative monetary policy stance ➤ Fall in global commodity prices, which would result in lower inflation number domestically 	<ul style="list-style-type: none"> ➤ Rebound in global or domestic growth ➤ Inflation continue to be at higher levels
Long Term	➤ Neutral	<ul style="list-style-type: none"> ➤ Slow down in the developed economies as well as the domestic economy ➤ Moderation in inflation due to lower commodity prices and higher base effect coming into play ➤ Expectation of moderation in the RBI monetary policy stance to support growth 	<ul style="list-style-type: none"> ➤ Inflation continues to remain at elevated levels ➤ Stronger than expected rebound in global or domestic growth ➤ Crude oil or commodity prices increase due to supply problems or stronger demand ➤ Higher than expected borrowing in second half of FY12 due to under-provisioning of fuel and food subsidy

Corporate bond outlook matrix

	Outlook	Key Drivers	Key Risks
Short Term	➤ Neutral	<ul style="list-style-type: none"> ➤ Expectation of range bound movement in the base G-sec Curve ➤ Expectation of liquidity remaining in deficit but not excessively strained 	<ul style="list-style-type: none"> ➤ Significant deterioration in liquidity ➤ Increase in spreads due to higher than expected supply of corporate bonds in the market
Long Term	➤ Neutral	<ul style="list-style-type: none"> ➤ Expectation of stability in the base G-sec Curve ➤ Improvement in liquidity expected over longer horizon due to government expenditure. 	<ul style="list-style-type: none"> ➤ Inflation continues to remain high ➤ Stronger than expected global / domestic growth numbers ➤ Higher supply of G sec could lead to crowding out effect for corporate bonds

Month end levels

Sovereign: The 10 year benchmark bond i.e 7.80% Govt bond maturing in 2021 closed at 8.33% by end of June 2011 compared to 8.41% by end of the previous month.

Credits: 1 year CDs were at 9.75-80% by end of June 2011 as against 10-10.10% by end of May 2011. During the month, the yield on a 10 year AAA corporate bond hardened to 9.60% compared with 9.50% at the end of the previous month.

OIS: INR Swap curve softened due to expectation of slow down in growth numbers going forward and expectation of better liquidity in early July. 1 year OIS softened from 8.20% by end of May 2011 to 8.07% by end of June 2011. However, the 5 year swap softened by a larger magnitude i.e. from 8.12% at the end of the previous month to 7.77% by the end of June 2011.



Mr. Ramanathan K

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

INVESTMENT MANAGEMENT



www.ingim.co.in

Nature & Investment Objective: **ING Income Fund:** An open ended income scheme which seeks 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:** An open ended gilt scheme which seeks 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:** 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:** An open ended income scheme which seeks 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:** An open ended liquid income scheme which seeks 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, through its wholly owned subsidiary, Nationale Nederlanden Interfinance B.V., **Trustee:** Board of Trustees of ING Mutual Fund, **Investment Manager:** ING Investment Management (India) Private Limited.

RISK FACTORS: Mutual Funds and securities investments 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 Schemes 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 Schemes. The Sponsors and associates are not responsible or liable for any loss resulting from the operation of the Schemes beyond the initial contribution of ₹ 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 Schemes 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.