

Fixed Income Market Update

DSP BLACKROCK
MUTUAL FUND



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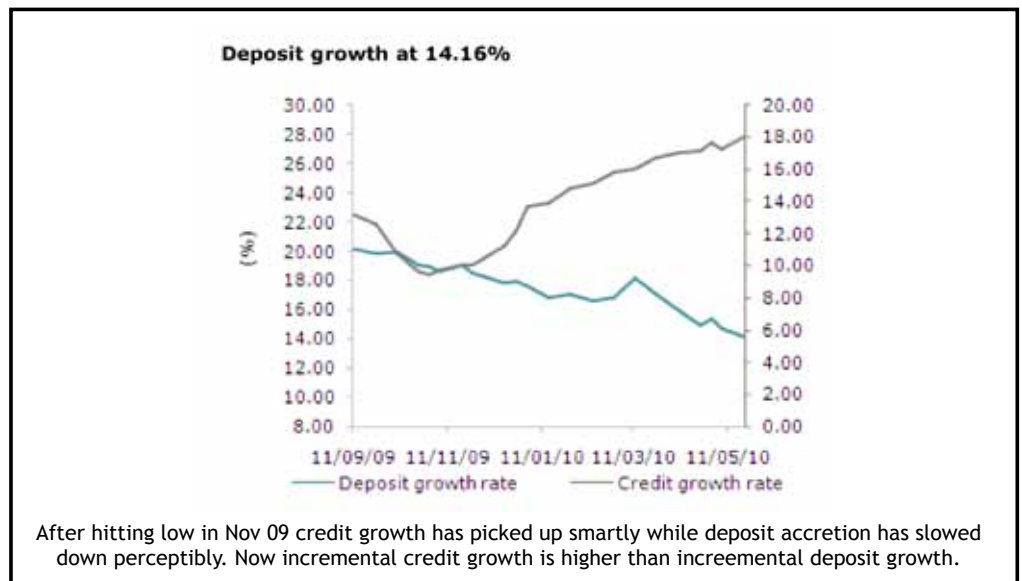
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Local Market:

1. Government bond prices rallied sharply in the first-half of the month as market participants reacted enthusiastically to the final outcome of 3G auction. Benchmark 10Y bond yield fell by around 35 basis points to 7.37% pa amid heavy trading volume. The ongoing sovereign debt crisis in Europe and the resultant rally in the US bonds also boosted the sentiments. However, the market participants exhibited some signs of fatigue towards the end of the month amid signs of tight liquidity conditions in the money market, technically over-bought positions as well as profit taking by the FII. Benchmark 10Y bond yield ended at 7.56% pa on May 31, 2010, down 20 basis points since April 30, 2010.
2. Money market rates moved up sharply higher in the last week of the month after a relative calm as market participants braced for tight liquidity conditions in the month of June due to an estimated outflow of Rs. 68,000 crore on account of 3G auction payment on May 31, 2010 as well as the first tranche of Advance Tax outflows of around Rs. 30,000 crore on June 15, 2010. Market participants expect the systemic liquidity to turn negative by around Rs. 50,000 crore by mid June in absence of any government spending. 3M bank CD yield closed the month at 5.5% pa, up by 130 basis points since April 30, 2010, while 1Y bank CD yield moved up to 6.60% pa.
3. The RBI announced additional measures on May 26, 2010 to address temporary liquidity pressures in the market. The measures are summarized as follows:
 - a. The RBI will allow Scheduled Commercial Banks to avail additional liquidity support from LAF window to the extent of up to 0.5% of their Net Demand & Time Liabilities (NDTL) without any penalty on account of any shortfall in SLR maintenance
 - b. The RBI will conduct a second LAF auction to ease pressure on liquidity. Both measures are in place till July 2, 2010 and are likely to be perceived as a half-percent SLR cut by the market participants. This should add around Rs. 22,500 crore by way of borrowing from the RBI against SLR at 5.25% pa (current Repo Rate).
4. The rupee had a volatile month. After being in a range of 44.30 to 44.75 against the US\$ in April, the rupee depreciated by around 7.6% and touched a high of Rs. 47.76 per US\$ before settling at 46.37 on May 31, 2010. This is the biggest intra-month movement of the rupee against the US\$ since November 2008. This sudden depreciation was mainly due to the ongoing sovereign debt crisis in the Europe and resultant weakening of the euro against the US\$.
5. Indian economy expanded by 8.6% Y-o-Y in the first quarter on FY2010-11 partly on account of higher investment (up by 17.7% Y-o-Y, 8.8% Y-o-Y in Q3) and partly due to Service Sector. This puts India's GDP growth for FY 2009-10 at 7.4% as compared to 6.7% in FY2008-9. Economists are also upbeat on the Q2 GDP to be around 9% Y-o-Y because of base effect.

Global Market:

1. The ongoing sovereign debt crisis in Greece reached a new high after the European Central Bank presented a \$1 trillion of conditional bailout package for Greece along with the IMF and other European nations. However, financial markets were not impressed and reacted negatively by pushing the euro down against the dollar. The euro has lost more than 9% against the US\$ since April 30, 2010. Market participants now expect the euro to touch \$1.15 in the near-term.
2. Weak euro and resultant risk-aversion has started impacting the LIBOR funding markets as well. 3M LIBOR has gone up to 0.5378% on May 26, 2010 - a level not seen since July 2009. Market participants expect further pressure in the funding markets in the near-term amid signs of some gumming in the plumbing of the funding market.
3. The Chinese government has continued to tighten lending to the Chinese property market. China's exports to Europe may also take some hit due to austerity measures put in place by some governments to reduce the deficits. This has raised fears of reduction in demand of commodities such as crude oil and metals. As a result, crude oil prices have come down by more than 24% in this month - the biggest drop in the price of oil since October 2009.
4. The sudden spurt of volatility in the financial markets and the resultant risk aversion of market participants have put a sudden spotlight on the fragile nature of the recovery and fears of deflationary pressures due to austerity measures by the European governments and tightening measures by China to cool down its property market. While market conditions are bullish for bonds over the medium-term, we advise investors to remain cautious in the short-term due to fears of intensifying tightness in the funding markets.



Source: Edelweiss Sec

Statutory Details: DSP BlackRock Mutual Fund was set up as a Trust and the settlors/sponsors are DSP ADIKO Holdings Pvt. Ltd. & DSP HMK Holdings Pvt. Ltd. (collectively) and BlackRock Inc. (Combined liability restricted to Rs. 1 lakh). Trustee: DSP BlackRock Trustee Company Pvt. Ltd. Investment Manager: DSP BlackRock Investment Managers Pvt. Ltd. **Risk Factors:** Mutual funds, like securities investments, are subject to market and other risks and there can be no assurance that the Scheme's objectives will be achieved. As with any investment in securities, the NAV of Units issued under the Scheme can go up or down depending on the factors and forces affecting capital markets. Past performance of the sponsor/AMC/mutual fund does not indicate the future performance of the Scheme. Investors in the Scheme are not being offered a guaranteed or assured rate of return. Each Scheme/Plan is required to have (i) minimum 20 investors and (ii) no single investor holding >25% of corpus. If the aforesaid point (i) is not fulfilled within the prescribed time, the Scheme/Plan concerned will be wound up and in case of breach of the aforesaid point (ii) at the end of the prescribed period, the investor's holding in excess of 25% of the corpus will be redeemed as per SEBI guidelines. **The names of the Scheme does not in any manner indicate the quality of the Scheme, its future prospects or returns.** For scheme specific risk factors, please refer the Scheme Information Document (SID). For more details, please refer the Key Information Memorandum cum Application Forms, which are available on the website, www.dspblackrock.com, and at the ISCs/Distributors. **Please read the Scheme Information Document and Statement of Additional Information carefully before investing.**