

Indian Fixed Income Market

Fixed Income Market Review

- ▶ The Benchmark 10 Yr government bond yield moved from 8.41% pa in the beginning of the month to 8.33% pa as on June 30, 2011.
- ▶ Money market rates moved up over the month. 3M Bank CD yields moved from 9.75% pa at the beginning of the month to around 8.40% pa as of June 30, 2011. The 12M Bank CD yields moved from 10.05% pa to around 9.73% pa during the same period.
- ▶ Systemic liquidity in the banking system at the end of the month was on average Rs. 70,000cr (USD 17bn) negative.

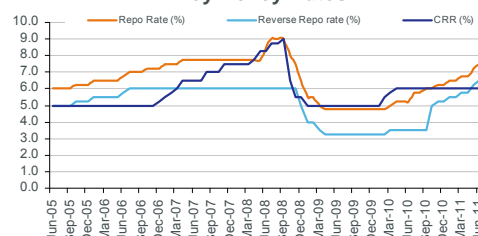
Fixed Income Market Outlook

- ▶ While markets have somewhat learned to live with high and stubborn structural inflation, precarious state of government finances and uncertainties on global front continue to weigh heavy on the investor sentiment. A combination of slower economic activity and high deposit interest rates has led to a moderation of credit growth and higher deposit mobilization. We expect that this corridor will continue to narrow and both, credit growth as well as deposit growth will stabilize around 18%-19%. Systemic liquidity is expected to improve from current levels as the money that left the system on account of quarter end starts to trickle in.
- ▶ On global front, extension of US debt limit looks more likely. However, contagion from the euro zone's debt crisis remains the top risk to financial stability in the single currency bloc. Though, Greece managed to pull itself from the brink of bankruptcy by agreeing to painful austerity measures, financial pains from periphery are surely not behind us and this could have an impact on FII capital flows in the near term.
- ▶ We continue to believe that RBI will remain steadfast with the restrictive monetary policy to rein in the inflation despite of flashing signs of growth slowdowns from industrial production, loan demand and GDP growth. As government continues with its borrowing schedule on steroids, the supply will drive the interest rates higher. Money market rates are expected to stay high and are expected to peak in another 3 months.

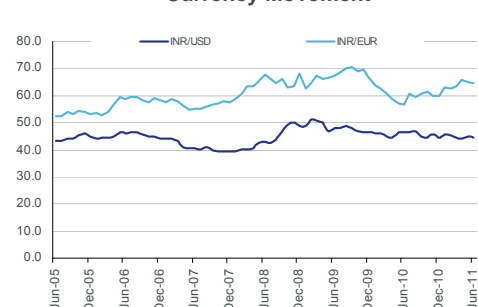
About DSP BlackRock

- ▶ DSP BlackRock Investment Managers, one of the premier asset management companies in India, currently manages assets, including advisory and offshore funds of USD 8.81bn (as at June 30, 2011) offering investment products across the risk-reward spectrum. DSP BlackRock Investment Managers is a joint venture between the DSP Group and BlackRock Inc. The DSP Group is owned by Mr. Hemendra Kothari and has a track record of over 145 years. BlackRock Inc. is one of the largest quoted asset management companies in the world, managing assets in excess of USD 3.65 trillion.

Key Policy Rates



Currency Movement

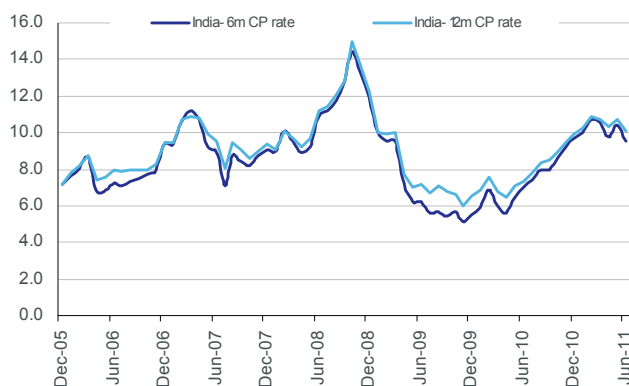


Credit growth



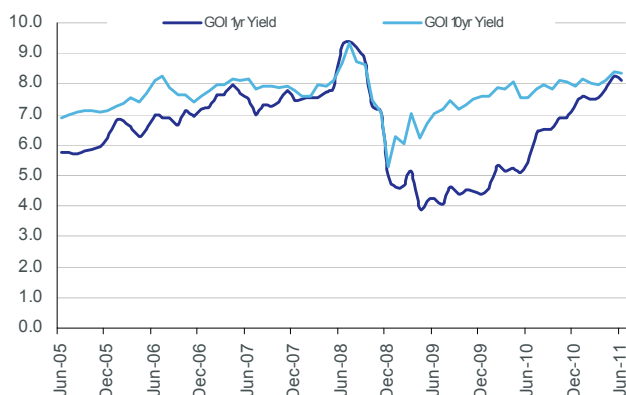
Source: Deutsche Bank Research; as at June 30, 2011

CP rates



Source: Deutsche Bank Research; as at April 29, 2011

Government bond yields



Macroeconomic Review

- ▶ IIP growth decelerated to 4.4% in April (vs.7.8% growth in March). During June, the Ministry of Statistics released the new IIP index with base year revised from F1994 to F2005. As per the new index, IP growth decelerated to 6.3% Y-o-Y in April (vs. 8.8% growth in May).
- ▶ The WPI headline inflation went up to 9.06 per cent in May on the back of rising manufactured products and petrol prices. prices of manufactured products, which have a weight of around 65 per cent in the WPI basket, went up by 7.27 per cent year-on-year in May. inflation in the fuel and power segment, which has a weight of almost 15 per cent in the WPI basket, stood at 12.32 per cent year-on-year.
- ▶ India's exports grew 57 per cent to \$26 billion in May due to greater demand for India's engineering, oil and electronics goods in overseas markets. However, the country's imports rose to a four-year-high of \$41 billion, resulting in the gap between imports and exports widening to \$15 billion. The surge in imports by 54 per cent in May was mainly due to rising oil prices and a surge in gold imports.

Non-Fixed Income Market Update

- ▶ Currency: The INR appreciated vs. USD as well as Euro this month. Over the past 12-months INR has appreciated by 4% against the USD while it has depreciated 12% vs. the Euro YoY.
- ▶ Gold: Gold price corrected by 2.3% in June to close the month at USD 1,500.4/ounce.
- ▶ Oil: WTI crude corrected by 7.1% to close the month at USD 95.4/barrel.

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. 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.

Source: Morgan Stanley Research, Internal as of June 30, 2011

The views expressed are as of June 2011 and may change as subsequent conditions vary

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