

Indian Fixed Income Market

Fixed Income Market Review

- ▶ The Benchmark 10 Yr government bond yield moved down from 8.02% pa in the beginning of the month to 7.99% pa as on March 31, 2011 on account of higher SLR demand from banks and a lesser than expected borrowing in the first half of the fiscal.
- ▶ Money market rates moved down on expectations of easing of liquidity post March. 3M Bank CD yields moved from 10.13% pa at the beginning of the month to around 9.45% pa as of March 31, 2011. 12M Bank CD yields moved from 10.16% pa to around 9.50% pa during the same period.
- ▶ 10Y AAA PSU Bond yields have remained largely flat moving from 9.17% pa in the beginning of the month to 9.15% pa as on March 31, 2011 while the 1Y AAA PSU Bond yield has come down from 9.68% pa to 9.55% pa during the month.
- ▶ Systemic liquidity in the banking system at the end of the month was on average Rs. 90,000cr (US\$ 21bn) negative.

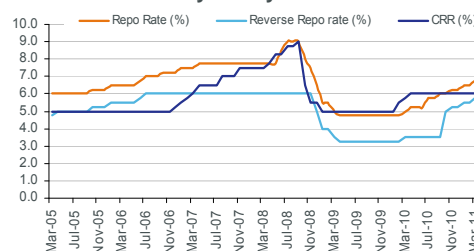
Fixed Income Market Outlook

- ▶ Bond market participants are cautious amid tight liquidity conditions, high credit offtake, geo-political uncertainties and rigid headline inflation.
- ▶ We expect benchmark 10 Yr yield to move downward initially due to higher demand for the new 10Yr Benchmark before reversing the course.
- ▶ Geopolitical risk is a major concern, directly tied into oil and FII flows. High oil prices could upset the fiscal balance while the volatility in FII flows could push up the current account deficit. This could lead to corporate spreads widening from their current levels.
- ▶ Money market rates have seen some softening on expectations of easing liquidity post March end. We expect money market rates to continue to trend lower in April and May due to improvement in liquidity conditions.

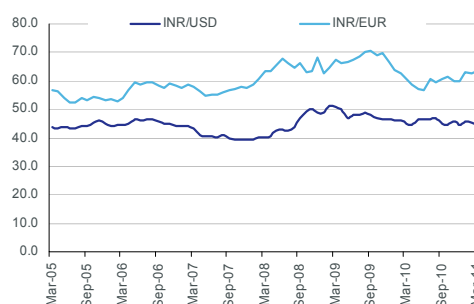
About DSP BlackRock

- ▶ DSP BlackRock Investment Managers, one of the premier asset management companies in India, currently manages assets, including advisory and offshore funds of USD 8.85bn (as at March 31, 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 3.56 trillion.

Key Policy Rates



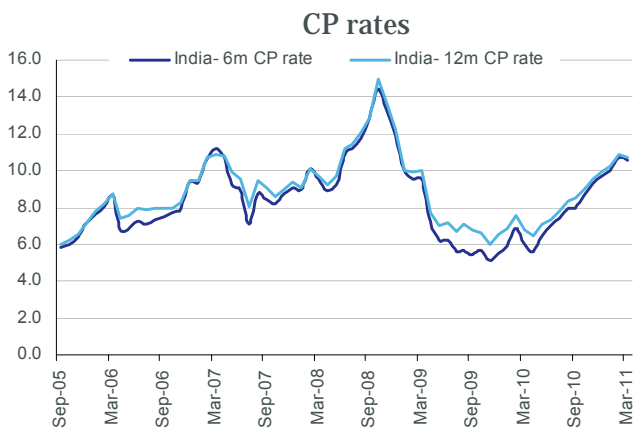
Currency Movement



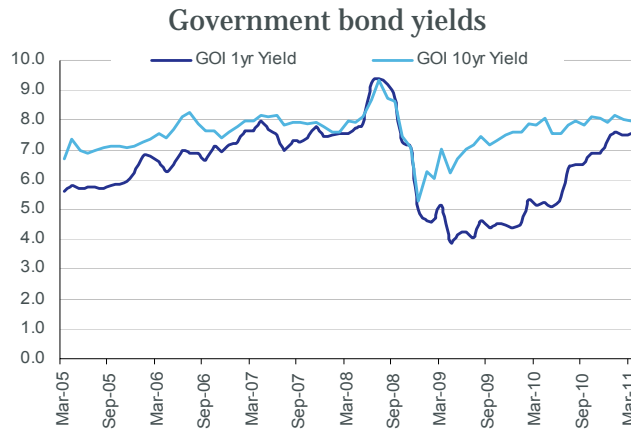
Credit growth



Source: Deutsche Bank Research; as at March 31, 2011



Source: Deutsche Bank Research; as at February 28, 2011



Macroeconomic Review

- ▶ The **Industrial Production (IP)** growth for January picked up 3.7% y-o-y compared to 2.5% (revised upwards from 1.6% y-o-y) in the previous month. On a seasonally adjusted basis, the IP index was up 1.1% m-o-m in January compared to 1.9% m-o-m in December. On a quarterly basis, IP growth decelerated to an average of 3.3% y-o-y during the quarter ended January 2011. Growth in the manufacturing and electricity segments picked up to 3.3% y-o-y (compared to 2% y-o-y in December) and 10.5% y-o-y (compared to 6% y-o-y in December) respectively. Growth in the mining segment decelerated to 1.6% y-o-y (compared to 5.7% y-o-y in December).
- ▶ The **WPI headline inflation** accelerated marginally to 8.3% y-o-y in February 2011, compared to 8.2% in the previous month. The seasonally adjusted WPI Index was up 0.9% m-o-m. Food inflation (primary and manufactured) decelerated to 7.3% y-o-y in February against 9.5% in the previous month while non-food inflation accelerated to 8.7% this month from 7.7% in January.
- ▶ **India's current account deficit** narrowed to USD 9.7bn for quarter ended (QE) December 2010, compared with a deficit of USD 16.8bn in quarter ended September 2010. Trade deficit narrowed to USD 31.6bn during QE Dec-2010 compared to a deficit of USD 37.8bn on account of higher export growth. On a y-o-y basis, trade deficit growth decelerated to 2.1% in QE Dec-2010 while net invisibles were up 17.7%. Capital account surplus reduced to USD 14.9bn for QE Dec-2010. The Balance of Payments surplus improved slightly to USD 4bn for QE Dec-2010 compared to a surplus of USD 3.3bn in QE Sept-2010.

Non-Equity Market Update

- ▶ **Currency:** In March, the Indian Rupee appreciated 1.51% against the US Dollar but depreciated 1.19% against the EURO. The USD/INR FX rate closed the month at 44.59 against 45.27 as at previous month end. The EURO/INR FX rate closed the month at 63.39 against 62.65 as at the previous month end.
- ▶ **Gold:** Gold price moved up 1.5% in March to close the month at USD 1,432/ounce.
- ▶ **Oil:** WTI crude moved up 10% to close the month at USD 106.7/barrel. Brent crude was significantly higher at 117/barrel as on March 31, 2011.

Source: Morgan Stanley Research, Internal as of March 31, 2011

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

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.