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An Update on the  
Global Financial Markets  
&  
Fixed Income Market Outlook

March 2010

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**DSP BLACKROCK**  
INVESTMENT MANAGERS

## Global Financial Markets - An Update

- World economy to continue to recover & to deliver above-trend growth in 2010

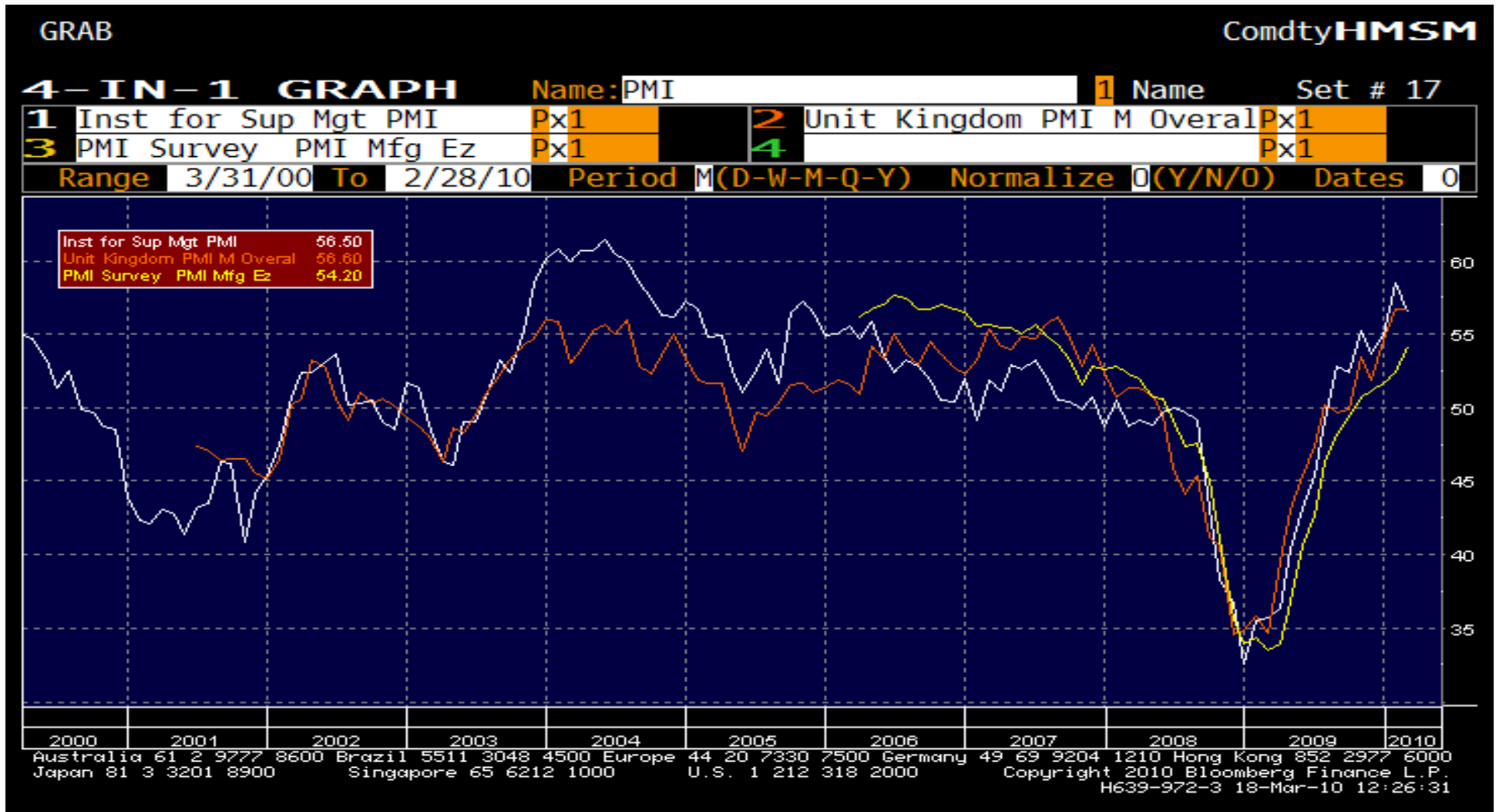
GDP Forecast	2009	2010	2011
USA	-2.4%	3.1%	3.0%
Euro Zone	-4.0%	1.3%	1.5%
BRICs	5.1%	8.3%	7.9%
World	-0.7%	4.2%	4.3%

- Policy rates in the to remain low in the developed world in 2010. May inch up in Asia
- The US dollar is on the back foot against global currencies after its recent run-up
- Sovereign risk resurfaces in the Europe
- World financial markets are likely to face stringent regulatory environment

## The USA - An Economic Update

- US Manufacturing Sector is recovering well on back of fiscal stimulus. However it may turn sluggish in H2
- US labor market conditions to deteriorate further in the near-term
- US Policy rates to remain low for the most part of 2010
- The dollar has done well recently against the euro and other major currencies. However, we expect the dollar to lose some ground from the technical perspective
- Higher fiscal deficit in the USA is unlikely to push bond yields significantly higher

# Manufacturing-led Growth is Gaining Momentum



# The Dollar May Come Under Pressure



# Financial Markets Back to Normal?

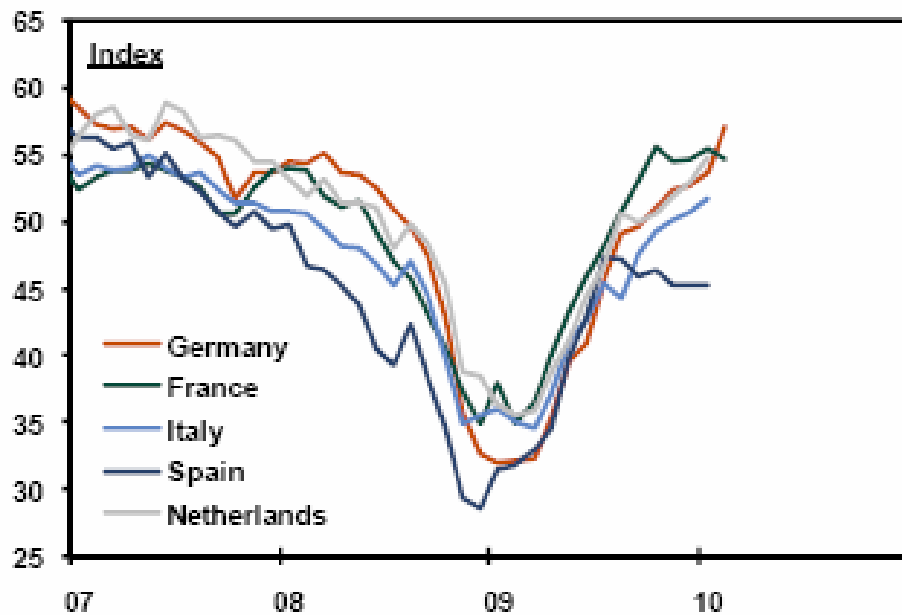


## Euro Zone - An Economic Update

- Rebound in the sentiment across the region on back of manufacturing led growth
- Although divergence is visible
- Inventory cycle is turning positive while exports outlook is improving fast
- Market expects Greece sovereign debt problem will find a solution in the euro zone itself
- The ECB is likely to hike interest rates around the year-end

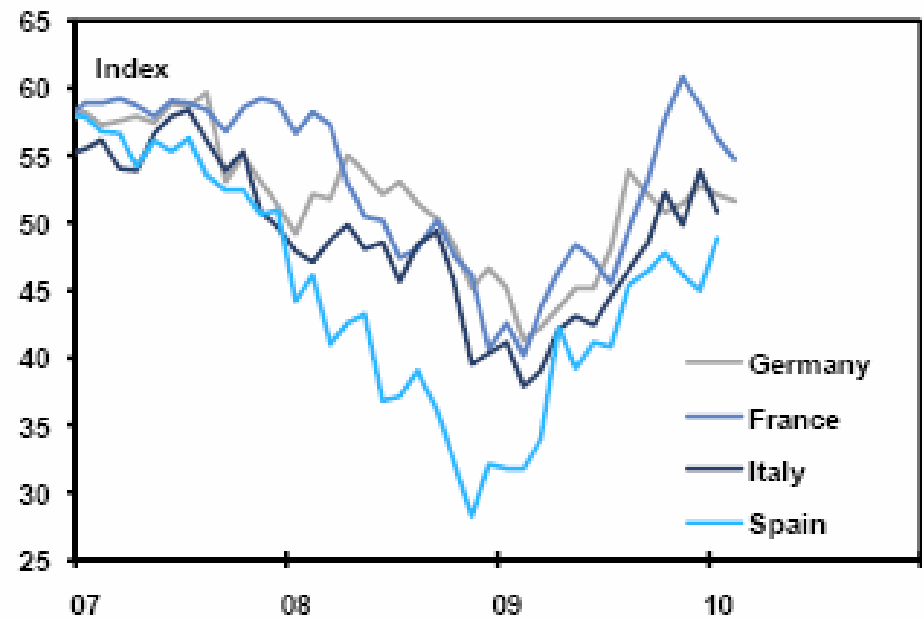
## Euro Zone PMI is Improving Gradually

### Manufacturing PMI



Source: Markit

### Services PMI



Source: Markit

## Asia - An Economic Update

- Inflationary pressures are building gradually in many parts of Asia
- Output gaps are closing quickly

Countries	At Peak	Now
China	-4.7	-0.5
Hong Kong	-6.7	-3.8
India	-1.5	0.5
South Korea	-4.2	-0.4
Malaysia	-6	-1.8
Taiwan	-7.2	-2.2

- Asian Yield Curves are steep from the historical standards. May flatten on central bank tightening
- Asian Central Bankers are likely to tighten more in 2010
- Revaluation of Chinese currency - Not if but when?
- Chinese economy likely holds the key to global commodity cycle as well as further direction in the bond yield

## Asian Monetary Policy Outlook for 2010

Country	Benchmark	Current Policy Rates	Amount of Tightening Expected	Time Period
China	12M	5.31% pa	75 bp	April - June
India	Reverse Repo	3.25%	100	April, July
Indonesia	Reference Rate	6.5%	100	June, July
Malaysia	O/N Policy Rate	2.25%	75	Commenced on March 3,10
South Korea	7D Repo Rate	2%	50	July - Sep

## Asian Yield Curves - Flattening Ahead

Country	5Y OIS - 2Y OIS Spread	Long-term Average
China	86 bp	60 bp
Hong Kong	113	84
India	133	45
Malaysia*	96	86
Singapore	93	64
South Korea	53	35
Thailand	111	104

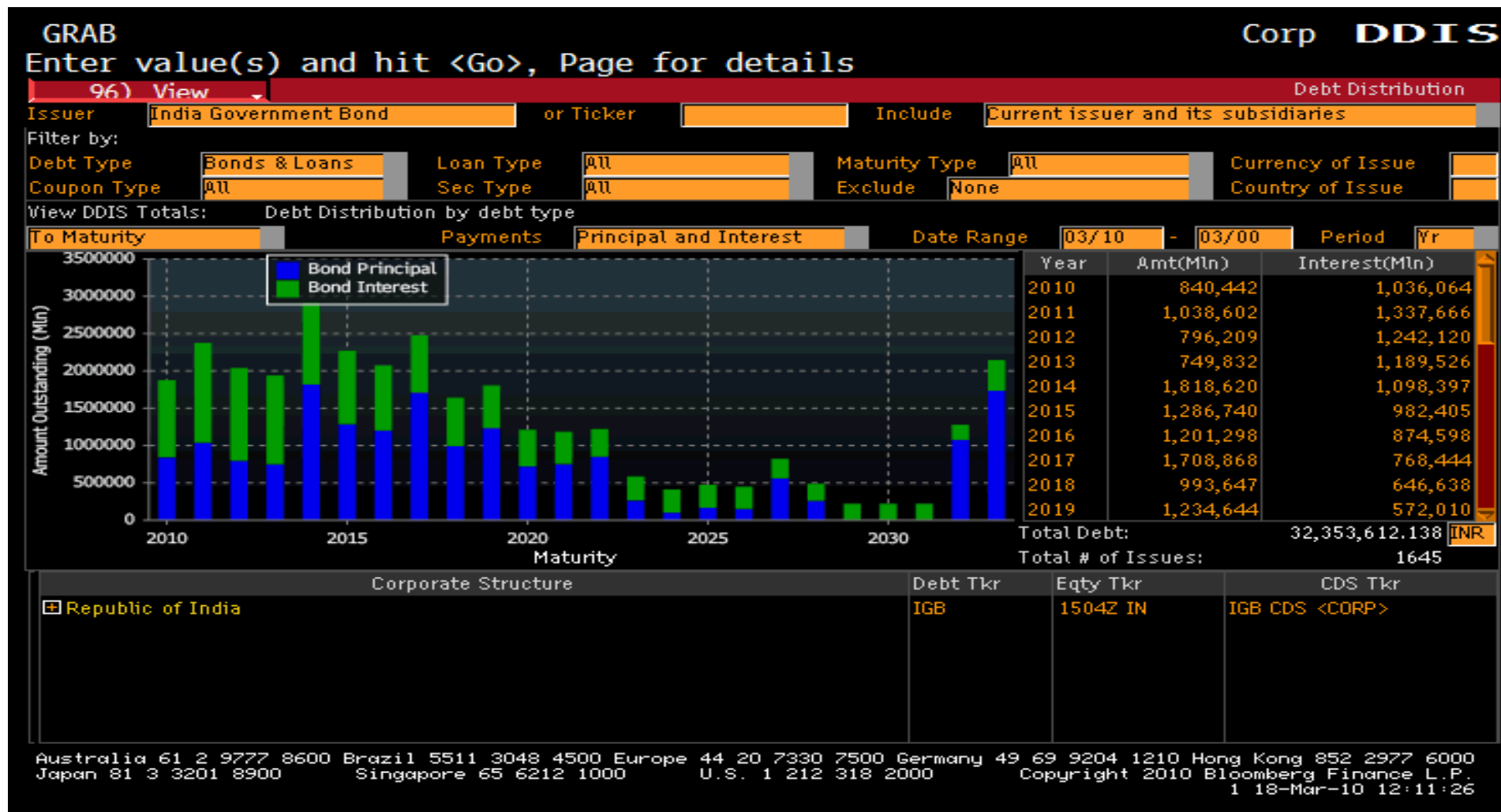
## India - Fixed Income Market Update

- The Union Budget was along the expected lines
  - Positives:
    - The gross borrowing of Rs. 4,57,000 crore in FY 2010-11 is as per the market expectations
    - The Finance Minister has not altered any Capital Market rates
  - Negatives:
    - The Union Budget appears to be inflationary due changes in the duty structure
    - The Finance Minister's projection for Indirect Tax revenue collection in 2010-11 appears to be ambitious and may fall short if the growth momentum tapers off
- Indian economic data is exhibiting strong growth since October 2009. But may lose momentum in H2
- The government borrowing program may put upward pressure on the bond yields in H1 due to fresh supply concerns
- The RBI is likely to raise rates in both April and July Credit Policy

## India - Government Borrowing for FY2010-11

Item	FY2009-10	FY2010-11
<b>Gross Borrowing</b>	Rs. 4,51,100 crore	Rs. 4,56,000 crore
<b>Less: MSS De-sequestering</b>	(Rs. 33,000 crore)	Nil
<b>Gross Issuance @ Centre</b>	Rs. 4,18,100 crore	Rs. 4,56,000 crore
<b>Less: Maturities</b>	(Rs. 53,100 crore)	(Rs. 1,14,000 crore)
<b>Net Issuance @ Centre</b>	Rs. 3,65,000 crore	Rs. 3,42,000 crore
<b>Net Issuance @ State</b>	Rs. 1,23,800 crore	Rs. 1,00,000 crore (estimated)
<b>Total Issuance</b>	Rs. 4,88,800 crore	Rs. 4,42,000 crore
<b>Less: MSS Maturities</b>	(Rs. 53,000 crore)	Nil
<b>Net Supply (Centre + State)</b>	Rs. 4,35,800 crore	Rs. 4,42,000 crore
<b>Demand of Bonds</b>		
<b>Banks</b>	Rs. 2,14,400 crore	Rs. 2,15,000 crore (assuming 18% growth in Deposits, 27% SLR)
<b>RBI Purchases through OMO</b>	Rs. 57,500 crore	Nil
<b>Non-Bank Buyers</b>	Rs. 1,63,800 crore	Rs. 1,75,000 crore
<b>Excess Supply over Potential Demand</b>	Nil	52,000 crore

# India - Debt Distribution



## Our Fixed Income Outlook for H1 - 2010

- The RBI to initiate the rate tightening cycle soon to contain inflationary pressures
- Bond Market expects the RBI to hike Reverse Repo Rate by 50 to 75 bp by July 2010
- The new government borrowing program to put upward pressure on the bond yields
- We expect the new benchmark 10Y yield to touch 8.25% pa in the near-term
- Systemic liquidity condition is likely to remain easy in the Q1 of 2010-11
- On the economic front, we are going to see strong IIP and Inflation data till June-July of 2010
- However, government bond supply may be lower in the coming years against the robust demand for bonds from the banking system
- On the aggregate, we believe that government bond yields will be lower towards the year-end

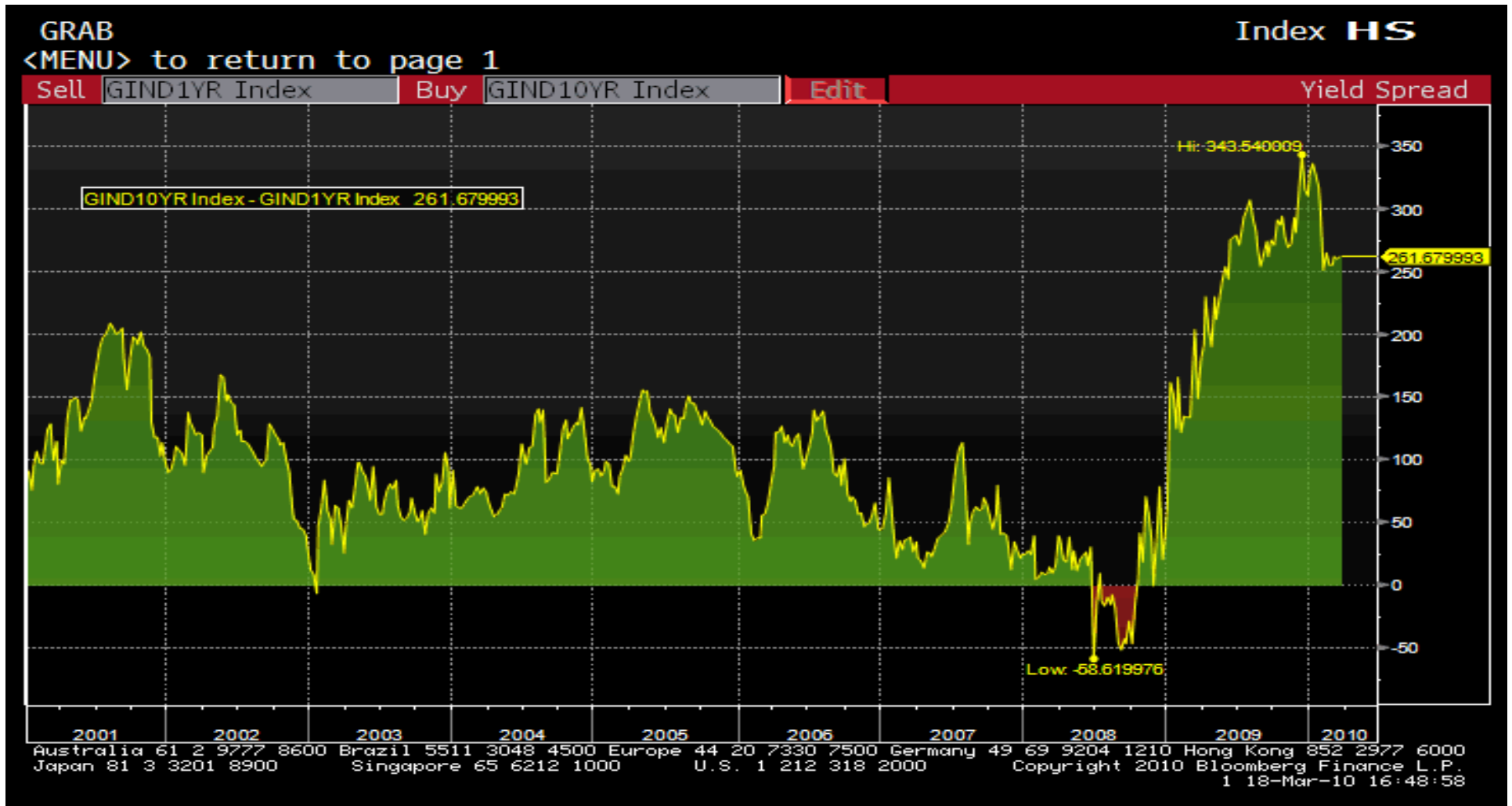
# Money Market Rates May Trend Down in the Near Term



# Benchmark 10Y Government Bond Yield Movement - Closer to the Peak?



# Spread Between 1Y T-Bill and 10Y Govt Bond is Looking to Correct



## What Could Go Wrong?

- A “Double Dip” in the global economy
  - This will force the government to embark on government spending to the detriment to the financial health
  - Return to the Risk Aversion - Bond yields may go down in the G7 but may head higher in India as government will be forced to roll back budget proposals and provide a stimulus
- A Sudden Chinese Slowdown
  - This will reduce the demand for commodities and will be negative for equities market
  - It may also result in reversal of flow of funds out of Asia - Negative for Bonds

## What Should An Investor Do?

- Stay invested at the short-end of the money market curve till June 2010 to protect the fixed income portfolio
- Begin to add duration in the fixed income portfolio once 10Y bond yield approach 8.25% pa

## DSP BlackRock Fixed Income Funds Under Focus



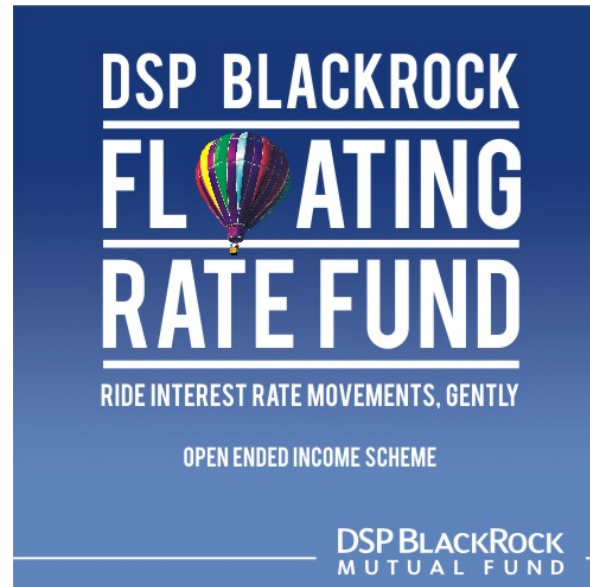
**DSP BLACKROCK**  
**LIQUIDITY FUND**

**LIQUIDITY ON CALL**

OPEN ENDED LIQUID SCHEME

DSP BLACKROCK  
MUTUAL FUND

The cover features a dark blue background with a close-up image of two ice cubes melting. The text is in white, with the fund name in large, bold letters. The tagline and scheme type are in smaller white text below the name. The DSP BlackRock Mutual Fund logo is at the bottom.



**DSP BLACKROCK**  
**FL**  
**ATING**  
**RATE FUND**

**RIDE INTEREST RATE MOVEMENTS, GENTLY**

OPEN ENDED INCOME SCHEME

DSP BLACKROCK  
MUTUAL FUND

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**DSP BLACKROCK**  
**SHORT TERM**  
**FUND**

**SHORT AND SWEET**

OPEN ENDED INCOME SCHEME

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MUTUAL FUND

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## Disclaimers

**DSP BlackRock Liquidity Fund (DSPBRLF)** is an open ended income Scheme, seeking to generate a reasonable return commensurate with low risk and a high degree of liquidity, from a portfolio constituted of money market securities and high quality debt securities. **Asset Allocation:** Money market securities and/or Debt securities\* with maturity of 91 days - 80% - 100% (\* Debt securities may include securitised debts upto 30% of the net assets.) **Features:** No entry/exit load. Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching facility subject to prevailing terms of the scheme. SWP and STP facilities available in each plan of the scheme. Minimum investment - Regular Plan - Rs. 5,000; Institutional Plan - Rs. 5 crore. Declaration of NAV on all days. Redemption normally 1 Business Day. Previous day NAV applicable for all applications received prior to cut off time subject to specified conditions. Nomination facility available, subject to applicable conditions as per the Statement of Additional Information (SAI) and Scheme Information Document (SID). **DSP BlackRock Floating Rate Fund (DSPBRFRF)** is an open ended income Scheme, seeking to generate interest income through investments in acceptable floating rate assets commensurate with the credit risk. The Scheme may also invest in fixed rate debt securities. **Asset Allocation:** Floating rate debt securities\* or money market securities: 65% to 100%; Fixed rate debt securities: 0% to 35% (Debt securities may include securitized debts upto 60% of the net assets). **Features:** No entry/exit load. Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching facility subject to prevailing terms of the scheme. SWP and STP facilities available in each plan of the scheme. Minimum investment - Regular Plan - Rs. 5,000; Institutional Plan - Rs. 5 crore. Declaration of NAV on all Business Days. Redemption normally within 2 Business Days. Nomination facility available, subject to applicable conditions as per the Statement of Additional Information (SAI) and Scheme Information Document (SID). **DSP BlackRock Short Term Fund (DSPBRSTF)** is an open ended income Scheme, seeking to generate income commensurate with prudent risk, from a portfolio constituted of money market securities, floating rate debt securities and debt securities. **Asset Allocation:** Money market securities, floating rate debt securities whose coupon(s) are reset at least once a year, fixed rate debt securities having an average or residual maturity <= 367 days or having put options within a period not exceeding 367 days: 50%-100% (Floating rate debt securities will include fixed rate debt securities swapped for floating rate returns by using derivatives); Fixed rate debt securities having a residual or average maturity > 367 days and floating rate debt securities where the next reset date is more than 367 days from the date of purchase: 0%-50% (Debt securities may include securitised debts up to 60% of the net assets). **Features:** No entry/exit load. Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching facility subject to prevailing terms of the relevant schemes. SWP and STP facilities available. Minimum investment - Rs. 5,000/-. Declaration of NAV on all Business Days. Redemption normally within 1 Business Day. Nomination facility available, subject to applicable conditions as per the Statement of Additional Information (SAI) and Scheme Information Document (SID). **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. DSPBRLF, DSPBRFRF and DSPBRSTF are the names of the Schemes and do not in any manner indicate the quality of the Schemes, 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](http://www.dspblackrock.com), and at the ISCs/Distributors. Please read the Scheme Information Document and Statement of Additional Information carefully before investing.