

RBI's Slack-Season Monetary Policy

for FY2010-11

DSP BLACKROCK
MUTUAL FUND



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The Reserve Bank of India announced its slack-season Monetary Policy today in which they have announced the following changes in the interest rates:

- Repo Rate (the rate at which the RBI infuses liquidity in the market) has been increased by 25 basis points to 5.25% pa with immediate effect
- Reverse Repo Rate (the rate at which the RBI absorbs surplus liquidity from the market) has been increased by 25 basis points to 3.75% pa with immediate effect
- Cash Reserve Ratio (CRR) has also been increased by 25 basis points to 6% pa from April 24, 2010. This will reduce surplus liquidity by Rs. 12,500 crore from the banking system.

Today's rate hike follows a 75 basis-point hike in CRR in the previous Credit Policy on January 20, 2010 and a 25 basis-point hike in Repo & Reverse Repo Rate on March 19, 2010 when headline inflation crossed 8.50% y-o-y.

Although the quantum of today's rate hike was lower than our expectations, the RBI's current monetary stance justifies their cautious and calibrated approach of gradual exit of the accommodative credit policy stance in place since mid 2008. The RBI's current Monetary Policy Stance is as follows:

- To anchor inflationary expectations while being prepared to respond appropriately, swiftly and effectively to further build-up of inflationary pressures
- Actively manage liquidity to ensure the growth in demand for credit by both private and public is satisfied in a non-disruptive way
- Maintain interest rate regime consistent with both price, output and financial stability

What to Expect Going Forward?

It is clear that the RBI is likely to pay attention to the further build-up of inflationary pressures in the near-term. Although food price inflation is likely to moderate due to better winter crop output, inflationary pressures in both non-food items (60% weight) and fuel (15% weight) are likely to cause further worry due to their second-round effect. The RBI believes that headline inflation is likely to remain sticky at the current level for the time being and therefore a mid-policy hike can't be completely ruled out.

At the same time, the RBI is cognizant of the fact that the huge government borrowing program for FY2010-11 is a challenge and is likely to keep the government bond yield curve steep and may reduce surplus liquidity for credit growth. Therefore, we believe that the RBI is likely to prefer a series of calibrated moves in the form of small rate hikes than a few hefty rate hikes.

These rate hikes are likely to push short-term rates upward in a gradual manner. Both 3M and 6M money market rates are likely to move up in tandem with the change in the Reverse Repo Rate in the near-term. We expect 3M bank CD rates to cross 5% pa and 6M bank CD rates to cross 5.75% pa in the near-term in response to today's rate hikes.

On the other hand, the RBI's decision to introduce a Reporting Platform for the secondary market transactions in the money market assets (CP & CDs) similar to the one for corporate bonds along with the introduction of the base rate regime starting July 1, 2010 is likely to deepen the money market and make it more vibrant.

Long-term government bond yields, on the other hand, are likely to get affected by further supply pressure as well as the RBI's calibrated approach. We believe that the benchmark 10Y government bond yield may cross 8.10% pa in the near-term on account of likely further supply pressure.

What Should An Investor Do?

We believe that risk-averse investors should remain invested in the short-duration, high quality fixed income funds such as DSP BlackRock Floating Rate Fund, DSP BlackRock Short Term Fund and DSP BlackRock Strategic Bond Fund in the near-term. Investors with some risk appetite for government bonds should consider DSP BlackRock Bond Fund and DSP BlackRock Government Securities Fund with an investment horizon of 6 to 9 months.

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 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 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). **DSP BlackRock Strategic Bond Fund (DSPBRSBF)** is an open ended income scheme, seeking to generate optimal returns with high liquidity through active management of the portfolio by investing in high quality debt and money market securities. **Asset Allocation:** Money market securities and/or Debt securities with residual or average maturity of less than or equal to 367 days or put options within a period not exceeding 367 days: 0% - 100%; Debt securities which have residual or average maturity of more than 367 days: 0% - 100% (Debt Instruments may include securitised debts upto 75% of the net assets). **Features:** Minimum investment: Regular Plan - Rs. 5,000/-, Institutional Plan - Rs. 1 crore. Declaration of NAV on all Business Days. Entry/Exit Load - Nil. Redemption normally within 3 Business Days. Nomination facility available, subject to applicable conditions as per the Statement of Additional Information (SAI) and Scheme Information Document (SID). **Investment Objective: DSP BlackRock Bond Fund (DSPBRBF)** is an open ended income Scheme, seeking to generate an attractive return, consistent with prudent risk, from a portfolio which is substantially constituted of high quality debt securities, predominantly of issuers domiciled in India. As a secondary objective, the Scheme will seek capital appreciation. **Asset Allocation:** Debt & money market securities: 100% (Debt securities may include securitised debts upto 50% of net assets). **Features:** Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching facility subject to prevailing terms of the scheme. SIP, SWP & STP facility available. Minimum Investment - Rs. 5,000/-. Exit Load - Holding Period <= 7 calendar days: 0.10%; Holding Period > 7 calendar days: Nil Declaration of NAV on all Business Days. Redemption normally within 3 Business Days. Nomination facility available, subject to applicable conditions as per the Statement of Additional Information (SAI) and Scheme Information Document (SID). **DSP BlackRock Government Securities Fund (DSPBRGF)** is an open ended income Scheme, seeking to generate income through investment in Central Government Securities of various maturities. **Asset Allocation:** Central Government securities, repos / reverse repos in Central Government securities as may be permitted by Reserve Bank of India: 80%-100%; Call money market or alternative investment for call money market as may be provided by the Reserve Bank of India: 0%-20%. **Features:** Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching facility subject to prevailing terms of the scheme. SIP, SWP and STP facilities available. Minimum investment - Rs. 5,000/-. Entry Load: Nil; Exit Load: Holding Period <= 7 calendar days - 0.10%, Holding Period > 7 calendar days - Nil. 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). **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. DSPBRFRF, DSPBRSTF, DSPBRSBF, DSPBRBF and DSPBRGF 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, and at the ISCs/Distributors. Please read the Scheme Information Document and Statement of Additional Information carefully before investing.