

Fund managers' Indian ventures high on long-term debts

■ Govt papers rally on lower inflation forecast and hike in foreign-ownership cap on rupee bonds

Oct 6: Indian ventures of the world's biggest fund managers are buying the most longer-term debt in almost a year after interest-rate increases helped slow inflation from a 19-month high.

ING Investment Management, a Mumbai-based unit of the largest Dutch financial services company, increased the average maturity of its bond holdings sixfold to six years since July. Birla Sun Life Asset Management, Canara Robeco Asset Management and DSP Blackrock made similar adjustments. Benchmark 2020 government notes returned 1% in the past month, beating the 0.3% for 2012 securities.

The notes rallied as the RBI forecast inflation would slow to 6% from an 8.5% rise in wholesale prices in August, and the government raised its cap on foreign ownership of rupee debt by 50% to \$30 billion. India's investment funds more than doubled assets in three

years to \$160 billion, according to the Association of Mutual Funds in India.

"Our outlook on inflation is much more benign than what it was before," K Ramanathan, chief investment officer in Mumbai at ING Investment, said on Tuesday. "We have increased our average maturity significantly."

The average tenor of bond funds rose to 6.55 years at the end of August, the longest duration in 11 months, according to New Delhi-based Value Research. A drop of one basis point in the yield of a 10-year note will push its price up more than a similar move in the yield on a two-year note because its valuation needs to factor in more interest-rate payments.

Household savings

The yield on the 7.80% note due May 2020 has fallen 14 basis points, or 0.14 percentage point, from a



HIGH RETURNS

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high of 8.08% on August 25 to 7.94% on Wednesday. ING predicted 10-year yields will fall 44 basis points to 7.5% by March. That would deliver investors an annualised return of 13.7%.

The yield is the highest among major economies except Brazil, where similar-maturity notes pay 11.90%. Comparable securities offer 7.70% in Russia, 3.32% in China and 2.46% in the US.

The difference in yields between India's debt due in a decade and 10-year treasuries grew to 548 basis points from 547 on Tuesday. The measure, which has averaged 318 in the past 10 years, reached a two-year high of 556 on August 26.

Holdings grow

Foreign holdings of India's corporate and government debt have more than doubled in 2010 to a record \$17.5 billion on October 4 as yields climbed, according to the Se-

curities and Exchange Board of India. Accelerated investment inflows helped the rupee strengthen 5.1% against the dollar in the past month, the best performance among Asia's 10-most traded currencies.

Local investors are also buying government debt, adding Rs 25,400 crore to bond funds and pulling out Rs 7,600 crore from equities in the eight months through August, according to data from the Association of Mutual Funds.

Inflation

RBI wants to cool inflation to between 4 and 4.5% in the medium-term and 3% in the long-term, said Reserve Bank of India deputy governor Subir Gokarn on Tuesday. India's challenge is to keep inflation "under check," and the monetary authority will seek a balance between sustaining the recovery and reigning in rise in prices, Gokarn said. *Bloomberg*