Fixed Income Update
November 2016

ICICI PRUDENTIAL MUTUAL FUND
TARAKKI KAREIN!

Month Overview

Average Liquidity Support by RBI	
Rs -5,919 cr Includes: LAF, MSF, SLF & Term Repo	
Bank Credit Growth	**Bank Deposit Growth**
8.9%	10.4%

Money Market	Change in basis points			
Tenure	CD(%)	Change	CP(%)	Change
1M	6.43	-2	6.65	3
3M	6.61	16	7.12	48
6M	6.78	6	7.56	36
12M	6.90	-4	7.65	5

Bond Market	Change in basis points			
Tenure	G-Sec (%)	Change	AAA CB(%)	Change
1Y	6.57	-11	7.15	-10
3Y	6.56	-14	7.26	-8
5Y	6.70	-17	7.31	-10
10Y	6.79	-2	7.51	2

Macro Economy Data Release		
Indicator	Latest Update	Previous Update
IIP	-0.7% (Aug)	-2.5% (July)
GDP	7.1% (1QFY17)	7.9% (4QFY16)
USD/INR	66.79 (Oct)	66.62 (Sep)
WPI	3.57% (Sep)	3.74% (Aug)
CPI	4.31% (Sep)	5.05% (Aug)

Spread Market	Data in basis points		
Tenure	AAA	AA	A
1Y	0.72%	1.24%	1.80%
3Y	0.58%	1.15%	2.08%
5Y	0.56%	1.21%	2.17%
10Y	0.51%	1.33%	2.32%

Data Source – RBI, Mospi.Nic.in, CRISIL Fixed Income Database, ^Yield data of new 10 year bond compared to old 10 year bond; LAF – Liquidity Adjustment Facility, MSF – Marginal Standing Facility, SLF – Standing Liquidity Facility, CP - Commercial Paper, CD – Certificate of Deposit, CB – Corporate Bond, IIP – India Industrial Production, CPI – Consumer Price Index, WPI – Wholesale Price Index, CAD – Current Account Deficit, GDP – Gross Domestic Product

Market Update

Money markets rates hardened across most of the maturity duration. Commercial Paper (CP) of 3 months and 6 months saw sharp jump, whereas Certificate of Deposit (CD) saw sharp jump only in the 3 month segment meanwhile others were around same level. Average liquidity was in surplus at Rs 5,919 cr. vis-a-vis the surplus of Rs. 34,401 crore in September 2016.

Government bond prices or gilts advanced in October 2016. The yield of the 10-year benchmark – the 6.97%, 2026 paper – fell to 6.79% on October 28, 2016 from 6.81% on September 30, 2016. Bonds registered sharp gains after the RBI's decision to slash repo rate by 25 bps to 6.25%. In a customary analyst conference call following the policy announcement, the Central Bank hinted further easing in monetary policy. This resulted in increase in gilt buying. Gilts got a boost from a) soft domestic consumer inflation in September 2016, b) weak US non-farm payrolls, c) the RBI's open market operation bond auction on October 25, 2016 for a notified amount of Rs 10,000 crore, and d) sporadic value buying.

Source: CRISIL

Macro Update

Inflation: Consumer Price Index-based inflation dropped to 4.3%, a one-year low, in September 2016 from 5% in August 2016. This was driven by 200 bps drop in food inflation to 3.9%, especially in vegetables. Core inflation edged down to 4.9%. The monthly momentum in food inflation also slowed down, indicating a decline in prices in September 2016. Wholesale Price Index (WPI)-based inflation rose 3.57% from a year earlier in September 2016 compared to a rise of 3.74% in August 2016.

Trade Deficit: Trade deficit contracted to $8.06 billion in Q1FY17 from $16.2 billion a year ago. Meanwhile, balance in the income account (primary plus secondary) narrowed for the third consecutive quarter, falling $3 billion year-on-year to $7.8 billion. Continued slowdown in workers' remittances is a key factor behind this. Remittances fell about 2% year-on-year, indicating rising economic stress in the Middle East owing to low oil prices. Goods exports saw a sharp decline of 2.1%, while imports were down 11.5%, led by decline in gold, consumption- and investment-related imports.

Government Borrowing: The government announced it will borrow Rs 2.45 lakh crore in the second half of FY17. Of this, net market borrowing would be Rs 1.77 lakh crore. Auctions of government securities worth Rs 60,000 crore are scheduled for November 2016.

Source: CRISIL

Our Outlook

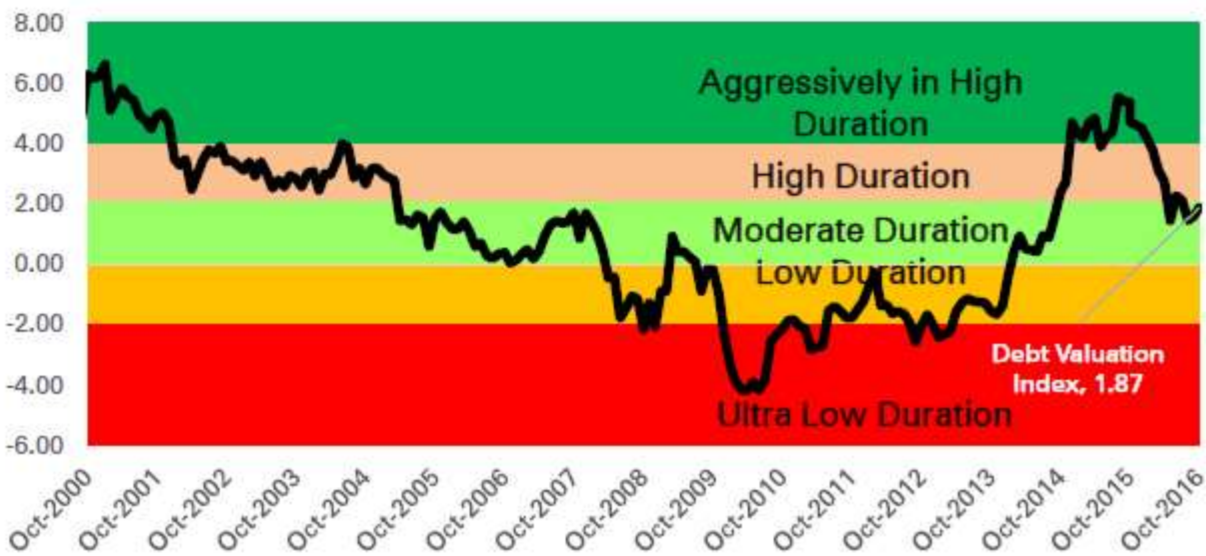
Concerns over the result of US Presidential elections and some profit booking hardened yields towards the end of the month in India. But we believe this is a temporary scenario. Post the 25 basis-point repo rate cut announced by the RBI in its last monetary policy meeting, we expect a further cut of 25 bps in FY17.

RBI is more in a liquidity management mode, infusing liquidity through Open Market Operations (OMO) to keep liquidity in neutral territory. However, temporary aberration in liquidity may take place due to FCNR bond redemption. As and when the FCNR redemption is over, we believe that investors risk appetite would normalize and liquidity may also improve further.

Overall we remain positive on fixed income and recommend investors to remain invested with an aim to benefit from duration gains in the near term.

Debt Valuation

As our debt valuation index shows, investors can choose moderate duration or dynamic duration funds as they may offer better risk-adjusted returns. Long-term investors in debt are recommended to invest in dynamic bond funds as they have flexibility to change duration stance.

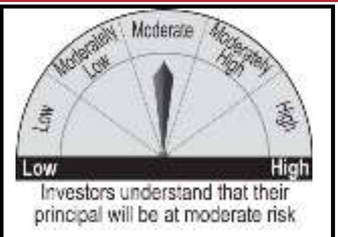
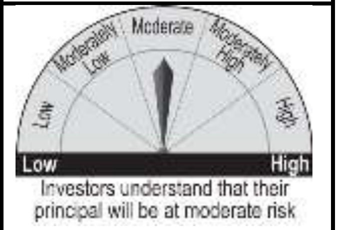
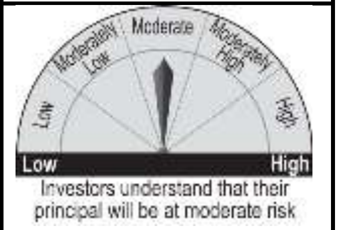
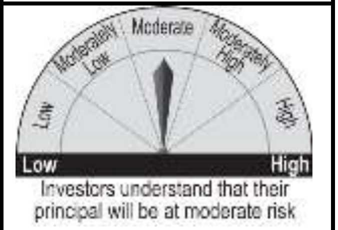
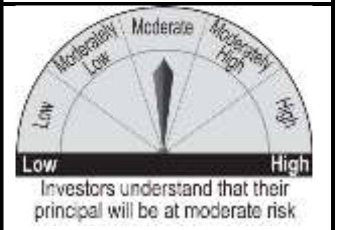
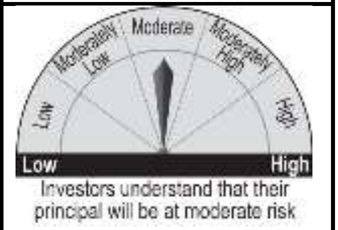


Debt Valuation Index considers WPI and CPI over G-Sec Yield, Current Account Balance and Crude Oil Movement for calculation. Equal weights are assigned to each of these parameters for calculating the index.

Our Recommendation

We recommend existing investors in long duration funds to stay invested as outlook for long bond yields remains positive. Investors who have completed 3 years in long duration funds may consider booking profits and switching around 20% investment to Short Term Funds. For new allocations we recommend short to medium duration or accrual based funds.

Aggressive investors with 3 years of investment horizon:	
ICICI Prudential Long Term Plan	This fund can dynamically change duration strategy based on market conditions
Investors with moderate risk appetite:	
ICICI Prudential Dynamic Bond Fund	These funds with short to medium duration could give better risk-adjusted returns.
ICICI Prudential Short Term Plan	
Investors seeking to earn from Accrual + Duration:	
ICICI Prudential Regular Savings Fund	These funds are better suited for investors looking for accrual strategy.
ICICI Prudential Corporate Bond Fund	
ICICI Prudential Regular Income Fund (Income is not assured and is subject to the availability of distributable surplus.)	

ICICI Prudential Short Term Plan is suitable for investors who are seeking*: Short term income generation and capital appreciation solution A Debt fund that aims to generate income by investing in a range of debt and money market instruments of various maturities. *Investors should consult their financial advisers if in doubt about whether the product is suitable for them	
ICICI Prudential Regular Savings Fund is suitable for investors who are seeking*: Medium term savings solution A Debt fund that aims to deliver consistent performance by investing in a basket of debt and money market instruments with a view to provide reasonable returns while maintaining optimum balance of safety, liquidity & yield. *Investors should consult their financial advisers if in doubt about whether the product is suitable for them	
ICICI Prudential Corporate Bond Fund is suitable for investors who are seeking*: Long term savings solution A Debt Fund that invests in debt and money market instruments of various maturities with a view to maximize income while maintaining optimum balance of yield, safety and liquidity. *Investors should consult their financial advisers if in doubt about whether the product is suitable for them	
ICICI Prudential Long Term Plan is suitable for investors who are seeking*: Medium Term Savings solution A Debt fund that invests in debt and money market instruments with a view to maximize Income while maintaining optimum balance of yield, safety and liquidity. *Investors should consult their financial advisers if in doubt about whether the product is suitable for them	
ICICI Prudential Dynamic Bond Fund is suitable for investors who are seeking*: Medium term wealth creation solution A Debt Fund that invests in debt and money market instruments with a view to provide regular income and growth of capital. *Investors should consult their financial advisers if in doubt about whether the product is suitable for them	
ICICI Prudential Regular Income Fund is suitable for investors who are seeking* (An open ended income fund. Income is not assured and is subject to the availability of distributable surplus.)**:** Medium term regular income solution A hybrid fund that aims to generate regular income through investments primarily in debt and money market instruments and long term capital appreciation by investing a portion in equity *Investors should consult their financial advisers if in doubt about whether the product is suitable for them	

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