Take advantage of interest rate volatility

Source: The Indian Express, Editions: Ahmedabad/Chandigarh/Mumbai/Pune, Date: April 18, 2011

BIG TALK: WAQAR NAQVI, CEO, TAURUS MUTUAL FUND

Take advantage of interest rate volatility'

WITH fears of another hike in key rates by the RBI growing, experts are now advising investors to allocate a portion of their investmentto funds thathave focus on short-term investments. Stating that interest rates are likely to remain volatile in the fixed income segment in the coming days, CEO of Taurus Mutual Fund, Waqar Naqvi, in a chat with ***Madhusudan Sahoo*** *of The Indian Express says that investors who are certain about their cash flow requirements, should look at investment in fixed maturity plans (FMP) to take advantage of the current elevatedyields.* Excerpts:

Short-term rates have already moved up by about 250-300 basis points. Do you see any further rise?

The money market rates are more of liquidity-driven rather than the benchmark rates (repo/reverse repo). Liquidity in the system has been negative to the tune of around -2 per cent over the last 6 months, which has pushed the money market rates up by 250-300 basis points. April and May have been historically better months in terms of liquidity. Therefore, we believe, in the coming months the money market rates stabilise and very short rates (1-2 month) may come down.

What kind of increase do you see on coupons of corporate paper? Can investors expect higher returns from fixed income paper?

The corporate bond market is still thinly traded in India. The papers move more on the G-Sec movement rather than any other factor. Another deciding factor for the movement of yield will be the response of FIIs to the increased limits in the bonds. We expect the 10-year paper is likely to be range-bound around 9.10-9.40 levels.

What category of funds do you expect will provide maximum returns?

In the fixed income segment, interest rates are likely to remain volatile in the coming days. We are suggesting our investors to allocate a portion of their investment to funds that have focus on short-term investment horizon, such as liquid funds, ultra short-term category and short-term income funds for investments ranging from 1 day to 6 months. To investors, who are certain about their cash flow requirements, we suggest investing in FMP to take advantage of the current elevated yields.

Compared to fixed income funds with attractive rates, how does fixed deposits fare?

The fixed income mutual fund schemes offer various benefits compared to fixed deposits and the tax efficiency being only one of the benefits. The flexibility of exit as and when funds are needed will be available for fixed income funds at lower or zero cost compared to fixed deposits. The investor also benefits in an increasing interest rate regime, which is not possible in fixed deposits. For instance, liquid funds returns have moved up from 5 per cent to 8 per cent annualised as the market rateswent up. Yes, long-term income funds are avoidable till we feel that the interest rates may not go up any further.

Many India-dedicated funds are branching out of emerging or Asian market funds. How do you look at this trend?

Global economic recovery, particularly in the US, has made developed markets attractive once again. Asian economies, in general, are facing challenges of inflation and interest rate hikes. We expect, as inflation gets under control due to supply side and monetary measures taken by the RBI, the flow of money will come back. The long-term growth pillars for emerging markets like India remains intact. It is only temporary challenges of high inflation and crude, which are keeping the market performance under check. ♦