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HEAD - FIXED INCOME
TATA MUTUAL FUND

There is scope for interest rates to go higher from where we are right now (end December). The financial year end inflation target is set at 5.5 per cent. On the one hand you have metal prices which are on the rise. Rubber prices have risen. All this is not reflected in the WPI. To add to it, look at oil prices which have been on the rise. Inevitably the LPG and diesel prices will be hiked. So it is obvious inflation will be above the RBI's comfort level. There will be a rate hike in January and going forward there will be further incremental rate hikes.

We are seeing 1-year rates trading at 9.5 per cent levels, there is money to be made here. Once liquidity is back in the system, these rates are likely to fall. It is advisable to stay invested in FMPs. Or else, invest in short-term bond funds where you can expect higher accruals income due to smaller portion of M2M* component.

* *Mark-to-Market*