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August 4, 2017

The Week that was...

31st July to 4th August

Indian Economy

- The Monetary Policy Committee (MPC) in its monetary policy review lowered key policy repo rate by 25 bps from 6.25% to 6.00%. Subsequently, the reverse repo rate stands adjusted at 5.75% from 6.00%. The bank rate and the marginal standing facility also stand adjusted by 25 bps from 6.50% to 6.25%. According to MPC, a fall in retail inflation to its lowest level in the series based on 2011-12, smooth roll-out of the Goods and Services Tax (GST) and normal monsoons gave room for a rate-cut.
- MPC projected that domestic inflationary pressures may build up in the coming months, and identified several factors that may affect the domestic inflation outlook. The factors include implementation of farm loan waivers by state governments, fiscal slippages, and lack of information regarding timing of states' implementation of the salary and allowances award.
- Government data showed that India's fiscal deficit touched Rs. 4.42 lakh crore during the period from Apr to Jun of 2017 or 80.8% of the budgeted target for the current fiscal year. Fiscal deficit in the corresponding period of the previous year stood at 61.1% of the budgeted target. Net tax receipts stood at Rs. 1.77 lakh crore or 14.5% of the budgeted target for the current fiscal year.
- Government data showed that the growth in core sector output in Jun 2017 slowed to 0.4% YoY from 4.1% in the preceding month and 7.0% in the same month of the previous year. This was the slowest growth rate over the past 12 months.

Indian Equity Market

Domestic Equity Market Indices			
Indices	04-Aug-17	1 Week Return	YTD Return
S&P BSE Sensex	32325.41	0.05%	21.54%
Nifty 50	10066.4	0.52%	23.07%
S&P BSE Mid-Cap	15436.95	0.70%	27.25%
S&P BSE Small-Cap	15926.63	-0.90%	30.65%

Source: MFI Explorer

Ratios	S&P BSE Sensex	Nifty 50	S&P BSE Mid Cap	S&P BSE Small Cap
P/E	24.29	25.61	30.83	74.23
P/B	3.12	3.56	2.74	2.47
Dividend Yield	1.21	0.96	1.19	0.73

Source: BSE, NSE Value as on Aug 04, 2017

NSE Advance/Decline Ratio			
Date	Advances	Declines	Advance/Decline Ratio
31-Jul-17	809	891	0.91
01-Aug-17	644	1044	0.62
02-Aug-17	658	1045	0.63
03-Aug-17	435	1246	0.35
04-Aug-17	831	850	0.98

Source: NSE

- The domestic market touched a fresh record high during the week. Initially, market traded high amid expectations of a rate cut by the Monetary Policy Committee (MPC) prior to its policy meeting held on Aug 2, 2017. Improved quarterly earning numbers of some companies also helped gains.
- Later, the MPC lowered key policy repo rates in its latest bi-monthly monetary policy review and decided to maintain “neutral” policy stance.
- Gains were mostly neutralised by data showing contraction in manufacturing and service sector. Most of the contraction was attributed to the initial hiccups seen following implementation of the Goods and Services Tax.

Indian Equity Market (contd.)

Sectoral Indices			
Indices	Last Closing	Returns (in %)	
		1-Wk	1-Mth
S&P BSE Auto	24799.6	1.88%	5.06%
S&P BSE Bankex	28074.6	0.19%	6.84%
S&P BSE CD	17241.3	6.66%	7.10%
S&P BSE CG	17723.8	0.00%	3.61%
S&P BSE FMCG	10031.6	-1.60%	-6.35%
S&P BSE HC	13877.8	-3.72%	-1.73%
S&P BSE IT	10371.2	0.10%	4.41%
S&P BSE Metal	12603.4	3.14%	8.73%
S&P BSE Oil & Gas	14818.6	5.33%	10.82%

Source: Thomson Reuters Eikon Value as on Aug 04, 2017

- On the BSE sectoral front, most of the indices closed in the green, barring S&P BSE Healthcare (-3.72%) and S&P BSE FMCG (-1.60%). Meanwhile, S&P BSE Consumer Durables (6.66%) stood as the major gainer followed by S&P BSE Oil & Gas (5.33%) and S&P BSE Metal (3.14%).
- Healthcare sector fell after facing U.S. regulatory and pricing pressure in different companies. S&P BSE Auto also gained following improved sales number reported by a major car manufacturer.

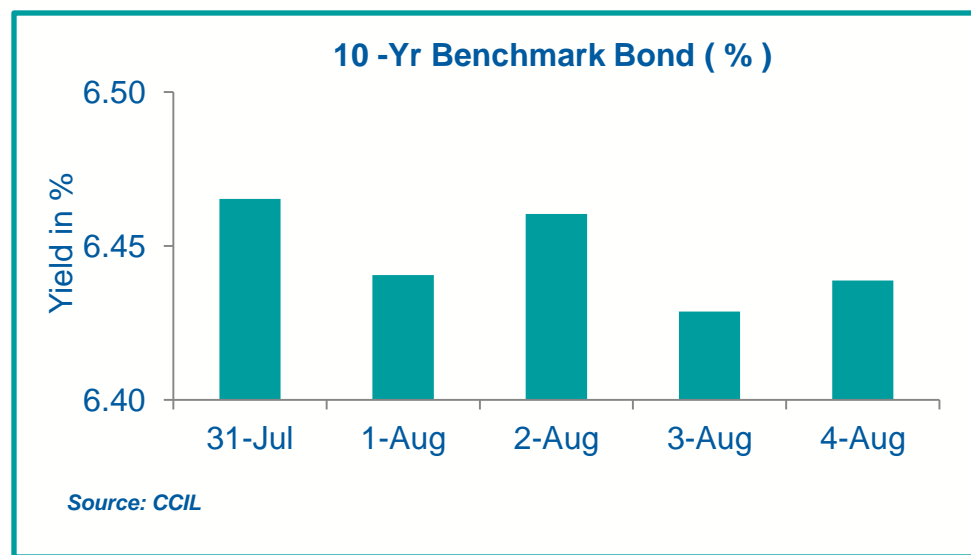
Indian Derivatives Market Review

- Nifty Aug 2017 Futures were at 10,108.55, a premium of 42.15 points above the spot closing of 10,066.40. The turnover on NSE's Futures and Options segment stood at Rs. 27.87 lakh crore compared with Rs. 36.01 lakh crore in the week to Jul 28.
- The Put-Call ratio stood at 0.90 compared with the previous week's close of 0.84.
- The Nifty Put-Call ratio remained unchanged at 1.27 compared with the previous week's figure.

Domestic Debt Market

Debt Indicators (%)	Current Value	1-Wk Ago	1-Mth Ago	6-Mth Ago
Call Rate	5.90	6.08	6.04	6.00
91 Day T-Bill	6.10	6.13	6.28	6.17
07.80% 2021 , (5 Yr GOI)	6.41	6.51	6.63	6.43
06.79% 2027, (10 Yr GOI)	6.44	6.46	6.55	6.41

Source: Thomson Reuters Eikon *Value as on Aug 04, 2017*



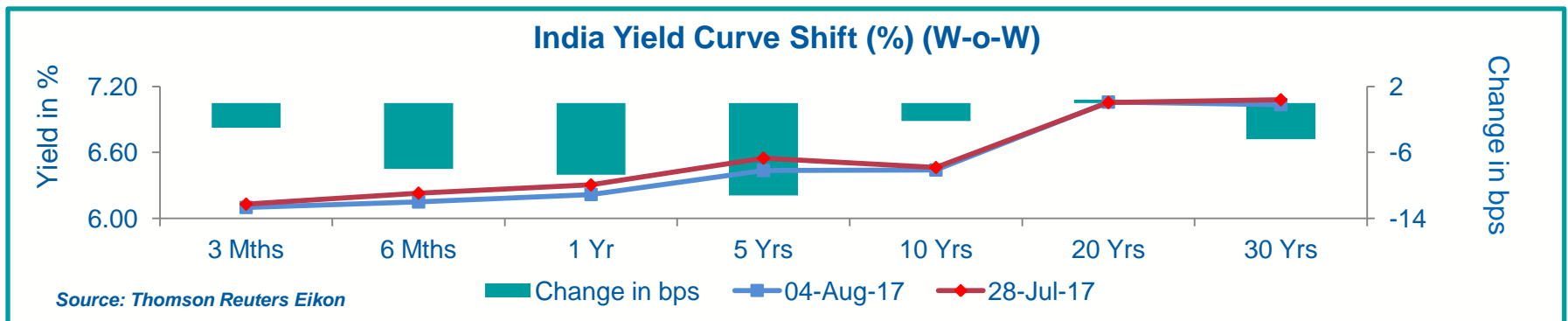
- Bond yields fell marginally after moving in range during the week. Yields fell amid reports that the Reserve Bank of India (RBI) may submit a revised proposal on listing sovereign debt on Euroclear, the world’s largest bond clearing platform. The move is expected to raise exposure of the nation’s debt issuances globally and attract foreign capital crucial to boost economic growth.
- Gains were limited after the Monetary Policy Committee (MPC) cut key policy rate by 25 basis points as widely expected, while retaining its neutral stance.
- Yield on the 10-year benchmark bond (6.79% GS 2027) fell 2 bps to close 6.44% compared with the previous week’s close of 6.46%.

Domestic Debt Market (Spread Analysis)

Maturity	G-Sec Yield (%)	Corporate Yield (%)	Spread bps
1 Year	6.34	6.74	40
3 Year	6.47	6.99	52
5 Year	6.53	7.11	58
10 Year	6.67	7.28	61

Source: Thomson Reuters Eikon Value as on Aug 04, 2017

- Yields on gilt securities fell across maturities by up to 12 bps, barring 15- and 19-year papers that were steady.
- Corporate bond yields fell across curve in the range of 2 to 8 bps. The maximum fall was witnessed on 1- and 7-year maturities, and minimum decline was on 15-year paper.
- Spread between AAA corporate bond and gilt expanded on 3 to 8 years' papers in the range of 3 to 7 bps, while it contracted on the remaining maturities by up to 3 bps.



Regulatory Updates in India

- The Securities and Exchange Board of India (SEBI) has ordered that promoters of companies listed on non-operational bourses, which failed to give exit option to minority shareholders, shall not be provided corporate benefits, including board membership. Also, the promoters and directors of non-compliant companies will not be allowed to deal in the market unless they provide an exit option to shareholders.
- SEBI announced that it has formed a committee that will suggest measures to curb market manipulation and insider trading. Headed by former secretary general of Lok Sabha, the committee includes representatives of law firms, mutual funds, brokers, foreign portfolio investors, and stock exchanges.
- The Reserve Bank of India (RBI) allocated Foreign Portfolio Investors (FPIs) a separate limit of Rs. 5,000 crore in interest rate futures. The objective of the move is to ensure that FPIs' access to futures remains uninterrupted during the phase when FPI limits on Government securities are under auction.
- RBI has amended some previous regulations on capital requirements under the Basel-III regime of banks. The new amendments widens the assets of banks such as the excess cash reserve ratio, excess government securities (G-secs) holdings in statutory liquidity ratio, and also excess G-secs under marginal standing facility will be included in the stock of liquid assets without any limit and without applying any haircut.

Regulatory Updates in India (contd..)

- RBI has amended the guidelines on Liquidity Coverage Ratio (LCR). Presently, cash including cash reserves in excess of the required minimum cash reserve ratio are recognised as Level 1 High Quality Liquid Asset (HQLA). However, the excess reserves held with other central banks are not recognized as Level 1 HQLA. MPC has decided that reserves held by banks incorporated in India with a foreign central bank, in excess of the reserve requirement in the host country, should be treated as HQLAs, subject to certain conditions.
- RBI is planning to review the Marginal Cost of Funds Based Lending Rate (MCLR) and base rate mechanism to improve monetary policy transmission. RBI is also looking to implement the scheme of simplified hedging facility. The scheme aims to simplify the process for hedging exchange rate risk by reducing documentation requirements and avoiding prescriptive stipulations regarding products, purpose, and hedging flexibility.
- RBI has decided to set up a high level task force to plug the gap of information asymmetry between borrowers and lenders by having a comprehensive Public Credit Registry. The objective of the move is to make the credit market more efficient.
- RBI is planning to organise a cyber-audit of all banks in India as against fewer banks in the past. The change in policy comes amid the need of cyber audit owing to the increase in cyber-attacks. Also, banks that do not currently have security measures in place will be given time to comply with the same. However, failing to comply would result in an action.

Global News/Economy

- According to the Commerce Department, U.S. real Gross Domestic Product (GDP) came in line with market expectations and increased 2.6% in the second quarter of 2017, up from downwardly revised 1.2% (originally reported 1.4%) in the first quarter 2017.
- A report from the Institute for Supply Management showed that U.S. manufacturing Purchasing Managers' Index (PMI) missed market expectations and fell to 56.3 in Jul 2017 from 57.8 in Jun 2017. The decline reflects fall in new orders index as well as production index. Also, employment index fell to 55.2 in Jul from 57.2 in Jun.
- A preliminary flash report from Eurostat showed that euro zone's Gross Domestic Product (GDP) grew 0.6% sequentially in the second quarter, which was faster than 0.5% growth in the first quarter of 2017. On an annual basis, GDP grew 2.1%, up from 1.9% growth in the year-ago period.
- The Bank of England (BoE) in its monetary policy review voted 6-2 to hold the interest rate at a historic low of 0.25%. However, all eight members of the Monetary Policy Committee voted to maintain quantitative easing at £435 billion. BoE hinted that the key rate could be raised next year. BoE downgraded its growth projection for this year to 1.7% from 1.9% and that for 2018 to 1.6% from 1.7%. The growth outlook for 2019 was maintained at 1.8%.
- According to a report from the National Bureau of Statistics, China's manufacturing Purchasing Managers' Index (PMI) fell to 51.4 in Jul 2017 from 51.7 in Jun 2017. Non-manufacturing PMI also fell to 54.5 in Jul from 54.9 in Jun.

Global Equity Markets

Global Indices			
Indices	04-Aug-17	1-Week Return	YTD Return
Dow Jones	22092.81	1.20%	11.12%
Nasdaq 100	5899.905	-0.15%	20.13%
FTSE 100	7511.71	1.95%	4.65%
DAX Index	12297.72	1.11%	6.03%
Nikkei Average	19952.33	-0.04%	1.83%
Straits Times	3326.52	-0.13%	14.75%

Source: Thomson Reuters Eikon Value as on Aug 04, 2017

Europe

- European markets went up following a bunch of upbeat earnings results. Encouraging factory order data of Germany added to the gains. However, the Bank of England kept its interest rate unchanged, although it reduced its economic growth projections for 2017 and 2018, which ate into gains. Political uncertainties in the U.S. further weighed on sentiment.

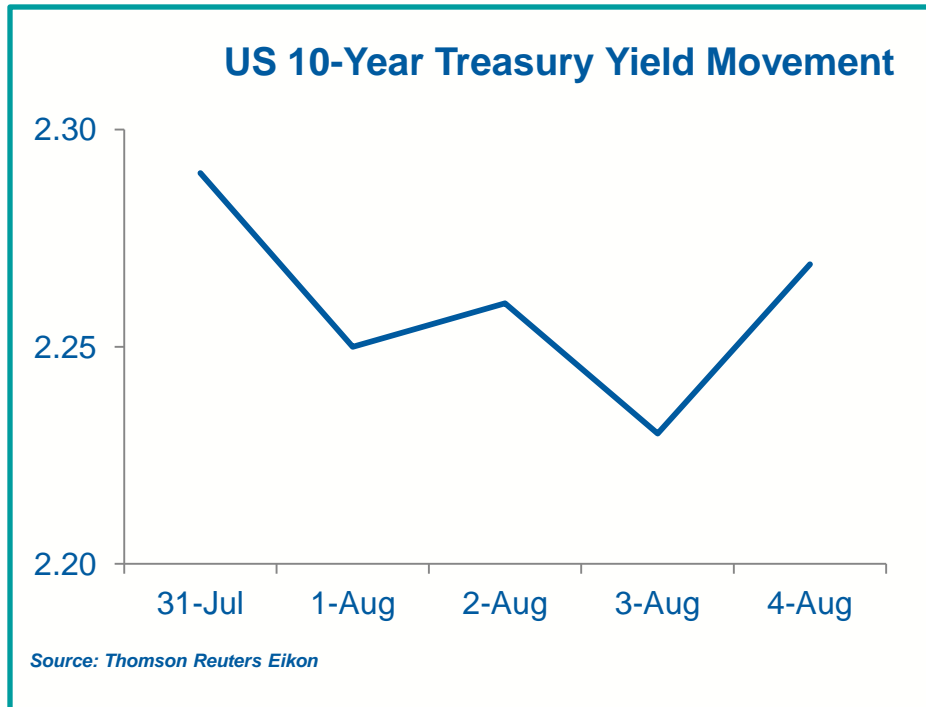
Asia

- Asian markets closed mixed following a series of mixed economic data. While Japan's consumer confidence gained more than expected in Jul 2017, the Purchasing Managers' Index (PMI) for the Japanese services sector dropped during the same period. Geopolitical worries in the Korean Peninsula, revamp of the Japanese cabinet, and political ambiguities in the U.S. lowered investor confidence.

U.S.

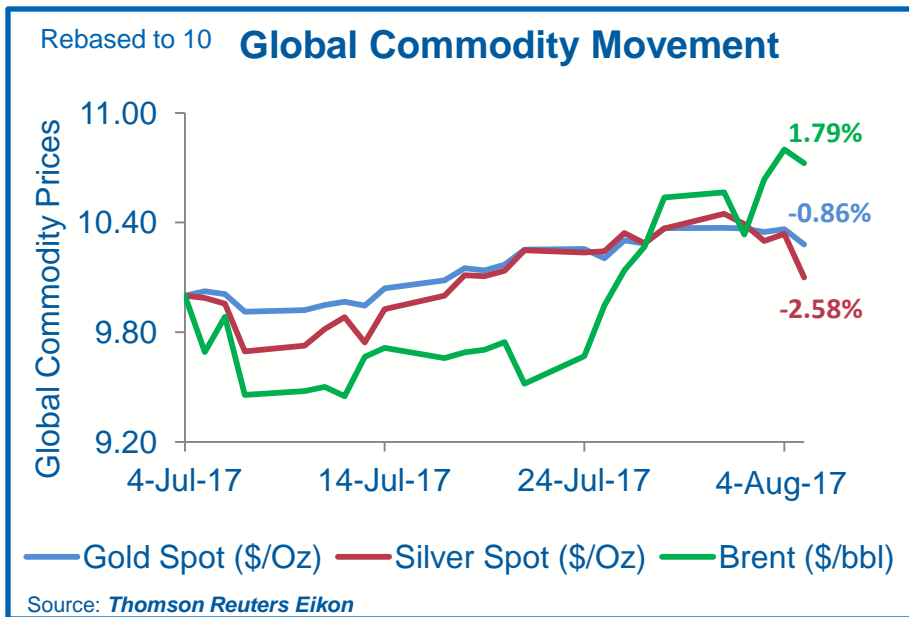
- Major U.S. markets rose amid positive earnings news, with most corporate results surpassing economist estimates.
- Buying interest found additional support from better than expected U.S. non-farm payroll employment data for Jul.
- However, gains were restricted by concerns that the Fed may press ahead with rate hikes and balance sheet normalization later this year.

Global Debt (U.S.)



- Yield on the 10-year U.S. Treasury bond fell 2 bps to close at 2.27% from the previous week's close of 2.29%.
- U.S. Treasury prices rose initially as weak auto sales in the U.S. in Jul 2017 raised concerns about slow economic growth in the region.
- Treasury prices rose further as its safe haven appeal improved after the Bank of England in its monetary policy review kept interest rates at a record low and downgraded its economic and inflation forecasts, raising concerns about global economic growth.
- However, further gains were capped after the U.S. Treasury Department said that it is considering increasing debt issuances. Most of the gains wiped out after U.S. jobs data for Jul came better than market expectations.

Commodities Market



Performance of various commodities		
Commodities	Last Closing	1-Week Ago
Brent Crude(\$/Barrel)	52.97	52.04
Gold (\$/Oz)	1257.85	1268.75
Gold (Rs/10 gm)	28554	28443
Silver (\$/Oz)	16.23	16.66
Silver (Rs/Kg)	37966	37901

Source: Thomson Reuters Eikon Value as on Aug 04, 2017

Gold

- Gold prices slipped amid concerns over the demand prospects owing to weaker than expected Chinese official and manufacturing Purchasing Managers' Index (PMI) data for Jul 2017.
- The bullion prices witnessed additional pressure as better than expected U.S. employment data for Jul heightened concerns over Fed rate hike.

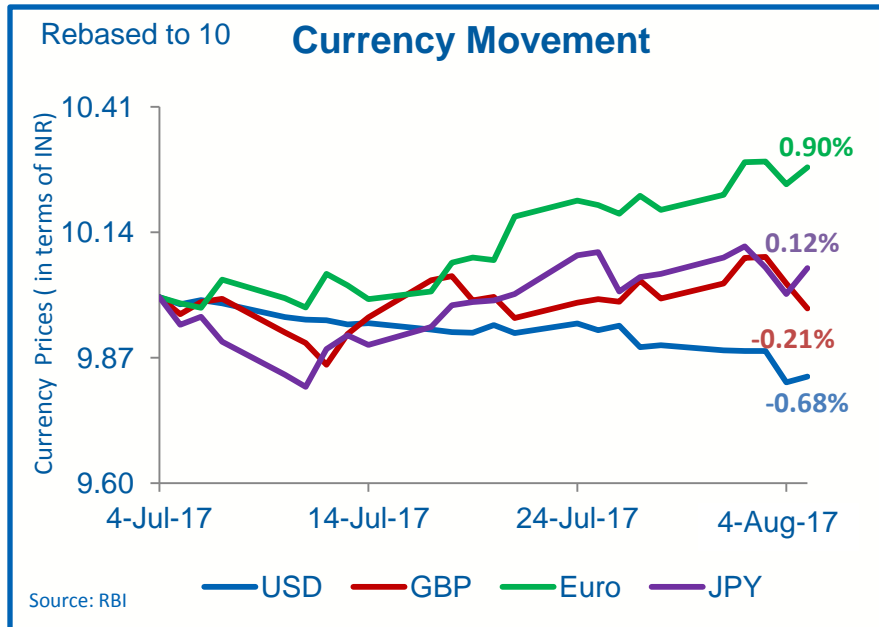
Crude

- Brent crude prices remained high following media reports that some members of the OPEC and non-OPEC members will meet on Aug 7-8 in Abu Dhabi to assess the compliance with production cuts.

Baltic Dry Index

- The Baltic Dry Index increased during the week owing to improved capesize and panamax activities.

Currencies Markets



Movement of Rupee vs Other Currencies		
Currency	Last Closing	1-Wk Ago
US Dollar	63.71	64.15
Pound Sterling	83.71	83.89
EURO	75.66	74.98
JPY(per 100 Yen)	57.85	57.78

Source: RBI Figures in INR , Value as on Aug 04, 2017

Rupee

- The rupee rose against the greenback after the Monetary Policy Committee lowered key policy repo rate by 25 bps, but maintained its policy stance as neutral.

Euro

- The euro rose against the greenback on growing possibility that the ECB would soon phase out its easy monetary policy. However, upbeat U.S. jobs data for Jul 2017 neutralised most of the gains.

Pound

- The sterling weakened against the greenback after the Bank of England kept interest rates unchanged and lowered its forecasts for growth, inflation, and wages contrary to market expectations.

Yen

- The yen fell against the greenback following renewed optimism over U.S. President's reform agenda.

The Week that was...

31st July to 4th August

The Week that was (Jul 31 – Aug 4)

Date	Events	Present Value	Previous Value
Monday, Jul 31, 2017	• China Manufacturing PMI (JUL)	51.4	51.7
	• Eurozone Consumer Price Index Estimate (YoY) (JUL)	1.30%	1.30%
	• Germany Retail Sales (YoY) (JUN)	1.50%	4.90%
Tuesday, Aug 1, 2017	• Germany Unemployment Rate (JUL)	5.7%	5.7%
	• U.S. ISM Manufacturing (JUL)	56.3	57.8
	• U.S. ISM Employment (JUL)	55.2	57.2
	• Eurozone Gross Domestic Product (YoY) (2Q A)	2.10%	1.90%
	• U.S. Personal Consumption Expenditure Core (YoY) (JUN)	1.50%	1.50%
Wednesday, Aug 2, 2017	• Japan Consumer Confidence Index (JUL)	43.8	43.3
	• U.K. Markit/CIPS UK Construction PMI (JUL)	51.9	54.8
	• U.S. MBA Mortgage Applications (JUL 28)	-2.80%	0.40%
Thursday, Aug 3, 2017	• Bank of England Rate Decision (AUG 03)	0.25%	0.25%
	• Bank of England Asset Purchase Target (AUG)	435b	435b
	• U.S. ISM Services/Non-Manufacturing Composite (JUL)	53.9	57.4
	• China Caixin Composite PMI (JUL)	51.9	51.1
Friday, Aug 4, 2017	• U.S. Change in Non-farm Payrolls (JUL)	209,000	231,000
	• U.S. Unemployment Rate (JUL)	4.30%	4.40%
	• Germany Factory Orders (YoY) (JUN)	5.10%	3.70%

The Week Ahead

7th August to 11th August

The Week Ahead

Day	Event
Monday, Aug 7, 2017	<ul style="list-style-type: none"> • Japan Leading Index (JUN P) • Germany Industrial Production (YoY) (JUN) • Japan Trade Balance - BOP Basis (Yen) (JUN)
Tuesday, Aug 8, 2017	<ul style="list-style-type: none"> • China Trade Balance (JUL) • Germany Trade Balance (euros) (JUN) • China Foreign Direct Investment (YoY) CNY (JUL)
Wednesday, Aug 9, 2017	<ul style="list-style-type: none"> • China Consumer Price Index (YoY) (JUL) • China Producer Price Index (YoY) (JUL) • Japan Machine Orders (YoY) (JUN) • Japan Housing Loans (YoY) (2Q)
Thursday, Aug 10, 2017	<ul style="list-style-type: none"> • China New Yuan Loans CNY (JUL) • U.K. Total Trade Balance (Pounds) (JUN) • U.K. Manufacturing Production (YoY) (JUN) • U.S. Initial Jobless Claims (AUG 05) • Japan Tertiary Industry Index (MoM) (JUN)
Friday, Aug 11, 2017	<ul style="list-style-type: none"> • U.S. Consumer Price Index (YoY) (JUL) • Germany Consumer Price Index (YoY) (JUL F)

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