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December 29, 2017

The Week that was...

25th December to 29th December

Indian Economy

- Government data showed that India's fiscal deficit during Apr to Nov 2017 stood at Rs. 6.12 lakh crore or 112.0% of the budgeted target for FY18 mainly due to lower Goods and Services Tax (GST) collections and higher expenditure. During the corresponding period last year, fiscal deficit was at 85.8% of the Budget Estimate. Total receipts were Rs. 8.67 lakh crore or 54.2% of the Budget Estimate, while total expenditure amounted to Rs. 14.79 lakh crore or 68.9% of the financial year estimates.
- The government removed income tax exemption to profit-making cooperative banks as they operate like commercial banks and should be treated likewise. Also, granting exemption under Section 80P of the Income Tax Act was waived as their area of operations extends even to non-members.
- The government plans to borrow an additional Rs. 50,000 crore in FY18, thereby raising concerns of missing the fiscal deficit target. The additional borrowing indicates that the government may not cut spending to meet the fiscal deficit target as that would undermine economic recovery. However, the finance ministry announced that there will be no net additional borrowing in the third quarter. Treasury Bills will be run down by Rs. 61,203 crore and additional borrowing through government securities will be Rs. 50,000 crore.
- As per the Centre for Economics and Business Research consultancy's 2018 World Economic League Table, India is expected to outperform Britain and France in 2018 and will thereby become the world's fifth-largest economy in dollar terms. The report has also provided an upbeat view of the global economy due to by cheap energy and technology prices.

Indian Equity Market

Domestic Equity Market Indices			
Indices	29-Dec-17	1 Week Return	YTD Return
S&P BSE Sensex	34056.83	0.34%	28.06%
Nifty 50	10530.7	0.36%	28.75%
S&P BSE Mid-Cap	17822.4	1.41%	46.91%
S&P BSE Small-Cap	19230.72	1.26%	57.76%

Source: MFI Explorer

Ratios	S&P BSE Sensex	Nifty 50	S&P BSE Mid Cap	S&P BSE Small Cap
P/E	25.22	26.92	47.21	115.69
P/B	3.13	3.55	3.12	2.77
Dividend Yield	1.12	1.08	0.77	0.58

Source: BSE, NSE Value as on Dec 29, 2017

NSE Advance/Decline Ratio			
Date	Advances	Declines	Advance/Decline Ratio
26-Dec-17	1045	750	1.39
27-Dec-17	710	1080	0.66
28-Dec-17	911	856	1.06
29-Dec-17	1021	784	1.30

Source: NSE

- The Indian equity markets ended the last trading week of 2017 on a positive note as investors became optimistic on improving economy and hopes of higher corporate earnings results. Expectations of a more rural-focused Union Budget, following the ruling party's victory in Gujarat election, further buoyed sentiment.
- However, upside was limited on announcement of government's additional borrowing programme. The lower than expected revenue prompted government to go for additional borrowing of Rs. 50,000 crore from the market.
- Rising crude oil prices and truncated trading sessions in most of the other peers across the world also limited the upside.

Indian Equity Market (contd.)

Sectoral Indices			
Indices	Last Closing	Returns (in %)	
		1-Wk	1-Mth
S&P BSE Auto	26751.2	0.67%	5.09%
S&P BSE Bankex	28856.8	-0.43%	-1.11%
S&P BSE CD	22689.5	0.64%	5.79%
S&P BSE CG	19133.8	0.04%	3.20%
S&P BSE FMCG	10695.2	0.36%	3.19%
S&P BSE HC	14799.4	2.63%	5.22%
S&P BSE IT	11277.8	1.28%	4.18%
S&P BSE Metal	14939.3	2.83%	6.28%
S&P BSE Oil & Gas	16283.3	-1.31%	1.41%

Source: Thomson Reuters Eikon Value as on Dec 29, 2017

- On the BSE sectoral front, most of the indices closed in the green barring S&P BSE Oil & Gas (-1.31%) and S&P BSE Bankex (-0.43%). Meanwhile, S&P BSE Realty (4.35%) stood as the major gainer followed by S&P BSE Metal (2.83%) and S&P BSE Healthcare (2.63%).
- Healthcare sector gained after a pharma major announced that the U.S. Food and Drug Administration has accepted a new drug application (NDA) for one of its products.

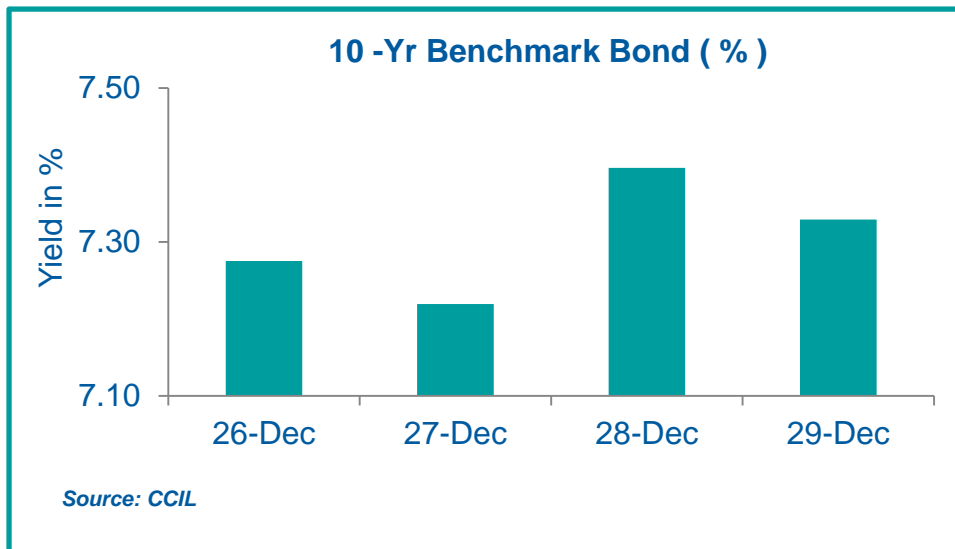
Indian Derivatives Market Review

- Nifty Dec 2017 Futures settled at spot closing of 10,477.90 points. Nifty Jan 2018 Futures were at 10,556.90, a premium of 26.20 points above the spot closing of 10,530.70. The turnover on NSE's Futures and Options segment stood at Rs. 30.58 lakh crore as against Rs. 37.71 lakh crore in the week to Dec 22.
- The Put-Call ratio stood at 0.90 compared with the previous week's close of 1.08.
- The Nifty Put-Call ratio stood at 1.62 compared with the previous week's close of 1.59.

Domestic Debt Market

Debt Indicators (%)	Current Value	1-Wk Ago	1-Mth Ago	6-Mth Ago
Call Rate	6.10	5.97	5.88	6.06
91 Day T-Bill	6.22	6.20	6.13	6.30
7.80% 2021, (5 Yr GOI)	6.96	6.90	6.76	6.57
6.79% 2027, (10 Yr GOI)	7.33	7.27	7.03	6.51

Source: Thomson Reuters Eikon *Value as on Dec 29, 2017*



- Bond yields rose during the week under review after lower goods and services tax collections in Nov 2017 fueled concerns that the government may not be able to meet its fiscal deficit target for the current fiscal.
- Market sentiments were further dampened after government announced to increase its fiscal year borrowing amount that raised concerns about the government’s fiscal prudence. The government announced to borrow an additional Rs. 50,000 crore through previously scheduled auctions in Jan 2018 and Feb 2018.
- However, losses were capped after the Reserve Bank of India (RBI) accepted bids for less than one-third of the total amount of bonds being sold at the auction.

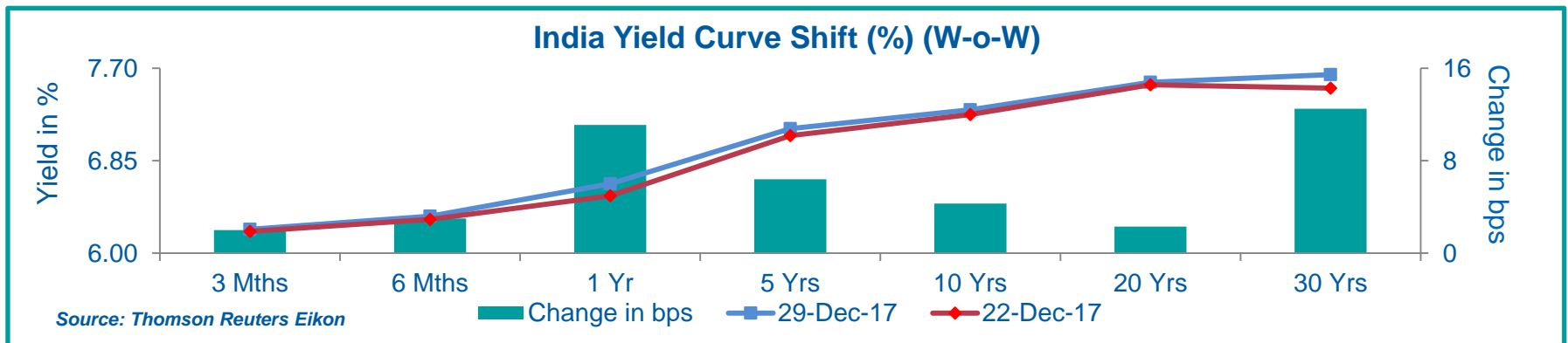
Domestic Debt Market (Spread Analysis)

Maturity	G-Sec Yield (%)	Corporate Yield (%)	Spread bps
1 Year	6.64	7.28	64
3 Year	7.05	7.56	51
5 Year	7.28	7.68	40
10 Year	7.60	7.86	27

Source: Thomson Reuters Eikon

Value as on Dec 29, 2017

- Yields on gilt securities increased across the maturities in the range of 2 bps to 16 bps. The maximum increase was witnessed on 12-year maturity and the minimum on 19-year paper.
- Corporate bond yields increased across the maturities by up to 8 bps. The maximum increase was witnessed on 1-, 3- and 4-year maturities.
- Spread between AAA corporate bond and gilt contracted on 1-year paper and 5 to 10 years' maturities by up to 10 bps and expanded across the remaining maturities by up to 4 bps.



Source: Thomson Reuters Eikon

Regulatory Updates in India

- Market regulator Securities and Exchange Board of India (SEBI) decided to put a 10% cross-shareholding cap in mutual funds. Simply put, any shareholder owning at least 10% stake in a mutual fund company will not be allowed to have 10% or more stake in another mutual fund house operating in the country. This action was taken to avoid any potential conflict of interest.
- SEBI is set to ease entry norms for foreign portfolio investors (FPIs) willing to invest in the Indian markets. The regulator may expand the eligible jurisdictions for registration by including countries with diplomatic tie-ups with India and could also rationalise "fit and proper" criteria for FPIs as well as simplify broad-based requirements for such investors. The regulator may also allow listing of security receipts issued by an asset reconstruction company (ARC) on the exchange platform.
- SEBI relaxed norms to allow Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) to raise funds by issuing debt securities. This would be allowed for REITs and InvITs that are listed on stock exchanges. Also, SEBI amended REITs and InvITs regulations to facilitate growth of such trusts.
- SEBI allowed convergence of stock and commodity bourses from Oct 2018. This convergence will help product cross-listing and will also help a trader to trade in all asset class through one account. The move will also allow Indian bourses to launch commodity products on their platforms.

Global News/Economy

- A report from the Conference Board showed that U.S. consumer confidence came in lower than market expectations and fell to 122.1 in Dec 2017 as against a downwardly revised index of 128.6 (129.5 originally reported) in Nov 2017. The fall reflects somewhat less optimistic outlook for business and job prospects in the coming months. Meanwhile, the expectations index fell to 99.1 in Dec as against 111.0 in Nov owing to a sharp decline in consumer optimism about the short-term outlook.
- As per preliminary data from the statistical office Destatis, Germany's inflation slowed less than expected in Dec 2017. The consumer price index (CPI) rose 1.7% YoY after 1.8% increase in Nov 2017. However, on monthly basis, CPI rose 0.6% in Dec. In 2017, the annual average inflation surged 1.8%, highest in five years, from 0.5% in 2016.
- According to the minutes of the Bank of Japan's Oct 30-31 meeting, most members of the central bank's monetary policy board agreed that it was appropriate to pursue powerful monetary easing. They also agreed that the economy was moderately expanding with upside and downside risks to economic outlook being broadly balanced. According to the members, though the year-on-year rate of increase in CPI had been sluggish recently, the rate of change would continue to move toward 2% driven by the improvement in the output gap and the rise in medium- to long-term inflation expectations.

Global Equity Markets

Global Indices			
Indices	29-Dec-17	1-Week Return	YTD Return
Dow Jones	24719.22	-0.14%	24.33%
Nasdaq 100	6396.422	-1.06%	30.24%
FTSE 100	7687.77	1.25%	7.10%
DAX Index	12917.64	-1.19%	11.37%
Nikkei Average	22764.94	-0.60%	16.18%
Straits Times	3402.92	0.51%	17.38%

Source: Thomson Reuters Eikon *Value as on Dec 29, 2017*

U.S.

- U.S markets fell marginally over the week. Many traders remained away from their desks ahead of the New Year's weekend. Buying interest was hardly affected by a series of mixed economic data.
- While pending home sales unexpectedly edged higher in Nov 2017, the consumer confidence index pulled back more than expected in Dec 2017.

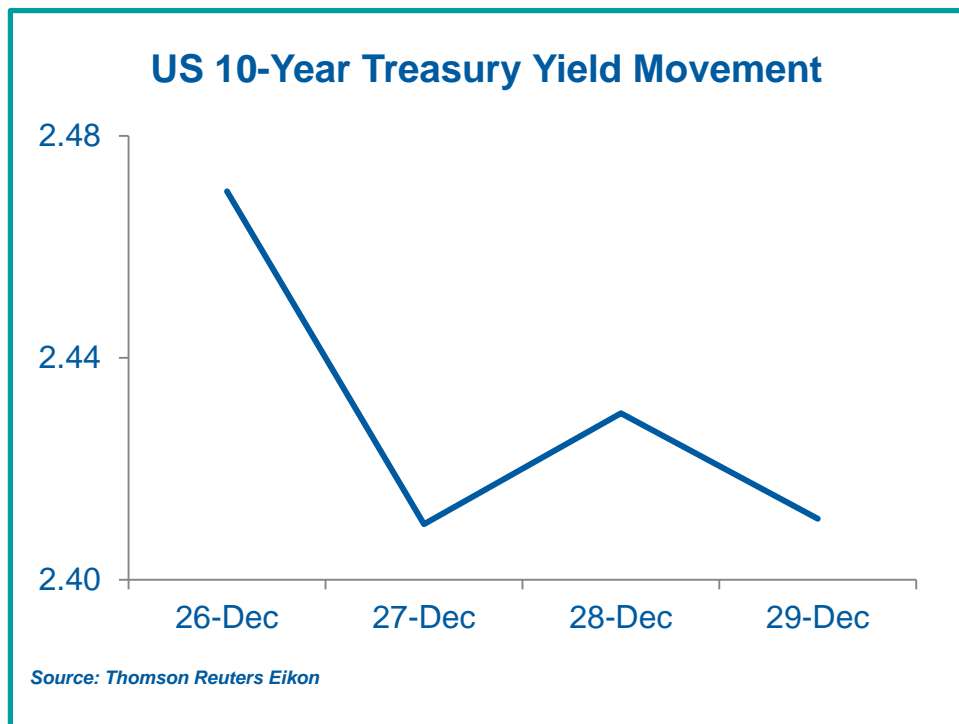
Europe

- European markets largely remained weak as lack of positive catalysts and thin trading volumes in the holiday truncated week contributed to the sluggish movements in almost all the markets in the region. Lack of any major cues on the economic front contributed to the lackluster trading action.

Asia

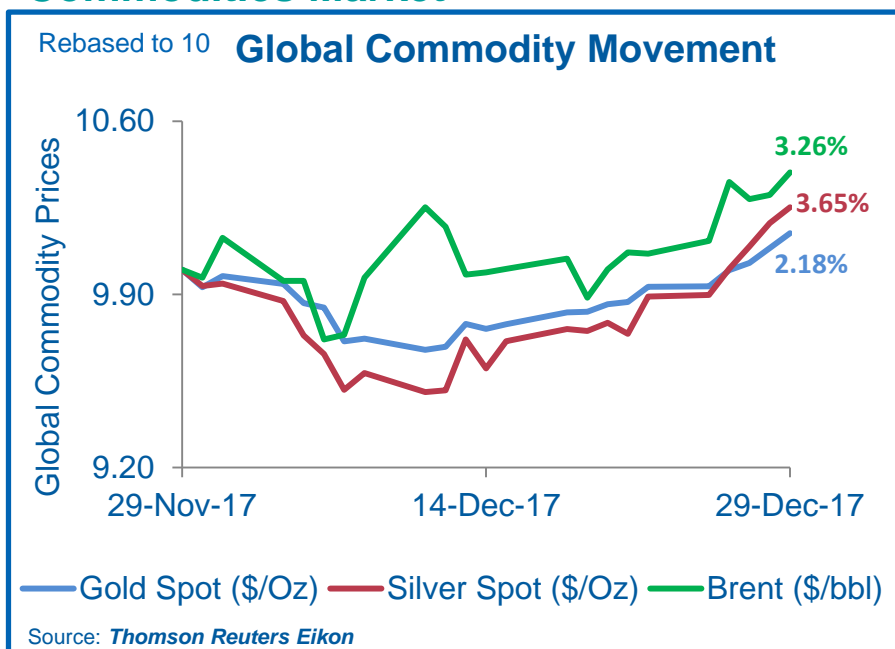
- Majority of the Asian markets ended the last week of 2017 in the green amid thin trading volumes ahead of the New Year Day holiday. Positive cues from Wall Street contributed to the buying interest. Buying interest found additional support from preliminary reading showing industrial output in Japan climbed a seasonally adjusted 0.6 % in Nov 2017, beating expectations for an increase of 0.5%.

Global Debt (U.S.)



- Yield on the 10-year U.S. Treasury bond fell 7 bps to close at 2.41% from the previous week's close of 2.49%.
- U.S. Treasury prices rose during the week under review as market participants rebalanced portfolios before the end of the year amid lack of any market triggers.
- Also, trading activity remained subdued as many traders remained away from their desks following Christmas and ahead of the holiday on New Year's Day.
- However, weak demand in the sale of \$26 billion of two-year notes, \$34 billion of five-year notes and \$28 billion of seven-year notes capped the gains. Market participants also remained on the sidelines ahead of key economic data due to be released next week.

Commodities Market



Gold

- Gold prices touched a more than two-month high during the last trading week of 2017 due to weak dollar and ongoing geopolitical tension. Impact of U.S. tax reform bill on monetary policy and interest rates also supported the precious metal

Crude

- Brent crude prices gained after data from the Energy Information Administration indicated that U.S. oil production dipped to 9.754 million barrels per day (bpd) in the week to Dec 22. Supply disruption from Libya and the North Sea also supported the prices. Meanwhile, China released strong import quotas for 2018 and Iraq's Oil Minister mentioned that the prices are expected to gain next year with global stockpiles falling and demand rising in China and India.

Note: The data for Baltic Dry index is updated till Dec 22, 2017.

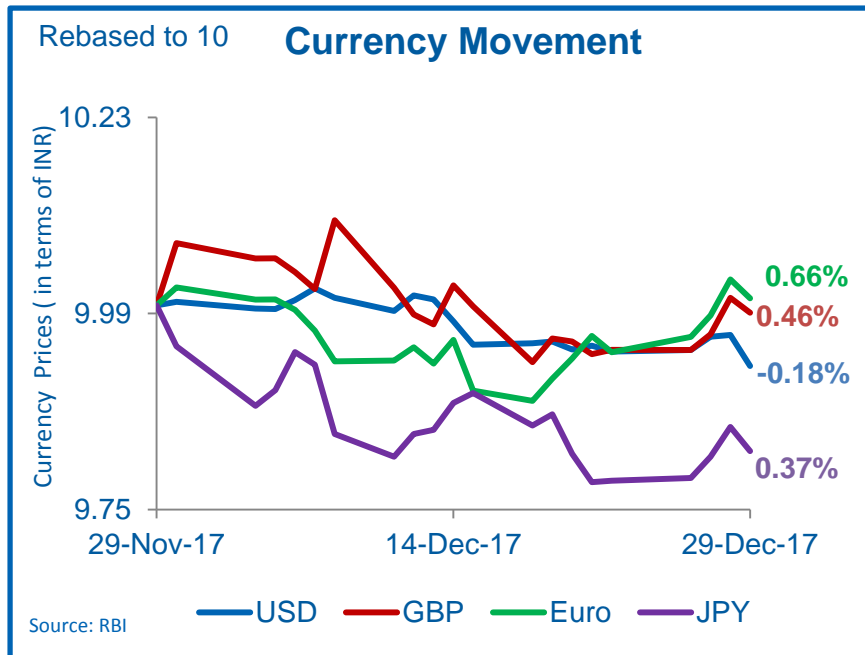
Performance of various commodities

Commodities	Last Closing	1-Week Ago
Brent Crude(\$/Barrel)	67.07	64.95
Gold (\$/Oz)	1302.45	1274.61
Gold (Rs/10 gm)	29252	28686
Silver (\$/Oz)	16.95	16.35
Silver (Rs/Kg)	38350	37097

Source: Thomson Reuters Eikon

Value as on Dec 29, 2017

Currencies Markets



Rupee

- The Indian rupee rose against the U.S. dollar following selling of the greenback by exporters.

Euro

- Euro rose against the greenback after the European Central Bank opined that the euro zone was expanding and inflation was expected to rise gradually.

Pound

- The pound rose against the greenback as the latter came under pressure on growing possibility that central banks across the globe will gradually tighten their monetary policies in 2018 due to faster global economic growth.

Yen

- Yen rose against the greenback yen as market participants remained skeptical of the U.S. tax reform's supposed positive impact on the U.S. economy.

Movement of Rupee vs Other Currencies		
Currency	Last Closing	1-Wk Ago
US Dollar	63.93	64.04
Pound Sterling	86.07	85.67
EURO	76.39	75.88
100 JPY	56.72	56.51

Source: RBI Figures in INR , Value as on Dec 29, 2017

The Week that was...

25th December to 29th December

Date	Events	Present Value	Previous Value
Monday, Dec 25, 2017	• Japan National Consumer Price Index (YoY) (NOV)	0.6%	0.2%
	• Japan Jobless Rate (NOV)	2.7%	2.8%
Tuesday, Dec 26, 2017	• U.S. S&P/Case-Shiller US Home Price Index (YoY) (OCT)	6.2%	6.1%
Wednesday, Dec 27, 2017	• U.S. Consumer Confidence Index (DEC)	122.1	128.6
	• Japan Housing Starts (YoY) (NOV)	-0.4%	-4.8%
	• Japan Retail Trade (YoY) (NOV)	2.2%	-0.2%
	• Japan Industrial Production (YoY) (NOV P)	3.7%	5.9%
	• U.S. Pending Home Sales (YoY) (NOV)	0.6%	1.2%
Thursday, Dec 28, 2017	• U.S. Advance Goods Trade Balance (NOV)	-69.7b	-68.1b
	• U.K. BBA Loans for House Purchase (NOV)	39507	40417
	• U.S. Wholesale Inventories (MoM) (NOV P)	0.7%	-0.4%
	• U.S. Initial Jobless Claims (DEC23)	245,000	245,000
Friday, Dec 29, 2017	• Germany Consumer Price Index (YoY) (DEC P)	1.7%	1.8%

The Week Ahead

02nd January to 05th January

The Week Ahead

Day	Event
<p>Tuesday, January 02, 2018</p>	<ul style="list-style-type: none"> • China Caixin Manufacturing PMI (DEC) • U.K. Markit Manufacturing PMI (DEC)
<p>Wednesday, January 03, 2018</p>	<ul style="list-style-type: none"> • Germany Unemployment Change (000's) (DEC) • U.S. ISM Manufacturing (DEC) • U.S. ISM Employment (DEC) • U.S. FOMC Meeting Minutes (DEC 13) • U.K. Markit/CIPS U.K. Construction PMI (DEC) • U.S. MBA Mortgage Applications (DEC 29)
<p>Thursday, January 04, 2018</p>	<ul style="list-style-type: none"> • China Caixin Composite PMI (DEC) • U.K. Nationwide House (YoY) (DEC) • U.K. Net Consumer Credit (NOV) • U.S. ADP Employment Change (DEC) • Japan Monetary Base (YoY) (DEC)
<p>Friday, January 05, 2018</p>	<ul style="list-style-type: none"> • Eurozone Consumer Price Index Estimate (YoY) (DEC) • U.S. Change in Non-farm Payrolls (DEC) • U.S. Unemployment Rate (DEC) • U.S. ISM Non-Manufacturing/Services Composite (DEC) • Japan Nikkei Composite PMI (DEC)

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