

RELIANCE

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December 8, 2017

The Week that was...

4th December to 8th December

Indian Economy

- The Monetary Policy Committee (MPC) in its fifth bi-monthly policy review kept key policy repo rate unchanged at 6.0%, while retaining its “neutral” stance. Consequently, the reverse repo rate stood unaltered at 5.75%, and the marginal standing facility (MSF) rate and bank rate each remained at 6.25%. Five policymakers were in favour of the monetary policy decision and one advocated for a policy rate reduction of 25 bps.
- MPC projected domestic inflationary pressures to go up in the second half of this fiscal and range from 4.3% to 4.7% in the second half of the fiscal from its earlier projection of 4.2% to 4.6%. Inflation is likely to be impacted by factors like the impact of house rent allowance that is expected to peak in Dec 2017 and rise in international crude prices following Organization of Petroleum Exporting Countries’ decision to extend production cuts through next year.
- MPC retained the real Gross Value Added (GVA) growth for 2017-18 at 6.7%. While the committee noted that the recapitalization of state-run banks have led to a pickup in credit growth, it also underlined the fact that the shortfalls in kharif production and rabi sowing may adversely affect the growth of the agriculture sector.
- The Nikkei India Services Purchasing Managers' Index (PMI) plunged from 51.7 in Oct 2017 to 48.5 in Nov 2017 thereby marking the first contraction in three months. Also, the PMI plunged below 50, thereby separating contraction from expansion. Lower demand and fall in customer turnout due to the rollout of Goods and Services Tax (GST) weighed on the India's service activity. The Nikkei Composite Output Index also fell to a three-month low of 50.3 in Nov from 51.3 in the previous month.

Indian Equity Market

| Domestic Equity Market Indices | | | |
|--------------------------------|-----------|---------------|------------|
| Indices | 08-Dec-17 | 1 Week Return | YTD Return |
| S&P BSE Sensex | 33,250.30 | 1.27% | 25.02% |
| Nifty 50 | 10,265.65 | 1.42% | 25.50% |
| S&P BSE Mid-Cap | 17,044.36 | 1.71% | 40.50% |
| S&P BSE Small-Cap | 18,211.88 | 1.08% | 49.40% |

Source: MFI Explorer

| Ratios | S&P BSE Sensex | Nifty 50 | S&P BSE Mid Cap | S&P BSE Small Cap |
|----------------|----------------|----------|-----------------|-------------------|
| P/E | 24.57 | 26.26 | 45.14 | 88.91 |
| P/B | 3.02 | 3.46 | 2.98 | 2.61 |
| Dividend Yield | 1.17 | 1.11 | 0.81 | 0.62 |

Source: BSE, NSE *Value as on Dec 8, 2017*

| NSE Advance/Decline Ratio | | | |
|---------------------------|----------|----------|-----------------------|
| Date | Advances | Declines | Advance/Decline Ratio |
| 04-Dec-17 | 684 | 1,079 | 0.63 |
| 05-Dec-17 | 682 | 1,072 | 0.64 |
| 06-Dec-17 | 560 | 1,190 | 0.47 |
| 07-Dec-17 | 1,273 | 473 | 2.69 |
| 08-Dec-17 | 1,069 | 692 | 1.54 |

Source: NSE

- The Indian equity markets eked out modest gains over the week. The initial cautious stance seen prior to the MPC meeting on Dec 6 was put to rest after MPC kept the key rates unchanged at the fifth bi-monthly monetary policy meeting. Also, MPC raised its inflation expectation to 4.3%-4.7% for second half of 2018, which in turn weighed on market sentiment.
- Markets soon revived amid buying interest in stocks of public sector banks after the governor of Reserve Bank of India (RBI) stated that the government would give detailed plans in the coming days about its \$32 billion investment plans in state-run lenders. Investor sentiment was further boosted by optimism that the ruling party may win the critical legislative assembly elections in Gujarat, scheduled during the weekend.

Indian Equity Market (contd.)

| Sectoral Indices | | | |
|-------------------|--------------|----------------|--------|
| Indices | Last Closing | Returns (in %) | |
| | | 1-Wk | 1-Mth |
| S&P BSE Auto | 25,323.65 | 1.48% | 0.68% |
| S&P BSE Bankex | 28,649.05 | 0.75% | 0.58% |
| S&P BSE CD | 21,831.94 | 2.72% | 11.30% |
| S&P BSE CG | 18,478.78 | 0.74% | 0.92% |
| S&P BSE FMCG | 10,562.37 | 2.70% | 2.58% |
| S&P BSE HC | 14,023.05 | 1.21% | -0.02% |
| S&P BSE IT | 10,809.89 | 2.05% | 0.73% |
| S&P BSE Metal | 13,762.99 | 0.76% | -5.17% |
| S&P BSE Oil & Gas | 16,113.08 | 2.68% | 0.10% |

Source: Thomson Reuters Eikon Value as on Dec 8, 2017

- On the BSE sectoral front, all the major indices closed in the green. S&P BSE Consumer Durables was the top gainer, up 2.72%, followed by S&P BSE FMCG and S&P BSE Oil & Gas, which rose 2.70% and 2.68%, respectively.
- The FMCG sector continued to reap the benefits of the Goods and Services tax (GST) Council's announcement regarding categorization of several commonly used household, confectionery and personal care products under a lower tax slab from the current tax slab 28%.

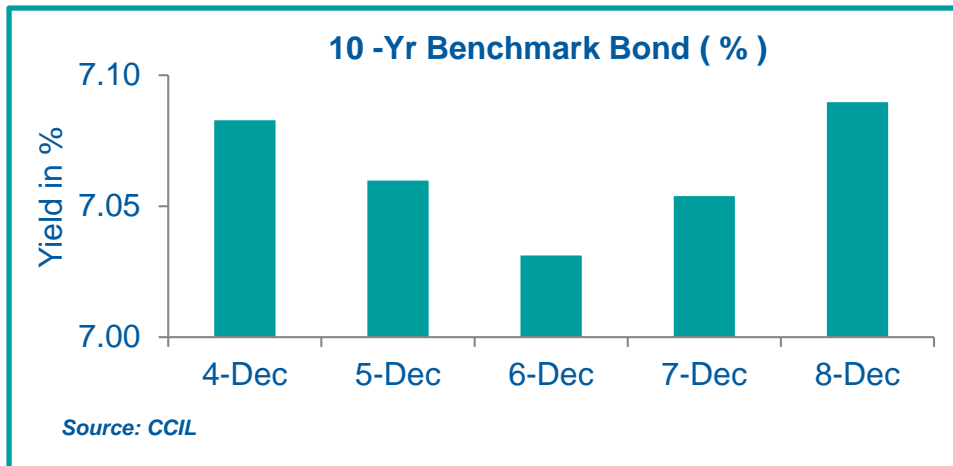
Indian Derivatives Market Review

- Nifty Dec 2017 Futures were at 10,291.65, a premium of 26.00 points above the spot closing of 10,265.65. The turnover on NSE's Futures and Options segment stood at Rs. 31.09 lakh crore as against Rs. 39.02 lakh crore in the week to Dec 1.
- The Put-Call ratio stood at 0.80 compared with the previous week's close of 0.88.
- The Nifty Put-Call ratio stood at 1.26 compared with the previous week's close of 1.20.

Domestic Debt Market

| Debt Indicators (%) | Current Value | 1-Wk Ago | 1-Mth Ago | 6-Mth Ago |
|-------------------------|---------------|----------|-----------|-----------|
| Call Rate | 5.90 | 5.89 | 5.91 | 6.13 |
| 91 Day T-Bill | 6.11 | 6.13 | 6.10 | 6.27 |
| 7.80% 2021, (5 Yr GOI) | 6.77 | 6.76 | 6.68 | 6.60 |
| 6.79% 2027, (10 Yr GOI) | 7.09 | 7.06 | 6.94 | 6.53 |

Source: Thomson Reuters Eikon *Value as on Dec 8, 2017*



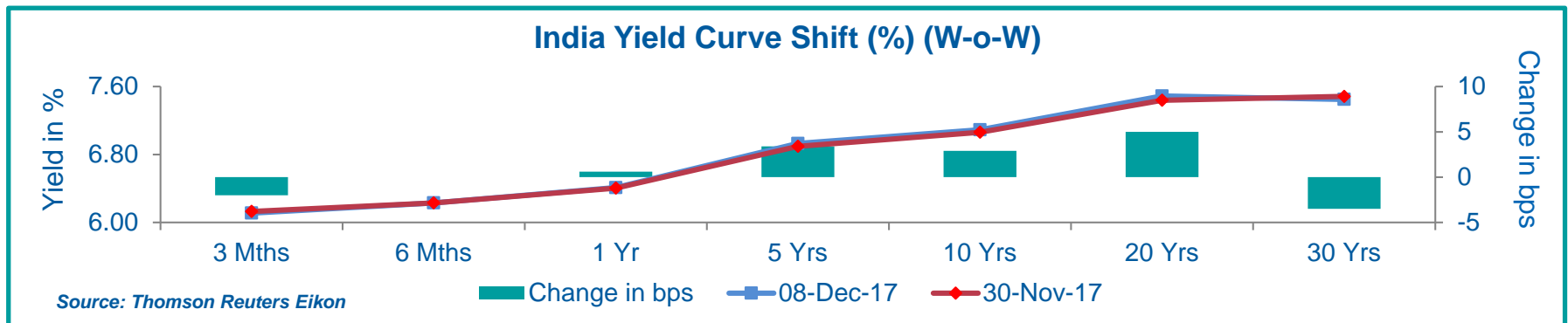
- Bond yields rose after the outcome of the weekly debt auction held on Dec 8 came lower than market expectations. Market sentiment also remained subdued after MPC projected domestic inflationary pressures to go up in the second half of FY18.
- However, further losses were restricted following value buying by investors and after MPC kept interest rates on hold in its fifth bi-monthly monetary policy review as expected.
- Yield on the 10-year benchmark bond (6.79% GS 2027) rose 3 bps to close at 7.09% from the previous week's close of 7.06% after trading in a range of 7.01% to 7.11%.

Domestic Debt Market (Spread Analysis)

| Maturity | G-Sec Yield (%) | Corporate Yield (%) | Spread bps |
|----------|-----------------|---------------------|------------|
| 1 Year | 6.49 | 6.97 | 48 |
| 3 Year | 6.83 | 7.24 | 41 |
| 5 Year | 7.05 | 7.44 | 39 |
| 10 Year | 7.39 | 7.71 | 32 |

Source: Thomson Reuters Eikon Value as on Dec 8, 2017

- Yields on gilt securities increased across most of the maturities by up to 5 bps, barring 2-, 3- and 30-year maturities that fell in the range of 2 bps to 4 bps. Yield on 8- and 12-year maturities closed steady.
- Corporate bond yields fell across the maturities by up to 3 bps, barring 1- and 5-year maturities that closed steady.
- Spread between AAA corporate bond and gilt contracted across the maturities in the range of 2 bps to 5 bps, barring 2-year paper that expanded 1 bps and 3 -year paper that closed steady.



Regulatory Updates in India

- MPC has decided to permit the overseas branches/subsidiaries of Indian banks to refinance External Commercial Borrowings (ECBs) of AAA rated corporates as well as Navratna and Maharatna PSUs, by raising fresh ECBs. Currently, only Indian corporates are permitted to refinance their existing ECBs at a lower all-in-cost. Revised guidelines will be issued shortly in this regard.
- MPC has decided to rationalize the framework for Merchant Discount Rate (MDR) applicable on debit card transactions based on the category of merchants. The objective of the move is to promote increased usage of debit cards and ensure sustainability of the business for the entities involved. The move comes as debit card transactions at 'Point of Sales' have shown significant growth.
- The Central Board of Direct Taxes (CBDT) has extended the date to link Aadhaar to Permanent Account Number (PAN) to Mar 31, 2018, from the previous deadline of Dec 31, 2017. The government has made it mandatory to link bank account and PAN with Aadhaar to weed out black money.
- The Employees' Provident Fund Organisation (EPFO) has announced a new service with the objective of "one employee, one EPF account". As per the new facility, EPFO's 4.5 crore members can merge up to 10 PF accounts with the current universal portable account number (UAN). Members will have to activate their UAN that is seeded with bank accounts and other details such as Aadhaar and PAN to use this facility.

Regulatory Updates in India (contd..)

- The government is considering permitting registration of Bharat Stage-IV vehicles beyond the deadline of Apr 1, 2020. However, production of BS-IV vehicles would not be allowed from Apr 1, 2020, as per the draft rules published by the Ministry of Road, Transport & Highways. Such vehicles produced before the deadline could be registered until Jun 30, 2020.
- The government will mandate through a new law that electricity distribution companies (discoms) losses due to pilferage or theft exceeding 15% cannot be considered for tariff determination. This comes in order to ensure stricter Ujjwal DISCOM Assurance Yojana (UDAY) targets compliance by electricity discoms. According to the power minister, the move would mean that additional aggregate technical and commercial losses arising from discoms' inefficiency are not passed on to consumers.
- The secretary for consumer affairs announced that direct selling can be regulated by framing rules under the proposed consumer protection bill. This comes amid demands for a legal status to the direct selling industry. Also, a Parliamentary Standing Committee has given recommendation of regulating the sector under the proposed bill. The bill is likely to be soon passed by the Parliament.

Global News/Economy

- A report from the Labor Department showed that U.S non-farm payroll employment grew by 228,000 jobs in Nov 2017 as against a surge of downwardly revised 244,000 (261,000 jobs originally reported) in Oct 2017. The unemployment rate came in at 4.1% in Nov 2017, unchanged from Oct 2017.
- A report from payroll processor ADP showed that U.S. private sector employment came in better than market expectations and grew by 190,000 jobs in Nov 2017 compared with 235,000 jobs in Oct 2017.
- According to a report from the General Administration of Customs, China's exports and imports surpassed market expectations in dollar terms in Nov 2017. Exports grew 12.3% YoY and imports grew 17.7% YoY in Nov 2017. The trade surplus stood at \$40.2 billion in Nov 2017 as against \$38.2 billion in Oct 2017.
- A report from the Institute for Supply Management U.S. manufacturing PMI fell to 58.2 in Nov 2017 from 58.7 in Oct 2017. The U.S. non-manufacturing PMI fell to 57.4 in Nov 2017 from 60.1 in Oct 2017.
- According to a report from Nikkei, Japan's services PMI score came in at 51.2 in Nov 2017, down from 53.4 in Oct 2017. Meanwhile, the composite PMI came in with a score of 52.2 in Nov, down from 53.4 in Oct.

Global Equity Markets

| Global Indices | | | |
|----------------|-----------|---------------|------------|
| Indices | 08-Dec-17 | 1-Week Return | YTD Return |
| Dow Jones | 24,329.16 | 0.40% | 22.37% |
| Nasdaq 100 | 6,344.57 | 0.11% | 29.18% |
| FTSE 100 | 7,393.96 | 1.28% | 3.52% |
| DAX Index | 13,153.70 | 2.27% | 13.41% |
| Nikkei Average | 22,811.08 | -0.03% | 19.34% |
| Straits Times | 3,424.64 | -0.72% | 18.13% |

Source: Thomson Reuters Eikon *Value as on Dec 8, 2017*

Europe

- European markets traded up after the U.S. Congress passed a stopgap spending bill to keep government funding until Dec 22 and jobs growth data in the U.S. for Nov 2017 came in better than expected in Nov. Further development on Brexit deal between U.K. and the European Union also helped sentiment.

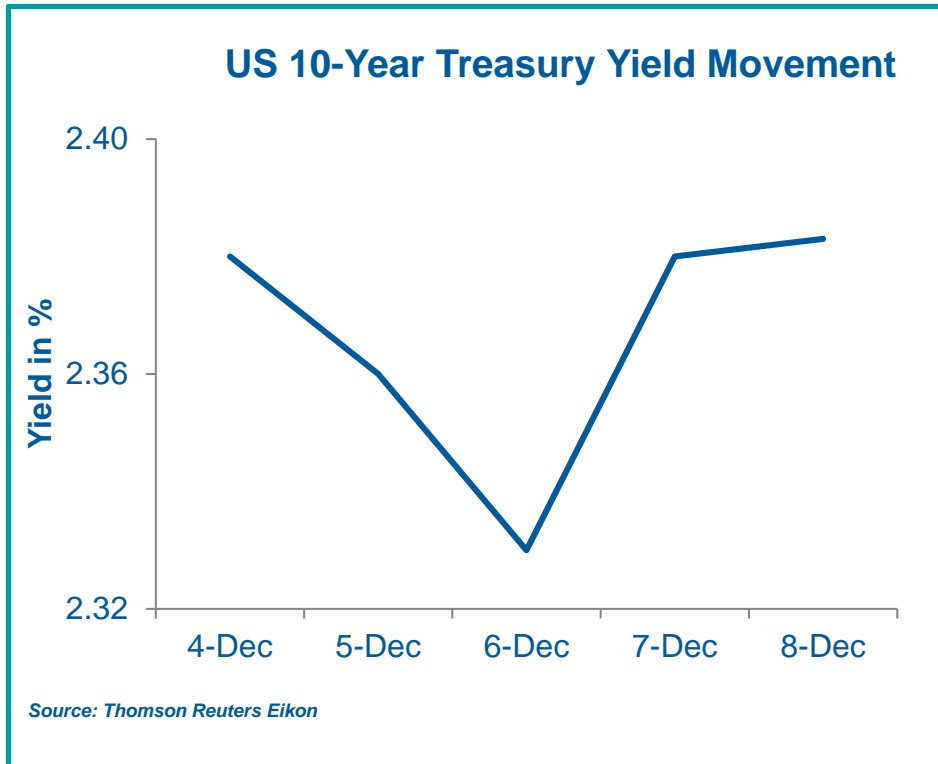
Asia

- Asian markets traded low amid concerns over the probable monetary policy tightening by the People's Bank of China, Russian involvement in the U.S. Presidential election and concerns about the possibility of violence in the Middle East. However, improved services sector data from China and Japan for Nov 2017 coupled with upbeat Chinese trade data for the same period restricted the downside.

U.S.

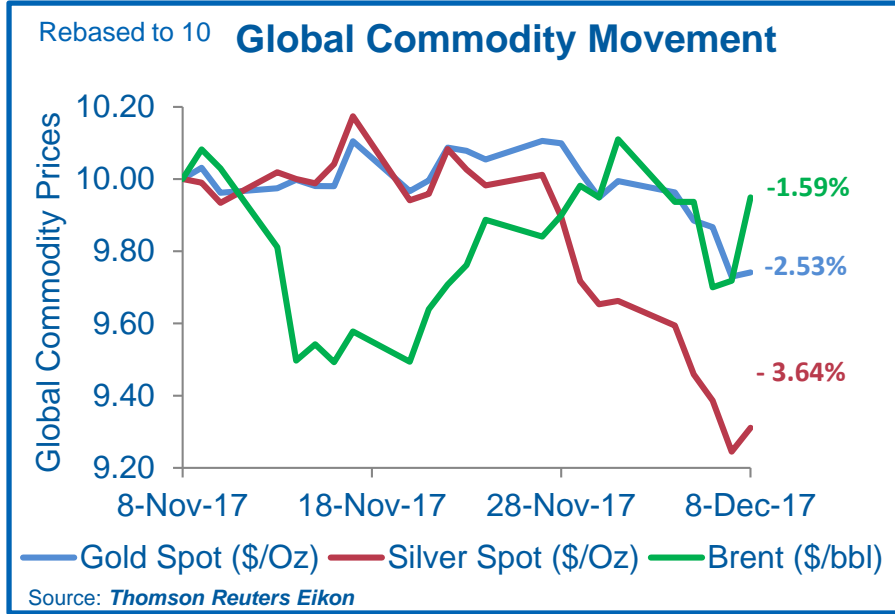
- U.S. markets traded in the green on progress of U.S. tax reform bill and after the U.S. non-farm payroll employment and private sector employment data for Nov 2017 came better than expected.
- However, the upside was limited on political concerns in the Middle East coupled with some downbeat economic data.

Global Debt (U.S.)



- Yield on the 10-year U.S. Treasury bond rose 2 bps to close at 2.38% from the previous week's close of 2.36%.
- U.S. Treasury prices fell initially following increased expectations that the U.S. Congress will pass tax reform legislation.
- However, most of the losses were wiped out following a slew of downbeat U.S. economic data. U.S. President's recognition of Jerusalem as Israel's capital fuelled geopolitical concerns, which also improved the safe haven appeal of U.S. Treasuries.
- The trend reversed yet again as U.S. Treasury prices fell after U.S. non-farm payroll data for Nov 2017 came better than expected.

Commodities Market



Performance of various commodities

| Commodities | Last Closing | 1-Week Ago |
|------------------------|--------------|------------|
| Brent Crude(\$/Barrel) | 64.32 | 65.36 |
| Gold (\$/Oz) | 1,247.76 | 1280.19 |
| Gold (Rs/10 gm) | 28,492 | 29,176 |
| Silver (\$/Oz) | 15.84 | 16.44 |
| Silver (Rs/Kg) | 36,469 | 37,795 |

Source: Thomson Reuters Eikon

Value as on Dec 8, 2017

Gold

- Gold prices fell on further development of U.S. tax reform bill. Losses were extended after U.S. jobs data for Nov 2017 came better than expected. Easing concerns of a potential government shutdown, after the U.S. Congress passed legislation to temporarily fund the government till Dec 22 further weighed on bullion prices.

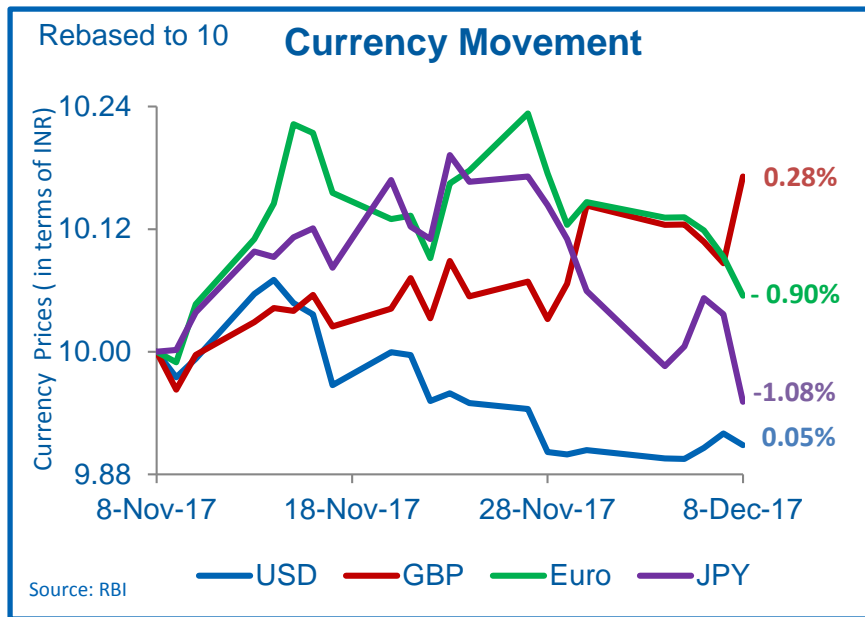
Crude

- Brent crude prices fell on concerns of oversupply. Data from the American Petroleum Institute showed that the distillate inventories witnessed a sudden increase of 4.3 million barrels in the week ended Dec 1.

Baltic Dry Index

- The Baltic Dry Index grew during the week owing to strong capesize and panamax activities.

Currencies Markets



| Movement of Rupee vs Other Currencies | | |
|---------------------------------------|--------------|----------|
| Currency | Last Closing | 1-Wk Ago |
| US Dollar | 64.46 | 64.43 |
| Pound Sterling | 87.04 | 86.80 |
| EURO | 75.80 | 76.49 |
| 100 JPY | 56.84 | 57.46 |

Source: RBI Figures in INR , Value as on Dec 8, 2017

Rupee

- The Indian rupee inched down against the U.S. dollar after MPC projected an increase in domestic inflationary pressures in the second half of the fiscal.

Euro

- Euro fell against the greenback as market participants remained optimistic about lawmakers' progress on U.S. tax legislation.

Pound

- Pound amid volatility fell against the greenback amid uncertainty over Brexit negotiations. However, further losses were restricted after the European Commission president announced that sufficient progress has been made with U.K. about post-Brexit trade and transition period.

Yen

- Yen fell against the greenback following progress on U.S. tax legislation.

The Week that was...

4th December to 8th December

The Week that was (Dec 4 – Dec 8)

| Date | Events | Present Value | Previous Value |
|--|--|--------------------------------------|-------------------------------------|
| Monday, December 4, 2017 | <ul style="list-style-type: none"> • U.K. Markit/CIPS Construction PMI (Nov) • U.S. Factory Orders (Oct) • Japan Consumer Confidence Index (Nov) | 53.1 -0.1% 44.9 | 50.8 1.7% 44.5 |
| Tuesday, December 5, 2017 | <ul style="list-style-type: none"> • U.S. ISM Non-Manufacturing/Services Composite (Nov) • U.K. Markit/CIPS Composite PMI (Nov) • Eurozone Retail Sales (YoY) (Oct) • Nikkei Japan Composite PMI (Nov) • China Caixin Composite PMI (Nov) | 57.4 54.9 0.4% 52.2 51.6 | 60.1 55.8 4.% 53.4 51.0 |
| Wednesday, December 6, 2017 | <ul style="list-style-type: none"> • Germany Factory Orders (YoY) (Oct) • Germany Markit Construction PMI (Nov) • Germany Markit Retail PMI (Nov) • U.S. ADP Employment Change (Nov) | 6.9% 53.1 54.6 190k | 9.7% 53.3 51.2 235k |
| Thursday, December 7, 2017 | <ul style="list-style-type: none"> • Japan Leading Index CI (Oct) (P) • Germany Industrial Production (YoY) (Oct) • Eurozone Gross Domestic Product (YoY) (3Q F) | 106.1 2.7% 2.6% | 106.4 4.1% 2.5% |
| Friday, December 8, 2017 | <ul style="list-style-type: none"> • U.S. University of Michigan Sentiment (Dec) (P) • U.S. Change in Non-farm Payrolls (Nov) • U.S. Unemployment Rate (Nov) | 96.8 228,000 4.1% | 98.5 244,000 4.1% |

The Week Ahead

11th December to 15th December

The Week Ahead

| Day | Event |
|---|--|
| <p>Monday, December 11, 2017</p> | <ul style="list-style-type: none"> • Japan Machine Tool Orders (YoY) (Nov) (P) |
| <p>Tuesday, December 12, 2017</p> | <ul style="list-style-type: none"> • U.K. Consumer Price Index (YoY) (Nov) • Eurozone ZEW Survey (Economic Sentiment) (Dec) • Germany ZEW Survey Expectations (Dec) |
| <p>Wednesday, December 13, 2017</p> | <ul style="list-style-type: none"> • U.S. Consumer Price Index (YoY) (Nov) • U.S. FOMC Rate Decision • Germany Consumer Price Index (YoY) (Nov F) • U.K. ILO Unemployment Rate 3Mths (Oct) • Eurozone Industrial Production (YoY) (Oct) • Eurozone Employment (YoY) (3Q) |
| <p>Thursday, December 14, 2017</p> | <ul style="list-style-type: none"> • Bank of England Bank Rate Decision • European Central Bank Rate Decision • U.S. Retail Sales Advance (MoM) (Nov) • China Retail Sales (YoY) (Nov) • Eurozone Markit Composite PMI (Dec) (P) |
| <p>Friday, December 15, 2017</p> | <ul style="list-style-type: none"> • U.S Industrial Production (MoM) (Nov) |

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