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February 02, 2018

The Week that was...

29th January to 02nd February

Indian Economy

- In the Union Budget 2018-19, government increased its fiscal deficit target from 3.2% of Budgeted Estimate (BE) to 3.5% for the current financial year. For FY19, fiscal deficit is projected at 3.3% of BE, which is also higher than 3% estimated in the previous budget.
- The budget has proposed to tax Long Term Capital Gains (LTCG) from listed equities exceeding Rs. 1 lakh at 10%, without allowing any indexation benefit. The finance minister also proposed to introduce a tax on distributed income by equity-oriented mutual funds at the rate of 10%, to provide a level field across growth-oriented funds and dividend distributing funds.
- The finance minister proposed to reduce the income tax rate to 25% for companies reporting turnover up to Rs. 250 crore in FY17 and also extended the reduced rate of 25% for companies with turnover of less than Rs. 50 crore (in FY16). It proposed to hike the cess on personal income tax and corporation tax to 4% from the existing 3%.
- For salaried taxpayers, the finance minister proposed a standard deduction of Rs. 40,000 and replace the present exemption in respect of transport allowance and reimbursement of miscellaneous medical expenses. For senior citizens, the exemption of interest income on deposits with banks and post offices was increased from Rs. 10,000 to Rs. 50,000.

Indian Equity Market

Domestic Equity Market Indices			
Indices	02-Feb-18	1 Week Return	YTD Return
S&P BSE Sensex	35066.75	-2.73%	3.71%
Nifty 50	10760.60	-2.79%	3.11%
S&P BSE Mid-Cap	16574.70	-7.10%	-7.07%
S&P BSE Small-Cap	17847.53	-7.73%	-7.43%

Source: MFI Explorer

Ratios	S&P BSE Sensex	Nifty 50	S&P BSE Mid Cap	S&P BSE Small Cap
P/E	24.53	26.04	39.48	103.56
P/B	3.23	3.64	2.84	2.54
Dividend Yield	1.12	1.05	0.86	0.64

Source: BSE, NSE Value as on Feb 02, 2018

NSE Advance/Decline Ratio			
Date	Advances	Declines	Advance/Decline Ratio
29-Jan-18	548	1267	0.43
30-Jan-18	418	1387	0.30
31-Jan-18	635	1165	0.55
01-Feb-18	821	982	0.84
02-Feb-18	135	1716	0.08

Source: NSE

- Indian equity markets closed in the red and crashed in one of the sessions as proposals like 10% long-term capital gains tax on equity gains above Rs. 1 lakh in the Union Budget 2018-19 weighed on investor sentiment. The indices plunged heavily in one of the sessions as investors closely followed developments on the implementation of Budget proposals, especially the fiscal deficit target.
- The finance minister raised the fiscal deficit target for FY18 to 3.5% of gross domestic product as against 3.2% earlier. The target for FY19 has been fixed at 3.3% as against previous target of 3%.
- Announcement by a major credit rating agency that high debt burden of the government constrains India's rating upgrade further muted buying interest.

Indian Equity Market (contd.)

Sectoral Indices			
Indices	Last Closing	Returns (in %)	
		1-Wk	1-Mth
S&P BSE Auto	25213.3	-1.78%	-5.09%
S&P BSE Bankex	29910.2	-3.77%	4.62%
S&P BSE CD	21332.0	-7.10%	-6.00%
S&P BSE CG	19939.3	-3.37%	4.33%
S&P BSE FMCG	10684.9	-2.30%	0.77%
S&P BSE HC	14067.6	-6.40%	-4.32%
S&P BSE IT	12494.7	-1.53%	11.64%
S&P BSE Metal	15011.8	-4.28%	0.38%
S&P BSE Oil & Gas	15667.7	-3.53%	-2.91%

Source: Thomson Reuters Eikon Value as on Feb 02, 2018

- On the BSE sectoral front, all the indices closed in the red. S&P BSE Realty (-8.5%) stood as the major loser followed by S&P BSE Consumer Durables (-7.1%), S&P BSE Healthcare (-6.4%), and S&P BSE Power (-5.0%).
- S&P BSE Metal and S&P BSE Bankex fell 4.3% and 3.8%, respectively. Fiscal deficit numbers and introduction of LTCG tax weighed on market sentiment, thereby keeping all the sectors in the red with Realty and Consumer Durables being the most hit.

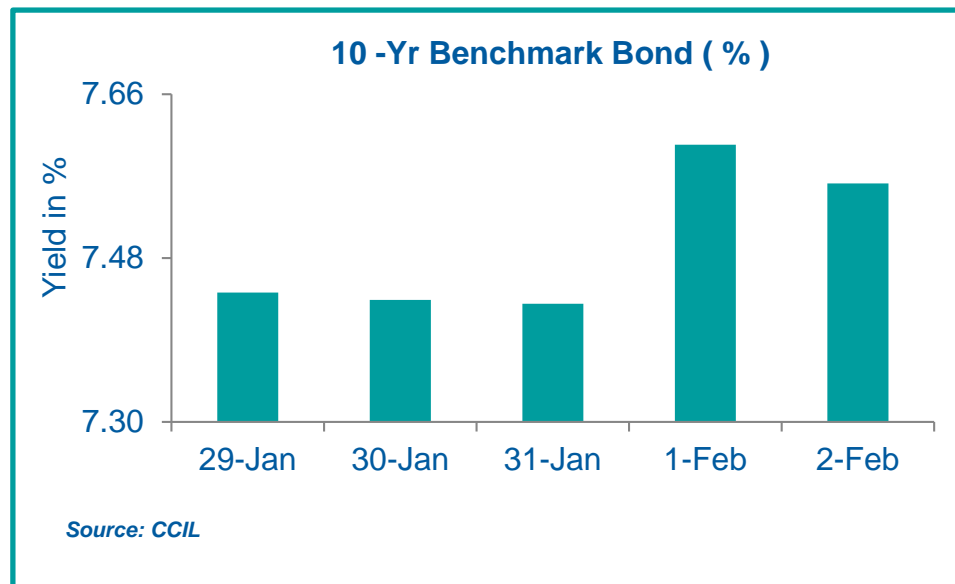
Indian Derivatives Market Review

- Nifty Feb 2018 Futures were at 10,755.85 points, a discount of 4.75 points below the spot closing of 10,760.60. The turnover on NSE's Futures and Options segment stood at Rs. 33.80 lakh crore as against Rs. 45.22 lakh crore in the week to Jan 25.
- The Put-Call ratio stood at 0.79 compared with the previous week's close of 0.84.
- The Nifty Put-Call ratio stood at 1.09 compared with the previous week's close of 1.78.

Domestic Debt Market

Debt Indicators (%)	Current Value	1-Wk Ago	1-Mth Ago	6-Mth Ago
Call Rate	5.92	5.91	5.87	6.05
91 Day T-Bill	6.42	6.41	6.15	6.14
7.80% 2021, (5 Yr GOI)	7.16	7.04	7.01	6.48
07.17% 2028, (10 Yr GOI)	7.56	7.31	-	-

Source: Thomson Reuters Eikon *Value as on Feb 02, 2018*



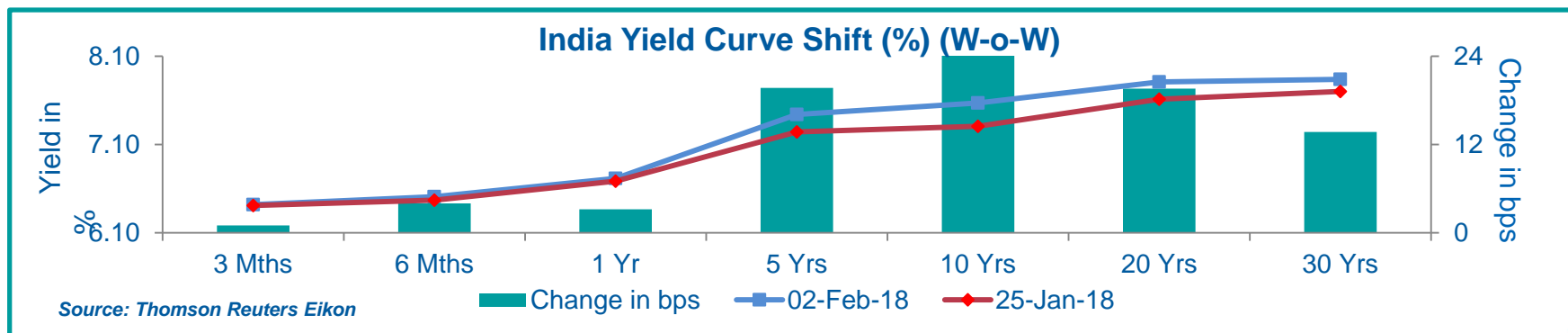
- Bond yields rose after the economic survey showed that Indian government’s fiscal consolidation could be kept on hold for FY18. Yields rose further after the government widened its fiscal deficit aim to 3.3% for FY19 as compared to previous target of 3%. Investors were also concerned that greater rural spending will increase the inflation of the economy.
- However, losses were erased slightly amid news that the Reserve Bank of India (RBI) may conduct open market and secondary market purchases of debt. Yields fell further on reports that the government is also in discussion with the central bank to raise foreign investment limit in government debt.

Domestic Debt Market (Spread Analysis)

Maturity	G-Sec Yield (%)	Corporate Yield (%)	Spread bps
1 Year	6.71	7.63	92
3 Year	7.26	7.78	52
5 Year	7.60	7.92	32
10 Year	7.77	8.13	36

Source: Thomson Reuters Eikon Value as on Feb 02, 2018

- Yields on gilt securities surged across maturities in the range of 3 to 31 bps. Highest rise was on 8-year paper while the lowest increase was seen on 1-year paper.
- Corporate bond yields increased across the curve in the range of 14 to 24 bps.
- Spread between AAA corporate bond and gilt contracted across the segments in the range of 3 to 10 bps, leaving 1 to 3 years' papers that expanded in the range of 2 to 15 bps. Spread fell the most on 9-year paper while the least decline was on 6- and 15-year papers.



Regulatory Updates in India

- As per the Union Budget 2018-19, the government aims to formulate a comprehensive Gold Policy to develop gold as an asset class. The government will also establish a system of consumer-friendly and trade-efficient system of regulated gold exchanges in the country. Gold Monetization Scheme will be revamped to enable people to open a hassle-free Gold Deposit Account.
- India Economic Survey 2018 indicated that pause in government's fiscal consolidation programme cannot be ruled out. The fiscal deficit for the first eight months of FY18 reached 112% of the total for 2017, significantly up from 89% norm (average of last 5 years), mainly due to shortfall in non-tax revenue.
- The Securities and Exchange Board of India (SEBI) unveiled online mechanisms for depositories and stock exchanges for ease of doing business. The new system will help these entities in completing registration and other regulatory filings with SEBI in a much faster and cost-effective manner. Also, SEBI stated that all applicants who want to seek registration as a depository and stock exchange and to renew licence will have to submit their applications online.
- Employees' Provident Fund Organisation (EPFO) announced the launch of facilities for employers to pay dues and update ownership details online. EPFO provided facility of online submission of Form 5A (Return of Ownership) following the discontinuation of physical submission of the form. This marked another step towards going paperless.

Global News/Economy

- The U.S. Federal Reserve (Fed) voted to leave its benchmark interest rate unchanged in a range between 1.25% and 1.50%. Meanwhile, Fed indicated that it will increase the benchmark rate at its next meeting, in late Mar 2018. This announcement comes in the wake of an improving economy and signs of inflation. Fed expects inflation to increase in 2018, thereby raising the possibility of one of three rate hikes projected by the end of 2018.
- Data from the Conference Board showed that U.S. consumer confidence index rose more than expected to 125.4 in Jan 2018 from an upwardly revised 123.1 in Dec 2017 (122.1 originally reported). The more than expected increase by the headline index came as the expectations index rose to 105.5 in Jan from 100.8 in Dec.
- A preliminary report from Eurostat showed that euro zone's gross domestic product grew 0.6% (seasonally adjusted) sequentially in the fourth quarter of 2017 as against an increase of 0.7% in the third quarter of 2017. Economic growth slightly fell to 2.7% YoY in the fourth quarter from 2.8% in the third quarter.
- According to National Bureau of Statistics, China's Manufacturing Purchasing Managers' Index (PMI) came below market expectations to 51.3 in Jan 2018 as against a score of 51.6 in Dec 2017. Non-manufacturing PMI came in at a score of 55.3 in Jan, up from 55.0 in Dec.

Global Equity Markets

Global Indices			
Indices	02-Feb-18	1-Week Return	YTD Return
Dow Jones	25520.96	-4.12%	2.81%
Nasdaq 100	6760.29	-3.74%	3.82%
FTSE 100	7443.43	-2.90%	-2.68%
DAX Index	12785.16	-4.16%	-0.67%
Nikkei Average	23274.53	-1.51%	-0.99%
Straits Times	3529.82	-1.05%	3.73%

Source: Thomson Reuters Eikon *Value as on Feb 02, 2018*

Europe

- European markets traded low as market participants remained cautious ahead of corporate earnings reports, the U.S. Fed policy meeting and jobs data. Later, losses extended over rate-hike concerns following stronger U.S. non-farm payroll data and after Fed indicated that the bank will raise rates at its next meeting in Mar 2018.

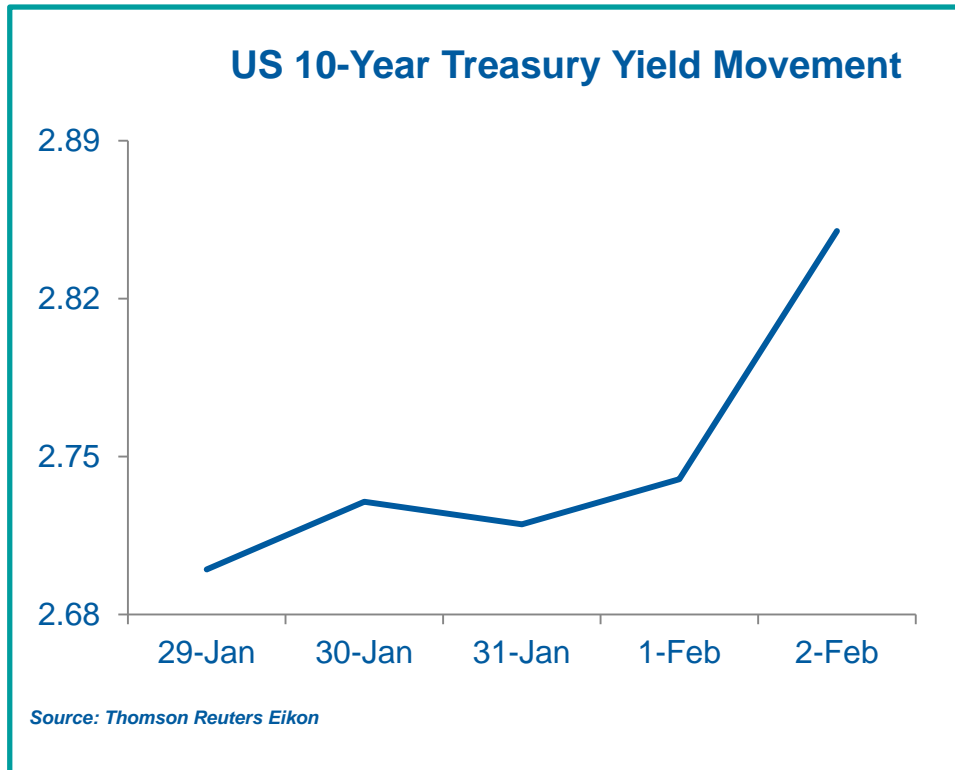
Asia

- Asian markets followed global peers as concerns over the U.S. Federal Reserve's policy stance kept investors wary. Worries over U.S. immigration policy following U.S. President's speech further weighed on sentiment. Japanese market remained muted following mixed series of economic data. Japanese household spending eased 0.1% YoY in Dec 2017 and the unemployment rate rose slightly.

U.S.

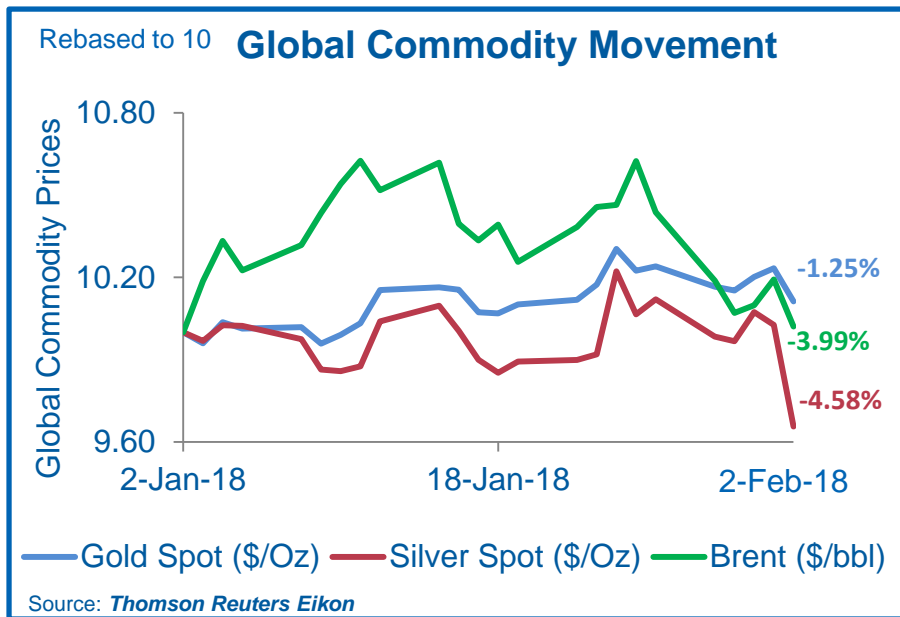
- U.S. markets initiated on a cautious note as investors booked profit following recent gains in the market. Investors also preferred to be on sidelines ahead of the Federal Reserve's (Fed) meeting and monthly jobs data.
- Later, losses extended as rate-hike concerns exaggerated after non-farm payroll employment increased.

Global Debt (U.S.)



- Yield on the 10-year U.S. Treasury bond surged 19 bps to close at 2.85% from the previous week's close of 2.66%.
- U.S. Treasury prices fell as data showed better than expected non-farm payroll data along with the biggest annual wage increase since 2009 in Jan 2018. Both these factors increased chances of further growth in inflation.
- Also, comments from a European Central Bank official added to expectations that central banks globally will reduce stimulus as the economic outlook improves, thereby adding to the losses.

Commodities Market



Performance of various commodities		
Commodities	Last Closing	1-Week Ago
Brent Crude(\$/Barrel)	67.13	69.92
Gold (\$/Oz)	1332.92	1349.76
Gold (Rs/10 gm)	30452	30489
Silver (\$/Oz)	16.59	17.39
Silver (Rs/Kg)	39200	39700

Source: Thomson Reuters Eikon Value as on Feb 02, 2018

Gold

- Gold prices witnessed pressure after the U.S. Federal Reserve hinted at a probable rate hike at its next meeting in Mar 2018, while keeping rates unchanged in its latest policy meet. Fed also mentioned that although inflation remained low, it could move up in the coming months.

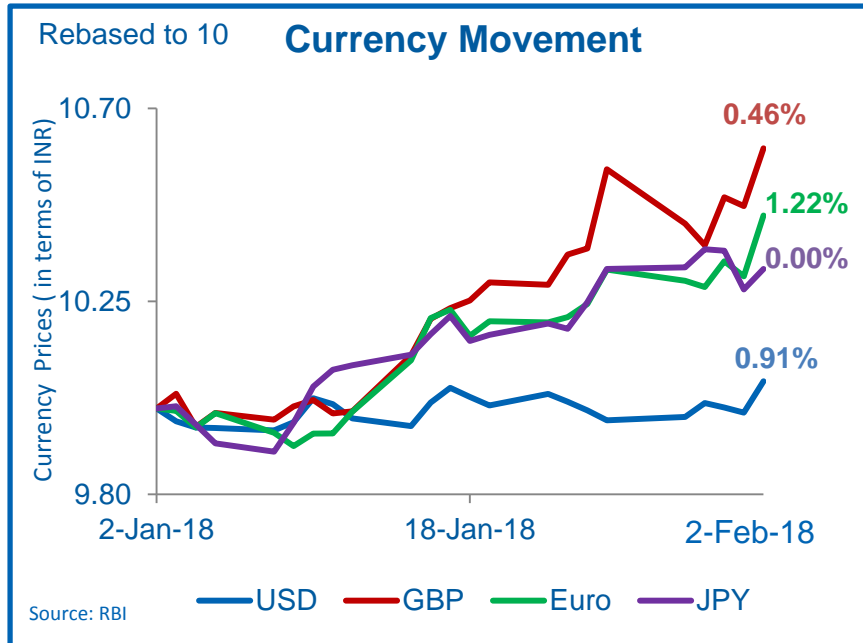
Crude

- Brent crude prices remained weak as rising U.S. oil output undermined efforts led by the Organization of the Petroleum Exporting Countries and Russia to tighten supplies. Data from Energy Information Administration (EIA) showed that crude supplies rose 6.8 million barrels in the week to Jan 26, which marked the first increase in 11 weeks.

Baltic Dry Index

- The Baltic Dry Index fell on the back of lower capesize and panamax activities.

Currencies Markets



Movement of Rupee vs Other Currencies		
Currency	Last Closing	1-Wk Ago
US Dollar	64.08	63.50
Pound Sterling	91.34	90.92
EURO	80.03	79.07
100 JPY	58.36	58.36

Source: RBI Figures in INR , Value as on Feb 02, 2018

Rupee

- The Indian rupee weakened against the greenback following losses in the domestic equity market and after the government widened its fiscal deficit aim to 3.3% for FY19 from the previous target of 3.0%.

Euro

- Euro strengthened against the greenback following strong euro zone inflation and manufacturing data for Jan 2018 that increased the possibility of monetary tightening by the European Central Bank.

Pound

- Sterling fell against U.S. dollar on disappointing U.K. construction sector data in Jan 2018 and upbeat U.S. non-farm payroll data in Jan 2018.

Yen

- Yen weakened against the U.S. dollar following Bank of Japan's decision to buy more long-term Japanese government bonds to curb a rise in yields.

The Week that was...

29th January to 02th February

The Week that was (Jan 29 – Feb 02)

Date	Events	Present Value	Previous Value
Monday, Jan 29, 2018	• U.S. Personal Income (DEC)	0.40%	0.30%
	• Japan Jobless Rate (DEC)	2.80%	2.70%
Tuesday, Jan 30, 2018	• Eurozone Gross Domestic Product (YoY) (4Q A)	2.70%	2.80%
	• Germany Consumer Price Index (YoY) (JAN P)	1.60%	1.70%
	• U.S. Consumer Confidence Index (JAN)	125.4	123.1
Wednesday, Jan 31, 2018	• China Manufacturing PMI (JAN)	51.3	51.6
	• Germany Unemployment Claims Rate (JAN)	5.40%	5.50%
	• Eurozone Consumer Price Index Estimate (YoY) (JAN)	1.30%	1.40%
	• U.S. FOMC Rate Decision (Upper Bound) (JAN 31)	1.50%	1.50%
Thursday, Feb 01, 2018	• India's Nikkei Manufacturing PMI (January)	52.4	54.7
	• U.S. ISM Manufacturing (JAN)	59.1	59.3
	• U.S. ISM Employment (JAN)	54.2	58.1
	• China Caixin Manufacturing PMI (JAN)	51.5	51.5
	• U.K. Markit Manufacturing PMI (JAN)	55.3	56.2
	• U.S. Initial Jobless Claims (JAN 27)	230k	231k
Friday, Feb 02, 2018	• U.S. Change in Non-farm Payrolls (JAN)	200k	160k
	• U.S. Factory Orders (DEC)	1.70%	1.70%
	• U.S. Durable Goods Orders (DEC F)	2.80%	2.90%

The Week Ahead

05th February to 09th February

The Week Ahead

Day	Event
Monday, February 05, 2018	<ul style="list-style-type: none"> •India's Nikkei Services PMI (JAN) •U.S. ISM Non-Manufacturing/Services Composite (JAN) •Japan Nikkei Composite PMI (JAN) •China Caixin Composite PMI (JAN)
Tuesday, February 06, 2018	<ul style="list-style-type: none"> •Germany Factory Orders (YoY) (DEC) •Germany Markit Construction PMI (JAN) •Germany Markit Retail PMI (JAN) •U.S. Trade Balance (DEC)
Wednesday, February 07, 2018	<ul style="list-style-type: none"> •India's Reserve Bank of India's Interest Rate Decision •Japan Leading Index CI (DEC P) •U.S. Consumer Credit (DEC) •Japan Housing Loans (YoY) (4Q)
Thursday, February 08, 2018	<ul style="list-style-type: none"> •U.K. Bank of England Bank Rate (FEB 08) •China Foreign Direct Investment (YoY) (JAN) •Germany Trade Balance (DEC) •U.S. Initial Jobless Claims (FEB 03)
Friday, February 09, 2018	<ul style="list-style-type: none"> •China Consumer Price Index (YoY) (JAN) •U.K. Manufacturing Production (YoY) (DEC)

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