ALPHA CAPITAL™

Monthly Report

December 2017

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What happened last month?

The second last month of 2017 saw a mixed trend in markets across the world. U.S. markets gained, European markets closed in the red and Asian markets mostly traded in the green during the month of Nov.

Good earnings from major companies together with positive economic data pulled the U.S. market up. The U.S. Federal Reserve (Fed) maintained status quo in interest rates while hinting at a strong possibility of increasing rates in Dec. the candidate chosen by the U.S. President to become the next Fed chair got a green flag form investors.

Bad earnings show by big companies became the reason for the European markets' fall. Political uncertainty in Germany and reports suggesting Britain and the European Union have reached a deal to clear the Brexit bill added to the woes. What came to the rescue was positive economic data and comments from the European Central Bank (ECB) chief.

Asian markets gained from news that China is considering expanding corporate tax cuts for high-tech service companies and has decided to deregulate the financial sector. However, the upside was limited on concerns over intervention of the Chinese regulator in shadow banking and other risky forms of financing.

On the Indian front, lots of ups and down were witnessed. Rise in inflation overshadowed the positive impact of India's favourable ranking in ease of doing business by the World Bank. Investors' enthusiasm over India's sovereign rating upgrade by Moody's Investors Service was neutralized by S&P Global Ratings' decision to retain India's current rating.

The Cabinet's decision to relax interest rate subsidy criterion under the credit linked subsidy scheme for the middle income group under the Pradhan Mantri Awas Yojana (Urban) benefitted the real estate sector.

Bond yields rose for the fourth consecutive month in Nov as inflationary pressures in Oct and increasing global crude oil prices dimmed chances of the Monetary Policy Committee (MPC) lowering rates in the near future.

Widening fiscal deficit gap was also a cause of concern. Losses were restricted by bargain hunting investors and Reserve Bank of India's (RBI) decision to withdraw an open market sale.

Possible happenings over the next month

Investors are expecting markets to turnaround following strong improvement in ease of doing business ranking for India, the Cabinet's approval to amend the Insolvency and Bankruptcy Code to prevent willful defaulters from bidding for stressed assets and fresh buying from FPIs post the sovereign rating upgrade. Market participants are concerned of a possible fiscal slippage in FY18.

Government data showed that fiscal deficit for the period from Apr to Oct of 2017 has widened by a significant margin from the same period of the previous fiscal, which has fueled concerns of a possible fiscal slippage in FY18. If the government is unable to achieve its fiscal deficit target of 3.2% for FY18, then it might weigh on other key macroeconomic indicators, which might lead to an uptick in bond yields.

Meanwhile, upbeat GDP data for Q2FY18 suggests that the economy has overcome initial jitters resulting from demonetisation and the rollout of the Goods and Services Tax (GST) and that the nation can now look forward to upward growth trajectory in the coming quarters.

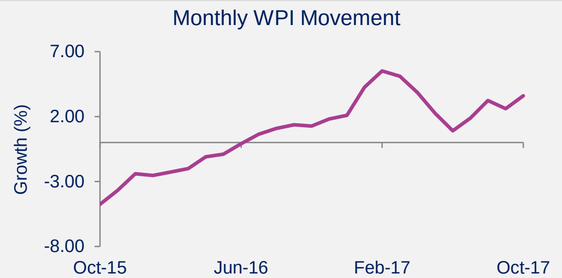
Moreover, buying interest in the markets is expected to boost in the near future following relentless focus of the government to improve economic growth with big ticket reforms.

International crude oil prices are expected to go up further as the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC oil producers in their meeting on Nov 30 agreed to extend production cuts until the end of 2018. Thus, moving ahead, both domestic inflationary pressure and global crude oil prices will remain in sharp focus.

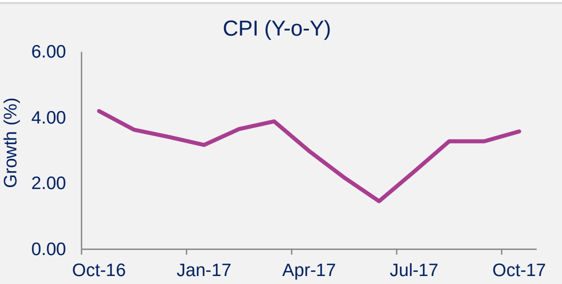
Global cues will also have a bearing on investor sentiment with market participants keenly awaiting the interest rate stance of the new Fed nominee after he gets officially appointed as the U.S. central bank chief in 2018.

Meanwhile, investors have adopted a cautious stance ahead of the current Fed chief's policy decision in the upcoming meeting scheduled on Dec 12-13. Geopolitical tensions between North Korea and the U.S. shall be closely followed by investors.

Indian Economy



Source: Office of the Economic Adviser, Ministry of Commerce & Industry



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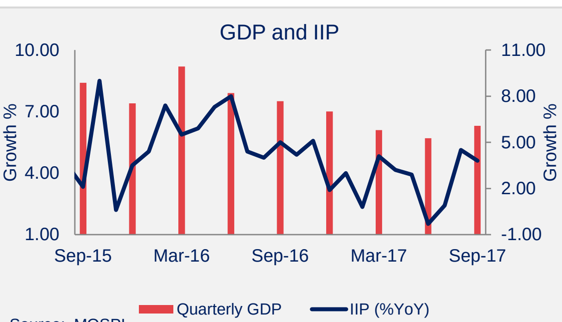


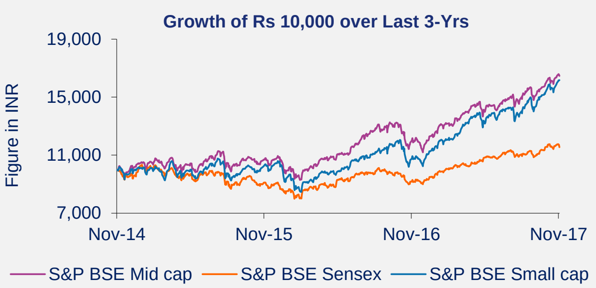
Source: MOSPI

Economic Releases in November-2017			
Key Indicator	**Period**	**Actual**	**Previous**
Repo Rate	Nov-17	6.00%	6.00%
Reverse Repo	Nov-17	5.75%	5.75%
CRR	Nov-17	4.00%	4.00%
IIP	Sep-17	3.80%	4.50%
WPI	Oct-17	3.59%	2.60%
Export (Y-o-Y)	Oct-17	-1.12%	25.65%
Import (Y-o-Y)	Oct-17	7.60%	18.09%

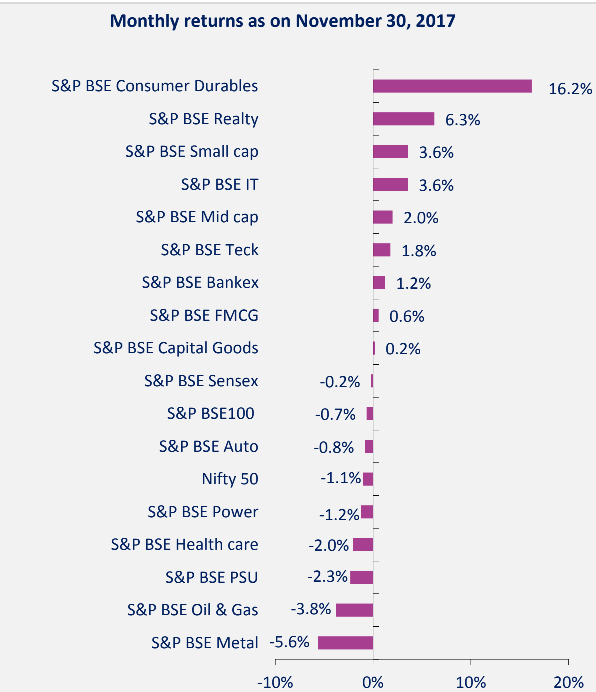
Source: RBI, Thomson Reuters Eikon

- The Reserve Bank of India's Monetary Policy Committee (MPC), in its fifth bi-monthly policy review, left key policy repo rate unaltered at 6.0% and also retained the “neutral” stance. Consequently, the reverse repo rate remained unchanged at 5.75%, and the marginal standing facility (MSF) rate and bank rate each remained at 6.25%.
- India’s Gross Domestic Product (GDP) grew 6.3% YoY in the second quarter of FY18, better than 5.7% in the previous quarter, led by higher growth in key manufacturing sector along with power, water and gas. On Gross Value Added (GVA) basis, the economy rose 6.1%, better than 5.6% rise in the Jun quarter of 2017. Manufacturing output rose 7% in the Sep quarter, significantly higher than 1.2% growth in the Jun quarter. On the other hand, agriculture output increased 1.7%, slower than 2.3% expansion in the previous quarter.
- India's fiscal deficit during Apr to Oct 2017 stood at 96.1% or Rs. 5.25 lakh crore of the budgeted target for FY18. During the corresponding period last year, fiscal deficit was at 79.3% of the Budget Estimate. The revenue deficit crossed the budgeted estimate by 24.7% to Rs. 4.01 lakh crore. Total receipts were Rs. 7.67 lakh crore or 48.0% of the Budget Estimate, while total expenditure amounted to Rs. 12.93 lakh crore or 60.2% of the financial year estimates.
- Consumer Price Index (CPI)-based inflation increased 3.58% YoY in Oct 2017, up from 3.28% in Sep 2017 but lower than 4.20% rise in Oct 2016. Consumer Food Price Index-based inflation grew to 1.90% YoY in Oct from 1.25% in Sep.
- Index of Industrial Production (IIP) slowed to 3.8% in Sep 2017 from a revised 4.5% (originally 4.3%) in the previous month and 5.0% in the same period of the previous year.
- Wholesale Price Index (WPI)-based inflation moved to its highest level in six months and stood at 3.59% in Oct 2017 as against 2.60% in the previous month and 1.27% during the same period last year.
- India’s trade deficit widened to its highest level in nearly three years in Oct 2017 as export growth contracted for the first time in more than a year. Trade deficit widened to $14.02 billion in Oct from $8.98 billion in the previous month and $11.13 billion in the same month of the previous year. Merchandise exports for Oct fell 1.12% on a yearly basis mainly due to fall in gems and jewellery and textile exports. Meanwhile, imports grew 7.60% to $37.12 billion in Oct.
- India’s core output grew 4.7% YoY in Oct 2017, similar to the downwardly revised 4.7% rise in the previous month. Growth was driven by refinery and steel sector. During Apr to Oct 2017, the annual output growth came at 3.5%.

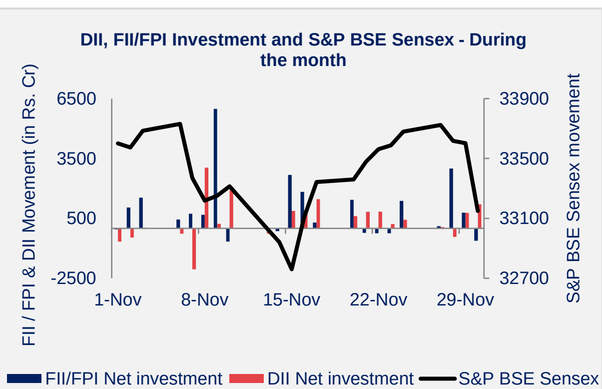
Indian Equity Market



Source: BSE



Source: MFI Explorer



Source: MFI Explorer

- Indian equity markets closed the month on a negative note following substantial amount of volatility. Rise in inflation numbers raised concerns over MPC's interest rate stance, thereby overshadowing positive impact of India's favourable ranking in ease of doing business by the World Bank. Besides, increase in global crude oil prices led to worries over inflation and fiscal deficit outlook. Positive sentiment following India's sovereign rating upgrade by Moody's Investors Service was neutralised after S&P Global Ratings decided to retain India's current sovereign rating and reaffirm the "stable" outlook, which defied expectations for an upgrade.
- As the month commenced, market participants cheered after India went up by 30 notches to the 100th position on World Bank's 'Ease of Doing Business' list and after growth in eight core sectors touched a six-month high in Sep 2017. Buying interest was further impacted after U.S. Fed, in its Oct policy meeting, kept interest rates unchanged on the expected line, but its commentary on the U.S. economy virtually confirmed a rate hike in Dec 2017.
- The negative impact of slowdown in growth of Indian manufacturing sector was outweighed by final reading of a private survey showing that service sector activity expanded in Oct 2017. Also, investors took positive cues from the nomination of the new Fed chief and the government's recapitalization plan.
- However, investors became concerned over a surge in crude oil prices owing to political turmoil in Saudi Arabia. Worries over inflation outlook and fiscal deficit in the domestic economy due to rise in crude oil prices kept investors wary about MPC's next policy decision. The downturn was restricted by provisional figures of direct tax collections up to Oct 2017 showing that net collections were 15.2% higher than the net collections for the same period of last year. Besides, the GST Council decided to keep only 50 items in the highest bracket of 28%. Markets fell further following higher trade deficit in Oct and after rise in inflation in Oct 2017 lowered the possibility of a rate-cut by MPC.
- Later, benchmark indices witnessed spike after a major global rating agency upgraded India's sovereign rating to Baa2 from Baa3 after 13 years. Investors also welcomed Cabinet's approval to amend the Insolvency and Bankruptcy Code to prevent willful defaulters from bidding for stressed assets.
- Markets reversed trend towards end as government's proposal to overhaul the direct tax code renewed concerns over probable disruptions. Additionally, another major rating agency retained India's sovereign rating of "BBB-minus" and maintained "stable" outlook, defying market expectations for a rating upgrade.
- On the BSE sectoral front, indices witnessed a mixed trend. S&P BSE Metal was the major loser, followed by S&P BSE Oil & Gas and S&P BSE Healthcare. Metal sector came under pressure triggered by a slump in global metal prices after data showed that China's industrial output slowed in Oct 2017. Meanwhile, S&P BSE Consumer Durables was the top gainer followed by S&P BSE Realty and S&P BSE IT.

Indian Fixed Income

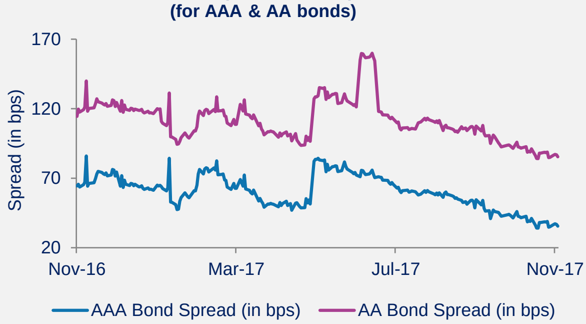
Market Indicators		
Indicator	**30-Nov-17**	**31-Oct-17**
Call Rate	5.89%	5.88%
10-Yr benchmark bond	7.06%	6.86%
Reverse Repo	5.75%	5.75%
Repo	6.00%	6.00%
Bank Rate	6.25%	6.25%
CRR	4.00%	4.00%

Source: CCIL,RBI

10-Yr Benchmark Bond

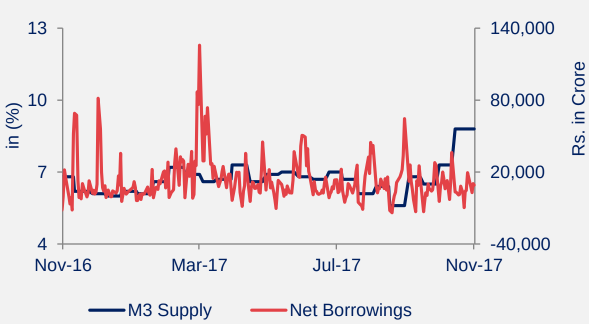
Source: CCIL

10 Year Corporate Bond Spread (for AAA & AA bonds)



Source: Thomson Reuters Eikon

Liquidity Monitor- M3 Supply and Net Borrowings



Source: Thomson Reuters Eikon

- Bond yields rose for the fourth consecutive month as increase in domestic inflationary pressures in Oct 2017 and global crude oil prices lowered prospects of a rate-cut by MPC in the near term. Worries of a fiscal slippage in this fiscal also weighed on market sentiment. However, further losses were restricted as market participants resorted to bargain hunting and as RBI withdrew an open market sale after considering the latest market developments.
- Yield on the 10-year benchmark bond (6.79% GS 2027) rose 20 bps to close at 7.06% from the previous month's close of 6.86%. During the month, bond yields moved within a wide range of 6.85% to 7.08%.
- Bond yields fell initially as market participants resorted to bargain hunting and bought debt securities at lower prices. Market sentiment received further support after the U.S. President nominated a new U.S. Fed governor to head the U.S. central bank once the term of the current Fed governor expires in early Feb 2018. The new Fed governor is perceived to have a dovish stance on the U.S. monetary policy.
- However, the trend reversed as increase in global crude oil prices spooked investors. International crude oil prices touched more than 2-year high levels during the month under review, which fueled concerns of increase in domestic inflationary pressures that may dampen the prospects of a rate-cut by MPC in the near future.
- Losses were extended as supply dynamics came into play following the weekly debt auctions. Market sentiment also remained subdued on worries that RBI may announce sale of government securities through open market operations (OMO) to mop up excess liquidity from the banking system.
- Bond yields continued with their upward trend after domestic inflationary pressures rose in Oct 2017 as the retail inflation and WPI-index based inflation rose to a seven-month high and six-month high in Oct 2017, respectively.
- The domestic debt market received some support in the interim after Moodys' upgraded India's sovereign credit rating. Bond yields plunged and witnessed the biggest single session fall in more than a year after the RBI cancelled an open market sale of government securities of Rs. 10,000 crore, due on Nov 23, 2017. The sale was withdrawn after it considered the recent market developments following a fresh review of the current and evolving liquidity conditions.
- However, gains were neutralised as bond yields continued to rise again after S&P decided not to upgrade India's credit rating. Bond yields rose further after India's fiscal deficit for the period from Apr to Oct widened to 96.1% of the budget estimate of FY18, which increased concerns of a fiscal slippage in FY18. Market participants also preferred to remain on the sidelines ahead of the outcome of the fifth bi-monthly monetary policy review due on Dec 6, 2017. However, value buying by market participants restricted further losses.

Global Equity Market

Performance of Major International Markets (as on November 30,2017)		
Indices	**Country**	**1 Mth**
Nasdaq 100	U.S.	1.87
S&P 500	U.S.	2.81
DJ Industrial Avg	U.S.	3.83
SET Composite Index	Thailand	-1.39
Jakarta Composite	Indonesia	-0.89
Straits Times Index	Singapore	1.76
KOSPI Index	South Korea	-1.86
Nikkei Stock Average 225	Japan	3.24
Taiwan SE Weighted Index	Taiwan	-2.16
Shanghai Composite Index	China	-2.24
S&P BSE Sensex	India	-0.19
S&P/ASX 200	Australia	1.03
FTSE 100	U.K.	-2.22
CAC 40	France	-2.37
DAX Index	Germany	-1.55

Source: Thomson Reuters Eikon

United States

- The U.S. market traded high amid positive reaction to the latest batch of corporate earnings numbers and some upbeat key economic data. Investors also took positive cues from the announcement of U.S. President's nominee for the next Fed chief, Fed chair nominee's positive comments on financial regulations and signs of further progress on the U.S. tax reform bill.

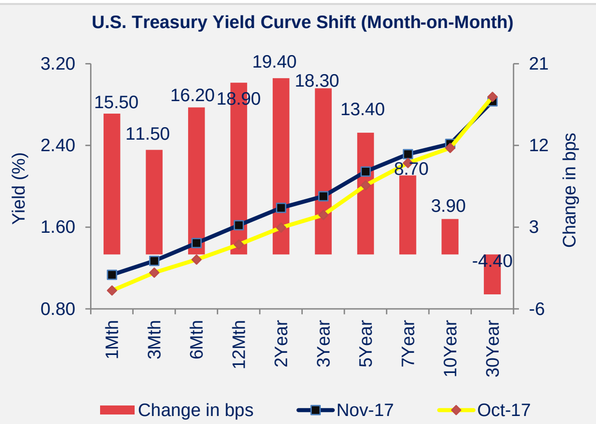
Europe

- European markets closed in the red amid disappointing corporate earnings results from some major companies, political uncertainty in Germany coupled with increasing tensions in the Middle East and Korean Peninsula. However, the downside was limited following upbeat economic data.

Asia

- Asian markets mostly closed in the green on reports that China is considering expanding corporate tax cuts for high-tech service companies and is also planning to deregulate the financial sector. Hopes that the Bank of Japan may buy more exchange-traded funds also helped gains. However, the upside was limited on concerns over Chinese regulator's intervention in shadow banking and other risky forms of financing.

Global Fixed Income-U.S. Treasury



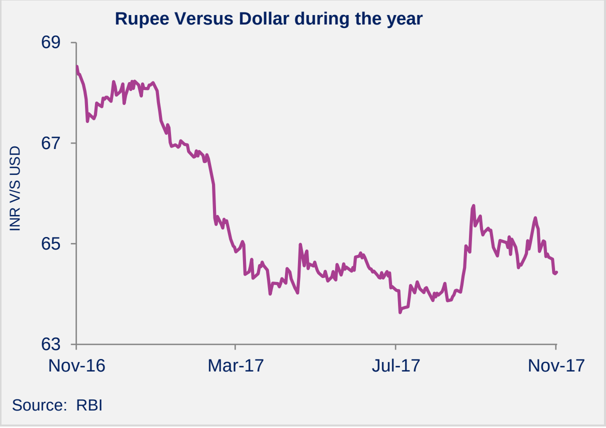
Source: Thomson Reuters Eikon

Source: Thomson Reuters Eikon

- Yield on the 10-year U.S. Treasury bond surged 4 bps during the month to close at 2.42% compared with the previous month's close of 2.38%. The paper moved in a range of 2.31% to 2.42%.
- U.S. Treasury prices fell after a senior Senator endorsed the U.S. Senate tax bill, thereby potentially easing challenges to its eventual passage in the Congress. Also, upbeat consumer confidence data for Nov and U.S. economic growth for the third quarter added to the losses. Meanwhile, optimistic remarks on the economy by the outgoing U.S. Federal Reserve chair played its role in the losses.
- Losses extended as investors made room for government and corporate bond and as market participants lowered their holdings of longer-dated debt following auctions. Expectations that tightness in the labour market would likely drive inflation higher in the medium term also led to losses.
- However, losses were capped after the U.S. President appointed the widely-expected candidate as the next U.S. Federal Reserve chair. As per reports, the new head of the central bank is viewed as more dovish by investors. Also, reports that North Korea might be looking to conduct another missile test added to the gains.

Currency Market Update

Movement of Major Currencies			
Currency	**Value**	**1 Mth**	**1 Yr**
U.S. Dollar	64.43	64.77	68.53
Pound Sterling	86.80	85.60	85.53
Euro	76.49	75.42	72.84
100 Yen	57.46	57.27	60.79
Source: RBI			



INR

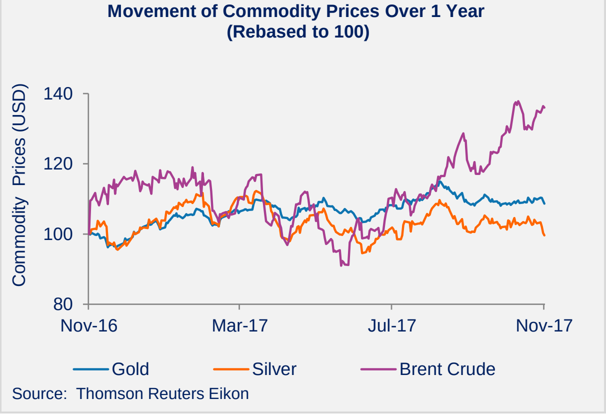
- The Indian rupee rose against the U.S. dollar following selling of the greenback by foreign banks and gains in the domestic equity market after a global credit rating agency raised India's sovereign credit rating. Minutes of the U.S. Federal Reserve's policy meeting in Oct 2017 showed that policymakers were cautious about muted inflation growth, which further boosted the rupee.
- However, gains were limited on increase in crude oil prices that dampened the appetite for domestic assets.

EURO

- Euro initially remained steady against the U.S. dollar but strengthened during the remaining part of the month. The single currency rose after data showed better than expected growth of the German economy in the third quarter.
- Greenback weakened further on the release of weaker than expected U.S. data and inflation expectations. Strong euro zone private sector data added to euro's gains. However, gains were restricted on growing possibility of further rate hikes by the U.S. Fed.

Commodity Market Update

Performance of Various Commodities			
Commodities	**Value**	**1 Mth**	**1 Yr**
Crude Brent($/Barrel)	64.32	61.79	47.29
Gold ($/Oz)	1274.36	1271.20	1172.70
Gold (Rs/10 gm)	29236	29333.00	28837.00
Silver ($/Oz)	16.42	16.69	16.48
Silver (Rs/Kg)	37974	38830.00	40703.00
Source: Thomson Reuters Eikon,MCX			



Crude

- Brent crude prices gained after a significant political crackdown in Saudi Arabia led to concerns over potential supply disruptions. Prices got additional support as the OPEC and non-OPEC oil producers, in their meeting on Nov 30, agreed to extend production cuts until the end of 2018. However, upside was limited on concerns over rise in U.S. oil rig count and on news that Turkey and Iraq plan to resume exports from the Kirkuk-Ceyhan pipeline.

Gold

- Gold prices initially got support as investors remained focused on developments in Saudi Arabia following a string of arrests as part of a corruption crackdown and on new developments in a special investigation into the U.S. Presidential campaign. U.S. President's comment on North Korea and political concerns in Germany further supported the prices. However, the encouraging U.S. economic data, coupled with U.S. Fed chair nominee's strong views of the economy, prompted investors to go for riskier assets, thereby dampening the safe haven appeal of the bullion. Additionally, growing speculation over probable rate-hike by the U.S. Fed in its upcoming meeting on Dec 12-13, despite mounting concerns about low inflation, dented sentiment for the precious metal. Signs of further progress on the U.S. tax reform bill also weighed on the bullion's prices.

Mutual Fund Corner

Mutual Fund Performance Monthly Update

- Mutual funds remained net buyers in both debt and equity segments during the month of Nov. In both the segments, purchase amount stood higher than the previous month. In the equity segment, buying stood at Rs. 10,668.68 crore against last month's record of Rs. 9,990.50 crore, and buying in debt segment stood at Rs. 37,473.85 crore against Rs. 29,088.49 crore in Oct 2017. (Nov data is available till 27th on SEBI site).

- Under the equity segment, the infotech segment topped the chart over the month followed by FMCG sector. Infrastructure sector also boosted against the backdrop of the Cabinet's decision to relax interest rate subsidy criterion under the credit linked subsidy scheme for the middle-income group under the Pradhan Mantri Awas Yojana (Urban).

- In the debt space, gilt long term posted negative returns on concerns that MPC might not lower the policy stance on the back of increase in domestic inflationary pressures in Oct 2017 and rise in global crude oil prices. Worries of a fiscal slippage in this fiscal also weighed on market sentiment.

- Safe-haven appeal of gold remained subdued as improved economic data coupled with U.S. Fed chair nominee's strong views of the economy prompted investors to go for riskier assets. Additionally, growing speculation over probable rate-hike by the U.S. Fed and signs of further progress on U.S. tax reform bill also weighed on the bullion's prices.

Portfolio Analysis of Diversified Equity Funds

Month	Financial Services	Industrial Manufacturing	Media & Enter.	IT	Telecom	Energy	Consumer Goods	Healthcare
Oct-17	25.51	8.22	2.22	5.77	2.37	11.13	10.38	1.53
Sep-17	26.22	7.96	2.20	5.94	2.07	10.48	10.20	1.53
Aug-17	26.29	7.92	2.24	5.89	2.04	10.53	10.27	1.48
Jul-17	27.32	7.72	2.36	6.30	2.02	9.58	9.95	1.60
Jun-17	26.70	7.62	2.47	6.27	2.06	9.59	10.45	1.66
May-17	25.90	7.76	2.49	6.75	2.04	10.25	10.17	1.67
Apr-17	25.55	8.05	2.69	6.62	2.05	10.79	9.88	1.53
Mar-17	24.95	7.82	2.78	7.49	1.97	10.70	10.15	1.49
Feb-17	24.43	7.54	2.69	8.08	2.27	10.87	9.65	1.53
Jan-17	24.27	7.36	2.59	7.91	2.32	11.01	9.43	1.57
Dec-16	23.84	7.20	2.66	8.89	2.11	10.61	9.47	1.64
Nov-16	24.25	7.21	2.66	8.11	2.16	10.25	9.21	1.57

Source: MFI Explorer

Category wise performance of Mutual Funds

Equity	1 Year	3 Year	5 Year	Debt	1 Week	1 Mth	6 Mth	1 Year	SI
Large Cap	24.08	8.75	14.43	Liquid	6.01	6.04	6.29	6.30	7.33
Small/Mid Cap	36.61	18.2	25	Ultrashort Bond	5.50	5.06	6.78	6.25	7.66
Diversified	27.7	10.77	16.38	Short-T Bond	3.55	2.29	6.45	5.12	8.03
Balanced	20.75	10.12	15.23	Long-T Bond	1.85	0.58	5.90	4.12	8.32
Banking	34.27	13.26	15.77	Long T Govt Sec	-3.41	-2.67	3.48	1.18	8.30
FMCG	39.66	15.27	14.61	Crisil Liquid	6.20	6.36	6.55	6.62	6.80
Pharma	-6.35	1.95	14.84	Crisil ST Bond	3.83	3.84	6.51	5.94	7.28
Technology	16.05	3.42	16.76	Crisil Composite	-0.43	-0.54	5.95	3.85	7.13
Infrastructure	38.35	13.77	17.24						
Gold Funds	-0.76	2.58	-2.65						

Source: MFI Explorer

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