ALPHA CAPITAL™

Monthly Report

January 2018

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What happened last month?

The last month of the year saw mixed performances by major markets across the globe. The month saw thin trading because of Christmas and New Year holidays. U.S. markets benefitted from positive economic data and the Federal Reserve's (Fed) iteration that it would raise interest rates gradually in 2018, while raising rates in Dec 2017. Also, Republican lawmakers passed the tax reform bill, buoying sentiment.

Snap elections in Catalonia, Spain, kept European markets under pressure, although euro zone economic data showed signs of recovery. U.K. was an exception and gained as Bank of England's statement on European Union banks and insurers soothed nerves of investors anxious over Brexit.

Asia was a mixed bag as rise in interest rate by the U.S. Fed led to fund outflow worries and overshadowed positive economic data from the region. The World Bank raised its forecast for China's growth in 2017.

Indian equity markets ended in the green as investors took positive cues from the victory of the ruling party in two states. The month saw Sensex and Nifty touch new life-time highs, the main reasons for which were the implementation of Goods & Service Tax (GST) Act, the government announcing a mega recapitalization plan for state-run banks, India drastically improving its ranking in World Bank's "Ease of doing business" list and Moody's upgrading India's sovereign rating.

The only drawback was the government's announcement of additional borrowing programme as this made investors anxious of government's fiscal prudence. The government's fiscal deficit target has been set at 3.2%, but with the enlarged borrowing, the target may not be met.

Bond yields surged for the fifth consecutive month after the government's announcement of raising its fiscal year borrowing amount raised concerns among investors over fiscal prudence. Acceleration in retail inflation in Nov 2017 also dampened sentiment. Further losses were restricted as market participants resorted to bargain hunting following the recent decline in bond prices.

The Monetary Policy Committee (MPC) kept its policy rate unchanged at 6%, as was widely expected by the market, even though it projected domestic inflationary pressures to go up in the second half of FY18. RBI said inflation is estimated in the range 4.3-4.7% in Q3 and Q4 of FY18, higher than the projection made in the Oct 2017 policy.

Possible happenings over the next month

Following the victory of the ruling party in state elections, investors are now turning their attention towards the Union Budget 2018-19 with a lot of expectations. The biggest expectation out of the Union Budget 2018-19 would be more focus on job creation. Hence, apart from the rural economy and the infrastructure development thrust, key areas of job creation like the manufacturing sector, especially the textile sector, would be focused upon. Besides, corporate earnings recovery is expected to gain momentum as most of the disruption arising out of GST implementation is likely to be factored in by companies by now. Also, the crackdown by government on shell companies and regrouping of subsidiaries into parent companies may lead to better earnings in Q4FY18. On the macroeconomic front, with consumer price related inflation rising to 15-month high in Nov, MPC is likely to keep rates on pause, while becoming more watchful of the inflation trajectory.

Liquidity in the banking system is moving towards neutrality after a year of huge surplus. Moving forward, liquidity condition in the banking system may soon turn into deficit mode by the next quarter, which can be attributed to advance tax payments that may impart an upward pressure to the bond yield trajectory.

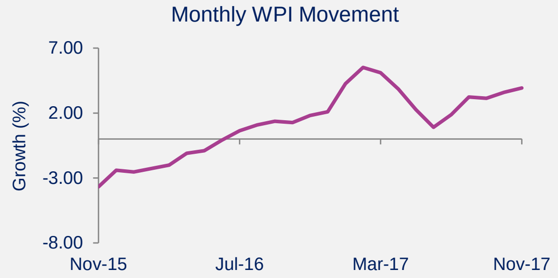
Rise in global crude oil prices and metals has emerged as a risk which if sustained may put strain on retail inflation. This in turn will limit the central bank's capacity to ease its monetary policy and keep bond yields at elevated levels. Thus, global crude oil prices and commodity prices will remain in sharp focus.

Additional borrowings announcement by the government has raised the possibility of a rise in fiscal deficit in FY18, which is targeted at 3.2%. It is to be seen how government reduces the revenue shortfall during the Mar quarter of 2018 that collects large chunk of tax revenue. Hopes of a rate-cut have diminished in the near term due to risk of rise in inflation in the second half of FY18. Thus, domestic inflationary pressure and international crude oil prices will continue to remain in focus. All these factors are likely to impact bond yields, which have hardened significantly.

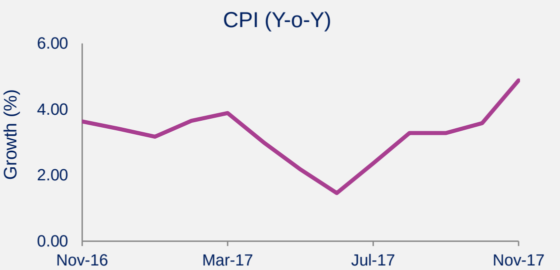
On the global front, most of the developed economies are showing signs of normalizing their respective ultra-loose monetary policies. Global bond yields may take cues from guidance provided by monetary policies of developed nations which in turn may have a bearing on the domestic bond yield trajectory moving forward. In addition to the above-mentioned factors, movement of the rupee against the dollar and stance adopted by foreign portfolio investors will be closely tracked.

Also, policy stance of the new U.S. Federal Reserve chief and mid-term performance of the U.S. President will have a bearing on investor sentiment.

Indian Economy



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



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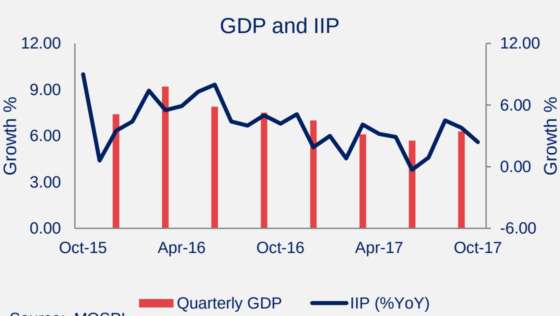


Source: MOSPI

Economic Releases in December-2017			
Key Indicator	**Period**	**Actual**	**Previous**
Repo Rate	Dec-17	6.00%	6.00%
Reverse Repo	Dec-17	5.75%	5.75%
CRR	Dec-17	4.00%	4.00%
IIP	Oct-17	2.20%	4.10%
WPI	Nov-17	3.93%	3.59%
Export (Y-o-Y)	Nov-17	30.55%	-1.12%
Import (Y-o-Y)	Nov-17	19.61%	7.59%

Source: RBI, Thomson Reuters Eikon

- India's fiscal deficit during Apr to Nov 2017 stood at Rs. 6.12 lakh crore or 112.0% of the Budgeted Estimate for FY18 mainly due to lower GST collections and higher expenditure. During the corresponding period last year, fiscal deficit was at 85.8% of the Budget Estimate.

- India's Index of Industrial Production (IIP) slowed to 2.2% in Oct 2017 from an upwardly revised 4.1% (3.8% originally reported) in Sep 2017 and 4.2% in the same period of the previous year. The manufacturing sector also slowed to 2.5% in Oct 2017 from 4.8% in the same period of the previous year.

- Government data showed that growth of Consumer Price Index (CPI)-based inflation or retail inflation surged to a 15-month high of 4.88% in Nov 2017 from 3.58% in the previous month and 3.63% in the same period of the previous year. Retail inflation growth thus surpassed the central bank's medium-term target of 4%.

- Wholesale Price Index (WPI)-based inflation rose to an 8-month high as it grew 3.93% in Nov 2017 from 3.59% in the previous month and 1.82% in the same month of the previous year. The growth of WPI food index also accelerated from 3.23% in Oct 2017 to 4.10% in Nov 2017.

- India's trade deficit expanded marginally to $13.83 billion in Nov 2017 from $13.40 billion in the same period of the previous year. However, trade deficit contracted from $14.02 billion in the previous month. Exports grew 30.55% to $26.20 billion in Nov after declining 1.12% to $23.10 billion in the previous month due to improved global demand, government incentives and simplification of GST refund process. India's exports in the same period of the previous year stood at $20.07 billion. India's imports in Nov grew 19.61% to $40.02 billion from $33.46 billion in the same period of the previous year.

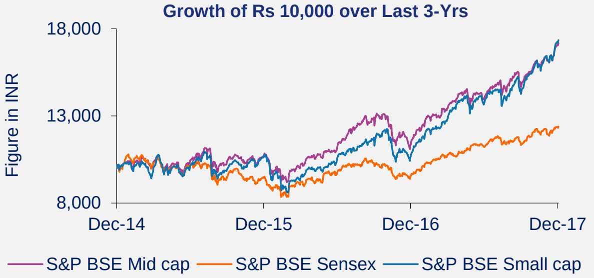
- India's core output grew 4.7% YoY in Oct 2017, similar to the downwardly revised 4.7% rise in the previous month. Growth was driven by higher refinery production. During Apr to Oct 2017, the annual output growth came at 3.5%.

- The Nikkei India Manufacturing Purchasing Managers' Index (PMI) rose to 54.7 in Dec 2017 from 52.6 in Nov 2017. The upside was driven by sharpest increase in output and new orders since Dec 2012 and Oct 2016, respectively. This is the fifth consecutive month during which the manufacturing PMI came in above 50.

- The Nikkei India Services Purchasing Managers' Index (PMI) Business Activity Index rose to 50.9 in Dec 2017 from 48.5 in Nov 2017 on the back of stable new orders and improved output requirements. Meanwhile, the Nikkei India Composite PMI Output Index rose to 53 from 50.3 in Nov.

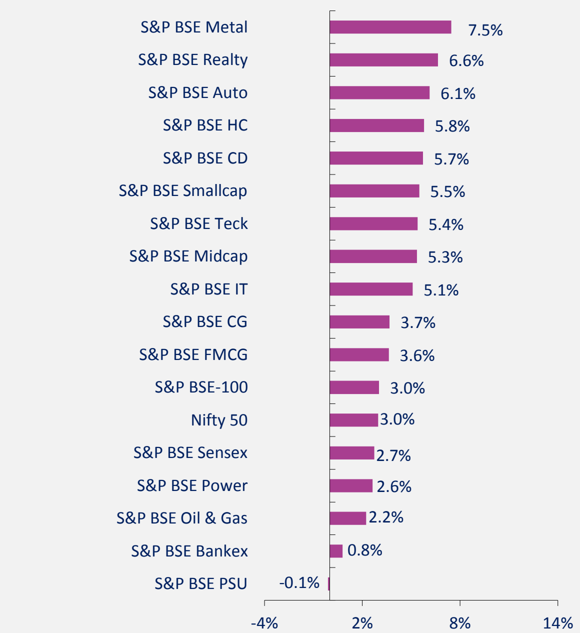
Indian Equity Market

Growth of Rs 10,000 over Last 3-Yrs



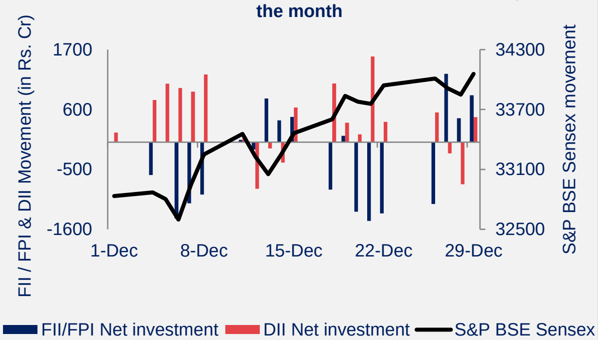
Source: BSE

Monthly returns as on December 29, 2017



Source: MFI Explorer

DII, FII/FPI Investment and S&P BSE Sensex - During the month



Source: MFI Explorer

- Indian equity markets ended the last month of 2017 on a positive note with sentiment largely boosted by the outcome of the state assembly elections in Gujarat and Himachal Pradesh. However, gains were largely restricted by concerns over government's additional borrowing programme.

- ***The year 2017 turned out to be rewarding for the domestic markets*** with Sensex and Nifty 50 soaring by 27.91% and 28.65% to touch all-time-closing highs of 34,056.83 and 10,531.5, respectively. Some of the key triggers for the rally during the year include implementation of GST Act, mega recapitalization package for banks, upgradation of India's position in World Bank's "Ease of doing business" list and sovereign rating upgrade by Moody's.

- Markets remained jittery initially as concerns about India's broadening fiscal deficit and rising crude prices overshadowed the positive impact of the country's GDP growth for the second quarter and strong manufacturing data for Nov 2017. Also, decline in Nikkei India Services PMI for Nov to a 3-month low weighed on market sentiment. The outcome of MPC latest meeting was unable to generate any buying interest. The MPC kept key rates unchanged at the fifth bi-monthly policy meeting, but raised its inflation expectation to 4.3-4.7% for second half of 2018, given the risks to inflation.

- Sentiment improved after the governor of RBI stated that the government would give detailed plans in the coming days about its $32 billion investment plans into state-run lenders. Meanwhile, the provisional figures of direct tax collections indicated that the net tax collections stood 14.4% higher during Apr-Nov 2017 compared with the corresponding period of last year.

- Later, markets witnessed a temporary setback after official data showed that industrial production growth hit a 3-month low in Oct 2017 and retail inflation rose to a 15-month high in Nov 2017.

- Market participants soon shrugged off such weakness and set benchmark indices soaring to record highs as the ruling party sealed victories in Gujarat and Himachal Pradesh. This raised hope of continuity of the existing economic reforms. Global cues too contributed to the rally following passage of the U.S. tax reform bill and strong U.S. GDP growth for the third quarter.

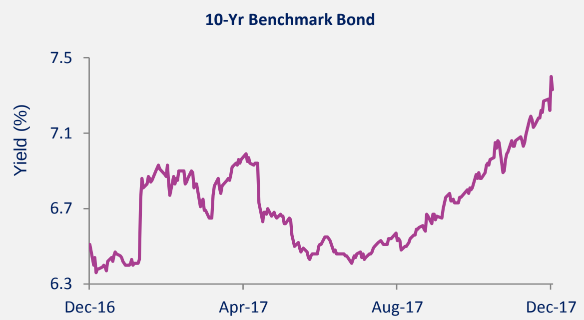
- Towards the end, gains were restricted as investor sentiment soured due to lingering concerns over government's additional borrowing programme. The borrowing is over and above the budget estimate of Rs. 5.80 lakh crore for FY18. Nonetheless, investors bid adieu to 2017 on a positive note as hopes of an improving economy and higher corporate earnings buoyed investor confidence.

- On the BSE sectoral front, majority of the indices closed in the green. S&P BSE Metal was the top gainer, followed by S&P BSE Realty and S&P BSE Auto. Buying interest was seen in metal stocks amid expectation of increased overseas demand of steel. The U.S. President's call for the massive infrastructure spending is likely to have a beneficial effect on steel demand given steel is a key component in many infrastructure products.

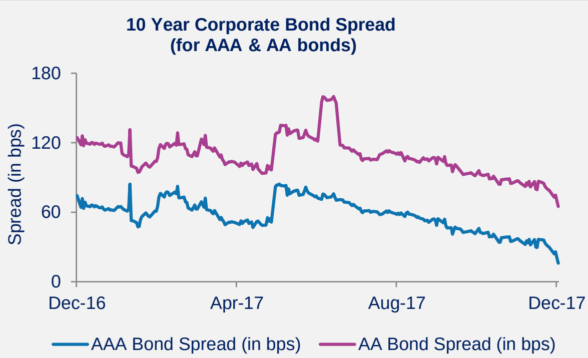
Indian Fixed Income

Market Indicators		
Indicator	**29-Dec-17**	**30-Nov-17**
Call Rate	6.10%	5.89%
10-Yr benchmark bond	7.33%	7.06%
Reverse Repo	5.75%	5.75%
Repo	6.00%	6.00%
Bank Rate	6.25%	6.25%
CRR	4.00%	4.00%

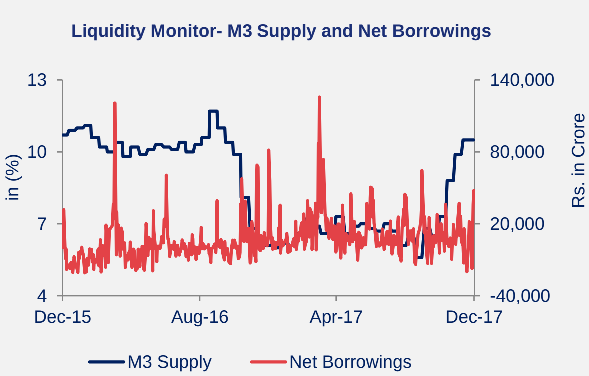
Source: CCIL,RBI



Source: Thomson Reuters Eikon



Source: Thomson Reuters Eikon



Source: Thomson Reuters Eikon

- ***Bond yields surged for the fifth consecutive month after government's announcement of raising its fiscal year borrowing amount raised concerns among investors*** over fiscal prudence. Acceleration in retail inflation in Nov 2017 also dampened sentiment. Further losses were restricted as market participants resorted to bargain hunting following the recent decline in bond prices.

- Yield on the 10-year benchmark bond (6.79% GS 2027) surged 27 bps to close at 7.33% from the previous month's close of 7.06%. During the month, bond yields moved within a wide range of 7.01% to 7.41%.

- Bond yields in the initial few days remained range-bound. Initially, yields rose as faster growth in GDP in the Sep quarter of 2017 dampened expectations of a rate-cut in the upcoming monetary review on Dec 6. Losses soon reversed after MPC kept its policy rate unchanged at 6%, as was widely expected by the market, even though it projected domestic inflationary pressures to go up in the second half of FY18. The Central Bank said inflation is estimated in the range 4.3-4.7% in Q3 and Q4 of FY18, higher than the projection made in the Oct 2017 policy.

- Bond yields started rising on lower than expected cut-off price in one of the weekly debt auctions and on concerns that retail inflation may increase sharply in Nov 2017 due to rise in food and oil prices. Retail inflation rose to a 15-month high in Nov. Losses extended following increase in global crude oil prices. However, yields retreated to some extent after the Central Bank announced to buy back bonds worth Rs. 20,000 crore and as market participants resorted to bargain hunting following the recent decline in bond prices.

- Yields resumed the uptrend after the ruling government's party won the Gujarat elections but by a lesser margin. Worries on government's fiscal stance continued to weigh on investor sentiment. Although bargain-buying trimmed some losses, the overall market sentiment remained subdued after lower GST collections in Nov 2017 fueled concerns that the government may not be able to meet its fiscal deficit target for the current fiscal.

- At the end, bond yields witnessed the highest single-session jump in about 11 months after the government announced to increase its fiscal year borrowing amount that raised concerns among investors about the government's fiscal prudence. The government announced to borrow an additional Rs. 50,000 crore through previously scheduled auctions in Jan and Feb 2018.

- Yield on gilt securities increased across maturities in the range of 14 to 32 bps. The maximum increase was witnessed on the 4-year paper and the minimum on the 19-year paper. Yield on corporate bonds increased across maturities in the range of 9 bps to 31 bps. The maximum increase was witnessed on 1- and 3-year papers and the minimum on 7-year paper. Difference in spread between AAA corporate bond and gilt contracted on 4- to 10 years' and 15-year papers in the range of 2 to 20 bps and expanded on the remaining maturities in the range of 4 to 14 bps.

Global Equity Market

Performance of Major International Markets (as on December 29,2017)		
Indices	**Country**	**1 Mth**
Nasdaq 100	U.S.	0.48
S&P 500	U.S.	0.98
DJ Industrial Avg	U.S.	1.84
SET Composite Index	Thailand	3.32
Jakarta Composite	Indonesia	6.78
Straits Times Index	Singapore	-0.89
KOSPI Index	South Korea	-0.36
Nikkei Stock Average 225	Japan	0.18
Taiwan SE Weighted Index	Taiwan	0.78
Shanghai Composite Index	China	-0.30
S&P BSE Sensex	India	2.74
S&P/ASX 200	Australia	1.59
FTSE 100	U.K.	4.93
CAC 40	France	-1.12
DAX Index	Germany	-0.82

Source: Thomson Reuters Eikon

United States

- U.S. markets reported modest gains, the triggers being the U.S. Fed's latest policy meeting and approval of U.S. tax reform bill. The U.S. Fed decided to raise key interest rates, as was widely expected. Investors took positive cues from the outlook on rate hikes in Fed's accompanying statement as well as the outgoing Fed chief's press conference.

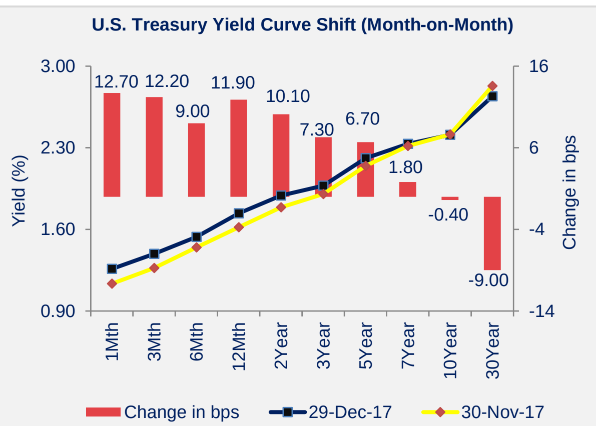
Europe

- European markets remained under pressure barring U.K. markets. Investors took positive cues from rise in euro zone's consumer price inflation data for Nov 2017 and improved GDP data for the third quarter of 2017. However, markets came under pressure because of renewed political turmoil in Spain.

Asia

- Asian markets mostly traded high following the positive impact of improved services sector data from China and Japan coupled with upbeat Chinese trade data in Nov 2017. However, concerns over foreign fund outflows after the U.S. Fed decided to raise key interest rate in its latest policy meeting limited the upside. Meanwhile, the World Bank raised its forecast for China's growth in 2017 on the back of rise in household incomes and a recovery in global trade.

Global Fixed Income-U.S. Treasury



Source: Thomson Reuters Eikon

Source: Thomson Reuters Eikon

- Yield on the 10-year U.S. Treasury bond fell 1 bps during the month to close at 2.41% compared with the previous month's close of 2.42%. The paper moved in a range of 2.31% to 2.42%.

- U.S. Treasury prices initially fell amid strong U.S. producer prices, retail sales and non-farm payroll data for Nov 2017. However, losses were neutralized after U.S. consumer price inflation for Nov fell short of market expectations.

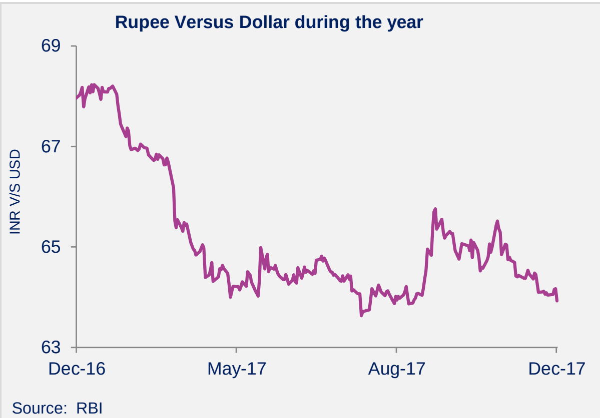
- Also, assessment by the U.S. Federal Reserve that inflation in the U.S. would remain tame lowered the possibility of a faster pace of rate hikes moving forward and added to the gains.

- Prices fell again after the ***U.S. Senate approved the tax bill and demand for $26 billion of two-year notes, $34 billion of five-year notes and $28 billion of seven-year notes remained weak.***

- However, the trend reversed 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 New Year holidays.

Currency Market Update

Movement of Major Currencies			
Currency	**Value**	**1 Mth**	**1 Yr**
U.S. Dollar	63.93	64.43	67.95
Pound Sterling	86.07	86.80	83.42
Euro	76.39	76.49	71.62
100 Yen	56.72	57.46	58.22
Source: RBI			



INR

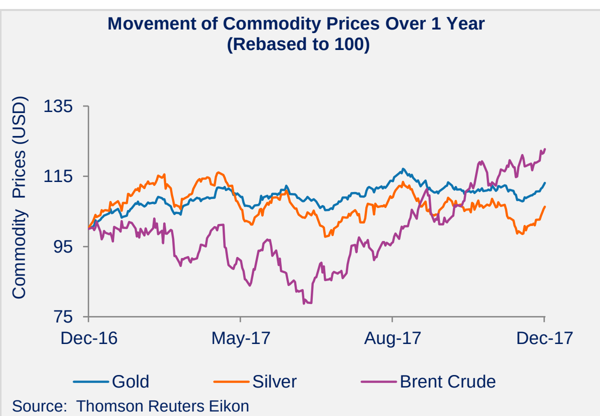
- The rupee rose against the greenback following gains in the domestic equity market. Market sentiment improved further after the ***U.S. Fed maintained its projection for three increases in 2018*** amid concerns about low U.S. inflation while increasing interest rates as expected. Gains were extended after the outcome of the state assembly elections in Gujarat and Himachal Pradesh increased hopes of continuation of reform agenda undertaken by the government

EURO

- The euro initially fell against the greenback on optimism surrounding the U.S. tax reform plan. However, the trend reversed after the U.S. Fed maintained its projection for three rate-hikes next year amid concerns about low U.S. inflation while increasing interest rates as expected. Skepticism over the U.S. tax bill's positive impact on the U.S. economy also kept the greenback under pressure. However, further gains were capped after the European Central Bank (ECB) in its monetary policy review stuck with its pledge to provide stimulus for as long as needed

Commodity Market Update

Performance of Various Commodities			
Commodities	**Value**	**1 Mth**	**1 Yr**
Crude Brent($/Barrel)	67.07	64.32	54.65
Gold ($/Oz)	1302.45	1274.36	1151.46
Gold (Rs/10 gm)	29252	29236	27830
Silver ($/Oz)	16.95	16.42	15.93
Silver (Rs/Kg)	38350	37974	39439
Source: Thomson Reuters Eikon,MCX			



Crude

- Brent Crude prices initially remained weak on worries over rise in U.S. shale output and its impact on Organization of the Petroleum Exporting Countries' (OPEC) efforts to curb production. However, later prices recovered following ***supply disruption from Libya and the North Sea***. Additionally, 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. Stronger Chinese trade data indicating growth in crude oil imports to 37.04 million tonnes in Nov also supported gains.

Gold

- Initially, the safe-haven appeal of the precious metal lost its sheen on development of U.S. tax reform bill and on easing concerns of a potential government shutdown after the U.S. Congress passed legislation to temporarily fund the government till Dec 22. However, prices recovered later following the release of lower U.S. inflation data that dampened investor expectations for a faster pace of rate hikes in the coming year, even though the U.S. Fed in its Dec policy review forecasted further rate hikes. Meanwhile, ***Fed raised the key policy rate in its Dec policy meet, which was in line with market expectations***, and raised economic growth projection for both 2017 and 2018.

Mutual Fund Corner

Mutual Fund Performance Monthly Update

- Mutual funds remained net buyers in both debt and equity segments during the month of Dec. But both the segments witnessed lower purchase compared with the previous month. In the equity segment, net purchase stood at Rs. 8333.3 crore against last month's record of Rs. 12080.1 crore. In the debt segment, net purchase was at Rs. 18997.65 crore against Rs. 41978.41 crore recorded in Nov 2017

- Under the equity segment, the auto segment topped the chart followed by pharma and power segments. Auto sector went up as data from the Society of Indian Automobile Manufacturers showed that sales of domestic passenger vehicles grew 14.29% over the year in Nov 2017. Domestic car sales grew 4.49% while sales of commercial vehicles grew 50.43% in Nov 2017. In the pharma space, a major credit rating agency mentioned that increased domestic demand and rising need for complex products in the West will help domestic pharma players witness 9% revenue growth with healthy cash flows over the next three years.

- In the debt space, barring liquid funds, long and short-term peers posted subdued returns after government's announcement of raising its fiscal year borrowing amount raised concerns of fiscal prudence among investors. Acceleration in retail inflation in Nov 2017 also dampened sentiment.

- The safe-haven appeal of the precious metal got support following ongoing geo-political tensions and impact of the U.S. tax reforms bill on monetary policy and interest rates. However, thin trading during the holiday season and some improved economic data from the U.S. limited the upside.

Portfolio Analysis of Diversified Equity Funds

Month	Financial Services	Industrial Manufacturing	Media & Enter.	IT	Telecom	Energy	Consumer Goods	Healthcare
Nov-17	26.43	8.14	2.29	6.17	2.42	10.60	10.64	1.55
Oct-17	27.00	8.26	2.22	5.80	2.41	11.14	10.40	1.56
Sep-17	27.83	8.00	2.20	5.98	2.11	10.50	10.23	1.57
Aug-17	27.38	7.95	2.24	5.91	2.07	10.55	10.30	1.51
Jul-17	28.39	7.72	2.36	6.30	2.03	9.61	9.95	1.60
Jun-17	27.65	7.62	2.47	6.27	2.05	9.61	10.45	1.66
May-17	26.84	7.76	2.49	6.75	2.02	10.29	10.17	1.67
Apr-17	26.38	8.05	2.69	6.63	2.06	10.86	9.88	1.53
Mar-17	25.80	7.82	2.78	7.50	1.98	10.73	10.15	1.49
Feb-17	25.42	7.54	2.69	8.09	2.28	10.90	9.65	1.53
Jan-17	25.23	7.36	2.59	7.92	2.39	11.02	9.43	1.57
Dec-16	24.57	7.20	2.66	8.90	2.18	10.62	9.47	1.64

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	30.15	10.59	14.88	Liquid	6.42	6.11	6.27	6.30	7.32
Small/Mid Cap	47.27	18.83	25.46	Ultrashort Bond	4.85	3.50	6.11	6.32	7.62
Diversified	34.49	12.37	16.79	Short-T Bond	0.84	-0.84	4.46	5.57	7.96
Balanced	25.41	11.04	15.44	Long-T Bond	-3.46	-3.62	2.90	4.97	8.15
Banking	40.65	12.99	15.18	Long T Govt Sec	-18.26	-13.50	-2.59	2.33	8.13
FMCG	44.48	15.53	15.78	Crisil Liquid	7.41	6.29	6.49	6.66	6.79
Pharma	5.14	3.65	15.56	Crisil ST Bond	-0.28	0.09	4.81	6.05	7.24
Technology	18.83	6.46	18.45	Crisil Composite	-7.52	-5.34	2.14	4.71	7.06
Infrastructure	47.20	15.38	17.76						
Gold Funds	2.77	1.48	-1.99						

Source: MFI Explorer

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