ALPHA CAPITAL™

Monthly Report

November 2017

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What happened last month?

Oct 2017 saw major global markets gain as economic data across regions came in the positive terrain. Some major developments also supported gains -- the U.S. Senate giving approval for a budget resolution for the 2018 fiscal year; the European Central Bank (ECB) announcing it will reduce its asset purchases at the start of next year; Japanese Prime Ministerial election's favourable outcome, etc.

The U.S. saw a slew of upbeat economic data as third quarter real Gross Domestic Product (GDP) rose, durable goods orders for Sep came in higher than expected and new home sales increased considerably. Also, U.S. companies reported encouraging earnings. The drawback came in the form uncertainty over the pace of interest rate hike by the Fed as Sep inflation data came in lower than expectations. Fighting between Iraqi and Kurdish forces and tensions between the U.S. and Iran added to the pain points.

Encouraging economic data uplifted European markets as well -- eurozone industrial output expanded at the fastest pace in nine months in Aug and inflation in the U.K. for Sep increased at the fastest pace since early 2012. Investors took positive cues when ECB said that it will reduce its asset purchases after extending them for nine months.

Mayhem over the independent vote in Catalonia played spoil sport together with geopolitical tensions and Bank of England's (BoE) policy announcement.

The Asian region was no different as encouraging economic data across Asian countries buoyed the markets. The People's Bank of China also showed confidence in the economy because of rapid growth in household consumption.

The month proved to be a landmark one for Indian equity markets as Sensex and Nifty 50 touched all-time highs. Various factors came into play to give markets a fillip -- initiatives taken by the government to boost the banking and infrastructure sectors, steps taken by the Goods & Services Tax (GST) council, favourable corporate earnings numbers, among others.

On the fixed income front, bond yields saw the biggest rise in six months after the Monetary Policy Committee (MPC) kept key policy repo rate unchanged. Concerns that the government's plan to inject increased capital in state-owned banks through recapitalisation of bonds may hurt the centre's fiscal consolidation drive also weighed on market sentiment. Further losses were restricted after retail inflation grew at a slower than expected pace in Sep.

Possible happenings over the next month

In the wake of the recent government announcements, domestic equity markets may attract investments from foreign institutional investors. With GST Council easing rules for mid and small businesses, the positive impact of the same is expected to come up from Jan 2018.

According to data from the World Bank, India has jumped to 100th place in the "Ease of Doing Business" rankings for 2018. India thus moved up the ladder by 30 notches from the last year. World Bank has also identified India as one of the top 10 improvers in this year's assessment as it has executed reformatory measures in eight out of 10 Doing Business indicators. On a separate note, World Bank appreciated the government's adoption of a new insolvency and bankruptcy code.

Going ahead, improvement in GDP growth is likely to be on the back of continuous spending by the Central government along with state governments and support from public sector companies' capex plans.

However, the roadmap for quantitative easing tapering by the U.S. Federal Reserve (Fed) will continue to fuel concerns over potential foreign fund outflow from the domestic market.

Concerns of a fiscal slippage have increased after the government's recapitalisation plan for public sector banks.

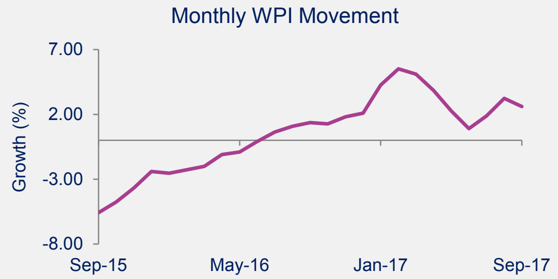
The possibility of an increase in government borrowings in the second half of the fiscal has also come to the fore. While a marginal rise in borrowings may not have a meaningful impact on yields, any significant rise could lead to increase in bond yields.

On the inflation front, domestic inflationary numbers are within the Reserve Bank of India's (RBI) target range. However, MPC has projected that retail inflation may go up in the coming months on the back of increase in house rent allowance and rise in global crude oil prices. Rise in retail inflation in the coming months will prevent MPC from easing its monetary policy further. However, if food inflation remains benign with the assistance of better supply management by the government, then there could be renewed hopes of a rate-cut by MPC in the near term.

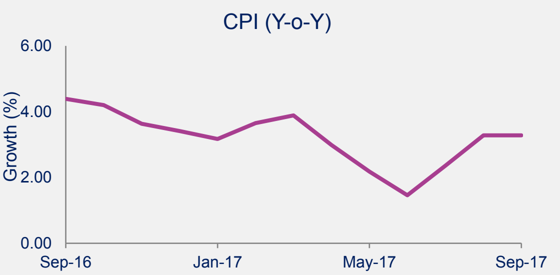
The domestic debt market will be dictated by several global factors as market participants will track monetary, fiscal and economic policies of the advanced economies like the euro zone and the U.S.

Market participants will also track as to who will be the next chief of the Fed as will have a bearing on its monetary policy moving forward. In addition to the above mentioned factors the movement of the rupee against the greenback, stance adopted by the foreign portfolio investors and global commodity prices will dictate market trajectory in the future.

Indian Economy



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



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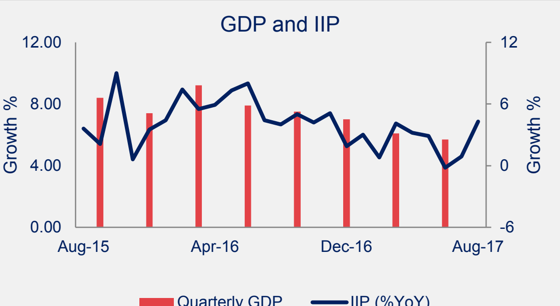


Source: MOSPI

Economic Releases in October-2017			
Key Indicator	**Period**	**Actual**	**Previous**
Repo Rate	Oct-17	6.00%	6.00%
Reverse Repo	Oct-17	5.75%	5.75%
CRR	Oct-17	4.00%	4.00%
IIP	Aug-17	4.30%	0.90%
WPI	Sep-17	2.60%	3.24%
Export (Y-o-Y)	Sep-17	25.67%	10.28%
Import (Y-o-Y)	Sep-17	18.09%	21.02%

Source: RBI, Thomson Reuters Eikon

- The Indian budgetary fiscal deficit during the first half of the current financial year (Apr-Sep) stood at Rs. 4.99 lakh crore or 91.3% of the full year's target of Rs. 5.46 lakh crore. The fiscal deficit in the corresponding period of the previous year stood at 83.9% of the budget estimate for the previous fiscal. Total expenditure during the period Apr-Sep of 2017 was Rs. 11.49 lakh crore, or 53.5% of the budget estimate of the current fiscal compared with 52.0% of the budget estimate in the corresponding period of the previous year.

- The Union government has approved an unprecedented capitalisation plan of Rs. 2.11 lakh crore for state-run banks. Out of the total amount, Rs. 76,000 crore will come from budgetary support and markets and Rs. 1.35 lakh crore will come from front-loaded recap bond. The government underlined the importance of setting up stronger banks to give an impetus to stalled private investments in the country. The finance minister also assured that the macroeconomic fundamentals of the country remained strong

- Index of Industrial Production (IIP) touched a 9-month high in Aug 2017. Industrial output growth accelerated to 4.3% YoY in Aug from downwardly revised 0.9% rise (1.2% originally reported) in the previous month and 4.0% in the corresponding period of the previous year.

- Consumer Price Index (CPI)-based inflation or retail inflation increased 3.28% YoY in Sep 2017 compared with a growth of 4.39% in Sep 2016. Retail inflation for the previous month was downwardly revised to 3.28% from 3.36%, which was originally reported.

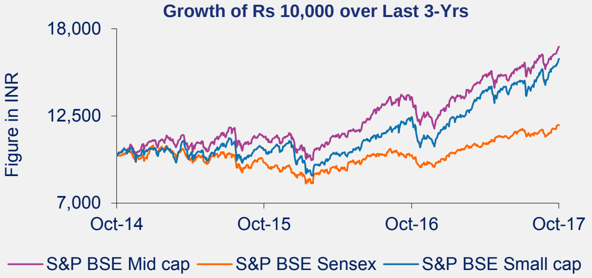
- Wholesale Price Index (WPI)-based inflation slowed to 2.60% in Sep 2017 from 3.24% (provisional) the previous month. However, it was up from 1.36% in Sep 2016. The build-up inflation rate in this fiscal so far came in at 0.97% compared with a build-up rate of 3.44% in the previous-year period.

- India's trade deficit narrowed to $8.98 billion in Sep 2017 from $9.07 billion in the corresponding period of the previous year. Exports grew 25.67% to $28.61 billion in Sep 2017 from $22.77 billion in Sep 2016. Imports also grew 18.09% to $37.60 billion in Sep 2017 from $31.84 billion in the same period of the previous year.

- The eight core industries witnessed a growth of 5.2% in Sep 2017 following a growth of 4.4% in the previous month and 5.3% in the same period of the previous year. Coal sector witnessed the maximum annual growth of 10.6% followed by refinery products, natural gas and electricity.

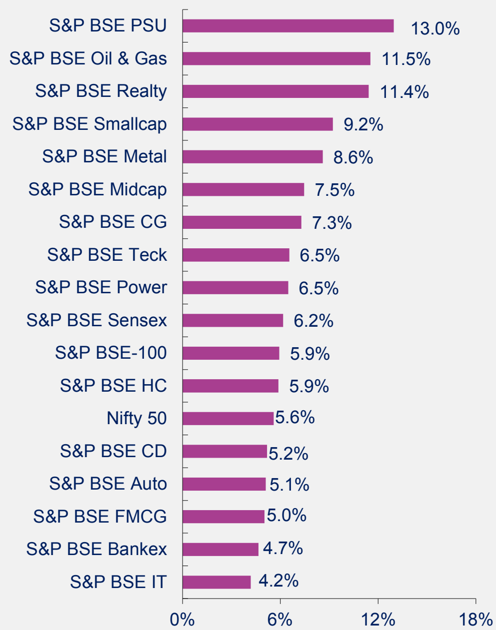
Indian Equity Market

Growth of Rs 10,000 over Last 3-Yrs



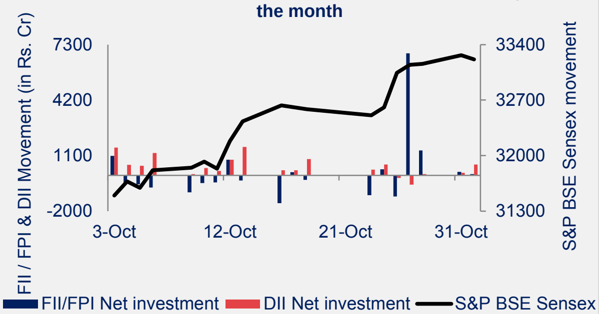
Source: BSE

Monthly returns as on October 31, 2017



Source: MFI Explorer

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



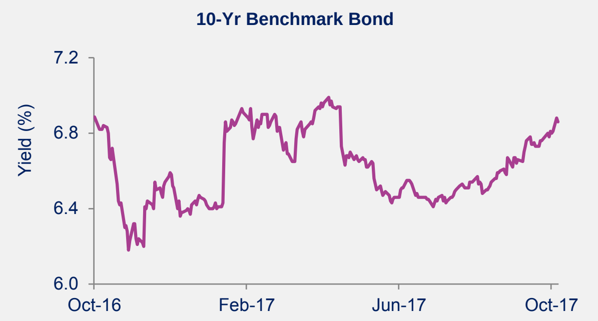
Source: MFI Explorer

- Oct 2017 was a record-setting month for both the benchmark indices, Sensex and Nifty 50. Major initiatives taken by the government to boost the banking and infrastructure sectors, coupled with steps taken by the GST Council to support small and medium businesses made investors confident. Moreover, favourable corporate earnings numbers and positive cues from the U.S. on tax reforms uplifted market sentiment.
- Key benchmark indices S&P BSE Sensex and Nifty 50 went up 6.17% and 5.59% to close at 33,213.13 and 10,335.30, respectively. Broader indices S&P BSE Mid-Cap and S&P BSE Small-Cap rose 7.46% and 9.23%, respectively.
- Markets gained after MPC kept the repo rate unaltered at 6%. The decision was said to be largely in line with expectations. However, the central bank lowered the Gross Value Added growth target for the current financial year to 6.70% from 7.30% earlier.
- Investor sentiment buoyed by the outcome of the latest meeting of the GST Council, wherein it offered relief to exporters and small and medium businesses by easing rules.
- Strong IIP numbers for Aug 2017 boosted markets. Meanwhile, CPI remained steady for Sep 2017 compared with the previous month, but hopes of a rate-cut by the MPC remained bleak as the bank expects higher inflation in coming months.
- Markets regained momentum after the International Monetary Fund's (IMF) chief stated that the Indian economy is on a very solid track in the mid term. Decline in WPI further contributed to the rally.
- Gains were momentarily affected during the Muhurat trading session held on Oct 19 amid selling pressure in banking stocks after a major company reported lower than expected quarterly net profit. Nonetheless, market participants remained hopeful that Indian markets will once again deliver double-digit returns over the next one year.
- In the second half of Oct, markets surged after the revenue secretary stated that some alterations in the GST rate structure are required in order to lower the burden on small and medium businesses. Positive cues from Asian markets amid election victory of Japan's pro-business Prime Minister also supported the indices. Later, Sensex and Nifty 50 surpassed the 33,000-level and 10,300-mark, respectively, as investors cheered the finance minister's announcement of a mega recapitalisation package for banks and a massive road infrastructure investment over the next five years.
- On the BSE sectoral front, all the major indices closed in the green. S&P BSE PSU was the top gainer followed by S&P BSE Oil & Gas and S&P BSE Realty, respectively. State-run lenders witnessed buying spree driven by the government's mega recapitalization plan.

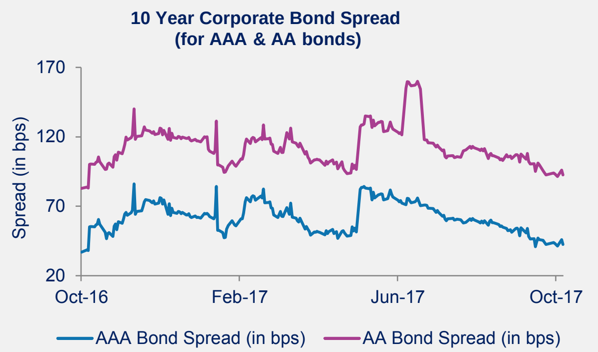
Indian Fixed Income

Market Indicators		
Indicator	**31-Oct-17**	**29-Sep-17**
Call Rate	5.88%	5.98%
10 Yr benchmark bond	6.86%	6.66%
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



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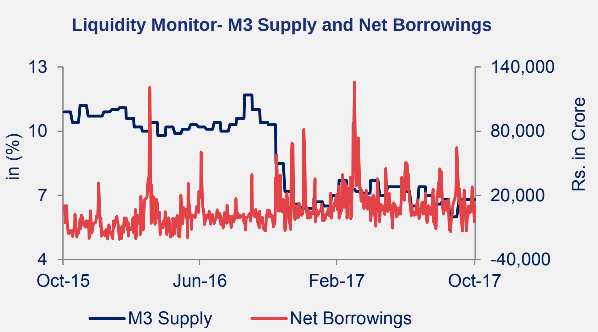


Source: Thomson Reuters Eikon

- In Oct, bond yields witnessed the biggest rise in six months after MPC kept key policy repo rate unchanged and raised its inflation projection for the second half of FY18, which lowered hopes of a rate cut in the near term. Concerns that the government's plan to inject increased capital in state-owned banks through recapitalisation of bonds may hurt the Central government's fiscal consolidation drive also weighed on market sentiment. However, further losses were restricted after retail inflation grew at a slower than expected pace in Sep 2017.
- Yield on the 10-year benchmark bond (6.79% GS 2027) rose 20 bps to close at 6.86%. During the month, bond yields moved within a wide range of 6.63% to 6.90%.
- Expectations that MPC might soften its stance at the fourth bi-monthly monetary policy review, due on Oct 4, lowered bond yields. However, the trend reversed soon after MPC kept key policy repo rate unchanged and raised its inflation projection for the second half of FY18.
- Yields rose further after RBI mandated that state governments may auction bonds on a weekly basis going ahead, against the fortnightly auctions as of now. Concerns that the Union government may borrow more in the second half of the fiscal to support growth weighed on the market.
- Market participants felt relieved after retail inflation grew at a slower than expected pace in Sep 2017. This increased hopes of further easing of monetary policy by MPC in the near term. Bargain hunting by investors provided support to some extent.
- Gains were short lived as bond yields continued to climb on media reports that the government might face a potential shortfall in indirect tax collections. Bond yields rose further after minutes of MPC's Oct 2017 meeting showed that policymakers were concerned of rising domestic inflationary pressures. Concerns of the next U.S. Fed chief's monetary policy stance and result in aggressive rate hikes by the U.S. central bank next year kept market participants wary.
- Bond yields strengthened after the government at the month-end announced a recapitalisation plan for public sector banks through recapitalisation of bonds, which fuelled concerns of heavy supply of debt securities and worries that the Central government's fiscal consolidation drive may take a hit.
- Yield on gilt securities increased across maturities in the range of 1 bps to 32 bps barring 14-year paper, which fell 13 bps and 30-year paper, which closed steady. Yield on corporate bonds increased across maturities by up to 13 bps barring 3-year paper, which fell 3 bps. Difference in spread between AAA corporate bond and gilt contracted across maturities in the range of 2 bps to 28 bps, barring 4-, 7- and 8-year maturities, which increased in the range of 2 bps to 8 bps and 6-year paper, which closed steady.

Global Equity Market

Performance of Major International Markets (as on October 31,2017)		
Indices	**Country**	**1 Mth**
Nasdaq 100	U.S.	4.50
S&P 500	U.S.	2.22
DJ Industrial Avg	U.S.	4.34
SET Composite Index	Thailand	2.88
Jakarta Composite	Indonesia	1.78
Straits Times Index	Singapore	4.79
KOSPI Index	South Korea	5.39
Nikkei Stock Average 225	Japan	8.13
Taiwan SE Weighted Index	Taiwan	4.49
Shanghai Composite Index	China	1.33
S&P BSE Sensex	India	6.17
S&P/ASX 200	Australia	4.00
FTSE 100	U.K.	1.63
CAC 40	France	3.25
DAX Index	Germany	3.12

Source: Thomson Reuters Eikon

United States

- Positive economic data lifted the U.S. markets. Possibility of a major tax reform after the U.S. Senate gave approval for a budget resolution for the 2018 fiscal year added to the gains. However, the upside was limited following geopolitical tensions and uncertainty about the pace of interest rate hike by Fed after U.S.' inflation for Sep 2017 came in lower than expected.

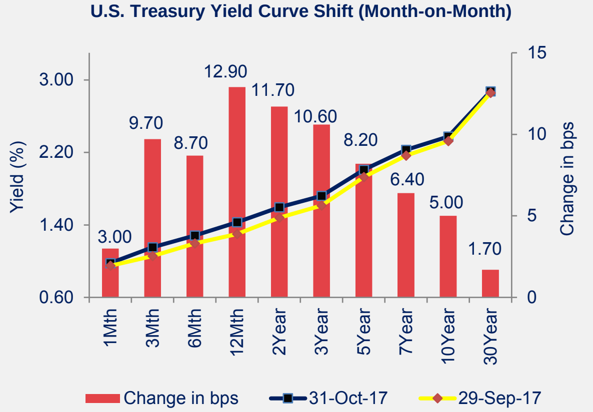
Europe

- European markets too gained following improved economic data. ECB announcing that it will reduce its asset purchases at the start of next year while extending them for nine months added to the gains. However, geopolitical tensions and political unrest in Catalonia kept investors on the sidelines.

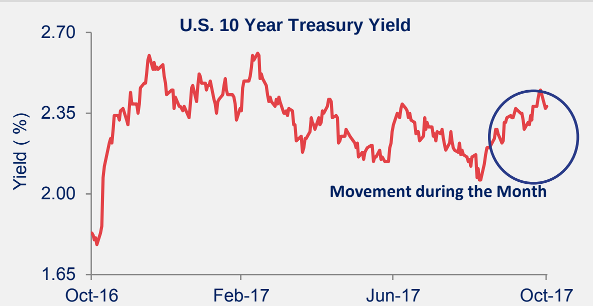
Asia

- Asian markets increased following a series of encouraging economic data across different Asian countries and after the governor of the People's Bank of China said that the Chinese economy is set to achieve 7% growth in the second half of the year. Favourable outcome of Japan's Prime Ministerial elections also supported gains.

Global Fixed Income-U.S. Treasury



Source: Thomson Reuters Eikon



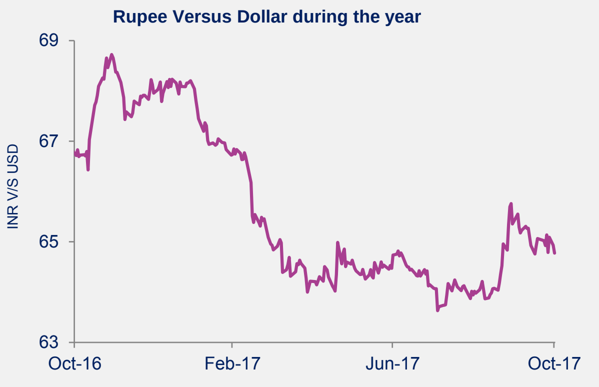
Source: Thomson Reuters Eikon

- Yield on the 10-year U.S. Treasury bond increased 5 bps during the month to close at 2.38% compared with the previous month's close of 2.33%. The paper moved in a range of 2.28% to 2.45%.
- U.S. Treasury prices fell amid expectations of tighter monetary policies from central banks across the globe.
- Losses were extended as market participants grew optimistic on the progress of U.S. tax reforms initiatives.
- Treasury prices fell further amid upbeat earnings results from some prominent companies for the quarter ended Sep 2017 and after U.S. GDP for the third quarter of 2017 grew more than expected.
- Strong U.S. durable goods and new home sales data for Sep 2017 and other positive economic data in Sep 2017 further added to the losses.
- However, lower than expected U.S. consumer inflation data for Sep 2017, restricted the losses.
- Also, strong demand at the Treasury Department's $12 billion bond sale and on reports that the U.S. President is likely to appoint Federal Reserve Governor, who is viewed as more dovish, trimmed losses further.

Currency Market Update

Movement of Major Currencies			
Currency	**Value**	**1 Mth**	**1 Yr**
U.S. Dollar	64.77	65.36	66.86
Pound Sterling	85.60	87.71	81.30
Euro	75.42	77.06	72.91
100 Yen	57.27	58.03	63.44

Source: RBI



Source: RBI

INR

- The domestic currency strengthened against the U.S. dollar following foreign fund inflows in the domestic equity market. Selling of the greenback by exporters and foreign banks further supported rupee. India's trade deficit in Sep 2017 shrinking and U.S. inflation growing at a slower than expected pace added to the upside in the rupee. However, reports that the U.S. President may choose a hawkish person as the new Fed chief pushed U.S. Treasury yields higher, lifting the greenback.

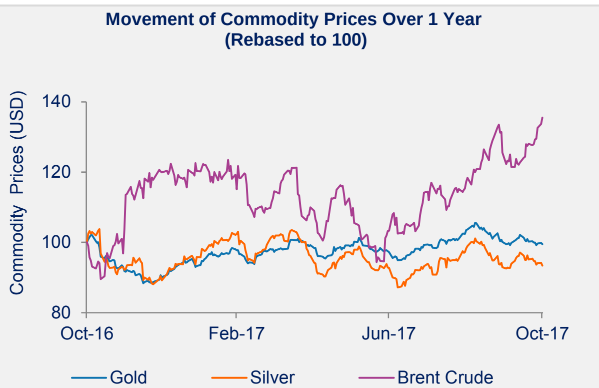
EURO

- Euro fell against the U.S. dollar amid high volatility during the month. Euro declined on concerns over political risk in the euro zone following a violent police crackdown on the independence vote in Catalonia. However, losses neutralized after solid industrial output in Germany and ahead of the ECB policy meeting on Oct 26. Investors expected that the central bank will trim its monthly asset purchases to 40 billion euros from 60 billion euros starting Jan 2018. The policy announcement came as predicted, which resulted in sharp profit booking in euro.

Commodity Market Update

Performance of Various Commodities			
Commodities	**Value**	**1 Mth**	**1 Yr**
Crude Brent($/Barrel)	61.79	57.26	45.59
Gold ($/Oz)	1271.2	1279.10	1277.28
Gold (Rs/10 gm)	29333	29692.00	30049.00
Silver ($/Oz)	16.69	16.61	17.87
Silver (Rs/Kg)	38830	39357.00	42003.00

Source: Thomson Reuters Eikon,MCX



Source: Thomson Reuters Eikon

Crude

- Brent crude prices surged on news that Saudi Arabia is planning to reduce its allocations by 560,000 barrels per day (bpd) in Nov 2017. Sentiment also improved on expectations that the Organization of the Petroleum Exporting Countries (OPEC) might extend the production cuts beyond the current expiry date of end-Mar 2018. Stronger Chinese oil imports, which stood at 9 million bpd in Sep 2017 against an average of 8.5 million bpd between Jan-Sep 2017, pointed towards rise in the demand of crude. Prices gained further after fighting between Iraqi and Kurdish forces, which broke out near the oil-rich city of Kirkuk, threatened supply from northern Iraq. Also, tensions arose between the U.S. and Iran.

Gold

- Gold prices initially got support amid persisting geopolitical tensions between North Korea and the U.S. Political uncertainty in Spain and conflict between Iraqi and Kurdish forces also lent support to the safe haven appeal of the bullion. Prices moved up further after the minutes of the U.S. Fed's latest policy meeting showed concerns over growth in inflation rate that could affect future rate increases. Later, the trend reversed after the U.S. Senate approved a budget resolution for the 2018 fiscal year that will help to pursue tax-cut plans. Investors also remained cautious over the nomination of the next U.S. Fed chair and how it will shape up the outlook for interest rates.

Mutual Fund Corner

Mutual Fund Performance Monthly Update

- Mutual funds remained net buyers in both debt and equity segments during the month of Oct. However, in both the segments, purchase amount stood lower than the previous month. In the equity segment, buying stood at Rs. 9990.5 crore against last month's record of Rs. 17,456.84 crore, and buying in debt segment stood at Rs. 29088.49 crore against Rs. 31855.24 crore in Sep 2017.

- Under mutual funds across the equity segment, infrastructure segment topped the chart over the month followed by auto and FMCG. Infrastructure sector boosted after the government announced the Bharatmala project- a mega road building programme under which the government will construct 83,000 km highways in the next five years. Pharma sector also got support following better than expected earnings results and drug approval from U.S. health regulator for a few Indian pharma companies.

- In the debt space, gilt long term posted negative returns on concerns of that the government's plan to inject increased capital in state-owned banks may adversely impact the central government's fiscal consolidation drive. Bond yields also witnessed the biggest rise in six months in Oct 2017 after the MPC kept key policy repo rate unchanged and raised its inflation projection for the second half of FY18, which lowered hopes of a rate-cut in the near term.

- Safe-haven appeal of the bullion remained subdued as expectations of major tax reforms in the U.S. overshadowed the persisting geopolitical tensions between North Korea and the U.S., political uncertainty in Spain and conflict between Iraqi and Kurdish forces. This weighed on returns of gold ETFs over the month.

Portfolio Analysis of Diversified Equity Funds

Month	Financial Services	Industrial Manufacturing	Media & Enter.	IT	Telecom	Energy	Consumer Goods	Healthcare
Sep-17	27.15	7.96	2.20	5.94	2.14	10.51	10.20	1.53
Aug-17	27.28	7.92	2.24	5.89	2.14	10.56	10.27	1.48
Jul-17	28.22	7.72	2.36	6.30	2.03	9.64	9.95	1.60
Jun-17	27.49	7.62	2.47	6.27	2.05	9.62	10.45	1.66
May-17	26.68	7.76	2.49	6.75	2.02	10.30	10.17	1.67
Apr-17	26.23	8.05	2.69	6.63	2.06	10.87	9.88	1.53
Mar-17	25.64	7.82	2.78	7.50	1.98	10.74	10.15	1.49
Feb-17	25.26	7.54	2.69	8.09	2.28	10.91	9.65	1.53
Jan-17	25.08	7.36	2.59	7.92	2.39	11.03	9.43	1.57
Dec-16	24.42	7.20	2.66	8.90	2.18	10.63	9.47	1.64
Nov-16	25.03	7.21	2.66	8.12	2.16	10.27	9.21	1.57
Oct-16	26.14	7.03	2.76	7.30	2.01	9.99	9.77	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	17.62	10.28	15.58	Liquid	5.94	6.04	6.30	6.33	7.32
Small/Mid Cap	23.11	18.97	25.39	Ultrashort Bond	5.92	6.38	7.08	6.82	7.69
Diversified	19.67	12.15	17.28	Short-T Bond	4.03	5.12	7.64	6.84	8.08
Balanced	15.99	11.23	15.93	Long-T Bond	2.54	3.42	7.88	6.95	8.42
Banking	24.67	15.91	17.24	Long T Govt Sec	-8.69	-3.70	7.32	6.45	8.36
FMCG	21.85	14.79	15.54	Crisil Liquid	6.06	6.29	6.59	6.71	6.80
Pharma	-9.87	2.87	15.42	Crisil ST Bond	2.43	4.83	7.49	7.29	7.30
Technology	10.31	3.42	16.32	Crisil Composite	-4.40	0.94	8.79	7.18	7.18
Infrastructure	29.25	14.85	17.47						
Gold Funds	-4.69	2.93	-2.41						

Source: MFI Explorer

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