ALPHA CAPITAL™

Monthly Report

April 2018

What's Inside

Executive Summary

What Happened Last Month

The last month of the fiscal year 2017-18 saw volatility around the globe as positive economic data gave investors confidence but trade tensions between the U.S. and China hit sentiment badly.

Initial gains in the U.S. markets were wiped over trade tensions between the U.S. and China as the U.S. government decided to put heavy tariffs on Chinese imports. Political spat between the U.S. and Russia also dented sentiment. Towards the end, things improved a little when U.S. and China seemed to ready to negotiate over tariffs.

European markets too met with a similar fate and gains made in the beginning of the month were eroded by concerns of a potential global trade war. The U.S. Fed's interest rate hike decision didn't help the region's cause either. Losses were restricted when U.S. and China indicated willingness to negotiate

Trade war tensions cast their shadow on Asian markets as well and the gains made by them after Bank of Japan kept its policy rates unchanged, positive data came from Japan and China, and North Korean leader offered to halt nuclear and missile tests were wiped.

Indian markets, like global peers, bore the brunt of trade war worries and ended the month in the red. Domestic factors were equally responsible for the markets' plight – intensifying bank fraud and political uncertainty.

Bond yields came down in Mar 2018 after the Indian government lowered its borrowing programme for the first six months of 2018-19. Increase in global crude oil prices and rise in U.S. interest rates, among other factors, restricted gains.

Domestic Market Outlook

The recent instances of bank fraud have raised concerns over the outlook of the banking sector. Investors will also keep a check over trade negotiations between the U.S. and China.

There will be fresh supply of government securities in the domestic debt market moving into the new fiscal. With demand of government securities from banks likely to remain subdued, bond yields may still go up and trade at elevated levels. The readings of key domestic macroeconomic indicators especially retail inflation will remain in sharp.

Movement of the rupee against the greenback, stance adopted by foreign portfolio investors and global crude oil prices will also be closely tracked by investors.

Although MPC's tone in the latest policy review appeared to be less cautious, market participants are expected to remain watchful of an increase in inflationary pressures that might come on the back of rise in minimum support prices, high domestic fuel prices and global uncertainties.

Global Market Outlook

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Market participants shall follow developments on trade negotiations between the U.S. and China.

Global interest rates are set to rise as major central banks across the globe have indicated to exit from their respective ultra-easy monetary policy stance

The U.S. Fed's stance on the timing of future rate hikes shall have a bearing on buying interest

The movement of global crude oil prices shall continue to impact market sentiment

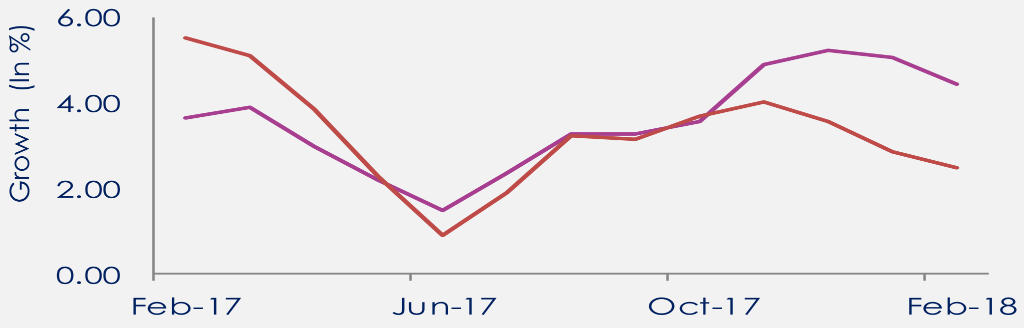
Domestic Economy

Indian Economy

Key Indicators	Period	Actual	Previous
Consumer Price Index (CPI)	Feb-2018	4.44%	5.07%
Wholesale Price Index (WPI)	Feb-2018	2.48%	2.84%
Index of Industrial Production (IIP)	Jan-2017	7.50%	7.10%
Gross Domestic Product (GDP)	Dec-2017	7.20%	6.50%
Core Sector Output (%)	Feb-2018	5.28%	6.12%
Export (Y-o-Y)	Feb-2018	4.33%	9.03%
Import (Y-o-Y)	Feb-2018	10.36%	26.10%

Source: MOSPI, Thomson Reuters Eikon

Monthly CPI & WPI Movement



Source: MOSPI

- The Monetary Policy Committee (MPC), in its first bi-monthly policy review for 2018-19, kept key policy repo rate unchanged at 6.0% and retained its "neutral" stance. Consequently, the reverse repo rate stood unaltered at 5.75%, and the marginal standing facility (MSF) rate and bank rate remained at 6.25%, each.
- India's Current Account Deficit (CAD) expanded to $13.5 billion (2% of GDP) in Q3 of FY18 from $7.2 billion (1.1% of GDP) in the preceding quarter and $8.0 billion (1.4% of GDP) in the same quarter of the previous fiscal. CAD widened on YoY basis due to higher trade deficit driven by a larger increase in merchandise imports relative to exports.
- The Consumer Price Index-based inflation (CPI) grew 4.44% in Feb 2018, down from 5.07% in the previous month. Though the retail inflation growth was subdued, it surpassed the central bank's medium-term target of 4% for the fourth consecutive month.
- Index of Industrial Production (IIP) grew 7.5% in Jan 2018 as against growth of 7.1% in Dec 2017 and 3.5% in the same period of the previous year.

Domestic Equity Market (1/2)

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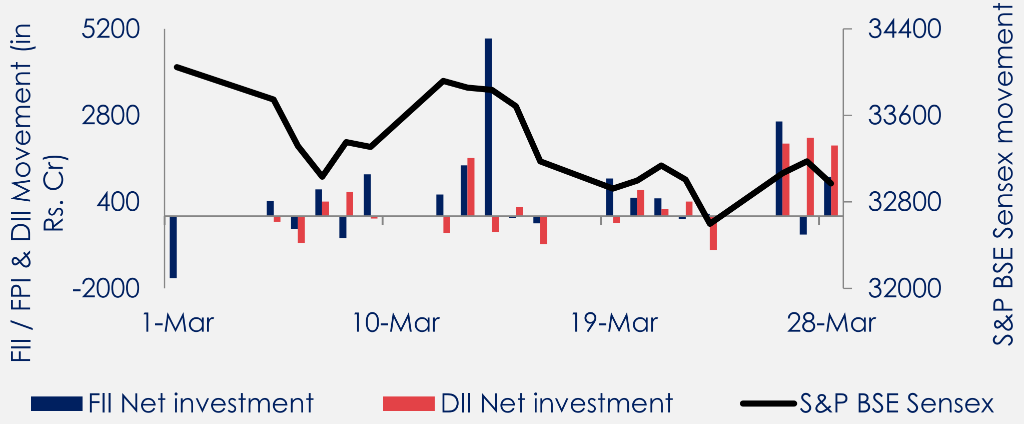
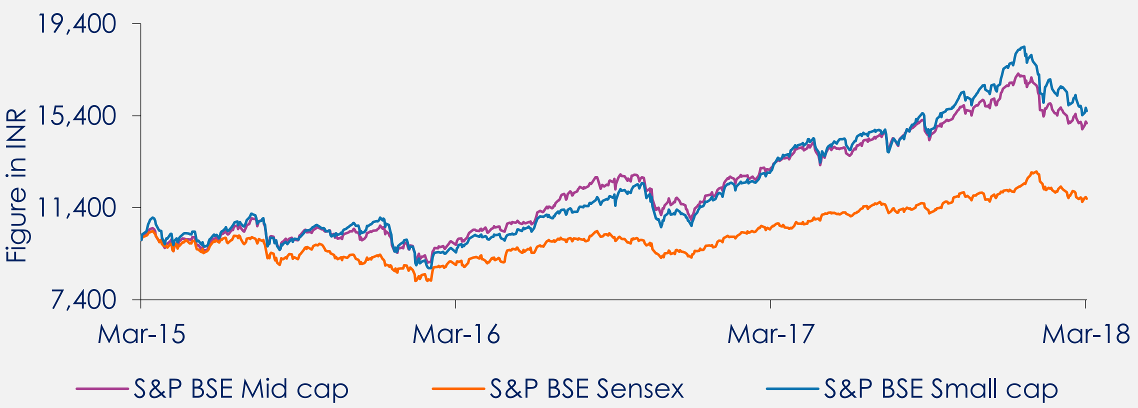
DII, FII/FPI Investment and S&P BSE Sensex - During the Month



Source: MFI Explorer

Growth of Rs 10,000 over Last 3-Yrs



Source: BSE

- Lingering worries over bank fraud kept markets under pressure for the major part of the month. Selling pressure was witnessed in banking stocks after chiefs of two major private sector banks were investigated by Serious Fraud Investigation Office (SFIO). The agency sought explanation over loans given to one of the largest branded jewellery retailers in connection with a public-sector bank fraud case reported in Feb 2018. Situation worsened towards the month-end when the Central Bureau of Investigation (CBI) filed two more fraud cases against two other major state-owned lenders.
- Disappointing global cues too weighed on market sentiment. Initially, comments from the new U.S. Federal Reserve (Fed) chief regenerated fears about the pace of U.S. monetary tightening in 2018. Meanwhile, widespread fears of an ugly trade war between the U.S. and China kept investors on the sidelines.

Domestic Equity Market (2/2)

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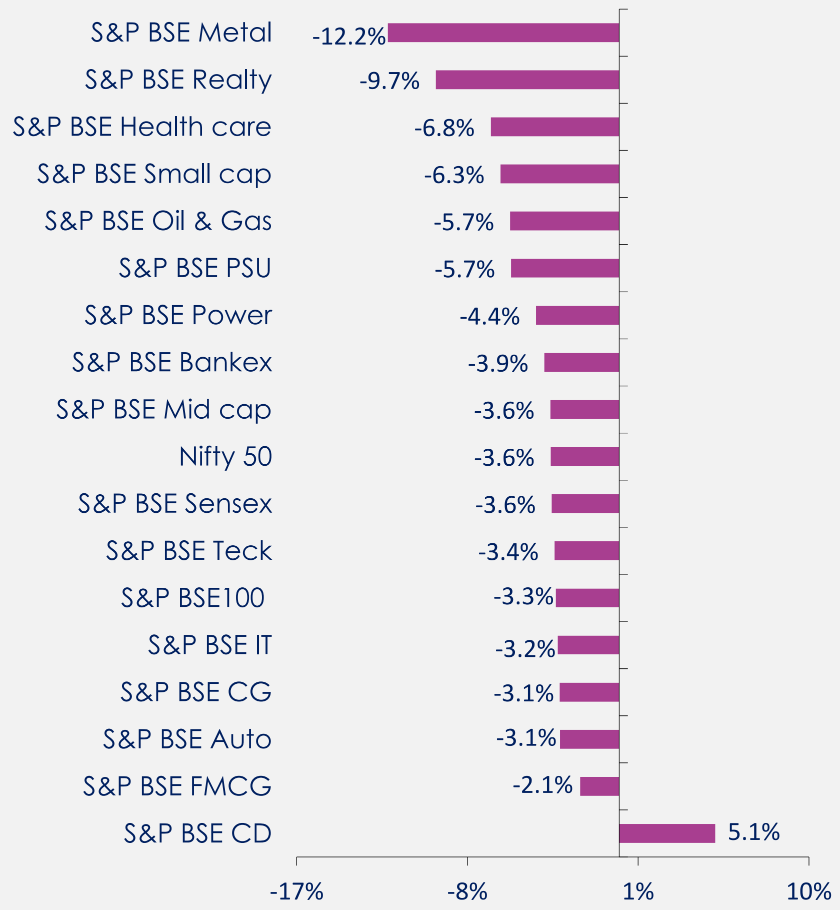
Monthly returns as on March 28, 2018



Source: MFI Explorer

- Another factor that weighed on market sentiment was reports that a regional political party of Andhra Pradesh has decided to quit the centre-right coalition of political parties in India and moved a no-confidence notice against the ruling government.

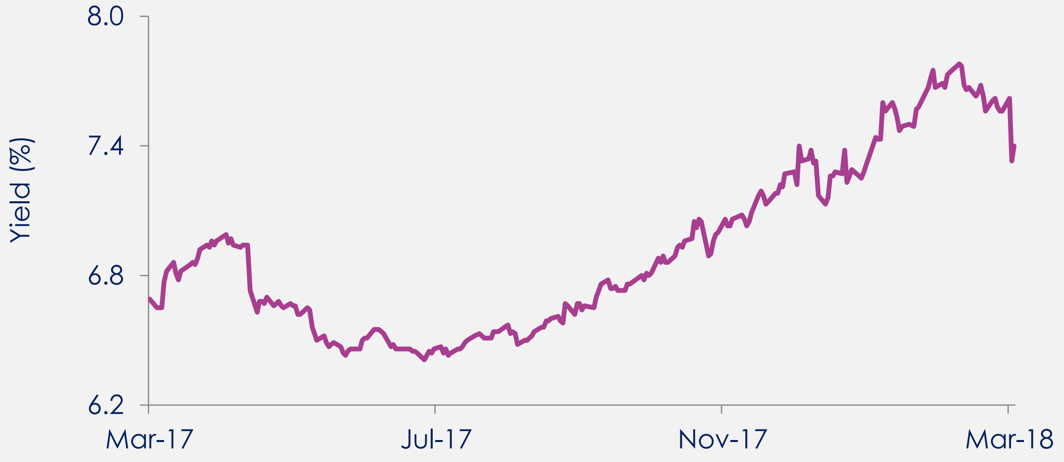
- On the economic front, factors affecting buying interest included India's CAD data for the third quarter FY18. Additionally, India's fiscal deficit widened at the end of Feb 2018, exceeding the revised target. Nonetheless, India's strong GDP data for the third quarter of FY18 and eight core industries data for Jan 2018 provided some respite. Encouraging industrial output data for Jan and retail inflation data for Feb eased investor concerns over rate hikes by the RBI in the near-term.

- Sentiment got further support when the government announced lower than expected borrowing programme for the first half of FY19. The government will borrow Rs. 2.88 lakh crore during the Apr-Sep period.

- On the BSE sectoral front, barring S&P BSE Consumer Durables, all the indices closed in the red. The metal sector was hit hard after the U.S. President announced to impose tariff on steel and aluminum imports. The announcement raised concerns of a global trade war.

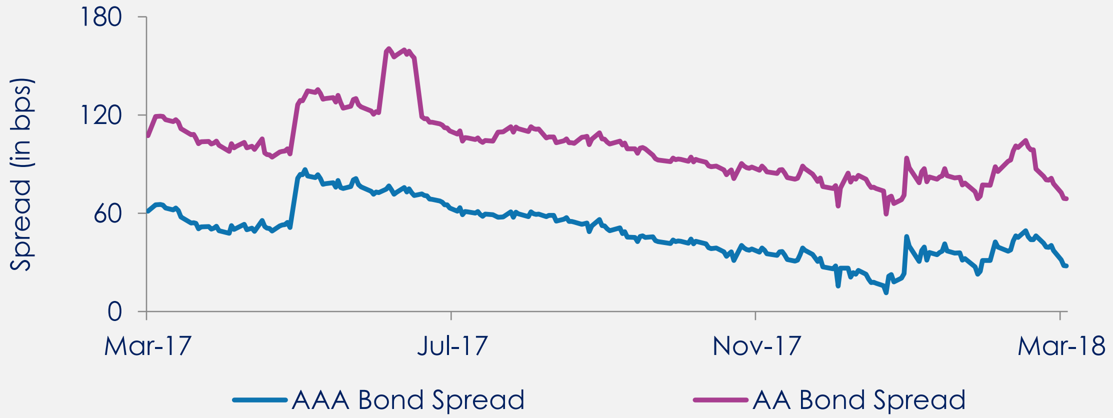
Fixed Income (1/2)

10-Yr Benchmark Bond



Source: CCIL

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



Source: Thomson Reuters Eikon

- Bond yields plunged in Mar 2018 after the Indian government unexpectedly lowered its borrowings for the first six months of 2018-19. Prospects of improved liquidity in the banking system also boosted market sentiment. However, increase in global crude oil prices, rise in interest rates by the U.S. Fed and intermittent bouts of profit booking by market participants capped the gains.
- Yield on the 10-year benchmark bond (7.17% GS 2028) plunged 33 bps to close at 7.40% from the previous month's close of 7.73% after moving in a wide range of 7.29% to 7.80%.

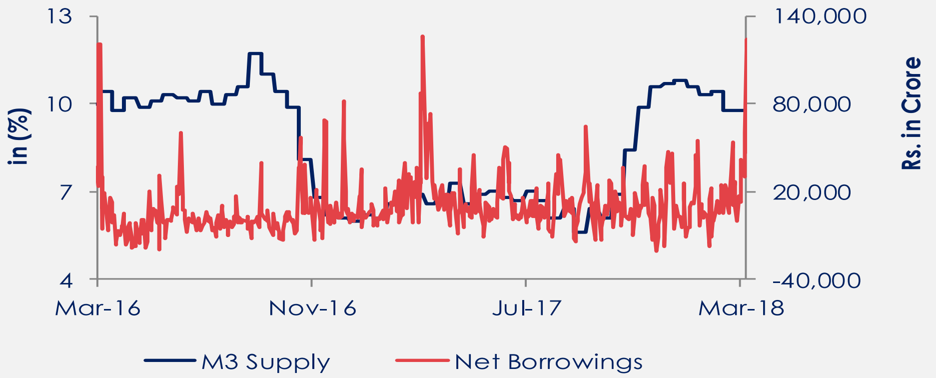
Fixed Income (2/2)

Key Indicator	Mar-18	Feb-17	Mar-17
Call Rate	7.57%	5.93%	6.04%
10-Yr benchmark bond	7.40%	7.73%	6.69%
Reverse Repo	5.75%	5.75%	5.75%
Repo	6.00%	6.00%	6.25%
Bank Rate	6.25%	6.25%	6.75%
CRR	4.00%	4.00%	4.00%

Source: CCIL,RBI

Based on RBI Bi-monthly Monetary Policy Statement on 05-Apr-2018

Liquidity Monitor- M3 Supply and Net Borrowings



Source: Thomson Reuters Eikon

- Bond yields rose initially as the possibility of any open market purchase of bonds by the Reserve Bank of India (RBI) came down after it announced infusing one trillion rupees in the banking system through term repos in Mar 2018. However, prospects of improved liquidity in the banking system provided some support.
- The trend reversed soon as market participants resorted to bargain hunting following the recent decline in bond prices. Hopes that domestic inflationary pressures would grow at a slower rate in Feb 2018 which in turn might delay the chances of a rate hike by the MPC added to the gains.
- Bond yields rose temporarily in the interim as market participants preferred to book profits from the bond rally after retail inflation fell to a 4-month low in Feb 2018. Market participants also exercised caution ahead of the outcome of the much-anticipated U.S. Fed monetary policy review.
- 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. According to media reports, the government will complete 47.56% of its budgeted gross borrowing for the year in the first six months.

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Global Equity & Debt Market

Global Equity Market

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Performance of Major International Markets (as on March 29, 2018)		
Indices	**Country**	**1 Mth**
Nasdaq 100	U.S.	-3.99
S&P 500	U.S.	-2.69
DJ Industrial Avg	U.S.	-3.70
SET Composite Index*	Thailand	-2.94
Jakarta Composite	Indonesia	-6.19
Straits Times Index*	Singapore	-2.56
KOSPI Index*	South Korea	0.76
Nikkei Stock Average 225*	Japan	-2.78
Taiwan SE Weighted Index*	Taiwan	0.84
Shanghai Composite Index*	China	-2.78
S&P BSE Sensex^	India	-3.56
S&P/ASX 200	Australia	-4.26
FTSE 100	U.K.	-2.42
CAC 40	France	-2.88
DAX Index	Germany	-2.73

Source: Thomson Reuters Eikon ^ As on 28 Mar 2018 ** As on 30 Mar 2018

United States

- U.S. markets initially traded high after the U.S. Labor Department reported a stronger than expected job growth in Feb 2018. Later, market moved down on trade tensions between the U.S. and China. Geopolitical tensions deepened after the U.S. said it would expel 60 Russian diplomats and Russia indicated to take measures to combat the situation.

Europe

- European markets initially remained stable amid easing geopolitical tensions as North Korean leader offered to halt nuclear missile tests and after the ECB left interest rates unchanged. Later, market gave up gains on growing concerns over a potential trade war after the U.S. President hinted to impose tariffs on Chinese imports. The U.S. Fed's interest rate decision also played spoilsport, although its projection of future rate hikes soothed investor nerves to some extent.

Asia

- Asian markets initially got support after the Bank of Japan (BoJ) kept its policy rates unchanged and offered no clues on when it would wind down stimulus measures. Additionally, positive Japanese and Chinese economic data helped sentiment. However, gains could not sustain following political worries in the U.S. and the U.S. President announcing a protectionist trade policy. Also, the People's Bank of China raised its short-term interest rates for the first time in 2018.

Global Debt Market

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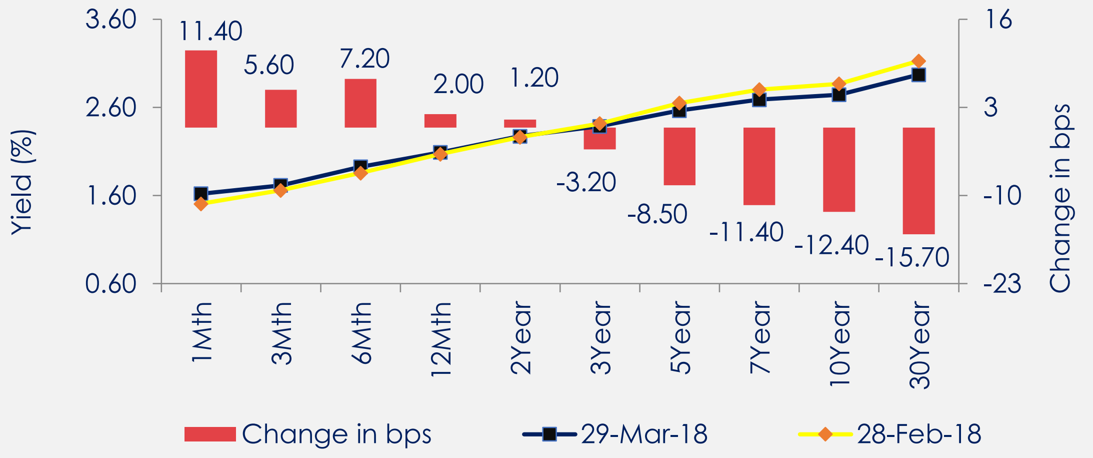
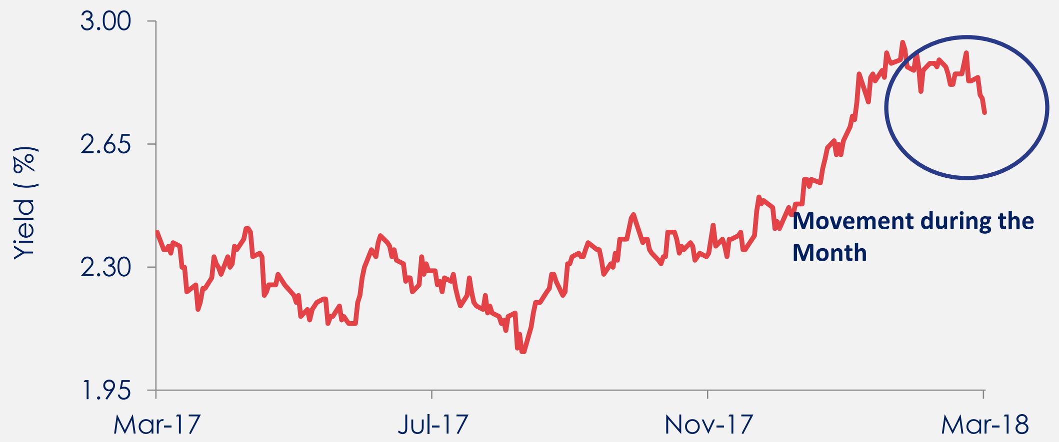
U.S. Treasury Yield Curve Shift (Month-on-Month)



Source: Thomson Reuters Eikon

U.S. 10 Year Treasury Yield



Source: Thomson Reuters Eikon

- Yield on the 10-year U.S. Treasury bond fell 12 bps during the month to close at 2.74% compared with the previous month's close of 2.87%. The paper moved in a range of 2.74% to 2.91%.
- U.S. Treasury prices initially rose after U.S. President's plan for high tariffs on steel and aluminum fueled fears of global trade war.
- Prices rose again on strong demand for 30-year securities at auction boosted treasury prices further. Soon, prices reversed again after the U.S. central bank raised interest rates and forecasted two more hikes in 2018.

Currency Market

Movement of Major Currencies			
Currency	Value	1 Mth	1 Yr
U.S. Dollar	65.04	65.10	64.84
Pound Sterling	92.28	90.45	80.88
Euro	80.62	79.59	69.25
100 Yen	61.54	60.80	57.96

Source: RBI

Rupee Versus Dollar during the year

Source: RBI

INR

- The Indian rupee remained almost steady against the U.S. dollar after moving in a narrow range during the month. Rupee rose as slower U.S. wage growth data for Feb 2018 minimized concerns over acceleration in U.S. inflation and subsequent faster pace of interest rate hikes by the U.S. Fed.
- Domestic currency also gained after India's consumer inflation reached 4-month low in Feb 2018 and industrial output jumped in Jan 2018.

EURO

- The Euro rose against the U.S. dollar on fears of an imminent trade war after the U.S. President imposed tariffs on steel and aluminum imports. The single currency gained as risk appetite improved after an agreement between North and South Korea to hold direct talks.
- Dollar weakened further as U.S. Fed officials were firm of their view of three rate hikes in 2018. However, gains were limited as ECB president said regional inflation remained subdued and rising protectionism is a risk, although he acknowledged faster growth in Europe.

Commodity Market

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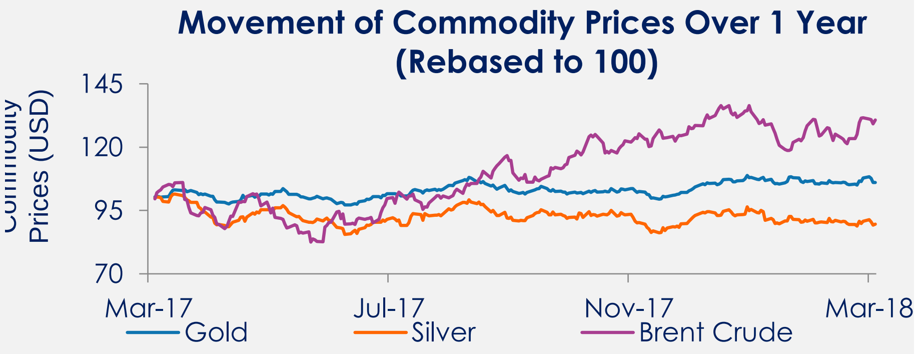
Performance of Various Commodities			
Commodities	**Value**	**1 Mth**	**1 Yr**
Crude Brent ($/Bbl)	68.21	66.72	52.16
Gold ($/Oz)	1324.00	1317.66	1248.63
Gold (Rs/10 gm)*	30630.00	30398.00	28527.00
Silver ($/Oz)	16.32	16.41	18.22
Silver (Rs/Kg)*	38325.00	38189.00	41717.00

Source: Thomson Reuters Eikon,MCX *Value as on 28 Mar 2018

Movement of Commodity Prices Over 1 Year



Source: Thomson Reuters Eikon

Crude

- Brent crude prices initially remained low amid persisting concerns over supply glut after the International Energy Agency (IEA) predicted that the U.S. will surpass Russia as the world's biggest oil producer by 2019, if not sooner.
- Later, prices got support on news that production cuts by the Organization of the Petroleum Exporting Countries and Russia could be extended into 2019. Tensions between Saudi Arabia and Iran reignited fears of supply disruptions in the region which also boosted oil prices. Additionally, data from energy services firm Baker Hughes indicated that U.S. oil rigs count fell for the week to Mar 29.

Gold

- Initially, gold prices got support on fears of a potential trade war after the U.S. President announced plans to impose tariffs on imported steel and aluminum, in a move to "protect U.S. industry". The safe haven appeal of the metal boosted on political uncertainty in Europe and the U.S.
- However, better than expected U.S. economic data limited prices of the precious metal. Meanwhile, the U.S. President agreed to meet the North Korean leader, which soothed investor nerves.

Mutual Fund Corner

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Category wise performance of Mutual Funds				
Equity	**6 Mnth**	**1 Yr**	**3 Yr**	**5 Yr**
Large Cap	2.46	10.08	7.54	14.89
Small/Mid Cap	5.82	16.52	14.65	26.04
Diversified	3.38	12.42	9.18	16.91
Balanced	3.16	10.59	8.88	15.78
Banking	-0.65	11.82	12.4	16.59
FMCG	11.34	21.42	15.06	16.94
Pharma	1.49	-8.02	-3.51	14.28
Technology	24.21	25.74	7.36	16.78
Infrastructure	4.53	15.26	10.66	18.29
Gold Funds	2.52	4.71	3.79	-0.49

Debt	6 Mnth	1 Yr	3 Yr	SI
Liquid	6.46	6.51	7.1	7.32
Ultrashort Bond	6.08	6.69	7.48	7.62
Short-T Bond	4.3	6.05	7.51	8.2
Long-T Bond	2.9	5.41	7.41	8.07
Long T Govt Sec	-1.99	2.86	7.02	7.99
Short T Govt Sec	2.62	4.94	7.59	6.91

Source: MFI Explorer; * Returns less than 1 year are absolute, greater than 1 year are Compounded Annualized , # As on 28-Mar-2018

- Domestic mutual funds remained net buyers in the equity segment to the tune of Rs. 9,255.51 crore in Mar 2018, but was significantly less as compared to previous month. Similarly, debt segment also witnessed net buying to the tune of Rs. 37,977.51 crore.
- In the equity space, all the segments declined heavily amid volatility in the domestic equity market. Power sector plunged heavily followed by pharma and infrastructure. auto, infotech and banking segments also delivered muted returns. The menace of banking frauds proved costly for the banking sector.
- In the debt space, long-term gilts posted higher returns after the Indian government unexpectedly lowered its borrowings for the first six months of 2018-19. According to media reports, the government will complete 47.56% of its budgeted gross borrowing for the year in the first six months.
- Gold ETF rose over the month as safe haven appeal of the metal gained on fears of a potential trade war after the U.S. President announced plans to impose tariffs on Chinese imports

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