ALPHA CAPITAL™

Monthly Report

October 2018

What's Inside

Executive Summary

What Happened Last Month

Major global markets gained in the month with ample support from positive economic data. U.S. markets increased as data including economic growth, consumer confidence, durable goods orders, new residential construction showed healthy improvement. The U.S. Federal Reserve (Fed) increased interest rates by 25 basis points as expected. Trade tensions with China continued to put pressure on the market.

On the European front, German consumer confidence data and wholesale price inflation; U.K. retail sales; and eurozone inflation increased among other economic parameters and gave markets a fillip. Brexit and trade war concerns were a drag on the bourses.

Asian counterparts found support from upbeat economic data as well. China planning economic stimulus to combat U.S.' aggressive trade stand cheered investors. Bank of Japan (BoJ) also kept its monetary policy ultra-loose and the country's Prime Minister coming back to power gave investors confidence. Trade war concerns restricted the markets' upward movement.

Indian equity markets posted loss in the period mainly because the banking and financial sector came under fire. A prominent infrastructure development and finance company failing on multiple debt repayments spread liquidity concerns and confusion around a private lender's succession plan dragged markets down. The fall in rupee and rise in crude oil prices kept the market under pressure. Government and the Reserve Bank of India (RBI) reassuring that they would take steps to manage the liquidity situation gave some respite to investors and restricted the downside.

Bond yields increased for the fifth straight month as global crude oil prices rose and rupee depreciated against the greenback. Losses were limited by short covering on expectations that the government may announce lower borrowing target for the second half of the fiscal.

Domestic Market Outlook

ALPHA CAPITAL™

Investors will keep a keen eye on the developments around the liquidity situation, the steps the government and RBI take to mitigate the financial crisis. The fall in rupee and strength in crude oil prices has been putting upward pressure on inflation and raising interest rate hike anticipation.

The second quarter corporate earnings will be closely tracked to get a lowdown on the economy's health. The movement of the rupee will also dictate market movement.

According to media reports, a major global rating agency believes that the government's initiative to increase dollar inflow will slow rupee depreciation but shall not reverse the slide. The agency also fears that fiscal deficit might be wider than the target. Liquidity is expected to tighten in the second half of FY19 as the credit cycle usually picks up during this period. .

Other factors that may contribute to tightening of liquidity in the banking system are advance tax outflows, increased demand during the upcoming festive season and the approaching election season.

Global Market Outlook

ALPHA CAPITAL™

The U.S.-China trade dealings will continue to dominate global investor sentiment.

U.S. has also thrown hints of including Japan in the trade war.

Crude oil prices are expected to further rise because of the U.S. sanctions on Iran starting from Nov 2018.

Though U.S. has asked OPEC nations to balance supply in the backdrop of the sanctions, supply constraints in Venezuela may offset such efforts.

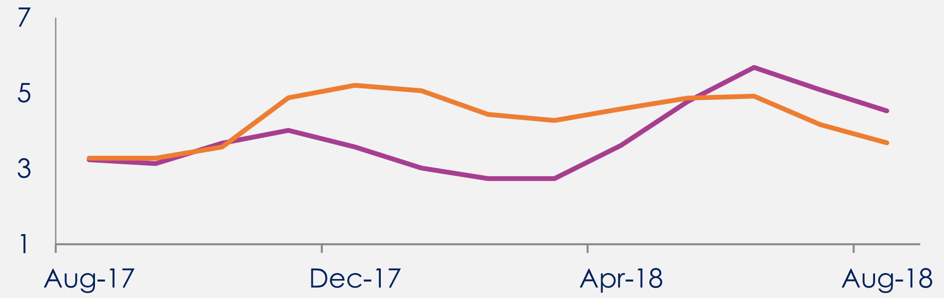
Domestic Economy

Indian Economy

Key Indicators	Period	Actual	Previous
Consumer Price Index (CPI)	Aug-2018	3.69%	4.17%
Wholesale Price Index (WPI)	Aug-2018	4.53%	5.09%
Index of Industrial Production (IIP)	Jul-2018	6.60%	6.90%
Gross Domestic Product (GDP)	Jun-2018	8.20%	7.70%
Core Sector Output (%)	Aug-2018	4.16%	7.30%
Export (Y-o-Y)	Aug-2018	19.21%	14.32%
Import (Y-o-Y)	Aug-2018	25.41%	28.81%

Source: MOSPI, Thomson Reuters Eikon

Monthly CPI & WPI Movement



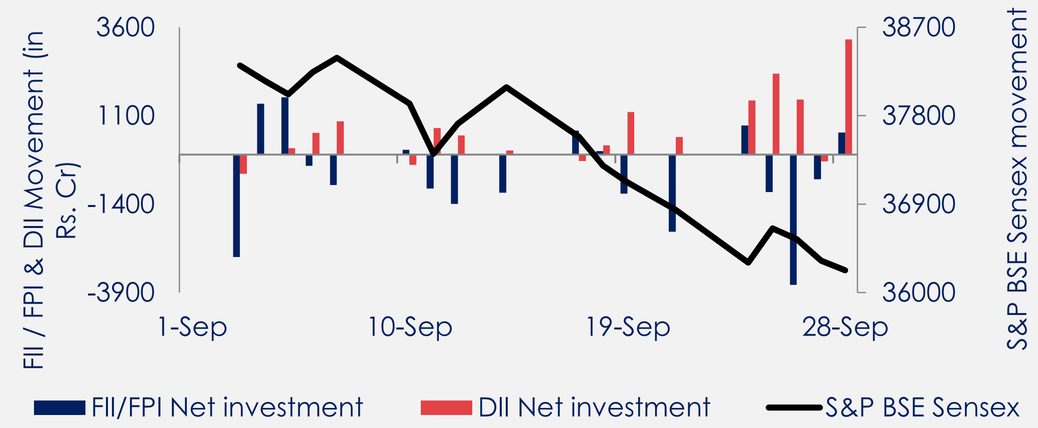
Source: MOSPI

- MPC in its fourth bi-monthly monetary policy review for FY19 kept key policy repo rate on hold after it increased the same by 25 bps each in its two previous bimonthly policy reviews. The decision comes as the MPC opted to keep inflation on a close vigil for the next few months. However, it changed its stance to "calibrated tightening" from neutral that was in place in since Feb 2017.
- India's fiscal deficit for Apr-Aug 2018 came in at Rs. 5.91 lakh crore, or 94.7% of the budgeted target for FY19 against 96.1% in the year-ago period. Net tax revenue was Rs. 3.66 lakh crore or 24.7% of the budget estimate for FY19 compared with 27.8% in the corresponding period of the previous year.
- During Current Account Deficit (CAD) came in at $15.8 billion or 2.4% of GDP in Q1 of 2018-19, as against $15.0 billion or 2.5% of GDP in Q1 of 2017-18.
- CPI-based inflation or retail inflation eased to 3.69% in Aug 2018 from 4.17% in Jul 2018, thereby marking a 10-month low. However, it increased as against 3.28% in Aug 2017.

Domestic Equity Market (1/2)

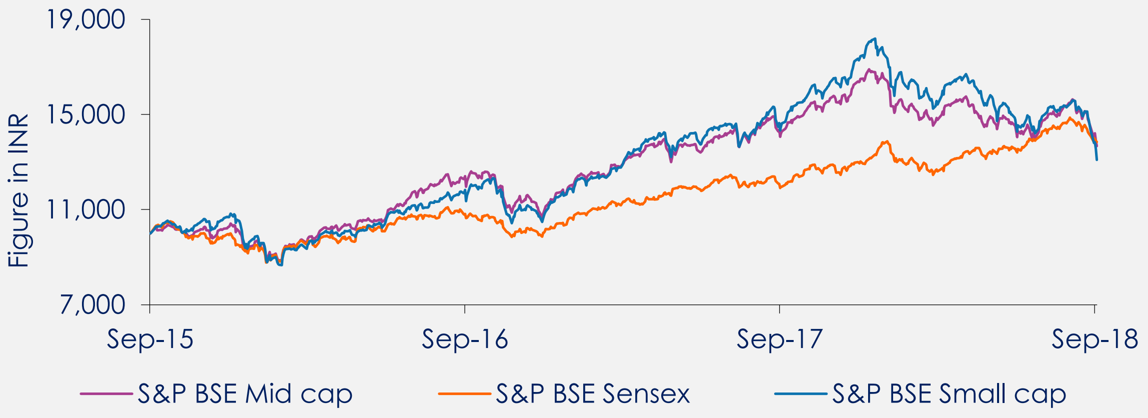
ALPHA CAPITAL™

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



Source: MFI Explorer

Growth of Rs 10,000 over Last 3-Yrs



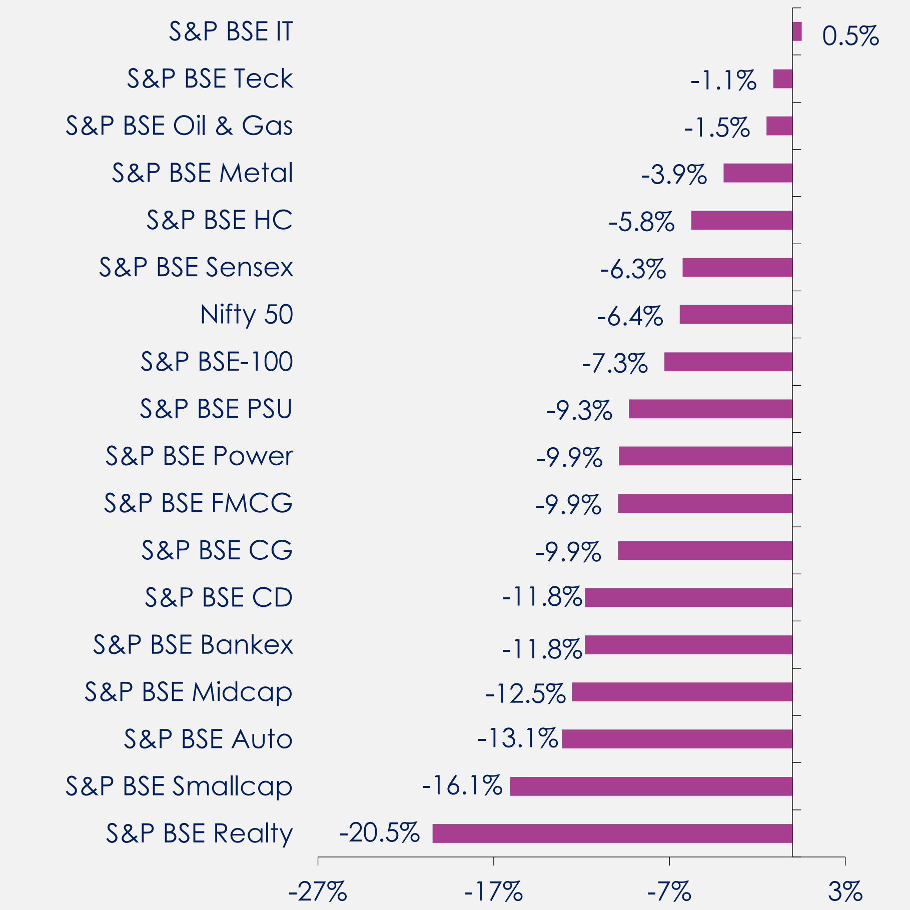
Source: BSE

- Indian equity markets slumped to more than two-month low in Sep 2018. Major reasons triggering sell-off include recent slide in Indian rupee against the U.S. dollar, concerns over short-term liquidity in the market for commercial papers raised by non-banking financial companies and surge in global crude oil prices, which surpassed the $80 per barrel level. Global cues weighing on market sentiment mainly comprised the growing trade row between U.S. and China.
- Markets witnessed initial jitters as U.S.-Canada trade talks on the North American Free Trade Agreement (NAFTA) ended without a resolution. Investors had hoped of a revamped NAFTA out of the talks. On a separate note, the U.S. President iterated his plan to impose tariff on all Chinese imports and expressed discomfort over trade balance with Japan, which kept investors wary. Later, the announcement of fresh tariff by U.S. on $200 billion worth Chinese imports kept domestic markets under pressure.

Domestic Equity Market (2/2)

ALPHA CAPITAL™

Monthly returns as on September 28, 2018



Source: MFI Explorer

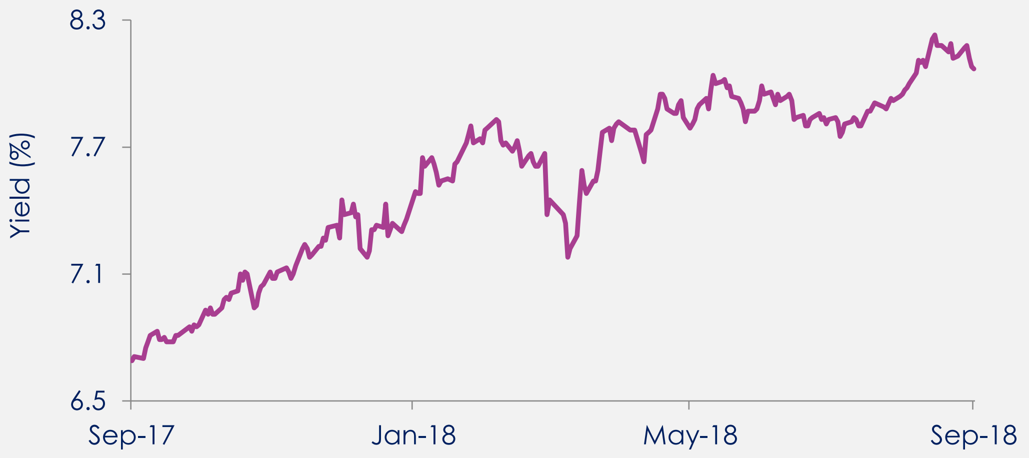
- Sentiment dented further as the domestic service sector expanded at a slower pace on MoM basis in Aug as weaker demand and rising input costs restricted hiring. The steep fall in the domestic currency was the major spoilsport, as the same raised concerns about inflation, interest rate hikes by MPC and foreign portfolio outflows. The finance minister and RBI came out with separate statements saying they are monitoring the situation and would take all required steps to ensure adequate liquidity in the system. Additionally, the government increased import duties on select goods, in a bid to arrest the fall in rupee. However, this could not do much to calm investor nerves.

- Higher sell-off in banking and financial stocks also kept markets under pressure. During the month, a major domestic infrastructure development and finance company faced rating downgrade in the wake of the recent liquidity crunch faced by the company. Later, markets managed to recover much of the losses as the rumours lost some steam. The finance minister said that the government was ready to take all measures needed to ensure liquidity is available to NBFCs, mutual funds and small and medium-enterprises.

- On the BSE sectoral front, barring S&P BSE IT, all the indices closed in the red. S&P BSE Realty was the major loser, followed by S&P BSE Auto and S&P BSE Bankex, respectively.

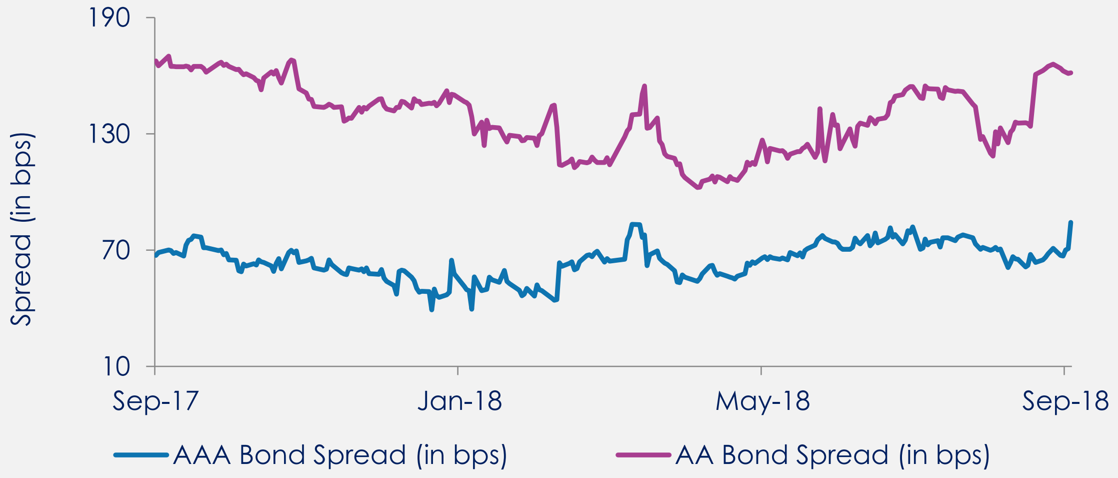
Fixed Income (1/2)

10-Yr Benchmark Bond



Source: CCIL

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



Source: Thomson Reuters Eikon

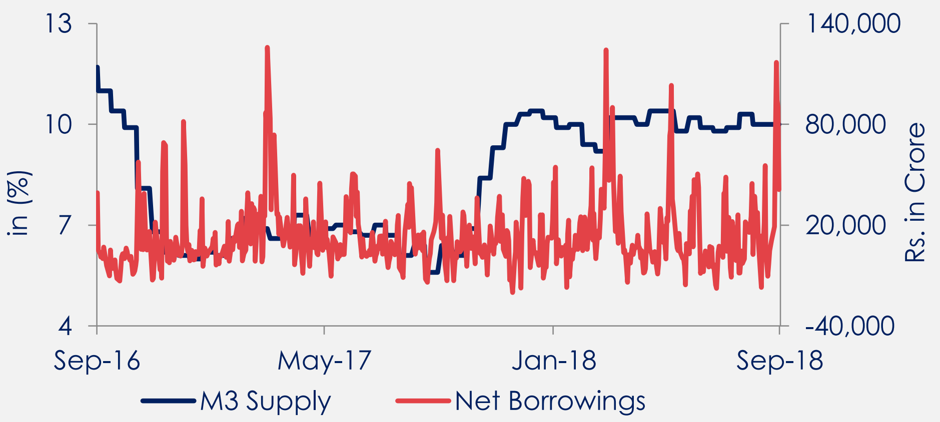
- Bond yields increased during the month as the dual combination of rising global crude oil prices and a depreciating rupee against the greenback fueled concerns of increase in domestic inflationary pressures and worries of further monetary policy tightening. This was the fifth month on month rise in bond yields in the last six months. However, further losses were restricted as market participants resorted to short covering on hopes that the government may announce lower borrowing target for the second half of this fiscal.
- Yield on the 10-year benchmark bond (7.17% GS 2028) rose 7 bps to close at 8.02% from the previous month's close of 7.95% after moving within a wide range of 7.92% to 8.23%.

Fixed Income (2/2)

Key Indicator	Sep-18	Aug-18	Sep-17
Call Rate	6.51%	6.41%	5.98%
10-Yr benchmark bond	8.02%	7.95%	6.66%
Reverse Repo	6.25%	6.25%	5.75%
Repo	6.50%	6.50%	6.00%
Bank Rate	6.75%	6.75%	6.25%
CRR	4.00%	4.00%	4.00%

Source: CCIL,RBI

Liquidity Monitor- M3 Supply and Net Borrowings



Source: Thomson Reuters Eikon

- Bond yields continued with their rising trend surging to its highest level in more than three years following increase in global crude oil prices. Market sentiment was dampened after the rupee plunged to a record low against the greenback. Higher than estimated cutoff yields for state government bonds also hurt demand for debt sovereign papers.
- The uptrend continued as bond yields surged to the highest level in nearly four years as the lethal combination of rising global crude oil prices and depreciating rupee against the greenback continued to wreak havoc on market sentiment. The rupee has become Asia's worst performing currency so far this year as it plunged more than 13% in 2018 till now fueling concerns of foreign fund outflow from the Indian economy. Global crude oil prices rose on worries of tighter supply conditions once U.S. sanctions against Iran's crude exports start from Nov 2018.
- However, most of the losses were neutralized on expectations that the government may announce lower borrowing target for the second half of this fiscal.

Global Equity & Debt Market

Global Equity Market

ALPHA CAPITAL™

Performance of Major International Markets (in %) (as on Sep 28, 2018)		
Indices	**Country**	**1 Mth**
Nasdaq 100	U.S.	-0.35
S&P 500	U.S.	0.43
DJ Industrial Avg	U.S.	1.90
SET Composite Index	Thailand	2.02
Jakarta Composite	Indonesia	-0.70
Straits Times Index	Singapore	1.36
KOSPI Index	South Korea	0.87
Nikkei Stock Average 225	Japan	5.49
Taiwan SE Weighted Index	Taiwan	-0.52
Shanghai Composite Index	China	3.53
S&P BSE Sensex	India	-6.26
S&P/ASX 200	Australia	-1.77
FTSE 100	U.K.	1.05
CAC 40	France	1.60
DAX Index	Germany	-0.95

Source: Thomson Reuters Eikon

United States

- U.S. markets mostly gained on the back of positive economic data including U.S. economic growth in the second quarter of 2018, which remained unchanged from the previous estimation, and the non-farm payroll data in Aug 2018. The U.S. Fed raised key policy rates by 25 bps as expected and the policy decision was already factored in by market participants. However, trade concerns over U.S. and China dented market sentiment.

Europe

- European markets mostly gained following improvement in some key economic data. Concerns over emerging markets also eased to some extent after Turkey's central bank raised its key interest rate to control surging inflation and prevent a currency crisis. However, gains were capped following trade war concerns between U.S. and China and political uncertainty in Italy.

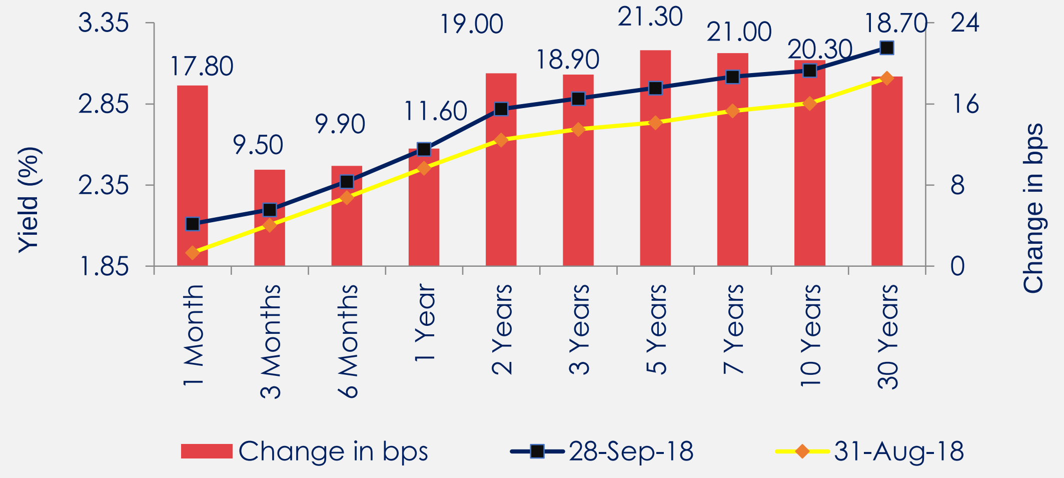
Asia

- Asian markets traded mixed amid expectations that the Chinese government would take some stimulus measures to support the growth trajectory and to combat the trade row. Ultra-loose monetary policy by the BoJ and winning of Japanese Prime Minster as the leader of his ruling party supported the bourses. However, investor sentiment took a hit on persisting trade concerns between U.S. and China.

Global Debt Market

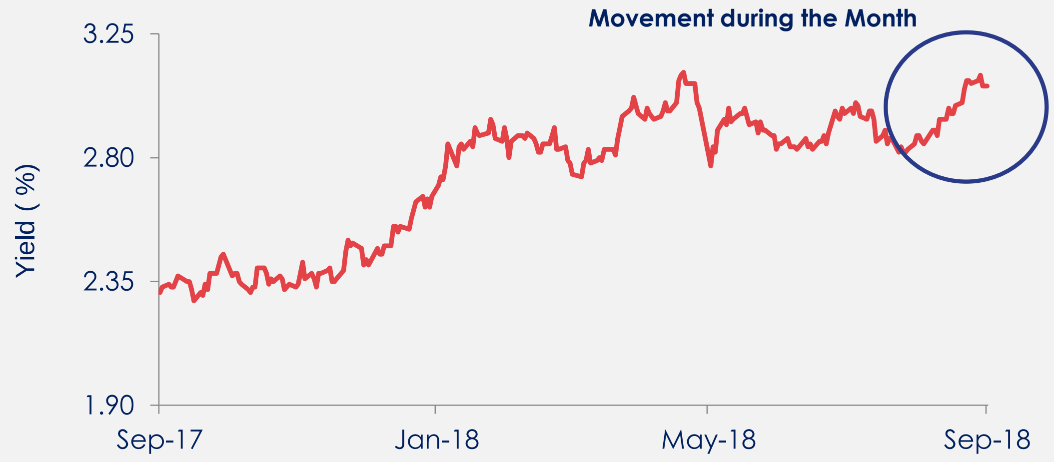
ALPHA CAPITAL™

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 surged 21 bps during the month to close at 3.06% compared with the previous month's close of 2.85%. The paper moved in a range of 2.88% to 3.10%.
- U.S. Treasury prices fell after data showed that U.S. manufacturing activity accelerated to more than 14-year high in Aug 2018. Yields further fell as U.S. nonfarm payroll accelerated in Aug. Moreover, heavy corporate debt supply weighed on U.S. Treasury prices. U.S. Treasury prices fell further as indication of inflation picking up increased the possibility of more interest rate hikes by the U.S. Fed in 2018 and 2019.
- However, further losses were capped on persistent U.S. and China trade tensions.

Currency Market

ALPHA CAPITAL™

Movement of Major Currencies			
Currency	**Value**	**1 Mth**	**1 Yr**
U.S. Dollar	72.55	70.93	65.36
Pound Sterling	94.91	92.35	87.71
Euro	84.44	82.84	77.06
100 Yen	63.90	63.91	58.03

Source: RBI

Rupee Versus Dollar during the year

Source: RBI

INR

- The Indian rupee plunged and touched record low against the U.S. dollar on foreign banks' greenback sales, upbeat U.S. jobs report for Aug 2018, trade war fears and consistent surge in crude oil prices. Besides, the local currency remained under pressure amid the intensifying trade dispute between U.S. and China and on dollar demand from importers. However, further losses were restricted on expectations that the government would announce measures to boost inflows and stem the currency's depreciation but the same received muted response from the market.

EURO

- Euro rose after U.S. consumer prices increased less than forecast in Aug 2018, changing market participant views on an acceleration in inflation. Optimism over prospects for a Brexit deal with the EU further boosted euro. Although trade tensions between the U.S. and China kept investors on the edge, fear of the same lessened as market participants perceived that the outcome will take some time to show up in corporate earnings and not produce a sharp global shock. However, gains were restricted after the U.S. Fed in its policy review predicted additional rate hikes in 2019 and 2020 and on worries about the Italian budget.

Commodity Market

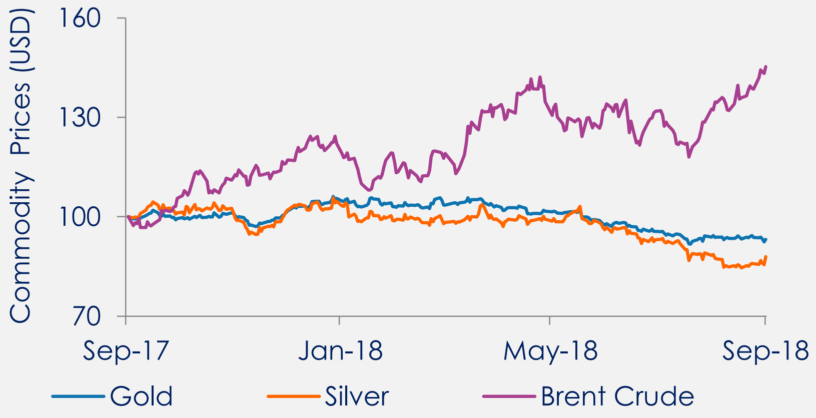
ALPHA CAPITAL™

Performance of Various Commodities

Commodities	Value	1 Mth	1 Yr
Crude Brent ($/Barrel)	83.21	77.01	57.26
Gold ($/Oz)	1191.69	1200.71	1279.10
Gold (Rs/10 gm)	30296	30099	29692
Silver ($/Oz)	14.6	14.50	16.61
Silver (Rs/Kg)	37006	37004	39357

Source: Thomson Reuters Eikon,MCX

Movement of Commodity Prices Over 1 Year



Source: Thomson Reuters Eikon

Crude

- Brent crude prices continued with their uptrend and surpassed the $80 per barrel level during the month under review. Supply tightening tension from the impending U.S. sanction on Iran, which will be formally applicable from Nov 2018, boosted prices. Prices got further support after Saudi Arabia, one of the major oil-producing countries, stated that it is comfortable with rising oil prices. The oil market was further faced with increasing supply challenge following decline of production in Venezuela.

Gold

- Gold prices moved down over the month after the U.S. Fed increased interest rates by 25 bps in its Sep policy review and gave clues of another rate-hike in Dec 2018. It added that the central bank is expected to increase interest rates thrice in 2019 and an additional increase in 2020. However, the downside was limited due to the ongoing U.S.-China trade feud. Economic uncertainties in Argentina and South Africa further raised the safe haven appeal of the bullion.

Mutual Fund Corner

ALPHA CAPITAL™

Category wise performance of Mutual Funds

Equity	6 Mnth	1 Yr	3 Yr	5 Yr
Large Cap Fund	3.02	4.73	9.45	15.49
Mid cap Fund	-7.07	-3.44	8.94	23.36
Large & Mid Cap Fund	-1.92	0.86	10.71	19.20
Small cap Fund	-12.94	-6.56	10.80	25.76
Multi Cap Fund	0.22	2.63	10.08	18.42
Focused Fund	0.22	2.63	10.08	18.42
Value Fund	-2.92	-0.72	11.19	20.64
Sectoral/Thematic	-1.86	2.48	9.16	16.60
Dividend Yield Fund	-0.72	1.89	10.97	16.11
Contra Fund	0.17	6.36	11.54	19.05
ELSS	-3.43	0.11	10.27	18.54

Debt	6 Mnth	1 Yr	3 Yr	SI
Liquid Fund	6.41	6.64	6.96	7.47
Ultra Short Duration Fund	5.07	5.76	7.04	-90.74
Credit Risk Fund	3.00	4.39	7.47	7.48
Corporate Bond Fund	2.68	3.36	6.50	7.01
Gilt Fund	0.99	-0.42	5.93	7.94
Medium to Long Duration Fund	0.66	0.26	5.51	7.86

*Source: MFI Explorer; * Returns less than 1 year are absolute, greater than 1 year are Compounded Annualized , # As on 30-Sep-2018*

- Despite a sharp sell-off in markets, net inflows into domestic equity mutual funds rose to Rs. 11,638.18 crore against Rs. 4,094.53 crore recorded in the past month. The debt segment witnessed net inflow of Rs. 18,686.48 crore against last month's purchase worth Rs. 35,744.36 crore. Market participants used the sharp sell-off in the markets as buying opportunities.
- Equity mutual funds across categories posted weak returns after tracking massive fall in the equity market. Both large cap and large & mid cap categories plunged following huge fall of S&P BSE Sensex and Nifty 50 along with negative returns posted by S&P BSE Mid-Cap and S&P BSE Small-Cap, respectively. Sectoral funds fell too as all the sectoral indices closed in the red.
- Under the debt category, all the categories posted subdued returns as bond yields rose for the fifth time in the last six months on the back of increase in global crude oil prices and a record plunge of the rupee against the greenback. Liquid fund witnessed massive outflows in Sep, which can be largely attributed to the advance tax payments coupled with default in payments by a major domestic infrastructure development and finance company.

Disclaimer

ALPHA CAPITAL™

All information contained herein is obtained by ICRA Online Limited ("ICRON") from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. ICRON adopts all necessary measures so that the information it uses is of sufficient quality and from sources ICRON considers to be reliable including, when appropriate, independent third-party sources. However, ICRON is not an auditor and cannot in every instance independently verify or validate information received in preparing this document.

All information contained herein must be construed solely as statements of opinion, and ICRA Online Limited or its affiliates or group companies and its respective and any of its officers, directors, personnel and employees, disclaim liability to any loss, damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this document or its contents in any manner or for any contingency within or beyond the control of, ICRON or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information. Opinions expressed in the document are not the opinions of our holding company, ICRA Limited (ICRA), and should not be construed as any indication of credit rating or grading of ICRA for any instruments that have been issued or are to be issued by any entity. The recipient alone shall be fully responsible and/or are liable for any decision taken on the basis of this document and/or the information contained herein.