Monthly Report

July 2017

ALPHA CAPITAL™

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What happened last month?

Major global markets gained in the month of Jun except for the European region, which faced a falling euro and interest rate outlook ambiguity. U.S. markets increased as the U.S. Federal Reserve (Fed) hiked interest rates and indicated further rise in the year. Asian markets gained on upbeat Chinese data, among other factors.

French President getting parliament consent to follow his pro-European Union and business-friendly expansion plans after his party's victory with a clear majority bolstered the American markets. However, delay of the healthcare bill in the Senate and the International Monetary Fund (IMF) lowering its U.S. economic growth estimate capped gains.

European markets slid after the European Union (EU) fined a technology giant for breaching anti-trust rules. U.K. was asked by 'Brexit' negotiators to obey the rules laid down by EU and the European Court of Justice even after withdrawing from the bloc, or face penalties. French election results and the Italian government's move to strengthen its weak banking system restricted losses to some extent.

One of the main reasons behind Asian markets gaining was central banks worldwide indicated interest rates could be upped.

Reports that U.S. index provider ***MSCI could raise the future weighting of Chinese 'A' shares in its emerging markets benchmark also helped gains***. North Korea warning it could continue making nuclear weapons irrespective of pressure was a dampener for the markets.

The Indian equity market snapped gains of the last few months and closed in the red. During most part of the month bourses hovered near the life-time highs but gains could not be sustained on concerns over ***transition to Goods and Services Tax (GST) from Jul 1 and after the Reserve Bank of India (RBI) demanded higher provisioning for loans submitted under the insolvency process***.

Bond yields fell during the month after the Monetary Policy Committee (MPC) kept interest rates on hold but lowered its inflation projections. Also, Consumer Price Index (CPI) based inflation or retail inflation slowing for the second consecutive month in May and continuing to remain at its lowest level in five years helped sentiment. Gains were capped as rise in global bond yields dampened the demand for emerging market debt.

Possible happenings over the next month

GST will take centre stage for the coming period as market participants will be keeping a close eye on the transition to GST and its impact. ***Markets will need some time to adjust to the GST implementation*** process and some challenges might be faced both at company and consumer level post the GST regime.

Pressure might build up in the banking sector as RBI has demanded higher provisioning of loans submitted under the insolvency process. Also, ***RBI has urged banks to resolve 55 identified cases of bad loans within six months***, or it will have to examine those cases and refer for resolution under Insolvency and Bankruptcy Code.

The low readings of inflation seen for May, on the back of disinflation in vegetables and pulses, may sustain going forward depending on three crucial factors -- the distribution of rainfall, impact of rise in minimum support prices on the sowing pattern of crops, and the extent to which prices get revised amid transition to GST.

The positive base effect for food inflation is expected to continue till Jul 2017 and according to RBI, inflation may move up in the second half of FY18. Under such a scenario, there might be a long pause in MPC's rate action in the upcoming monetary policies.

Securities and Exchange Board of India's (SEBI) proposal to relax entry norms for Foreign Portfolio Investors (FPIs) is expected to boost the market.

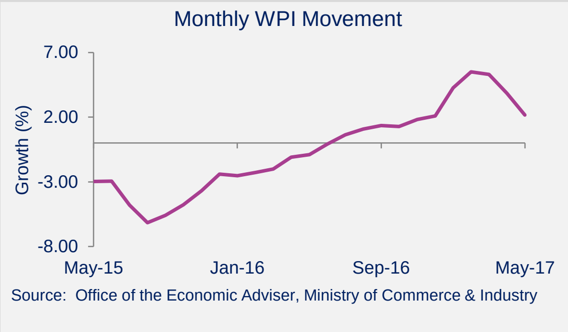
On the global front, developments in the U.S. and Europe will be tracked by market participants. The European Central Bank president has indicated that it may tweak its monetary stimulus programme with the gradual recovery of the euro zone economy.

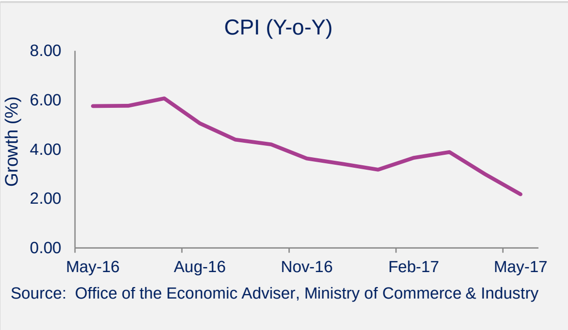
The Bank of England (BoE) governor too indicated that it may consider raising interest rates in the coming months. Thus, a transition from a global accommodative monetary policy regime to a normal rate cycle is becoming increasingly evident in equity and fixed income markets that is expected to have a bearing on the domestic debt market in the future.

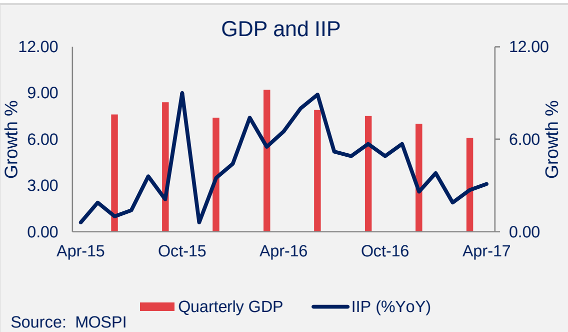
Besides, clarity regarding the policies that the new U.S. President adopts, the movement of the rupee against the greenback, global crude oil prices, and stance adopted by foreign portfolio investors will remain under investors' lens.

Markets will look forward to guidance from U.S. Fed's monetary policy and ECB's monetary policy review in Jul. Progress on Brexit negotiations will also be closely monitored.

Indian Economy







Economic Releases in June-2017

Key Indicator	Period	Actual	Previous
Repo Rate	Jun-17	6.25%	6.25%
Reverse Repo	Jun-17	6.00%	6.00%
CRR	Jun-17	4.00%	4.00%
IIP	Apr-17	3.10%	2.70%
WPI	May-17	2.17%	3.85%
Export (Y-o-Y)	May-17	8.32%	19.79%
Import (Y-o-Y)	May-17	33.09%	49.08%

Source: RBI, Reuters

- MPC in its second bi-monthly policy meeting kept repo rate and reverse repo rate under the liquidity adjustment facility unchanged at 6.25% and 6.00%, respectively. The committee suggested that as the year progresses, underlying inflation pressures, especially input costs, wages, and imported inflation will have to be closely and continuously monitored***. MPC also reduced Statutory Liquidity Ratio (SLR) from 20.5% of Net Demand and Time Liabilities (NDTL) to 20.0% of NDTL with effect from the fortnight beginning Jun 24, 2017***.

- India's Current Account Deficit (CAD) narrowed to $3.4 billion (0.6% of GDP) in Q4 of FY17 from $8.0 billion (1.4% of GDP) in the preceding quarter. However, it widened from $0.3 billion (0.1% 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. In FY17, CAD narrowed to 0.7% of GDP from 1.1% in FY16 owing to contraction in trade deficit.

- India's exports increased 8.32% YoY to $24.01 billion in May 2017, but imports surged at a much faster rate of 33.09% to $37.86 billion that led to rise in the trade deficit. Trade deficit expanded to $13.84 billion in May 2017 from $6.27 billion in May 2016. ***Rise in imports was mainly contributed by higher purchase of gold that surged more than three-fold in May***. Also, crude oil and petroleum products grew 29.54% in May to $7.69 billion from $5.94 billion in the year-ago period.

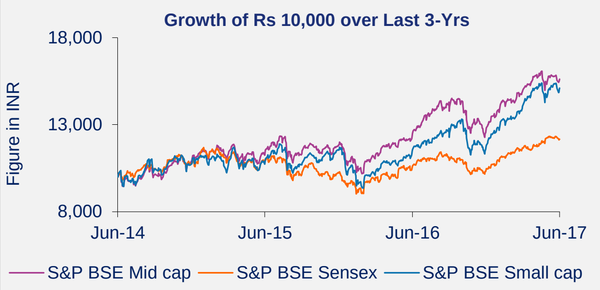
- India's fiscal deficit up to May 2017 during the current fiscal touched Rs. 3.73 lakh crore or 68.3% of the budget estimates for FY18. The deficit in the period Apr-May was 42.9% of the budget in FY17.

- Consumer Price Index (CPI) based inflation or retail inflation slowed to 2.18% in May 2017 from 2.99% in Apr 2017 and 5.76% in the same period of the previous year. The consumer food price index contracted 1.05% in May compared with an expansion of 0.61% in Apr 2017 and 7.47% in May 2016.

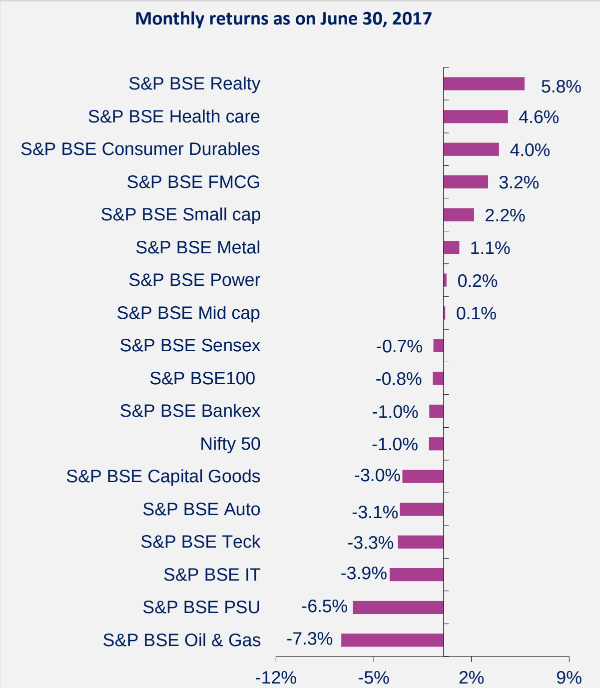
- Index of Industrial Production (IIP) grew 3.1% YoY in Apr 2017, lower than 6.5% in Apr 2016 due to ***slower rise witnessed in manufacturing, mining, and electricity***. IIP slowed as growth in capital goods and consumer durables contracted in Apr 2017.

- India's Wholesale Price Inflation (WPI) stood at 2.17% in May 2017 as against 3.85% provisional in Apr 2017 and -0.90% in the previous-year period, thereby marking a five-month low.

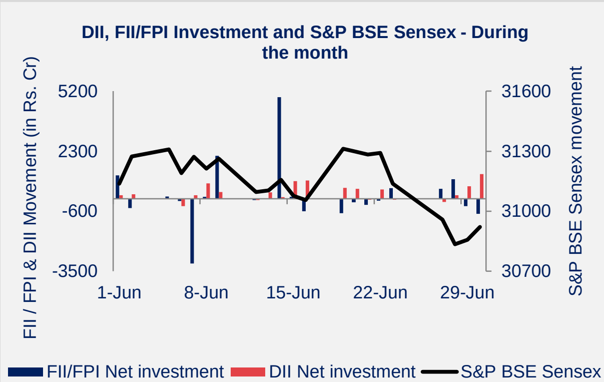
Indian Equity Market



Source: BSE



Source: MFI Explorer



Source: MFI Explorer

- The Indian equity market closed in the negative terrain after posting gains in the last few months. During most part of the month, Sensex hovered above the 31,000-mark on the back of strong economic data, monsoon's timely arrival, hopes of rate cut by MPC following weaker than expected CPI-based data, central bank's lowering inflation projections, along with SEBI's proposal to relax entry norms for FPI. However, gains could not sustain on concerns over transition to GST from Jul 1 and after RBI demanded higher provisioning for loans submitted under the insolvency process.

- Key benchmark indices S&P BSE Sensex and Nifty 50 fell 0.72% and 1.04% to close at 30,921.61 and 9,520.9, respectively. However, broader indices bucked the trend with S&P BSE Mid-Cap and S&P BSE Small-Cap gaining 0.13% and 2.19%, respectively.

- Markets commenced the month on a cautious note ahead of central bank's policy meeting along with the general elections results in the U.K., and implementation of GST from Jul 1. Slowdown in GDP growth in the fourth quarter of FY17 and final reading of a private survey showing growth in Indian manufacturing sector eased in May 2017 also kept investors wary.

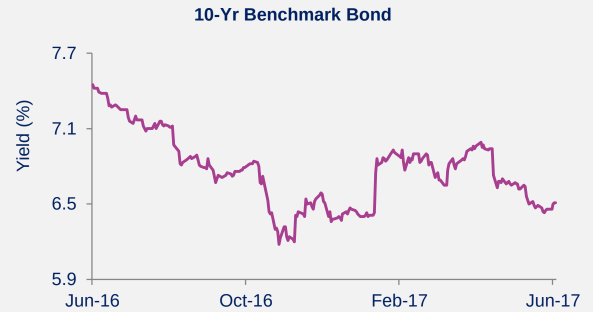
- However, ***monsoon's timely arrival at the southern Kerala coast increased chances of higher agricultural produce and improved economic growth***, outweighing market participants' concerns. Some of the positive economic numbers also buoyed sentiment. Sentiment got further support after ***MPC kept benchmark rates unchanged in its second bi-monthly monetary policy review but lowered the SLR by 50 basis points of NDTL*** with effect from the fortnight beginning Jun 24, 2017. RBI also lowered inflation projections and indicated no major impact of GST on overall inflation.

- On the global front, investor sentiment was initially buoyed by positive global peers but U.S. President's decision to withdraw from the Paris climate agreement, and tensions in the Middle East limited the upside. Concerns over the U.S. President's move of more stringent visa regulations for software services exporters and Fed's raiseing the benchmark lending rate and indicating one more hike during this year limited the upside. Gains were also limited amid uncertainty over transition to GST. However, SEBI's proposal to relax entry norms for FPIs willing to invest directly in Indian stock markets limited the downside.

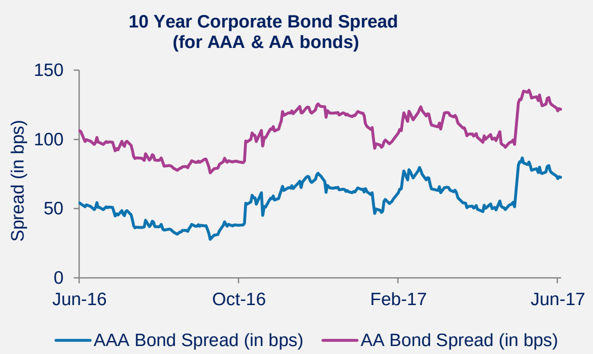
- On the BSE sectoral front, the indices witnessed a mixed trend. S&P BSE Realty was the major gainer followed by S&P BSE HC and S&P BSE Consumer Durables. Meanwhile, S&P BSE Oil & Gas stood as the major loser followed by S&P BSE PSU. Banking stocks went down after the Union finance minister initially said the central bank was at an advanced stage of creating a list of bad loans that needed resolution under the country's insolvency and bankruptcy rules. Later, RBI demanded higher provisioning for loans submitted under the insolvency process.

Indian Fixed Income

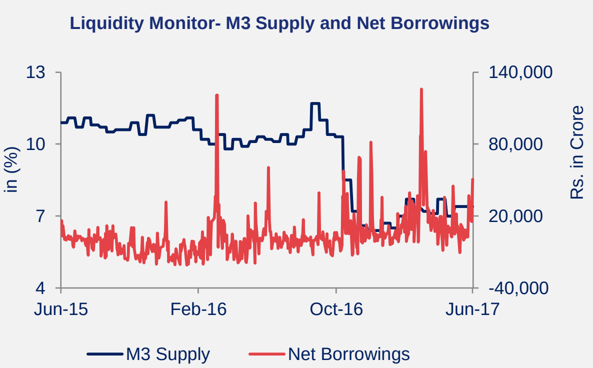
Market Indicators		
Indicator	**30-Jun-17**	**31-May-17**
Call Rate	6.11%	6.02%
10-Yr benchmark bond	6.51%	6.66%
Reverse Repo	6.00%	6.00%
Repo	6.25%	6.25%
Bank Rate	6.50%	6.50%
CRR	4.00%	4.00%
Source: CCIL,RBI		



Source: CCIL



Source: Reuters



Source: Reuters

- Bond yields fell during the month after MPC in its second bi-monthly monetary policy review kept interest rates on hold but lowered its inflation projections. Market sentiment received further boost after ***retail inflation slowed for the second consecutive month in May and continued to remain at its lowest level in five years***. This reinforced expectations among market participants that MPC might consider lowering interest rates in the near term. However, gains were capped after rise in global bond yields dampened the demand for emerging market debt, as market participants eyed possible hardening of interest rates in developed economies in the coming months.
- Yield on the 10-year benchmark bond (6.79% GS 2027) fell 15 bps to close at 6.51% from the previous month's close of 6.66%. During the month, bond yields moved within a wide range of 6.42% to 6.67%.
- Bond yields fell initially as a slower rate of GDP growth of the Indian economy in the fourth quarter of FY17 increased hopes for a less hawkish tone from MPC in its monetary policy review scheduled on Jun 7. Nevertheless, market participants remained cautious and preferred to remain on the sidelines ahead of the outcome of the crucial event.
- Bond yields plunged later after MPC in its monetary policy review kept interest rates on hold but lowered its inflation projections. MPC lowered its inflation projection to 2.0%-3.5% for the first half of this fiscal year from the earlier 4.5%. The projection for the second half was brought down to 3.5%-4.5% from the earlier 5.0%. This fuelled hopes that MPC might lower interest rates in the near term.
- Gains were extended as bond yields fell further after the outcome of the weekly debt auction on Jun 9 came better than market expectations. The positive sentiment generated earlier following the outcome of the second bi-monthly monetary policy review also continued to provide additional support. Market sentiment received further boost after retail inflation slowed for the second consecutive month in May and continued to remain at its lowest level in five years. This reinforced expectations among market participants that ***MPC might consider lowering interest rates as early as Aug 2017***.
- However, gains were capped and bond yields rose at the end of the month as market participants preferred to cash in on their gains from the recent bond rally. The U.S. Fed's decision to increase interest rates in its monetary policy review also weighed on market sentiment.
- Hopes that meeting minutes of MPC's policy review on Jun 7 might indicate a rate-cut in the coming months took a beating after the same showed that the central bank governor favours avoiding premature policy action amid an uncertain near-term inflation outlook even though one MPC committee member advocated for a 50 bps rate cut.

Global Equity Market

Performance of Major International Markets (as on June 30,2017)		
Indices	**Country**	**1 Mth**
Nasdaq 100	U.S.	-2.45
S&P 500	U.S.	0.48
DJ Industrial Avg	U.S.	1.62
SET Composite Index	Thailand	0.84
Jakarta Composite	Indonesia	1.60
Straits Times Index	Singapore	0.49
KOSPI Index	South Korea	1.89
Nikkei Stock Average 225	Japan	1.95
Taiwan SE Weighted Index	Taiwan	3.53
Shanghai Composite Index	China	2.41
S&P BSE Sensex	India	-0.72
S&P/ASX 200	Australia	-0.05
FTSE 100	U.K.	-2.76
CAC 40	France	-3.08
DAX Index	Germany	-2.30

Source: Reuters

United States

- Most of the U.S. markets moved up after the French President got consent from the parliament to follow pro-EU plans, rate hike by Fed, and a couple of upbeat economic data. However, delayed voting on healthcare bill, the IMF lowering U.S. economic growth estimate, and geo-political tensions, capped the gains.

Europe

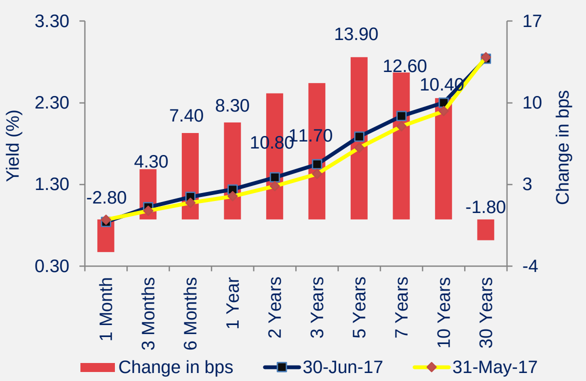
- European markets closed lower after EU regulators fined a technology major for breaching anti-trust rules, after ECB president's comments to find balance between the bloc's economic growth and inflationary slowdown were misunderstood, and the BoE governor said that the time was not right to raise interest rates.

Asia

- Most of the major Asian markets grew on reports that MSCI could raise the future weighting of Chinese 'A' shares in its emerging markets benchmark, easing of liquidity conditions in China, and the Bank of Japan keeping its monetary policy unchanged. However, geo-political tensions, capped the gains.

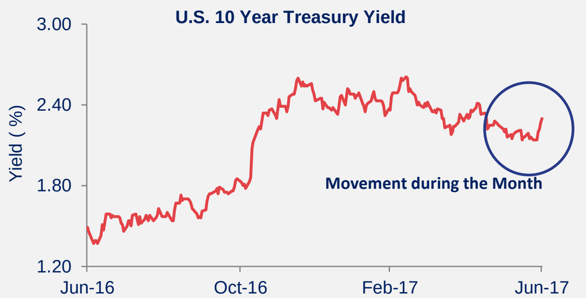
Global Fixed Income-U.S. Treasury

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



Source: Reuters

U.S. 10 Year Treasury Yield



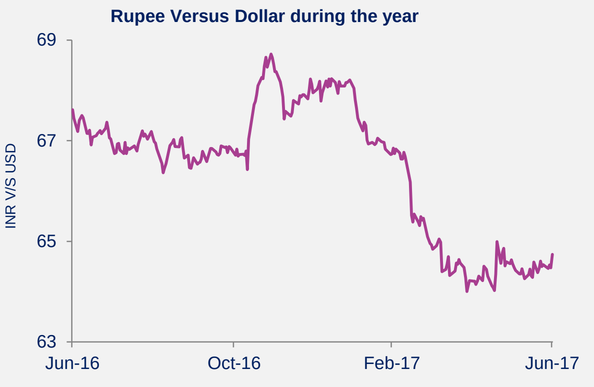
Source: Reuters

- Yield on the 10-year U.S. Treasury bond rose 10 bps during the month to close at 2.30% compared with the previous month's close of 2.20%. The paper moved in a range of 2.14% to 2.30%.
- U.S. Treasury prices rose initially following weaker than expected U.S. employment data in May 2017 and disappointing U.S. inflation and retail sales data in May. However, gains were capped as market participants booked profits after U.S. jobs data for May 2017 came below market expectations.
- Testimony of former Federal Bureau of Investigation chief making no new revelations about the agency's Russian probe also capped the gains.
- Losses were extended after the U.S. Fed raised interest rates and release of stronger than expected U.S. jobless claims data for week to Jun 10. Also, ***comments from some Fed officials raised concerns that the U.S. central bank may continue to increase interest rates***. Key Fed officials were of the view that delay in interest rate hike could pose risks to the U.S. economy. However, losses were restricted due to fall in U.S. durable goods in May raising concerns about tepid growth and falling inflation
- Prices further fell after the ECB president indicated that the bank may modify its monetary stimulus programme as the euro zone economy gradually recovers. This increased possibility of ECB soon tightening its monetary stimulus programme.

Currency Market Update

Movement of Major Currencies			
Currency	**Value**	**1 Mth**	**1 Yr**
U.S. Dollar	64.74	64.55	67.62
Pound Sterling	84.26	82.64	90.52
Euro	74.00	72.14	75.01
100 Yen	57.78	58.15	65.91

Source: RBI



Source: RBI

INR

- The Indian rupee rose initially against the greenback after the U.S. jobs data for May 2017 came below market expectations and MPC kept interest rates on hold and lowered its inflation projections. Selling of greenback by foreign banks added to the gains. However, the trend reversed and rupee fell after the U.S. Fed raised interest rates by 25 bps and announced to gradually shrink its $4.5 trillion balance sheet in 2017. The U.S. central bank also indicated one more rate hike in 2017. Rupee fell further due to greenback buying by state-run banks but losses were limited following U.S. dollar sales by state-run banks and corporates.

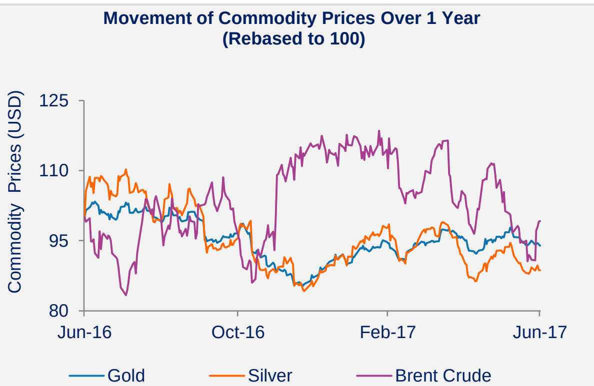
EURO

- Euro rose at the end of the month on growing possibility that ECB may start tightening its monetary stimulus programme. The greenback weakened further after a vote on U.S. healthcare legislation was delayed raising doubts over the U.S. President's ability to pass reformatory measures. However, gains were limited due to upbeat U.S. economic data and ECB keeping interest rates on hold and lowering its inflation projection for 2017, 2018, and 2019. ECB also ruled out the possibility of scaling back its massive bond-buying programme.

Commodity Market Update

Performance of Various Commodities			
Commodities	**Value**	**1 Mth**	**1 Yr**
Crude Brent($/Barrel)	47.12	49.04	47.49
Gold ($/Oz)	1241.2	1268.09	1321.78
Gold (Rs/10 gm)	28803	28839.00	30539.00
Silver ($/Oz)	16.57	17.29	18.69
Silver (Rs/Kg)	38496	39691.00	43065.00

Source: Reuters,MCX



Source: Reuters

Crude

- Brent crude prices witnessed initial weakness as ***ties broke between Qatar on one hand and Saudi Arabia, the United Arab Emirates, Egypt, and Bahrain*** on the other. This hindered global agreement to reduce oil supply. Concerns over supply glut deepened after the Organization of the Petroleum Exporting Countries (OPEC) reported an increase in its production for May, despite a supply-cut agreement and said the oil market was rebalancing more slowly than expected. Additionally, Nigeria and Libya reported increase in production, while Europe's Amsterdam-Rotterdam-Antwerp hub hit the highest production in a year during the month. Consistent rise in U.S. oil rig count also added to the concerns.

Gold

- Gold prices came under selling pressure after the U.S. Fed raised interest rates for the second time this year. The U.S. central bank also maintained its outlook of one more rate hike in 2017. Situation worsened following huge selling order witnessed towards the end of the month. ***The sale of 18,500 lots of gold, aggregating to 1.85 million ounces on Comex*** within a short time span, dragged the bullion's prices down. Additionally, upbeat U.S. GDP data for the first quarter dampened the safe haven appeal of the precious metal. Meanwhile, uncertainty over U.S. President's ability to pass economic stimulus measures provided gold cushion.

Mutual Fund Corner

Mutual Fund Performance Monthly Update

- Mutual funds remained net buyers in both the equity and debt segments in Jun 2017. In the equity segment, buying stood at Rs. 9,106.11 crore against last month's record of Rs. 9,357.67 crore. Purchase in the debt segment stood at Rs. 12,617.91 crore in Jun 2017 against Rs. 9,514.37 crore in the last month.

- Mutual funds across the equity segment witnessed mixed trend as pharma sector gained the most followed by FMCG and power. The FMCG sector grew on hopes that above normal monsoons will revive rural demand and ease retail price inflation, thereby increasing prospects of rate-cut by RBI in the near future. Meanwhile, IT sector fell on concerns over outlook as the U.S. President is toying with the idea of more stringent visa regulations in a market important for software services exporters.

- In the debt space, long-term categories posted better returns over the month than short-term papers after MPC in its second bi-monthly monetary policy review kept interest rates on hold but lowered inflation projections. Market sentiment received further boost after retail inflation slowed for the second consecutive month in May and continued to remain at its lowest level in five years. This reinforced expectations among market participants that MPC might consider lowering interest rates in the near term.

- Gold ETFs slipped on monthly basis after U.S. Fed raised interest rates for the second time this year. The U.S. central bank also maintained its outlook of one more rate hike in 2017.

Portfolio Analysis of Diversified Equity Funds

Month	Financial Services	Industrial Manufacturing	Media & Enter.	IT	Telecom	Energy	Consumer Goods	Healthcare
May-17	25.93	7.73	2.49	6.79	2.04	10.26	10.18	1.67
Apr-17	25.57	8.02	2.69	6.65	2.05	10.81	9.88	1.53
Mar-17	24.97	7.80	2.78	7.53	1.97	10.71	10.15	1.49
Feb-17	24.45	7.52	2.69	8.11	2.27	10.88	9.64	1.53
Jan-17	24.29	7.34	2.59	7.94	2.32	11.02	9.43	1.57
Dec-16	23.87	7.17	2.66	8.92	2.11	10.63	9.47	1.64
Nov-16	24.28	7.19	2.66	8.14	2.16	10.26	9.21	1.57
Oct-16	25.17	7.01	2.76	7.31	2.01	9.97	9.77	1.57
Sep-16	24.80	6.88	2.91	7.56	1.91	10.04	9.80	1.44
Aug-16	25.26	6.95	2.93	7.64	1.97	10.20	9.77	1.57
Jul-16	24.79	7.10	2.91	8.25	2.20	10.34	9.56	1.53
Jun-16	23.89	7.23	3.02	9.37	2.28	9.90	9.64	1.27

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	16.83	10.86	15.25	Liquid	6.32	6.23	6.13	6.50	7.35
Small/Mid Cap	26.37	20.13	25.34	Ultrashort Bond	4.16	7.51	6.36	7.43	7.72
Diversified	19.34	12.87	16.95	Short-T Bond	-0.54	11.16	6.55	8.88	8.15
Balanced	16.65	12.29	15.83	Long-T Bond	-5.67	14.49	6.97	10.31	8.69
Banking	31.48	16.77	18.03	Long T Govt Sec	-17.37	23.13	7.27	13.34	8.65
FMCG	21.81	18.85	17.00	Crisil Liquid	6.39	6.62	6.61	6.86	6.80
Pharma	-6.12	9.72	17.44	Crisil ST Bond	0.62	9.93	7.13	8.88	7.32
Technology	-5.13	5.50	13.98	Crisil Composite	-7.21	16.95	7.23	11.47	7.22
Infrastructure	24.43	12.00	15.43						
Gold Funds	-10.40	-0.36	-1.71						

Source: MFI Explorer

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