Monthly Report

September 2017

Table of Content

What happened last month?

In August, ***U.S. markets gained, European peers came in mixed, while Asia declined***. Economic data was the primary reason behind the performance of each region. Other than that, tensions between the U.S. and North Korea over the latter's missile tests, terrorist attack in Barcelona, and stance taken by global central banks affected the broad sentiment.

U.S. markets were encouraged by U.S. President's key aides and Congressional leaders making substantial progress in forming a tax revamp. Also, the European Central Bank (ECB) chief said global recovery was firming up.

The Bank of England (BoE) kept its low interest rate unchanged, although it reduced its economic growth projections for 2017 and 2018. On the Asian front, revamping of the Japanese cabinet and the International Monetary Fund (IMF) warning that China's credit growth was on a 'dangerous trajectory' weighed on sentiment.

Indian markets declined as investors' confidence was rattled by news regarding imposition of ***trading restrictions on stocks of 331 companies by the Securities and Exchange Board of India (SEBI) as the same were suspected to be "shell companies".***

Other factors, which dampened market sentiment include "neutral" policy stance of the Reserve Bank of India (RBI), fading hopes of rate-cut by RBI in the near future, renewed instances of geopolitical tensions, and a series of disappointing economic data. The downturn was restricted to some extent towards the end as the ***Union cabinet gave in-principle approval for amalgamation of public sector banks through an Alternative Mechanism***. Also, easing tensions between India and China over Doklam provided support.

The month saw volatility in the IT sector following the resignation of a major IT company's existing Chief Executive Officer (CEO) and Managing Director (MD). Sentiment improved following the appointment of the co-founder as chairman. The healthcare sector also fell following weak first-quarter earnings reported by most of the companies due to the Goods and Services Tax (GST) destocking.

Bond yields rose for the first time in four months after the Monetary Policy Committee (MPC) in its policy review lowered key policy repo rate but decided to keep the policy stance neutral and monitor incoming data. Heavy supply of debt securities throughout the month and lack of any major domestic triggers kept market participants on the sidelines as they awaited more clarity on future policy action by MPC.

Possible happenings over the next month

Bond yields moving forward will be dictated by how domestic inflationary pressures pan out in the coming months. MPC in its third bi-monthly monetary policy review identified risks that may lead to an increase in domestic inflationary pressures moving forward in the form of 7th Central Pay Commission salary and allowance increases, price revisions post GST implementation, amongst others. However, good monsoons, better sowing of Kharif crops, and prudent fiscal policy by the government may keep domestic inflationary pressures subdued and prevent inflation from overshooting RBI's target range.

Finances of state governments will also be in focus as the announcement of farm loan waivers by four state governments (so far in 2017-18) and the potential announcement by several others pose a major fiscal risk over the medium term. With GST in full swing, the impact of the same on revenues of states will also be closely tracked. On the global front, the ***U.S. Federal Reserve (Fed) and ECB's stance on their respective monetary policies will have a bearing on the domestic debt market.***

Liquidity surplus is expected to come down gradually on the back of RBI's liquidity management measures coupled with an increase in currency in circulation and remonetisation. However, further aggressive liquidity management by RBI may tighten liquidity that may lead to an uptick in bond yields.

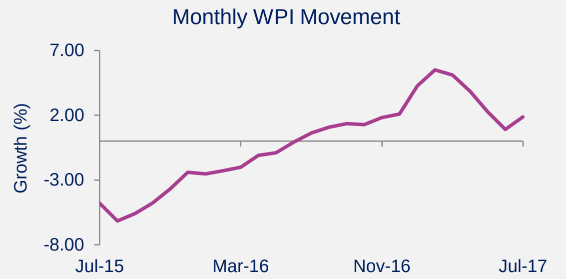
With liquidity still in surplus mode, demand for government securities from banks is likely to remain strong, which may ensure that the demand-supply dynamics for the same remains favorable.

With data showing contraction in both the manufacturing and services sectors following initial confusion over GST, market participants will be closely watching how these sectors overcome weakness. The interest rate outlook shall also impact investor sentiment.

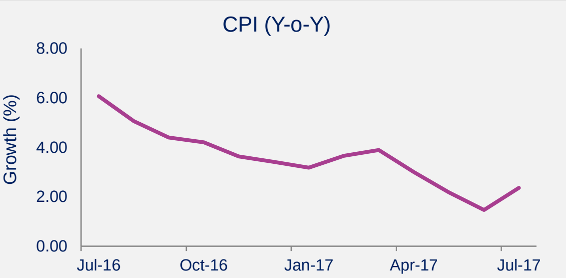
MPC's decision to maintain neutral policy stance implies that the committee is not promising future course of action. With the minutes of MPC's latest policy meeting indicating a probable surge in retail inflation rate later in 2017, it is clear that the chances of the next rate-cut are slim at the moment. It can happen only if there is a positive surprise on the inflation front.

Global cues are also likely to have a bearing on the domestic equity market outlook. The uncertainty over U.S. President's economic agenda could impact market sentiment in the near future. Investors are also speculating another increase in interest rates by the U.S. Fed towards the end of 2017. ***Market participants will also be assessing the impact of Hurricane Harvey on U.S. energy production*** and the economy as a whole.

Indian Economy



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



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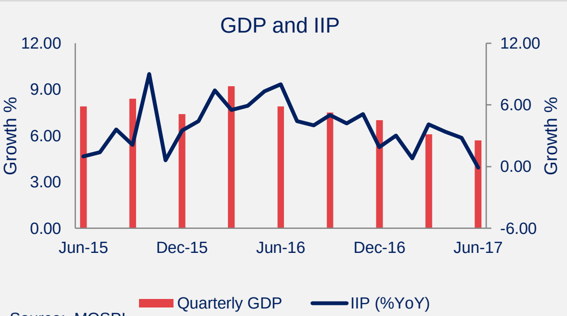


Source: MOSPI

Economic Releases in August-2017

Key Indicator	Period	Actual	Previous
Repo Rate	Aug-17	6.00%	6.25%
Reverse Repo	Aug-17	5.75%	6.00%
CRR	Aug-17	4.00%	4.00%
IIP	Jun-17	-0.10%	2.80%
WPI	Jul-17	1.88%	0.90%
Export (Y-o-Y)	Jul-17	3.94%	4.39%
Import (Y-o-Y)	Jul-17	15.42%	19.00%

Source: RBI, Thomson Reuters Eikon

- ***India's Gross Domestic Product (GDP) plunged to 13-quarter low in the Apr-Jun quarter of FY18***. GDP slowed to 5.7% from 6.1% in the previous quarter and 7.9% in the same period of the previous year. The slowdown in growth can be attributed to temporary shock factors like demonetisation and GST de-stocking. The slowdown in growth was led by manufacturing sector that grew 1.2% during the quarter compared with a growth of 10.7% in the same period of the previous year. Growth in agriculture, forestry, and fishing also slowed to 2.3% in the quarter ended Jun from 2.5% in the same period of the previous year.

- India's fiscal deficit touched 92.4% of the budget estimate for the period from Apr to Jul of 2017. The fiscal deficit in the corresponding period of the previous year stood at 73.7%. The government's revenue receipts stood at Rs. 2.91 lakh crore during the period, which accounted 19.2% of the budget estimate. The government's expenditure stood at Rs. 8.08 lakh crore or 37.7% of the budget estimate.

- Retail inflation grew 2.36% in Jul 2017 from 1.46% in the previous month. Retail inflation in the same month of the previous year stood at 6.07%. The consumer food price index also contracted 0.29% in Jul compared with a contraction of 2.12% in the previous month and an expansion of 8.35% in the same month of the previous year.

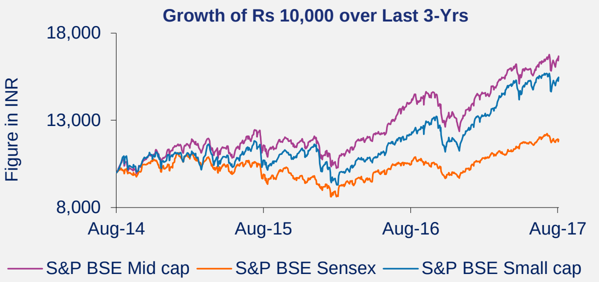
- Index of Industrial Production (IIP) contracted 0.1% YoY in Jun 2017, as against 8% growth in Jun 2016. The downside reflected 0.4% dip in manufacturing activities and marginal growth of 0.4% in mining activities.

- Wholesale Price Index (WPI) based inflation grew 1.88% in Jul 2017 from 0.90% in the previous month and 0.63% in the same month of the previous year. The growth was because food inflation turned positive and manufactured items witnessed growth in prices.

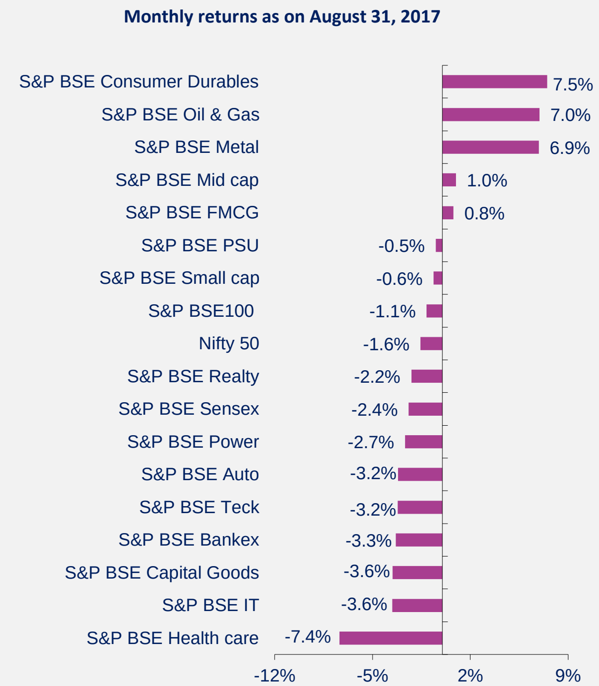
- India's trade deficit expanded to $11.45 billion in Jul 2017 from $7.76 billion in the same month of the previous year. Imports grew 15.42% YoY to $33.99 billion in Jul 2017 from $29.45 billion in the Jul 2016 while exports grew 3.94% YoY to $22.54 billion in Jul from $21.69 billion in the same month of the previous year.

- India's core sector output accelerated to 2.4% in Jul 2017 from 0.8% in Jun 2017, but fell from 3.1% in the same month of the previous fiscal. Output from the steel sector witnessed the maximum growth of 9.2% followed by natural gas and electricity that grew 6.6% and 5.4%, respectively.

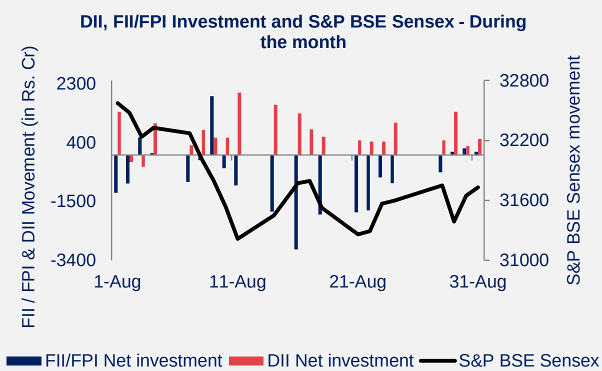
Indian Equity Market



Source: BSE



Source: MFI Explorer



Source: MFI Explorer

- Indian equity markets ended the month in the red as investors' confidence was rattled by news regarding imposition of trading restrictions on stocks of 331 companies by the SEBI as the same were suspected to be "shell companies". Other factors that dampened market sentiment include "neutral" stance of the MPC, fading hopes of rate-cut by MPC in the near future, renewed instances of geopolitical tensions, and a series of disappointing economic data. The downturn was restricted by government's approval of amalgamation of state-owned banks.

- During the month, National Stock Exchange (NSE) had announced broader changes in the index constituents of its benchmark index Nifty 50, as well as certain broader indices like Nifty 100 and Nifty 50 Equal Weight Index. Also, ***Bombay Stock Exchange (BSE) decided to delist 200 firms effective from Aug 23.***

- Key benchmark indices S&P BSE Sensex and Nifty 50 fell 2.41% and 1.58% to close at 31,730.49 and 9,917.90, respectively. Meanwhile, S&P BSE MidCap rose 0.98%, whereas S&P BSE SmallCap slipped 0.63%.

- Markets witnessed selling pressure after MPC maintained "neutral" policy stance in its Aug policy meeting. However, MPC's decision to cut key policy rates by 25 bps was in line with market expectations. Markets witnessed additional pressure after the Nikkei Purchasing Managers' Index (PMI) for the manufacturing sector fell in Jul 2017. Additionally, the Nikkei India Services PMI plunged to its lowest level since Sep 2013.

- Soon after, the benchmark indices slumped as SEBI directed stock exchanges to impose trading restrictions on 331 listed entities. Renewed signs of geopolitical tensions also kept the markets under pressure.

- Investors found some relief after weak U.S. inflation data lowered the prospects of rate hike by U.S. Fed in 2017. However, higher than expected CPI numbers dampened hopes of a rate-cut by MPC in the near future. Concerns over the domestic manufacturing sector hit markets after IIP data fell to a four-year low level in Jun 2017. Later, ***selling pressure was witnessed in one of the IT majors following the resignation of the company's existing CEO and MD***. However, sentiment improved later following the appointment of the co-founder as chairman.

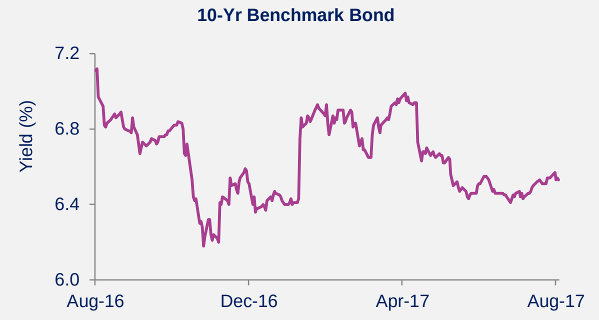
- Buying interest improved as the Union cabinet gave in-principle approval for amalgamation of public sector banks through an Alternative Mechanism. Easing tension between India and China over Doklam provided additional support.

- On the BSE sectoral front, majority of the indices closed in the red. S&P BSE Healthcare was the major loser, followed by S&P BSE IT and S&P BSE Capital Goods. Healthcare sector witnessed selling pressure following weak first-quarter earnings reported by most of the companies.

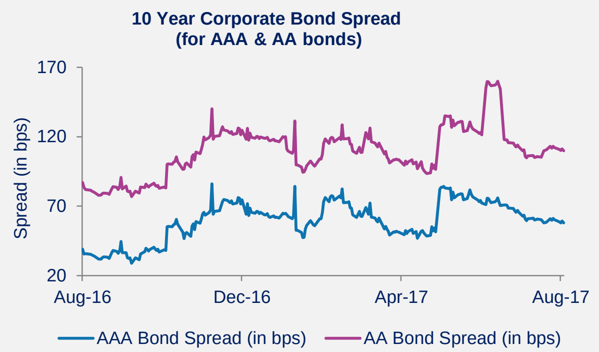
Indian Fixed Income

Market Indicators		
Indicator	**31-Aug-17**	**31-Jul-17**
Call Rate	5.83%	6.10%
10-Yr benchmark bond	6.53%	6.47%
Reverse Repo	5.75%	6.00%
Repo	6.00%	6.25%
Bank Rate	6.25%	6.50%
CRR	4.00%	4.00%

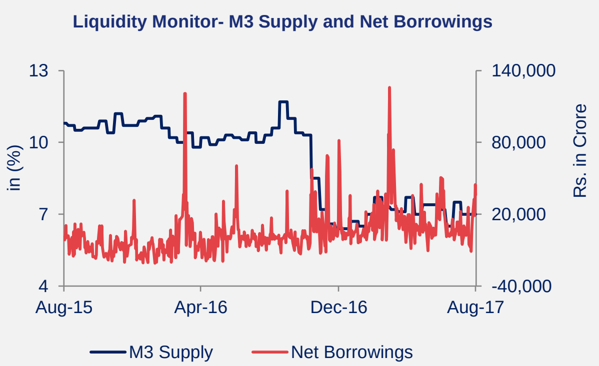
Source: CCIL,RBI



Source: CCIL



Source: Thomson Reuters Eikon



Source: Thomson Reuters Eikon

- Bond yields rose for the first time in four months after MPC lowered key policy repo rate by 25 bps, and decided to keep the policy stance neutral. Heavy supply of debt securities throughout the month and lack of any major domestic triggers kept market participants on the sidelines as they awaited more clarity on future policy action by MPC.
- Yield on the 10-year benchmark bond (6.79% GS 2027) rose 6 bps to close at 6.53% from the previous month's close of 6.47%. During the month, bond yields moved within a wide range of 6.42% to 6.58%.
- Bond yields fell initially at the beginning of the month amid reports that RBI may submit a revised proposal on listing sovereign debt on Euroclear, the world's largest bond clearing platform. The move is expected to raise exposure of the nation's debt issuances globally and attract foreign capital crucial to boost economic growth.
- However, the trend reversed soon and bond yields rose after MPC in its monetary policy review on Aug 2, 2017, lowered key policy rate by 25 bps but decided to keep the policy stance neutral and monitor incoming data. MPC projected that domestic inflationary pressures may build up in the coming months, and identified several factors that may affect the domestic inflation outlook. The factors include implementation of farm loan waivers by state governments that may lead to fiscal slippages, and lack of information regarding timing of states' implementation of the salary and allowances award.
- MPC expressed concerns that headline inflation may expand by an additional 100 bps over the next 18 to 24 months if states implement salary and allowance increases in the current fiscal. The above guidance increased concerns that MPC may keep interest rates on hold for the time being which weighed on the market sentiment.
- Bond yields rose further after U.S. jobs data for Jul 2017 surpassed expectations, which raised concerns of a rate hike by the U.S. Fed in the near term. Losses were extended after retail inflation grew higher than expected in Jul 2017, lowering hopes of any further easing by MPC in the near term. Meanwhile, lack of positive triggers and heavy supply of notes kept market participants on the sidelines as they awaited clarity on future policy action by MPC. The RBI conducted open market sales of debt securities twice during the month for an aggregate amount of Rs. 20,000 crore to absorb excess liquidity, which also dampened market sentiment.
- However, further losses were restricted as bond yields came down towards the end following rise in U.S. Treasury prices as market participants were concerned of escalating geopolitical tensions. Value buying by market participants to take advantage of the recent weakness also provided some support to the domestic debt market.

Global Equity Market

Performance of Major International Markets (as on August 31,2017)		
Indices	**Country**	**1 Mth**
Nasdaq 100	U.S.	1.84
S&P 500	U.S.	0.05
DJ Industrial Avg	U.S.	0.26
SET Composite Index	Thailand	2.54
Jakarta Composite	Indonesia	0.40
Straits Times Index	Singapore	-1.57
KOSPI Index	South Korea	-1.64
Nikkei Stock Average 225	Japan	-1.40
Taiwan SE Weighted Index	Taiwan	1.52
Shanghai Composite Index	China	2.68
S&P BSE Sensex	India	-2.41
S&P/ASX 200	Australia	-0.11
FTSE 100	U.K.	0.80
CAC 40	France	-0.16
DAX Index	Germany	-0.52

Source: Thomson Reuters Eikon

United States

- U.S. markets gained mainly over a bunch of upbeat economic data, positive earnings news, and the U.S. Fed chief's comment on the stability of the U.S. financial system in recent times. However, the chief did not give much cues on the next rate hike. Easing geopolitical tensions and the ECB chief saying global recovery was firming up also helped sentiment.

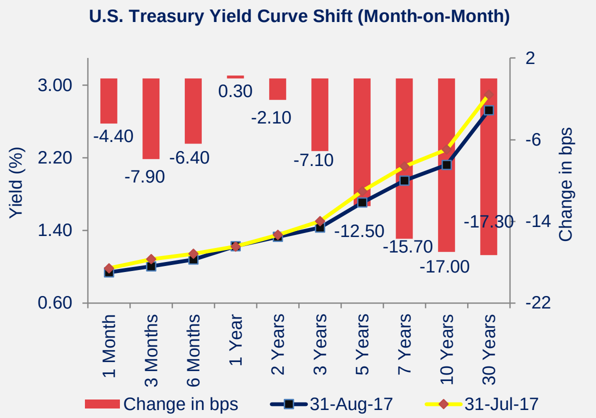
Europe

- European markets finished mixed over geopolitical worries. The BoE kept its low interest rate unchanged, but reduced its economic growth projections for 2017 and 2018. A series of mixed economic data also impacted the market. Meanwhile, the ECB chief did not display any anxiety about a strong euro zone currency, although investors had expected him to voice his concerns.

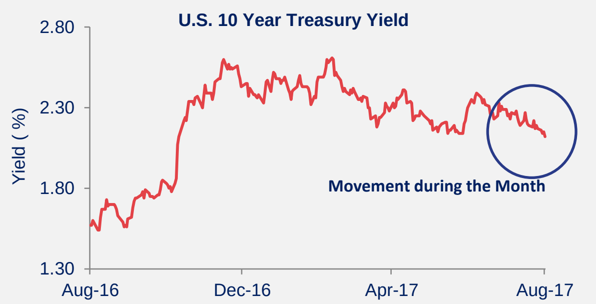
Asia

- Most of the major Asian markets dipped largely on negative economic data. Geopolitical worries, and the IMF warning that China's credit growth was on a 'dangerous trajectory' weighed on sentiment.

Global Fixed Income-U.S. Treasury



Source: Thomson Reuters Eikon

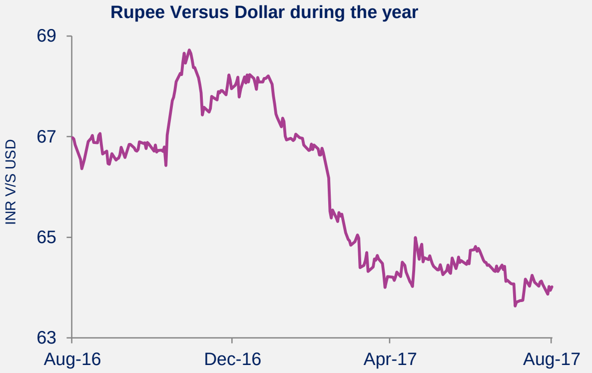


Source: Thomson Reuters Eikon

- Yield on the 10-year U.S. Treasury bond plunged 17 bps during the month to close at 2.12% compared with the previous month's close of 2.29%.
- U.S. Treasury prices rose following weak U.S. auto sales, producer and consumer prices in Jul 2017. Prices rose further as its safe haven appeal improved after BoE kept interest rates at a record low and downgraded its economic and inflation forecasts.
- Growing tensions between the U.S. and North Korea also boosted safe-haven debt. However, the trend reversed after the U.S. Treasury Department considered increasing debt issuances and strong U.S. jobs, retail sales, and regional factory activity data for Jul 2017.
- Prices rose again following renewed concerns over the U.S. President's ability to implement reforms. ***The U.S. Fed chief making no reference to U.S. monetary policy at Jackson Hole meet,*** strong demand at a five-year note auction, and downbeat consumer spending data for Jul 2017 further led to rise in U.S. Treasury prices.
- However, upbeat U.S. private sector jobs data for Aug 2017 and better than expected growth of the U.S. economy in the second quarter of 2017 weighed on U.S. Treasury prices.

Currency Market Update

Movement of Major Currencies			
Currency	**Value**	**1 Mth**	**1 Yr**
U.S. Dollar	64.02	64.08	66.98
Pound Sterling	82.70	84.16	87.69
Euro	76.04	75.22	74.62
100 Yen	57.91	57.98	64.89
Source: RBI			



Source: RBI

INR

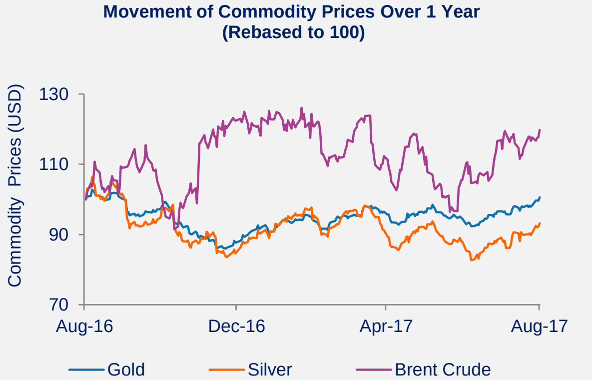
- The Indian rupee gained after ***MPC reduced the repo rate and reiterated "neutral" policy stance***. Also, greenback sales by corporates further supported the Indian rupee. Gains increased as some U.S. Fed officials favoured holding rates at current levels amid signs of soft inflation in the U.S., hurting demand for the greenback. However, gains were limited after U.S. jobs data for Jul 2017 came in better than expected. Rupee was further impacted due to growing tensions between North Korea and the U.S., which eased later.

EURO

- The euro rose after moving in a range during the month. In the first half, the single currency remained lower following upbeat U.S. nonfarm payroll data for Jul 2017 and on hopes that the U.S. administration is working on a tax plan that would bring corporate profits back to the U.S. Consumer confidence in the U.S. surged in Aug and house prices grew in Jun, contributing to the upside in greenback. However, losses revered after the ECB president did not express concern about a strong euro zone currency and on disappointing U.S. consumer spending data for Jul.

Commodity Market Update

Performance of Various Commodities			
Commodities	**Value**	**1 Mth**	**1 Yr**
Crude Brent($/Barrel)	53.48	52.18	46.20
Gold ($/Oz)	1321.6	1269.05	1308.45
Gold (Rs/10 gm)	29456	28513.00	30814.00
Silver ($/Oz)	17.566	16.79	18.61
Silver (Rs/Kg)	39555	38262.00	44136.00
Source: Thomson Reuters Eikon,MCX			



Source: Thomson Reuters Eikon

Crude

- Brent crude prices closed higher after figures from the Energy Information Administration showed that U.S. commercial crude oil stocks slipped by 5.4 million barrels in the week to Aug 25, marking the ninth straight weekly decline. Meanwhile, investors continued to assess the impact of the hurricane on U.S. energy production. However, prices were capped on lingering concerns over a global supply glut and slower demand in China after official data showed that ***Chinese oil refineries operated at their lowest daily rates in Jul 2017 since Sep 2016***. Prices were further affected as the International Energy Agency stated that although the market was rebalancing itself, it was occurring slowly because of Organization of the Petroleum Exporting Countries' weak compliance with output cuts.

Gold

- Gold prices climbed owing mainly to geopolitical tensions. Prices found further support after U.S. consumer price inflation data for Jul 2017 came in below expectations, reducing chances of an interest rate hike by the U.S. Fed in Sep 2017. Bullion prices found support as concerns over probable U.S. monetary policy tightening later during the year eased after U.S. Fed refrained from providing any details on monetary policy outlook in an annual meeting of global central banks held at Jackson Hole. However, concerns over demand prospects owing to weaker than expected Chinese official and manufacturing PMI data for Jul hindered prices.

Mutual Fund Corner

Mutual Fund Performance Monthly Update

- Mutual funds continued to be net purchaser in both the equity and debt segments during the month under review. In the equity segment, buying stood at Rs. 17,941.11 crore against last month's record of Rs. 11,799.85 crore, while buying in debt segment stood at Rs. 36,466.82 crore against Rs. 40,387.5 crore in Jul 2017.

- Mutual funds across the equity segment fell barring FMCG and infrastructure sectors. Pharma sector witnessed heavy selling pressure following weak first-quarter earnings reported by most of the companies. The unimpressive performance was on account of destocking of channel due to GST rollout and pricing pressures in the U.S. market. Issuance of 10 observations by the U.S. health regulator on the manufacturing facility of one of the pharma majors had a negative impact on the healthcare sector. Auto segment also remained subdued after the cabinet approved cess hike on mid-size, large cars, and SUVs from 15% to 25% under the new GST regime.

- In the debt space, gilt long term posted muted returns as bond yields rose for the first time in four months after MPC in its third bi-monthly monetary policy review on Aug 2 lowered key policy repo rate by 25 bps, but decided to keep the policy stance neutral and monitor incoming data.

- Gold ETFs gained as gold prices climbed owing mainly to geopolitical tensions between the U.S. and North Korea. Prices found further support after U.S. consumer price inflation data for Jul 2017 came in below expectations, which reduced chances of an interest rate hike by the U.S. Fed in Sep 2017.

Portfolio Analysis of Diversified Equity Funds

Month	Financial Services	Industrial Manufacturing	Media & Enter.	IT	Telecom	Energy	Consumer Goods	Healthcare
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
Sep-16	25.36	6.90	2.91	7.54	1.91	10.06	9.80	1.44
Aug-16	25.83	6.97	2.93	7.62	1.95	10.22	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	13.09	10.9	16.26	Liquid	6.00	6.10	6.39	6.42	7.34
Small/Mid Cap	19.84	19.54	25.73	Ultrashort Bond	6.77	6.61	7.35	7.19	7.73
Diversified	15.54	12.8	17.89	Short-T Bond	7.49	6.70	8.54	7.85	8.16
Balanced	13.25	11.78	16.38	Long-T Bond	7.62	5.90	9.55	8.44	8.63
Banking	23.47	18.33	20.00	Long T Govt Sec	7.65	2.67	11.19	9.15	8.58
FMCG	14.88	15.81	16.05	Crisil Liquid	6.24	6.40	6.65	6.76	6.80
Pharma	-15.23	3.28	14.23	Crisil ST Bond	8.54	6.90	8.33	8.16	7.33
Technology	1.68	3.73	15.33	Crisil Composite	10.52	6.71	11.38	9.31	7.25
Infrastructure	21.35	13.90	17.39						
Gold Funds	-7.19	0.87	-2.04						

Source: MFI Explorer

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