EXCHANGE COMMUNICATION

OCT-NOV 2017

METROPOLITAN STOCK EXCHANGE

Dear Market Participants,

Samvat 2073 has been good to the markets. Despite several headwinds globally and in India, equity and bond markets have returned handsome gains. The year saw many challenges ranging from taper tantrums, geo-political tensions to slowdown in domestic growth. At the same time, several important structural changes were also made such as bankruptcy code implementation, demonetisation and GST. These measures are expected to fundamentally alter the growth trajectory of the economy.

The capital market regulator too has brought in many changes to boost the market structure and efficiency. The inauguration of IFSC is an important step in attracting foreign capital to India. Relaxation in hedging norms for asset managers for Interest Rate Futures, facilitating direct participation of FPIs in Bonds and Currency market, common broking entity for commodities and stock are important measures towards better efficiency and opportunity in the market.

At MSE, we have covered quite a lot of ground last year. The Exchange has attracted new talent, raised more than ₹200 cr of equity capital to strengthen balance sheet, introduced Member Activation Drive, launched a brand-building campaign, initiated member connect events and is now working on new product launches. It gives me great pleasure to share with you that your Exchange has been adjudged the Emerging Currency Exchange of India by PHD Chamber of Commerce. Our subsidiary MCCIL has been recognised as the Third Country Central Counter Party by European Securities and Markets Authority.

MSE has been taking all the necessary steps to present a robust market infrastructure institution and we are sure Samvat 2074 would be happier and bigger for the markets and for MSE.

Happy Diwali to all of you.

Udai Kumar I MD & CEO

Market Watch

Securities	One Month Price Change (%)
Equity	
SX 40	-1.42
MSCI Emerging Market	-0.68
MSCI India	-1.88
Currency*	
USD	2.00
Pound	3.81
Euro	-0.80
Yen	2.23
Bonds	
5 yr GoI	-0.71
10 yr GoI	-1.12
US 10 yr	-1.86

*This data pertains to currency pairs USDINR, GBPUSD, EURUSD, and USDJPY

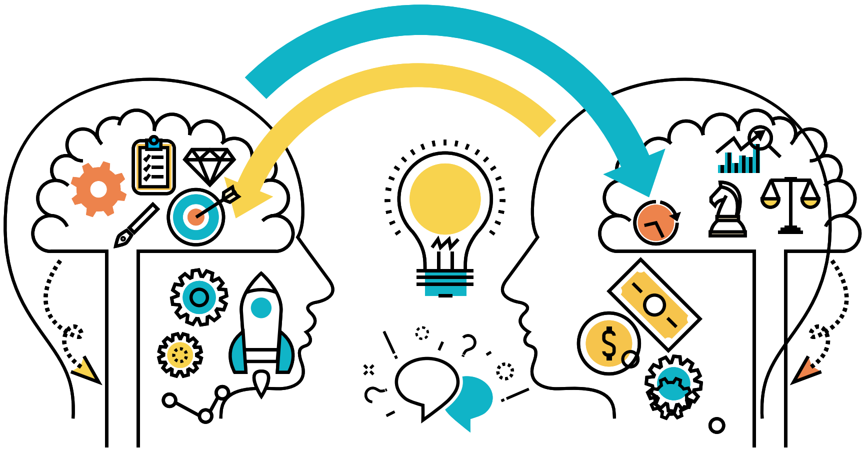
Source: Bloomberg

Period: September 1-29, 2017

DID YOU KNOW?

- MSE has been recognised as the "Emerging Currency Exchange of India" during the Annual Convention on Capital MarketVision-2020 organised by the PHD Chamber of Commerce and Industry on September 2, 2017 in New Delhi
- MSE's Colocation Latency is 16 micro seconds
- MSE has more than 1500 frontline companies available for trading on its equity platform

EXCHANGE UPDATES



MSE and MCCIL receive annual renewal of their licence from SEBI

MSE has received the annual recognition renewal of its licence on September 15, 2017 for a period of one year. The subsidiary Clearing Corporation, MCCIL, too has received recognition renewal of its licence on October 2 for a period of one year.

MSE raises ₹ 112 cr from Rights Issue

MSE launched its Rights Issue on September 16 and has raised ₹ 112 cr by September 30. The proceeds are to be used for further capitalisation of the subsidiary, MCCIL, to meet the regulatory requirement as well as to invest in business. In the last twelve months, the Exchange has raised over ₹ 190 cr through two Rights Issues.

Live trading session from DR site on Aug 10th and 11th

With respect to the SEBI-mandated live trading from Disaster Recovery (DR) site for two consecutive trading days, MSE had successfully conducted unannounced live trading from DR site on August 10 & 11, 2017 for all the segments along with COLO Members. The Clearing Corporation also carried out all intraday and post trade live operations including settlements on the above days from the DR site.

Go live with Enhance Supervision portal

The Exchange has set up the portal to submit the Members and Clients' data to protect the interests of investors in securities and to promote the development of, and to regulate the securities market as per the SEBI guidelines.

MSE's subsidiary MCCIL receives recognition from ESMA

The European Securities and Markets Authority (ESMA) is an independent European Union Authority which safeguards the stability of the European Union's financial system. A CCP established in a third country (non-EU) may provide clearing services to clearing members or trading venues established in the EU only where that CCP is recognised by ESMA.

ESMA has now given recognition to MCCIL as a Third-Country Central Counter Party (TC-CCP) under European Market Infrastructure Regulation (EMIR). This recognition from ESMA establishes MCCIL's ability to provide central counterparty services to market participants of European Origin. ESMA recognition combined with QCCP status of MCCIL shall result in lower risk capital provisioning for market participants of European Origin. Presently, MCCIL has around 100 clearing members out of which more than 20 are banks.

TREND IN ASSET ALLOCATION VIS-À-VIS ECONOMIC PARAMETERS - INDIA

Economic Indicators - India			
	2015	2016	2017 (YTD)
CPI	High	Low	Low
WPI	Low	High	Low
10 yr Yield	Low	Low	Higher
Call Money	Low	Low	Higher
Repo	Low	Low	Low
Reverse Repo	Low	Unchanged	Unchanged
GDP	High	Low	Low
Deposit Growth	High	High	Low
Credit Growth	High	Low	Low
Trade Deficit	Low	High	High
Forex Reserves	High	High	High

Asset Allocation - India			
	2015	2016	2017 (YTD)
Equity	25.4	23.1	40.0
Commodity	11.0	48.6	20.8
Currency	33.9	22.5	19.2
Debt	29.7	5.8	20.0
Total	**100.0**	**100.0**	**100.0**

- Inflation has been the big positive for India reaching benign levels and remaining low. Consequently, the 10 year yield has remained low, thus driving bond prices high. Asset allocation in Bonds has therefore increased three-fold in 2017 over 2016. At the margin, yields have started to increase gradually. Resultant impact on bond prices is awaited.
- Though inflation has cooled off by nearly 200 bps in 2017, repo rate cut has been marginal at 25 bps. Lower rate cut in India could have been influenced by rate hikes by the US Fed. RBI has the challenge of maintaining or minimising the impact of interest rate differential.
- RBI's intervention in the forex market along with conservative rate cuts has kept the volatility in currency under check. Low volatility in USDINR for most part of the year could be the reason for drop in asset allocation in currency.
- Corroborating the low inflation, all major metal commodity prices have remained low for better part of 2016 and 2017. Asset allocation in Gold, Silver, Copper has thus come down sharply. Crude oil prices have however increased by 15% in last one year.
- The biggest dichotomy lies in asset allocation for equity. While GDP, trade deficit, bank credit growth have worsened, equities have rallied. The drop in bond yields results in higher yield expectation from equities. Lower cost of borrowing, increased liquidity in domestic mutual funds from effects of demonetisation, better growth prospects from GST implementation, etc. could have likely contributed to the equity rally.

ASSET ALLOCATION VIS-À-VIS ECONOMIC PARAMETERS - USA

Economic Indicators - USA			
	2015	2016	2017 (YTD)
Unemployment Rate	Low	Low	Low
FED Rate	High	High	High
CPI	High	High	Low
GDP	Low	High	Low
Dollar Index	High	High	Low
10 yr Yield	High	High	Low

Asset Allocation - USA			
	2015	2016	2017 (YTD)
Equity	27.4	19.4	28.6
Commodity	32.9	21.7	10.1
Currency	30.6	20.2	27.6
Debt	9.1	38.7	33.7
Total	**100.0**	**100.0**	**100.0**

Key Takeaways

- Unlike India, in the US, asset allocation has increased to Currency as the Dollar Index has fallen in 2017 reflecting weakness in dollar vis-à-vis GBP and YEN. Though dollar has appreciated against INR, it has depreciated against other major currencies.
- Equities have seen most pronounced increase in asset allocation. Low unemployment rate, new economic policies under the new government and low bond yields would be the likely factors behind increased allocation towards equity.
- In commodities space, the asset allocation is continually reduced. Allocation has reduced from 33% in 2015 to 10% in 2017. Lower inflation indicating towards lower commodity prices explain the lower allocation towards metal commodities.
- Till recently, US was enjoying steady demand in bond buying coupled with low yields. This kept the momentum high in US bond market thus explaining the near fourfold increase in allocation to bonds in 2016. With the change in stance from US Fed, bond selling to start and rate hikes to continue, bond prices would depress. Allocation to bonds has started coming off in 2017 in anticipation.

HEDGE AND BE SAFE IN SAMVAT 2074

The past twelve months have borne witness to one of the most significant rallies across equities and bonds. Consequently, the asset allocation in equities is currently highest in last three years and the allocation to bonds has increased by more than threefold. Much of this rally has been driven by domestic and global easy liquidity and underlines the dichotomy that markets have behaved contrary to the underlying fundamentals.

Mr. Abhijit Chakraborty
Chief Operating Officer, MSE

India Asset Allocation

	2015-16	2016-17	2017-18
Equity	25.4	23.1	40.0
Commodity	11.0	48.6	20.8
Currency	33.9	22.5	19.2
Debt	29.7	5.8	20.0
Total	**100.0**	**100.0**	**100.0**

As it stands today, a balance sheet reduction by the US Federal Reserve system (US Fed) and the European Central Bank (ECB) could reverse the global liquidity cycle and have a cascading effect on emerging markets. As long as the US Fed purchased bonds, as it did for the last several years, the prices of bonds remained high (and yields low) as the market was sure of a large continuous buyer. The change in the Fed's stance now means that market is sure that there is a large continuous seller. US bond prices could therefore quite reasonably be expected to fall (and yields shall rise). This expected upward shift in the US bond yield curve will be abetted by Fed rate hikes and an improving outlook of GDP.

With higher treasury yields, the general expectation of yield from stocks would also be expected to rise. Higher equity yield could be possible if GDP growth compensates it, otherwise prices have to reduce for yields to match. Since US economy is not exactly roaring, a correction in equity is a more likely outcome. Such upheavals in the US and EU could have a cascading impact on liquidity and valuation in all emerging markets.

In India, GDP growth rate has declined from 7.1% to 5.7% in last twelve months and the trade balance has widened from $8bn to $11bn. Hence, while the economy has slowed, equity benchmarks are trading near their highs. Interestingly, CPI has cooled off by nearly 200 bps during the period, but the drop in repo has been only 25 bps and drop in 10 year yield has been only 12 bps. Government has the option and a compelling reason to effect a large rate cut to align the difference and boost the economy. In fact, it has a limited time window to do this as rising crude oil prices, increased fiscal deficit and more FED rate hikes may not permit a large rate cut if delayed.

While a rate cut and other fiscal stimulus measures are likely to offer a boost to our domestic economy, the resultant narrowing of the yield differential between US and Indian T-Bills should impact currency and bond prices. It is worthwhile to note that the INR, after moving in a narrow band of 64 – 64.5 for larger part of the year, suddenly gave way and lost 150 bps in a week's time. Such volatility may increase in currency and bonds going forward.

Markets always provide opportunity and there are sound investments available in all kinds of markets. However, the trend may be volatile in coming months and protecting one's wealth and investments should become a renewed priority. Hence, consider various hedging strategies including spreads, straddles, strangles, strips and straps, all of which can offer you protection from any foreseen and unforeseen storms.

IMPORTANT CIRCULARS

System for upload of Clients and Member's data as per the enhanced supervision guidelines specified by SEBI

The Exchange vide circular MSE/INSP/5382/2017 has intimated members regarding the facility provided to upload / submit specified data through the Exchange-developed web-based application. Accordingly, members are required to submit on a periodic basis, details of client's fund lying with the Stock Broker, details of clients in MSE, client's funds and securities balance. Additionally, members are also required to submit details of their Bank & Demat Accounts and their KMP's.

Disclosure of divergence in the asset classification and provisioning by banks

SEBI vide its circular CIR/CFD/CMD/80/2017 dated July 18, 2017 has directed banks to disclose divergence in the asset classification and provisioning in listed specified securities. Such disclosures by banks to the Stock Exchanges shall be mandatory, wherever -

1) Additional provisioning requirement assessed by RBI exceed 15% of the published net profits for the reference period.

2) Additional Gross NPAs identified by RBI exceed 15% of the published incremental Gross NPAs for the reference period.

Margin Trading Facility - Clarification

SEBI has issued circular for Clarification on Margin Trading Facility - vide circular CIR/MRD/DP/86/2017 dated August 01, 2017. It says "that Stock brokers may borrow funds by way of issuance of CP and by way of unsecured long-term loans from their promoters and directors. The borrowing by way of issuance of CPs shall be subject to compliance with appropriate RBI guidelines. The borrowing by way of unsecured long-term loans from the promoters and directors shall be subject to the appropriate provisions of Companies Act."

Disclosures by listed entities of defaults on payment of interest / repayment of principal amount on loans from banks / financial institutions, debt securities, etc.

SEBI has issued circular for Disclosures by listed entities of defaults on payment of interest / repayment of principal amount on loans from banks / financial institutions, debt securities, etc. - vide circular CIR/CFD/CMD/93/2017 dated August 4, 2017. The provisions are effective October 1, 2017 and all listed entities shall have to make above disclosures to the Stock Exchanges.

Action against Exclusively Listed Companies (ELCs) and its Promoters / Directors pending Exit Offer to the Shareholders

SEBI has issued a Circular regarding action to be taken against ELCs and its Promoters / Directors who have not given an Exit Offer to the Shareholders vide Circular CIR/IMD/DF-1/67/2017 dated June 30, 2017. SEBI has proposed to initiate action against those ELCs who are non-compliant with the provisions of the said circular dated October 10, 2016 and have failed to submit its plan of action.

MSE EVENTS

MSE's Member Connect Event at The Oberoi Grand Kolkata

MSE MD & CEO, Mr. Udai Kumar receiving the award for "Emerging Currency Exchange of India 2017" in Capital Market Vision-2020 organised by the PHD Chamber of Commerce and Industry in New Delhi.

INDIAN ECONOMIC INDICATORS

Economic Indicators*		
	Current	Previous
Forex Reserves	$399.66Bn	$402.25Bn
IIP (YOY)	1.2%	-0.1%
CPI (YOY)	3.36%	2.36%
WPI (YOY)	3.24%	1.88%
Quarterly GDP Growth (YOY)	5.7%	6.1%
Bank Credit Growth (QOQ)	6.50%	6.30%

*Source: RBI

Policy Rates*	
Bank Rate	6.25%
Repo Rate	6.00%
Reverse Repo Rate	5.75%
CRR	4.00%
SLR	20.00%
Call Money Rate	5.70%

*Source: RBI *As on October 10, 2017

Economic Calendar for the Period Oct 10 - Nov 10, 2017

Monday	Tuesday	Wednesday	Thursday	Friday
	10	11	12	13
	Japan/Germany/UK Trade Balance	US FOMC - Meeting Minutes	France/India - CPI	US/Germany - CPI
	France/UK - IIP	US - Jolts Job Openings	India - IIP	China - Trade Balance
16	17	18	19	20
China/India - Inflation	Eurozone/UK - CPI	UK - Unemployment Rate	Japan - Trade Balance	US - Existing Home
Japan - IIP	Eurozone - CPI	US - Housing Starts	China - GDP/IIP	
Eurozone - Trade Balance				
23	24	25	26	27
	Japan/Eurozone/US - MFG PMI	UK - GDP	ECB Policy Meeting	Japan - CPI
		US - New Home Sales		US - GDP
30	31	1	2	3
Japan - Retail Sales	BOJ Policy Meeting	Japan/China/India/UK/US - MFG PMI	Eurozone - MFG PMI	China/India - Services PMI
Germany - CPI	France - GDP/CPI	US - FOMC Meeting	BOE Policy Meeting	US - Nonfarm Payrolls
	Eurozone - GDP			US - Unemployment Rate
	India - Fiscal Deficit			
6	7	8	9	10
Japan - Services PMI		China - Trade Balance		
Eurozone - Services PMI				

Source: Bloomberg

METROPOLITAN STOCK EXCHANGE

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