FIRST Insights

March of global uncertainty

The month of March was marked by Brexit related uncertainties, with Brexit deadline getting delayed until 12 April. Recall, in March, PM May's divorce deal was defeated twice in the UK parliament and in early April, MPs rejected the four proposed alternative Brexit options (including the withdrawal agreement) in the latest round of "indicative votes". PM May has asked for a further delay to Brexit until 30 June and said that she "accepts the European Council's view that if the United Kingdom were still a member state of the European Union on 23 May 2019, it would be under a legal obligation to hold the elections". However, in case a withdrawal agreement gets ratified by Parliament before the elections then the period should be terminated early so that the UK can leave the EU before then and not hold Parliamentary Elections.

On the trade front, positive developments were seen between the US and China, with both the nation drawing closer to final trade agreement. That said, differences over enforcement mechanism and the removal of US tariffs were still seen as yet to be resolved issues – China wants US to remove existing US tariffs on Chinese goods while the US wants China to agree to terms of an enforcement mechanism. US hopes to reach a trade deal with China in about four weeks.

On global macro data, cues remain largely weak. J.P Morgan Global Manufacturing PMI at 50.6, was unchanged from previous month and signaled a further lackluster improvement in operating conditions in the global manufacturing economy. While US economic growth eased to 2.2% YoY in Q4 2018 vs. 3.4% recorded in Q3, PMI services slowed to a 7-month low, nonfarm payrolls and jobless claims data remained upbeat. On similar lines, economic activity indicators emerging out of the Eurozone were weak such as PMIs (Manufacturing PMI contracted, hitting its lowest level in 6 years) and industrial production.

Amidst an uncertain trade environment, decelerating economic growth, volatility in financial markets, the World Trade Organization slashed world merchandise trade growth forecast to 2.6% in 2019 (vs. its previous estimate of 3.7%), lower than 3% recorded in 2018. WTO also expects global economic growth to ease to 2.6% in 2019 from a 2.9% in 2018.

Shubhada M. Rao
Chief Economist

Vineet Dhar
Group President and Head,
Wealth & Channel Management

Global Macro Developments

- According to FOMC minutes the Federal Reserve is likely to leave interest rates unchanged this year due to risks to the US economy from a global slowdown and trade uncertainty. Recall, the Fed had kept its benchmark rate to a range of 2.25% to 2.5% in the policy meeting held on 20th March.
- US and China have agreed on the enforcement mechanisms and will be opening enforcement offices as a way to make sure each side lives up to the terms of a trade deal still under negotiation.
- UK government has agreed to a flexible extension of the Brexit deadline until 31 Oct 2019 in order to find the best possible solution.
- The BoE kept interest rate steady at 0.75% and said most businesses have braced for a "no-deal" Brexit that would likely hammer economic growth and jobs.
- Growth in developing Asia could slow down for a second straight year in 2019 and lose further momentum in 2020 amidst economic risks emanating from US-China trade war and a potentially disorderly Brexit, according to ADB. Developing Asia is expected to grow by 5.7% in 2019 compared to 5.9% growth in 2018.
- IMF has cut its global growth forecast by 20 bps to 3.3% in 2019 vs. 3.6% in 2018. IMF expects the global economy to pick up in H2 2019 amidst more growth friendly policies from central banks.
- Japan and the US held first round of talks on 15-16 April in Washington, to find ways to address US concerns over Japan's large trade surplus (USD 69 bn) with the United States.
- Bank of Japan Governor Kuroda said that the bank will look at the impact of its massive fiscal stimulus program on the country's regional banks.

Events and Data Calendar

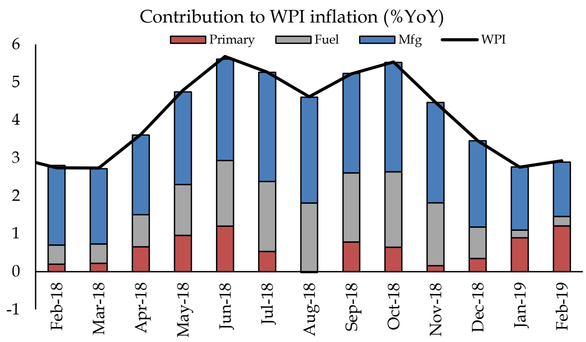
Region	Date	Event/Data	Period	Forecast	Actual	Prior	Change
US	5-Apr-2019	Unemployment Rate	Mar	3.80%	3.80%	3.80%	⇨
	10-Apr-2019	CPI YoY	Mar	1.80%	1.90%	1.50%	⇧
UK	20-Mar-2019	CPI YoY	Feb	1.80%	1.90%	1.80%	⇧
	29-Mar-2019	GDP QoQ	4Q F	0.20%	0.20%	0.20%	⇨
	10-Apr-2019	Industrial Production YoY	Feb	-0.90%	0.10%	-0.90%	⇧
China	31-Mar-2019	Manufacturing PMI	Mar	49.60	50.50	49.20	⇧
	11-Apr-2019	CPI YoY	Mar	2.30%	2.30%	1.50%	⇧
Japan	18-Mar-2019	Industrial Production YoY	Jan F	--	0.30%	0.30%	⇨
	29-Mar-2019	Industrial Production YoY	Feb P	-0.01	-1.00%	0.30%	⇩

P* – Provisional Estimates F* - Final Estimates A* - Advanced Estimates T*- Third Estimates

COMMODITY

- Gold prices contracted by 1.2% MoM in March vs. an increase of 2.1% MoM in February due to stronger dollar in Mar-19 vis-à-vis Feb-19 and on US-China trade deal optimism.
- Brent prices increased by 4.1% MoM in March vs. an increase of 8.13% MoM in February due to OPEC led supply cuts, US sanctions on Venezuela and Iran and clashes in Libya.

Domestic Market Macro Economics



India March WPI

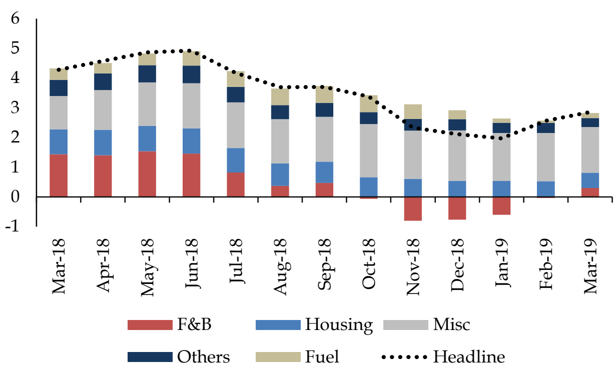
%YoY	Weights(%)	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
IIP	100	8.4	0.2	2.6	1.4	0.1
Sectoral Classification						
Mining	14.4	7.3	2.7	-1.0	3.9	2.0
Manufacturing	77.6	8.2	-0.7	3.0	1.0	-0.3
Electricity	8.0	10.8	5.1	4.4	0.9	1.2
Use Based Classification						
Primary goods	34.0	6.1	3.2	-1.2	1.4	1.2
Capital goods	8.2	16.9	-4.1	4.9	-3.4	-8.8
Intermediate goods	17.2	2.4	-4.1	-0.8	-3.2	-4.9
Infrastructure/construction goods	12.3	9.0	4.8	10.0	6.8	2.4
Consumer durables	12.8	17.4	-3.0	3.9	2.3	1.2
Consumer non-durables	15.3	8.6	-0.3	5.9	3.3	4.3

February IIP

- ✓ Owing to a slowdown in Manufacturing and Services PMI, the composite PMI dipped to a six-month low of 52.7 in Mar-19 from 54.3 in Feb-19.
- ✓ Core sector growth increased to 2.1% YoY in Feb-19 vs.1.5% YoY in Jan-19 led by expansion in output of coal and cement. Fall in output of crude oil and refinery products kept the growth in check.
- ✓ GST collection expanded to Rs. 1.06 tn in March from Rs. 972 bn in Feb-19, hitting the highest level since the introduction of GST, as compliance improved amid an increased number of return (number of returns filed increased to 75.95 lakh from 73.48 lakh up to 28th Feb-19). GST collection average run rate for FY19 stands at Rs. 974 bn.
- ✓ IIP for Feb-19 came in markedly weaker at 0.1%YoY compared to a downwardly revised Jan-19 reading of 1.4% (1.7% earlier). This marks not only the fourth consecutive month when expansion has remained subdued, after averaging at 5.7% over Apr-Oct, but also the lowest pace of expansion in last 20-months.
- ✓ As per latest data from RBI, non-food credit growth posted a slight moderation coming in at 14.4% YoY as of March, 2019 compared to 14.7% as of Feb 18, 2019. For the month of Feb-19, credit flow to services sector (such as NBFCs, professional services, and transport operators) and personal loan sector (especially housing and credit card outstanding) have been robust.
- ✓ India's retail inflation rose in Mar-19 to a 5-month high of 2.86% YoY from 2.57% in Feb-19. The uptick was driven by a sequential increase in price momentum of +0.36%MoM – marking not only the second consecutive monthly uptick in prices but also the sharpest pace of increase in past 7 months. The upward impetus in prices was driven by categories of Food and Fuel, while other component's momentum eased compared to previous month.

%YoY	Oct-18	Dec-18	Jan-19	Feb-19
Overall	4.7	2.6	1.7	2.1
Coal	11.3	0.9	1.7	7.3
Crude Oil	-5.0	-4.2	-4.4	-6.2
Natural Gas	-1.0	4.3	6.2	3.7
Refinery Products	1.3	-4.9	-2.6	-0.7
Fertilizers	-11.6	-2.4	10.5	2.5
Steel	2.6	13.3	8.3	4.9
Cement	18.5	11.6	11.0	8.0
Electricity	10.8	4.0	-0.3	0.7

CORE Sector – Muted Performance



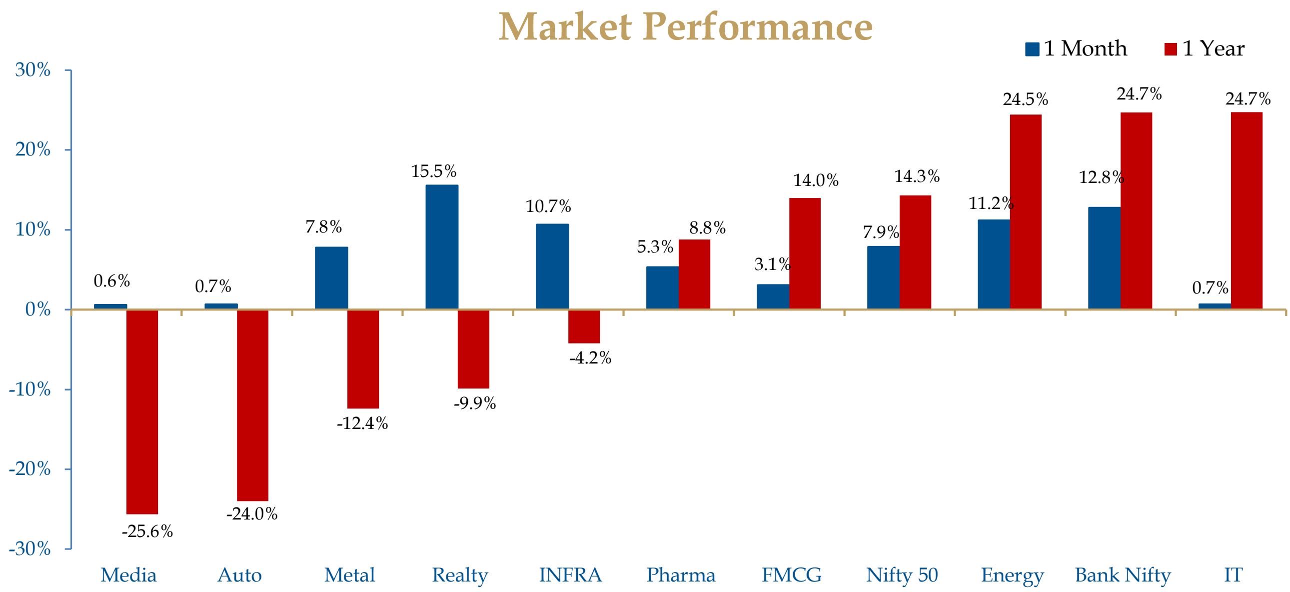
India March CPI

We expect:

- ✓ We revise lower our GDP growth estimate to 6.9% from 7% earlier in FY19 as IIP for Feb-19 came in markedly weaker than expected, at 0.1%YoY compared to a downwardly revised Jan-19 reading of 1.4% (1.7% earlier).
- ✓ On inflation front, we expect CPI inflation to average at 3.8% YoY in FY20 (with marginal downside risks) on account of lower horticulture production and reversal of the extremely soft food inflation regime.

Equity Market Insights

- March saw Nifty breaking out from a prolonged consolidation period that ranged between 10,600 - 11,100 and the architect of recent rally have been i.e. Bank Nifty, Infrastructure & Midcaps. Nifty is currently playing catch up with other EMs & global markets peers.
- In early February, Indian indices were at the bottom of the pack. Now they are among the best performers.
- With mega event of Lok Sabha elections lurking around the corner, action on Dalal Street has already begun. A historical analysis of past general elections reveals that BankNifty & Financials tends to outperform the Nifty ahead of election (i.e. from 1st March to result date of the election). FMCG sector tends to remain under pressure, underperforming benchmark Nifty & Realty index has stood out as among the top 5 gainers in previous pre-election rallies.



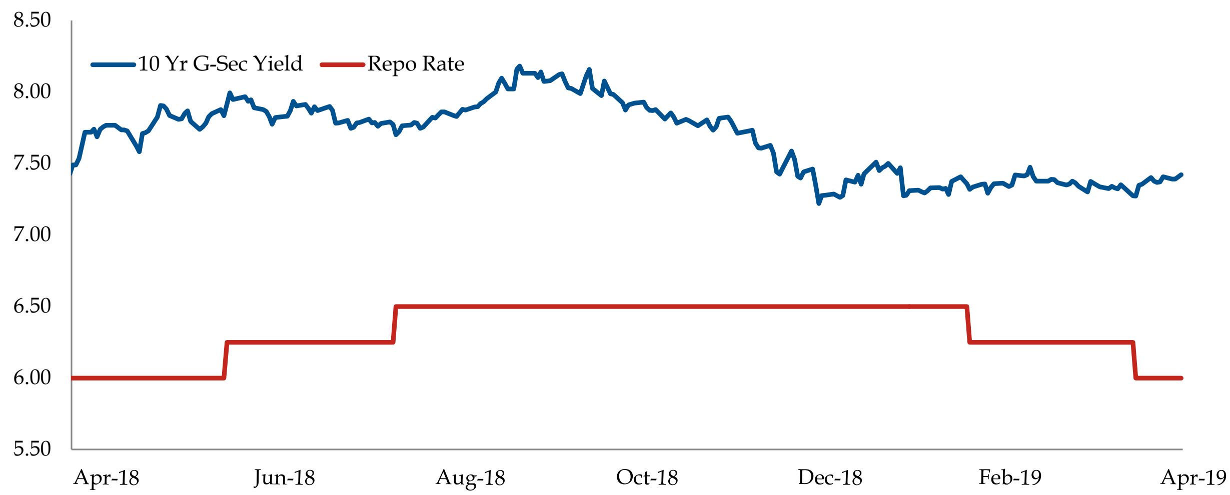
Outlook & Expectations

- Equities would have possibly done even better had corporate earnings supported. We've now had a decade of sub-par earnings growth. The rise of players with innovative model in the non-listed space may have prevented pricing power for traditional players in many industries. The weak commodity cycle meant that companies linked to these sectors, didn't report strong numbers. In the last 12-15 months, PSUs did poorly even as the domestic facing private sector was on a recovery path. There has been over-reliance on the service sector to keep pushing GDP upwards. Agriculture has been weak and private capex cycle was downhill. Demonetisation, a gutsy move, clean in intent, was tardy in implementation and has not allowed GDP growth to rise to full potential. Likewise with GST. However, we believe that, with teething troubles out of the way, these two mega initiatives will ably support higher growth of the formal economy going forward.
- As seen with market cycles historically, it could be the case that after a period of consolidation in indices, the second half of the Bull Run may offer much higher returns compared to the first half. We feel the best for investors is yet to come.
- On corporate earnings, Q4 FY19 numbers are likely to jump as heavy losses were reported by PSU banks and private bank like AXIS in the last quarter of FY18. Excluding financials, topline is estimated to grow 9%, while PAT may witness some de-growth due to EBITA compression.
- Improvement in economic prospects will be achieved with better liquidity situation, through monetary policy and government action on stuck project resolution and measures outside the RBI policy. There is a possibility of another interest rate cut by RBI.

Debt Market Insights

- The average systemic liquidity maintained a deficit of INR 518 bn in March from a deficit of INR 661 bn in February.
- The average 10 yr G-sec bond yield during March moderated to 7.35% from 7.36% in February because of INR strengthening, increase in oil prices, dovish stance from major central banks, higher than expected CPI inflation prints for Feb-19 and fall in German yields. Media reports citing likelihood of OMO purchases by the RBI in FY20 also aided sentiment.
- MPC is likely to remain under a data dependent mode with stance of policy neutrality rendering it the flexibility to provide incremental need based accommodation. Between now and the next monetary policy, RBI will keep a close tab on the severity of food prices and the momentum in fuel inflation, in its overall assessment of inflation outlook; along with growing evidence of growth slowing. In the event of growth momentum slowing down more than expected, or upside risk to inflation failing to play out, the chance of another 25 bps rate cut by Aug-19 cannot be ruled out.

10 Yr G-Sec Vs. Repo Rate



Outlook and Expectations

- RBI has introduced a new instrument to its liquidity management toolkit, via a dollar buy/sell swap - the first auction of USD 5 bn for a 3 year tenor was held on 26 Mar-19. The buy/sell swap by the RBI to infuse liquidity will be helpful in partially alleviating year-end liquidity tightness for the banking system owing to continued increase in CIC (currency in circulation) especially ahead of elections, along with year-end GST collection outflows. If such swap based liquidity intervention gets more readily utilized in FY20, then it would tend to crowd out OMO purchases. Recall, in FY19, RBI provided liquidity worth INR 3.0 tn via OMO purchases i.e. absorbing ~71% of the net g-sec supply. As per the market consensus, there is a likelihood of INR 1700 bn OMO purchases in FY20. Part of this expectation could potentially get adjusted lower if RBI decides to use a mix of tools for liquidity infusion. This could have a marginal negative impact on long dated bonds.
- From bond perspective, we expect 10Y G-sec to trade in the range of 7.2 - 7.6% in FY20. Based on domestic and global policy signals (assuming no further Fed rate hikes, domestic fiscal deficit at 3.4% of GDP, and 1 rate cut by RBI), the fair value of 10Y G-sec estimated at 7.4 - 7.5% for Mar-20.

Glossary:

- **Consumer Price Index (CPI):** A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.
- **Wholesale Price Index (WPI):** An index that measures and tracks the changes in price of goods in the stages before the retail level.
- **Open Market Operations (OMO's):** is the buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system. Purchases inject money into the banking system and stimulate growth while sales of securities do the opposite.
- **Cash Management Bills (CMB):** A short-term security sold by RBI to meet any temporary shortfalls.
- **Purchasing Managers Index (PMI)** is based on surveys on private sector service /manufacturing companies. An index level of 50 denotes no change since the previous month, while a level above 50 signals an increase or improvement and below 50 indicates a decrease or deterioration.
- **Net Demand and Time Liabilities (NDTL):** It is the sum of demand and time liabilities (deposits) of banks with public and other banks wherein assets with other banks is subtracted to get net liability of other banks.
- **Current Account Deficit (CAD):** A measurement of a country's trade in which the value of goods and services it imports exceeds the value of goods and services it exports. A current account deficit represents negative net sales abroad. A country can reduce its current account deficit by increasing the value of its exports relative to the value of imports.
- **West Texas Intermediate (WTI):** also known as **Texas light sweet**, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.

For Further Information on Model Portfolios, Kindly contact your Relationship Manager.

YES BANK Limited

Regd. & Corporate Office: Nehru Centre, 9th Floor, Discovery of India, Worli, Mumbai 400018. | Tel: + 91 22 6669 9000 Fax: + 91 22 6669 9018
Northern Regional Corporate Office: 48 Nyaya Marg, Chanakyapuri, New Delhi 110 021. |Tel: + 91 11 5556 9000 Fax: +91 11 5168 0144

Contact Details

Radhika Piplani and Sanjana Shah	Shubhada M. Rao	Vineet Dhar
Economist	Chief Economist	Group President and Head
radhika.piplani@yesbank.in	shubhada.rao@yesbank.in	Wealth & Channel Management
sanjana.shah@yesbank.in		vineet.dhar@yesbank.in