FIRST Insights

IMF lowers estimates for World GDP growth

The month of December has begun with the European Central Bank delivering lesser-than-expected stimulus measures (10 bps deposit rate cut, extension of QE program by six months) in its much-anticipated monetary policy meeting. This fuelled a global risk-off sentiment, as markets were disappointed by ECB president Draghi who was widely expected to over-deliver on the measures. However, the renewed slide in energy prices and recent reading on core inflation ticking lower (0.9% in Nov. vs. 1.1% in Oct); the downside risks to ECB's inflation forecast of 2% have arisen, and is likely to weigh on ECB's decision on stimulus going forward.

As the EU undertakes further stimulus measures, US Fed officials' hawkish statements have driven the dollar to eight-year highs, signaling an imminent rate hike in December. Nonfarm payrolls of November also posted strong numbers (211K vs. market expectations of 200K increase), thereby reaffirming improvement in labour market and raising the likelihood of lift-off by US Fed at its upcoming meeting. In anticipation of a rate lift-off, financial markets across emerging economies are seeing downside pressures, with their currencies moving lower and gold hovering near six-year lows. Going forward, global market volatility would pick up further as we approach the day of the US FOMC meeting.

Meanwhile, revised 3Q-2015 GDP data from Japan showed its economy grew 0.3% revised up from the initial estimate of -0.2% driven by stronger investments and moderate decline in inventories. Chinese export data which was being closely watched for signs of stabilization surprised with yet another weak print in November (Actual -6.8% YoY vs. expectation of -5%). The concomitant impact of trade slowdown in China was visible across other key exporting nations. South Korea's export continued to remain weak and fell 4.7% in November and Taiwan's exports contracted (Actual: -11%, Forecast: 11.1%) for the 9th straight month in October.

On the domestic front, lead indicators continue to highlight a recovery, albeit still not broad-based. Amid persistent weakness in external demand and a lack of appetite for private investment, PMI manufacturing eased to near 2-year low. After touching an eight-month high in October, November PMI services also fell sharply, as growth in commercial vehicle sales and domestic aviation passenger traffic was offset by a slowdown in tourist arrivals, cargo and railway freight traffic. Bank credit growth continues to remain weak on tepid off-take in industry sector and recourse to cheaper and non-bank sources of funding. On the positive side, while core sector growth in October was partly supported by a favorable base, month-on-month momentum in certain sectors (fertilizers, cement) has shown successive increases.

On the fiscal front, 7th Central Pay Commission (CPC) report released in November has put the focus on the viability of the fiscal consolidation path for FY17. For the FY17 Union Budget, the total financial implications of the 7th CPC is projected to be INR 736 bn (0.49% of GDP; ex railways), with the government likely to face a tightrope maintaining public spending. A likely solution could be staggering the payments over the next few years. To some extent, the wage-increase led increase in tax revenues would also help the fiscal position. For the economy as a whole, the 7th CPC wage hike is likely to be a boost to discretionary consumption, as also noted during previous pay hikes. In the medium term, continued focus on reforms such as ease of doing business, Make in India and progress on labor reforms should allow recovery to acquire a more sustained character, propelling growth closer to 8% in FY17

Shubhada M. Rao
Chief Economist

Kanwar Vivek
Senior President and HeadWealth Management & Global Indian Banking

Global Macro Developments

- Global business growth accelerated in November as new orders picked up despite firms raising prices at the steepest rate since July-2015. The JP Morgan Global Output Index rose to 53.7 in November from October's 53.1.
- Japan GDP was revised to a better-than-expected reading to show growth of 1.0% YoY (Previous: -0.8%, Forecast: +0.1%), suggesting that the economy could be in better shape than previously believed.
- US Nonfarm payrolls rose 211K in November compared to market expectations of a 200K increase. September and October data was revised to show 35,000 more jobs than previously reported.
- The ECB in its monetary policy meeting cut its deposit rate deeper into negative territory (-10bps to -0.3%) and extended its ongoing QE program by six months through March 2017; disappointing participants in the market who had expected the Bank to have eased monetary policy further.

Events and Data Calendar

Region	Date	Event/Data	Period	Forecast	Actual	Prior	Change
Japan	11/27/2015	National Consumer Price Index (YoY)	(OCT)	0.3%	0.3%	0.0%	↑
US	11/2/2015	ISM Manufacturing	(OCT)	50	50.1	50.2	↓
	11/24/2015	Gross Domestic Product (Annualized)	(3Q S)	2.1%	2.1%	1.5%	↑
	11/24/2015	Consumer Confidence	(NOV)	99.5	90.4	99.1	↓
	11/25/2015	US Durable Goods Orders	(OCT)	1.7%	3.0%	-0.8%	↑
	11/17/2015	ZEW Survey (Economic Sentiment)	(NOV)		28.3	30.1	↓
	11/13/2015	Gross Domestic Product s.a. (YoY)	(3Q A)	1.7%	1.6%	1.5%	↑
EU	11/5/2015	UK Bank of England Rate Decision	(NOV 5th)	0.5%	0.5%	0.5%	→
	11/30/2015	German Consumer Price Index (YoY)	(NOV P)	0.4%	0.4%	0.3%	↑

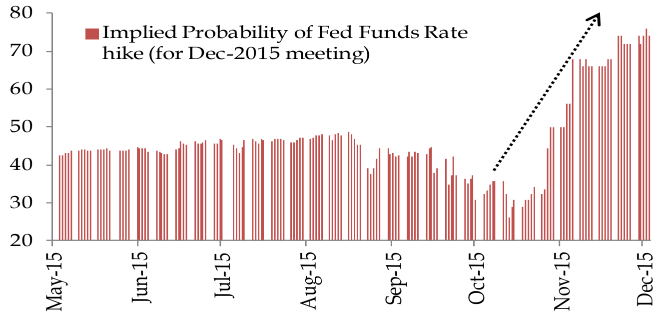
P* – Provisional Estimates F* - Final Estimates A* - Advanced Estimates T*- Third Estimates

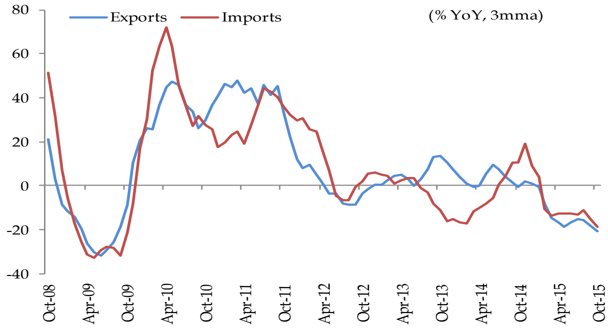
COMMODITY

- Gold prices contracted 6.3%MoM in Nov-15 (following a 2.8% MoM expansion in Oct-15) as prices have been under pressure on investor expectations of US rate hike, reducing safe-haven demand for the metal.

- Brent prices contracted 7.8% MoM in Nov-15 (post contracting 0.40% MoM in Oct-15) amid low volumes, on continued concerns of a global supply glut, with possibility of slowing growth in China weighing further. Effects of the OPEC decision to maintain production weighed, accompanied by a stronger USD.

Domestic Market Macro Economics

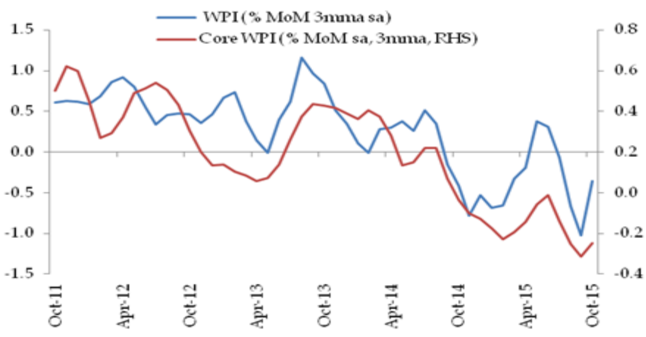




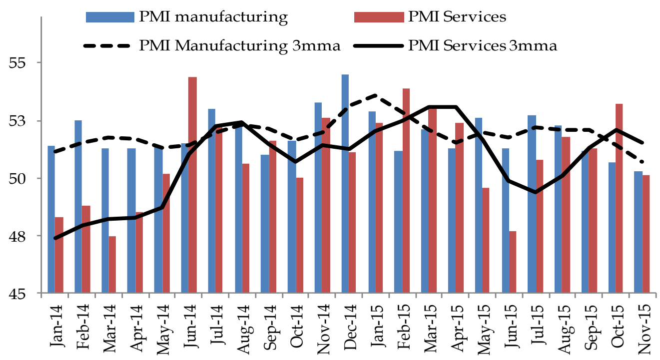
US rate hike imminent in December

India's trade metrics weak on trend

- ✓ GDP Growth for Q2FY16 came in at 7.4%YoY with the activity side GVA growth clocking in line with our expectations also at 7.4% (YBL GDP forecast was at 7.5%)
- ✓ India's fiscal deficit during April-October FY16 improved to 74.0% of Budget estimate (BE) as compared to 89.6% of BE over same period last year, on the back of buoyancy in non-tax revenues and indirect tax collections.
- ✓ India's industrial output rose 3.6% YoY in September-2015, notably lower than market expectations and a robust reading of 6.3% in August-2015 (Bloomberg Consensus: 4.9%; YBL Estimate: 4.3%).
- ✓ On the inflation front, as expected, the CPI rate accelerated to 5.0% YoY in Oct-15 vs. 4.41% in Sept-15 (Bloomberg Consensus: 4.9%; YBL Estimate: 5.0%).
- ✓ In line with our expectations, India's trade deficit for Oct-2015 eased to USD 9.8bn from USD 13.6bn in Oct-2014 (YBL Estimate: USD 10.5bn, Bloomberg Consensus: USD 11.1bn). A 17.5% decline in exports, coupled with a relatively lofty 21.2% dip in imports drove the improvement in trade deficit for the month vis-à-vis Oct-14.
- ✓ NIKKEI India Manufacturing PMI survey for November moderated to a near-2 year low, continuing its downward slide since July. Given the dismal performance over the past few months, on a FYtd basis, the reading has been tracking lower than same-period last year (FY16td: 51.6, FY15td: 51.9).



Momentum of WPI and core inflation remains negative



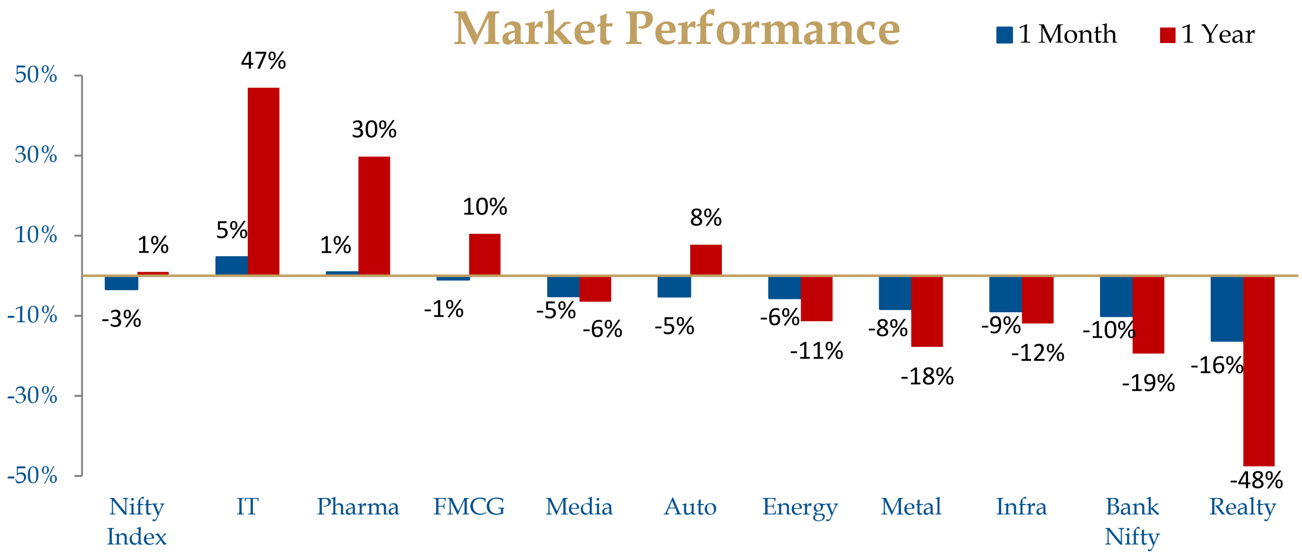
India's November PMIs hovering near 50-level

We expect:

- ✓ From a global perspective, even as emerging markets are likely to slowdown collectively, growth prospects for India appear to be relatively bright. ***Compared to average growth of 4.0% for emerging economies (IMF 2015), we continue to expect the Indian economy to clock 7.5% in FY16.***
- ✓ We expect average CPI inflation to come at 5.1% in FY16 from 6.0% in FY15 amidst softening global commodity prices especially oil, slowdown in global growth prospects and quickened pace of policy transmission led by aggressive deposit rate cut; juxtaposed with the delay in closing of the domestic output gap.
- ✓ We expect RBI to ease policy repo rate by 25 bps in Q4 FY16. Further 25 bps easing is likely in Q1 FY17 provided the government sticks to the path of indicated fiscal consolidation despite the onus of increased wage and pension bill, global commodity prices remain soft, and food inflation remains under check

Equity Market Insights

- The month of November saw the Indian stock markets continue on a bumpy ride. The BSE Sensex closed at 26,146, lower by 1.9% for the month while the Nifty closed at 7,935; down by 1.6% during the same period. The CNX Mid-Cap and CNX Small-cap indices relatively outperformed with gains of 0.1% and 3.4% respectively.
- During November, FIIs interest remained subdued with regards to the capital markets. There was a net outflow of US$ 1.2 bn from equity markets and US$ 0.6 bn from debt markets taking the total tally to an outflow of US$ 1.7 bn from capital markets. DII's were net buyers and ~ $2.4bn during the same period.



Factors to Watch

- Markets remained volatile with growing fears related to global growth. The fears were further exacerbated with data from China continuing to indicate that the economy is seeing signs of a slowdown. In addition to this the other major event that the global investors are watching out for is the hike in interest rates in the US. With data from the US showing signs of improvement, there are increased expectations that the rate hike may happen in the current calendar year. A high probability of a rate hike followed by a dovish stance post that is what is being priced in by the global markets.
- Investors would also be keeping a close eye on commodity prices particularly that of crude. Increasing geo-political tensions in the region as well as the upcoming OPEC meet would be crucial factors guiding the prices of crude in the near term.
- Other events that investors would keep an eye on would be data related to China and other geo-political events.

Outlook & Expectations

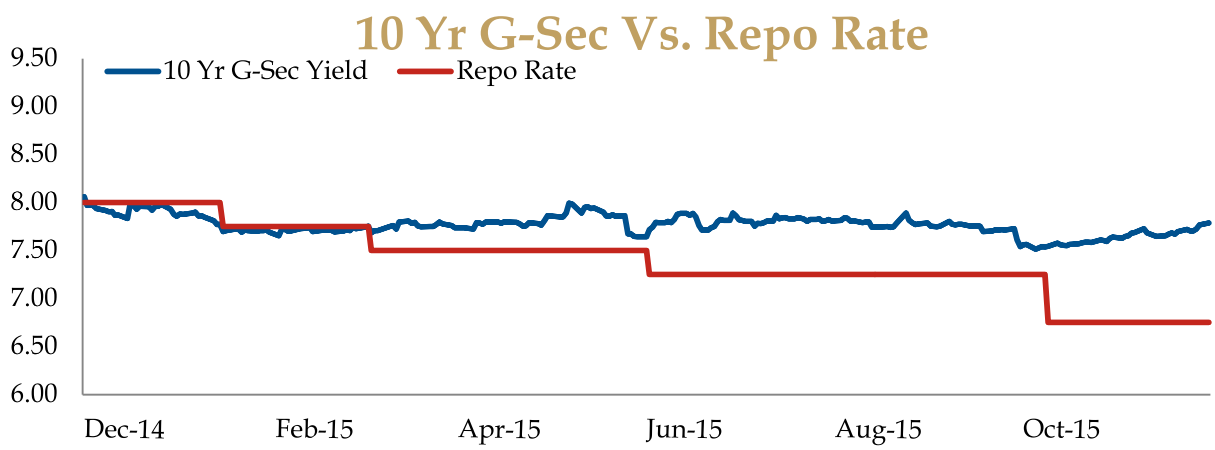
- In terms of valuations, the Sensex is trading at a trailing twelve month PE multiple of 20.6 times which is slightly higher than its long term historic average of 18.2 times. On a forward earnings basis the Sensex is trading at a multiple of around 17.4 times, which suggests that markets are not expensive but fairly valued at current levels. Building an assumption of a robust improvement in earnings in FY17, we believe that the markets are still attractive from a longer term perspective, i.e. for 2 to 3 years. We believe that any correction in the market should be viewed as an ideal time to pick up quality stocks.
- We recommend equity investments through a Systematic Transfer route with a minimum investment horizon of 36 months.
- From a long term perspective we continue to remain positive on companies in infrastructure, capital goods and auto stocks. Investors could also look at investing in select stocks in the IT space.

Debt Market Insights

- The average systemic liquidity deficit in Nov rose to INR 758 bn from INR 299 bn in previous month on account of currency leakage in the system.
- Average 10 yr yield during Nov rose to 7.69% from 7.57% in Oct tracking the depreciation of the Rupee.
- In line with our expectations, the RBI maintained status quo on key policy rates in its fifth bi-monthly policy review after the front loaded action in September and the anticipated monetary policy divergence in advanced countries.

Outlook and Expectations

- In line with our expectations, the RBI maintained status quo on key policy rates in its fifth bi-monthly policy review after the front loaded action in September and the anticipated monetary policy divergence in advanced countries. We continue to expect 25 bps cut in the repo rate in Q4 FY16
- Further 25 bps easing is likely in Q1 FY17 provided the government sticks to the path of indicated fiscal consolidation despite the onus of increased wage and pension bill, global commodity prices remain soft, and food inflation remains under check



Model Portfolios – December 2015

Asset Class	Conservative	Cautious	Moderate	Growth	High Growth
I) Debt (%)	95	70	50	25	10
Ultra Short Term Funds	20	15	15	5	-
Dynamic /Income Funds	35	30	20	15	5
NCD/ Bank Deposit	40	25	15	5	5
II) Equity (%)	-	15	30	45	55
Large Cap	-	15	25	30	35
Mid cap	-	-	5	10	15
Sector/ Thematic	-	-	-	5	5
II) Alternate (%)	5	15	20	30	35
Gold ETF	5	5	10	10	10
Structured Products	-	10	10	10	10
PE/ Real Estate Funds	-	-	-	10	15
Total (%)	**100**	**100**	**100**	**100**	**100**

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

Garima Kapoor
Economist
garima.kapoor@yesbank.in

Shubhada M. Rao
Chief Economist
shubhada.rao@yesbank.in

Kanwar Vivek
Senior President and Head
Wealth Management & Global Indian Banking
kanwar.vivek@yesbank.in

About YES BANK

YES BANK, India's new age private sector Bank, is the outcome of the professional & entrepreneurial commitment of its Founder, Rana Kapoor and its top management team, to establish a high quality, customer centric, service driven, private Indian Bank catering to the future businesses of India. YES BANK has adopted international best practices, the highest standards of service quality and operational excellence, and offers comprehensive banking and financial solutions to all its valued customers.
YES BANK has a knowledge driven approach to banking, and a superior customer experience for its retail, corporate and emerging corporate banking clients. YES BANK is steadily evolving as the Professionals Bank of India with the long term mission of "Building the Best Quality Bank of the World in India".