FIRST Insights

Upbeat US labour data raises odds of a December lift off

Odds of a Fed rate hike in December increased substantially post robust non-farm payrolls data. October nonfarm payrolls additions were 270k as compared to 137k in Sept. The chances of a December lift off were further cemented by US Fed chairperson's comments in the week prior. US Fed chairperson Janet Yellen, said the US economy was performing well and that a December rate hike was a "live possibility". The response in the market to the enhanced chances of a Fed rate hike was swift with dollar index strengthening most since mid April.

Across the Atlantic, ECB continued to defend Bank's monetary policy stance and willingness to review the ongoing monetary stimulus (EUR 60 Bn/month) on sluggish price pressures (-0.0% in Oct-15 vs. -0.1% in Sept-15). Amidst low prices and weak Euro, European commission raised its 2015 GDP forecast to 1.6% (vs. 1.5% in May). Nonetheless, slowdown in emerging market economies and global trade is likely to act as headwind to growth as was reflected in Commission's forecast for 2016 which was lowered to 1.8% from 1.9%.

Trade data from key exporting nations continue to validate weakness in global demand amid weak commodity prices. China's trade surplus came in at a record high (October: USD 61.6 Bn, Forecast: USD 64.7 Bn), as imports fell 18.8% much faster than the 6.9% contraction in exports. South Korea's export also fell 15.8% (US 43.5 bn) in October, their 10th straight month of declines. While Japan's exports rose marginally by 0.6% (forecast: 3.8%) in Sep-15, it fell ~4% in volume terms, underscoring weakening global demand conditions.

In the backdrop of challenging external environment, domestic economic recovery continued to remain subdued. Manufacturing PMI moderated to 22 month low in Oct-14 while bank credit to industry de-grew by 1.1% FYTD compared to a de-growth of 0.4% in the corresponding period last year corroborating somber industrial sector recovery. Moreover, while core sector growth in Sep-15 improved to 3.2% from 2.7% in Aug-15, the improvement was mainly on account of favorable base. The weak growth momentum was also validated by the Q2FY16 corporate results. Second consecutive year of sub-par monsoon, subdued rural demand, lack of appetite for private investment amid a challenging external environment have kept the recovery in top line growth of companies tepid. On the positive side, services activity during Oct-15 expanded at the strongest pace in 8 months underpinned by stronger inflows of incoming new business. Additionally, fiscal data continued to reflect government's focus on higher plan spending amid strong tailwinds from of low oil prices and savings on subsidy.

While there is little doubt that domestic growth has bottomed out and is gradually turning a corner, divergence in domestic trends - urban versus rural consumption, government versus private capex cycle along with high level of stress in banking sector assets - would continue to act as restraint in the near term. As such, we expect downside bias to our FY16 GDP growth estimate of 7.8%.

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Global Macro Developments

- US 3Q2015 GDP growth slowed to 1.5% (2Q2015: 3.9%, Forecast: 1.6%) as producers cut back on output to prevent inventory buildup.
- US labor market data exceeded expectations, with nonfarm payrolls rising 271k (Forecast: 180k), wage earnings rising 0.4% (Forecast: 0.2%) and unemployment falling to 5% (Forecast: 5.1%).
- Euro area PMI came in slightly below estimates in October (53.9, Forecast: 54.0, September: 53.6), as output rose in both manufacturing and services.
- Bank of England kept its benchmark rates on hold in its monetary policy meeting, while trimming its growth and inflation forecasts for this year and 2016.
- China official non-manufacturing PMI slowed to a less-than-expected 53.1 in October (September: 53.4), though new orders and employment rose, and prices showed an increase. Manufacturing PMI however remained stable at 49.8.

Events and Data Calendar

Region	Date	Event/Data	Period	Forecast	Actual	Prior	Change
China	1/10/2015	CNY Manufacturing PMI	(SEP)	49.7	49.8	49.7	↑
	5/10/2015	US ISM Manufacturing	(SEP)	50.6	50.2	51.1	↓
	16/10/2015	USD U. of Michigan Confidence	(OCT P)	89	92.1	87.2	↑
	28/10/2015	USD Federal Open Market Committee Rate Decision	(OCT 28)	0.0025	0.0025	0.0025	→
	19/10/2015	US Gross Domestic Product (Annualized) (3Q A)	(AUG)	0.016	0.015	0.039	↓
	29/10/2015	US Core Personal Consumption Expenditure (QoQ)	(3Q A)	0.014	0.013	0.019	↓
EU	13/10/2015	EU German ZEW Survey (Economic Sentiment)	(OCT)	6.5	1.9	12.1	↓
	22/10/2015	European Central Bank Rate Decision	(OCT 22)	0.005	0.005	0.005	→
	30/10/2015	Euro-Zone Consumer Price Index Estimate (YoY)	(OCT)	0	0	-0.001	↑

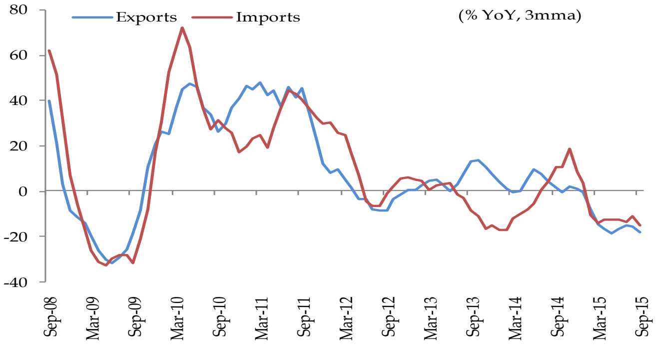
P* – Provisional Estimates F* - Final Estimates A* - Advanced Estimates T*- Third Estimates

Commodity

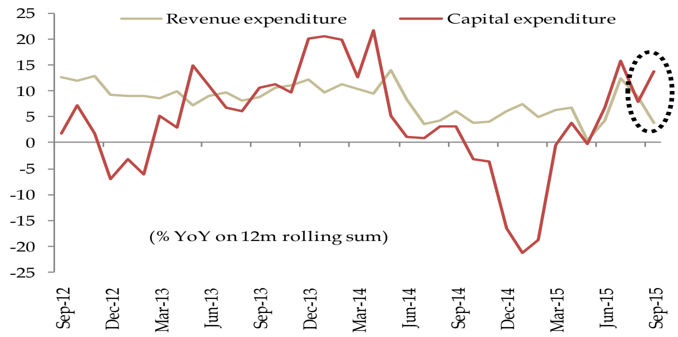
- Gold prices increased 2.8% MoM in Oct-15 (vs. 0.5% MoM in Sept -15) mainly as expectations of Fed rate hike were deferred to December post October FOMC meet.
- Brent prices contracted 0.4% MoM in Oct-15 (as compared to a 0.50%MoM decline in Sept-15) as the rate easing announced by PBoC highlighted sluggish domestic demand conditions, weighing on investor sentiment.

Domestic Market Macro Economics

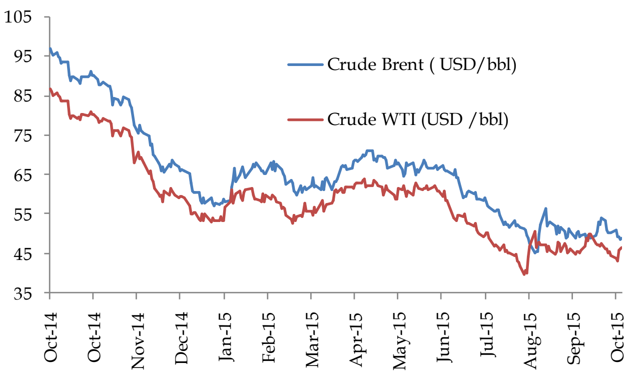
India's trade metrics weak on trend

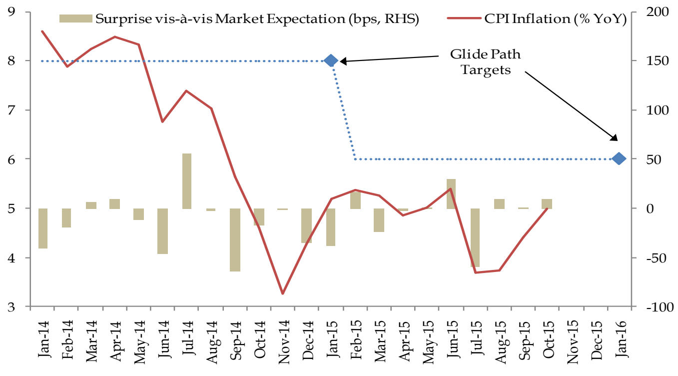


Improvement in quality of fiscal spending



- H1FY16 fiscal data continues to provide incremental comfort on two fronts (i) continued robust indirect tax collections and (ii) concomitant improvement in the quality of spending on back of higher capex.
- 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 FYTD basis, IIP clocked 4% YoY (vs. 2.9% in 2015) driven by manufacturing on the sectoral front and the capital goods under the use based classification.
- CPI rate accelerated to 5.0% YoY vs. 4.41% in September (Bloomberg Consensus: 4.9%; YBL Estimate: 5.0%), largely due to the waning of the favorable base effect.
- India's Sep-15 trade deficit eased to USD 10.5 bn from USD 12.5 bn last month (YBL estimate: USD 9.0 bn, consensus: USD 11.5 bn). A marginal uptick in exports coupled with a decline in imports drove the improvement in trade deficit for the month vis-à-vis Aug-15
- The Nikkei India PMI Manufacturing moderated to a 22 month low of 50.7 in October from 52.1 in September albeit remaining in an expansionary zone.





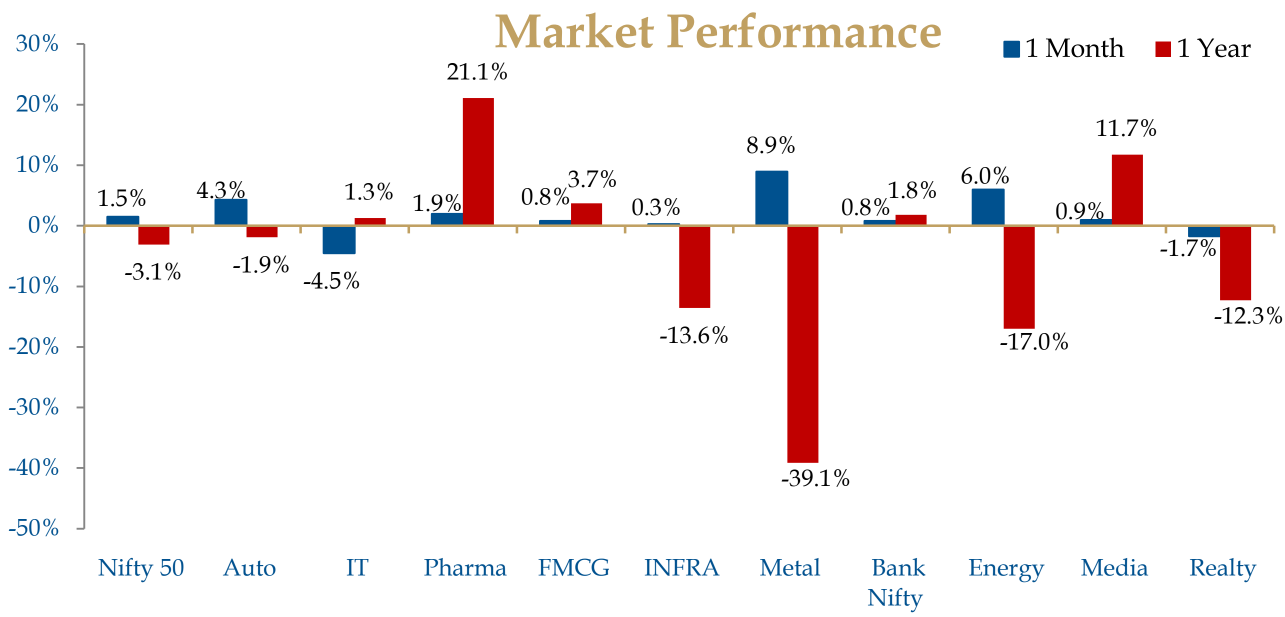
CPI: Remains well below RBI's Jan-2016 target

We expect:

- We expect downside bias to our FY16 GDP growth estimate of 7.8% amidst divergence in domestic trends - urban versus rural consumption, government versus private capex cycle along with high level of stress in banking sector assets. In the medium term, improvement in real income amid moderation in inflation continued gradual support from government reform measures and enhanced public capex will propel growth close to 8% in FY17.
- We expect CPI inflation to undershoot the 6% target for January by 40-50 bps amidst low commodity prices and food management measures by the government.
- We now expect RBI to ease policy repo rate by an additional 25-50 bps between Jan-Sept 2016 amidst subdued global commodity prices and slowdown in global economic activity.

Equity Market Insights

- The month of October saw the Indian stock markets continue on a bumpy ride but ending the month on a positive note. The BSE Sensex closed at 26,657, higher by 1.9% for the month while the Nifty closed at 8,066; up by 1.5% during the same period. The CNX Mid-Cap and CNX Small-cap indices relatively outperformed with gains of 1.96% and 2.47% respectively
- The FII invested about $ 0.868 bn from Indian equities and about $ 2.3 bn to debt markets during the month. DII's were net buyers and ~ $2.4bn during the same period.

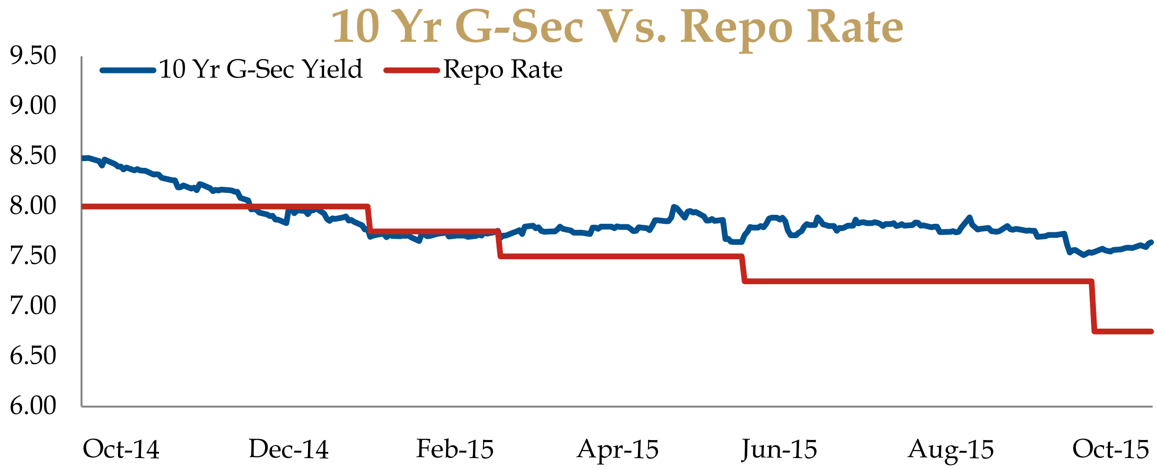


Outlook & Expectations

- In terms of valuations, the Sensex is trading at a trailing twelve month PE multiple of 21.3 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 15.4 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 private sector banks. Investors could also look at investing in select stocks in the IT and auto space.

Debt Market Insights

- The average systemic liquidity deficit in Oct increased to an average INR 299 bn as compared to a surplus of INR 62 bn in Sept.
- Average 10 yr yield during Oct eased to 7.57% as compared to 7.72% in September on the back of comfortable liquidity conditions and hike in FII debt limit.
- The first tranche of the G-Sec limit auction for FPIs (as per RBI's new framework) attracted a strong response from foreign investors on October 12. The bid-to-cover ratio was almost 1:3, wherein investment limits worth Rs 56 bn drew an unprecedented bid of ~Rs172.2 bn.



Outlook & Expectations

- We expect RBI to ease policy repo rate by an additional 25-50 bps between Jan-Sept 2016 amidst subdued global commodity prices and comfortable attainment of CPI target.
- We continue to expect 10yr Gsec yield to ease towards 7.35% supported by benign commodity prices, RBI's easing monetary stance and comfortable liquidity conditions.
- We continue to believe that short term rates are attractive at current levels and suggest investing in short term funds and dynamic bond funds for an investment horizon of 12 to 18 months and for certain aggressive clients strategic allocation in long term income /gilt funds.

Model Portfolios – November 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.

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