FIRST Insights

IMF lowers estimates for World GDP growth

The last few weeks have witnessed a gradual return of the stability following the gyrations in August that were triggered by the devaluation of Chinese yuan. However, despite return of some stability, global growth is expected to moderate led mainly by modest pickup in advanced economies and slowing in emerging markets led by China.

In a validation of the same, the IMF recently lowered its global growth forecast for 2015 to 3.1%, from 3.3% estimated in July while WTO lowered growth in world trade forecast to 2.8% from 3.3% in April on softening growth in emerging market economies. Weaker growth in oil exports, slowdown in China, adjustment in the aftermath of credit and investment boom, weaker outlook for commodity exporters, as well as geo-political tensions in a number of emerging economies was affecting the growth prospects in emerging economies.

Citing concerns on global recovery and volatility in global markets, the Federal Reserve kept interest rates unchanged in its Sept policy meet. Meanwhile, incoming jobs market data has been surprising on the downside. US added 143k payrolls in Sept, compared to downward revised 136k in Aug and 223k in July possibly suggesting that the jobs market may be losing some steam in recent months.

Meanwhile recovery in Euro zone moved along a steady path with average PMI manufacturing level remaining unchanged in Q32015 (52.3) as compared to Q2. The inflation print in the currency bloc fell by 0.1% YoY in Sept-15, turning negative for the first time in 6 months on continued slump in oil prices. Modest recovery along with inflation remaining well below ECB target of 2% is likely to raise prospects of expansion in ECB's quantitative easing program.

Among other major economies, Bank of England left interest rates unchanged at 0.5% on low inflation and "gentle deceleration" in economic growth to 0.6% in Q32015, lower than 0.7% in the previous quarter.

While Bank of Japan maintained its annual pace of asset purchases at 80 tn yen, it lowered the forecast for industrial production after industrial output contracted for the second straight month in Aug (-0.5% in August vs.-0.8% in July) amidst falling export demand from emerging economies. The weakening trend in industrial production together with the negative print on core inflation (-0.1% in Aug-15) underscores waning demand in the economy and the need for additional stimulus to spur recovery.

Meanwhile, on the domestic front, data presented a mixed bag. Against a difficult external environment, PMI manufacturing eased further in September due to slower expansion in output and new orders. Sept-15 PMI services also moved lower on softer demand conditions. Bank credit-off take continued to remain tepid, with some demand for credit being displaced by alternate sources such as commercial paper and equity issuances. Core sector registered modest improvement in Aug-15 on back of growth in fertilizers, cement, refinery products and electricity. On the positive side, FY16 fiscal data continues to provide incremental comfort on quality of spending led by capital expenditure by key infrastructure ministries. Inflation also continues to remain well within RBI's projected target of 6% by Jan-16.

Against this backdrop RBI cut interest rates by higher than expected 50 bps at its September meeting. The moderation in inflation in line with the disinflationary trajectory outlined by the RBI provided room to ease policy rate. The transmission of rate cuts amidst benign commodity prices and improving macros is likely to further support investment and consumption cycle, helping to offset the muted export demand and rural headwinds.

Shubhada M. Rao
Chief Economist

Kanwar Vivek
Senior President and HeadWealth Management &
Global Indian Banking

Global Macro Developments

- OECD monthly leading indicator showed that growth eased in major global economies, led by China (97.2, Previous: 97.6) and US (99.2, Previous: 99.5).
- WTO lowered its global trade growth forecast for the current year from 3.3% previously to 2.8%, on account of steeper than expected slowdown in China. Expecting a rebound in trade next year, the WTO has projected a growth of 3.9% in 2016.
- US Fed's September FOMC minutes showed that officials thought the economy was close to a rate hike, but decided it would be prudent to wait and watch for evidence of a global slowdown.
- US non-farm payrolls rose less-than-expected in September. Compared to consensus expectations of a 203K rise, actual figure was reported at a seasonally adjusted 143K, from 136K in the preceding month whose figure was revised down from 173K.
- China manufacturing PMI for Sept-15 came in slightly better than expected. Against market expectations of a fall from 49.7 in August to 49.6 in September, the actual figure was reported at 49.8

Events and Data Calendar

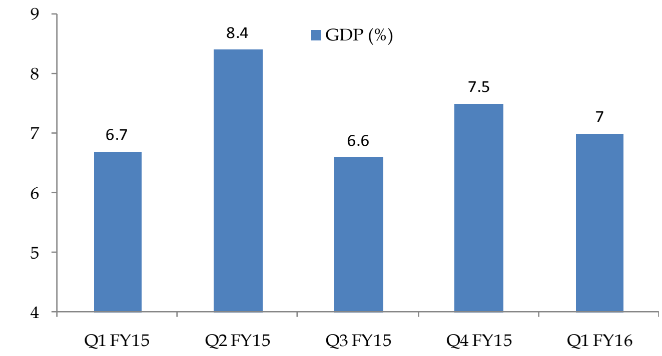
Region	Date	Event/Data	Period	Forecast	Actual	Prior	Change
China	09/01/2015	Manufacturing PMI	(Sept)	49.7	49.7	50	↓
US	09/01/2015	ISM Manufacturing PMI	(Sept)	52.5	51.1	52.7	↓
	09/11/2015	USD U. of Michigan Confidence	(SEP P)	91.1	85.7	91.1	↓
	17/9/2015	USD Federal Open Market Committee Rate Decision		0.0025	0.0025	0.0025	→
	24/9/2015	Durable Goods Orders	(AUG)	-0.023	-0.02	0.019	↓
EU & UK	09/08/2015	Euro-Zone Gross Domestic Product s.a. (YoY)	(2Q P)	0.012	0.015	0.012	↑
	09/10/2015	UK Bank of England Rate Decision		0.005	0.005	0.005	→
	15/9/2015	German ZEW Survey (Economic Sentiment)	(SEP)	18.3	12.1	25	↓

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

COMMODITY

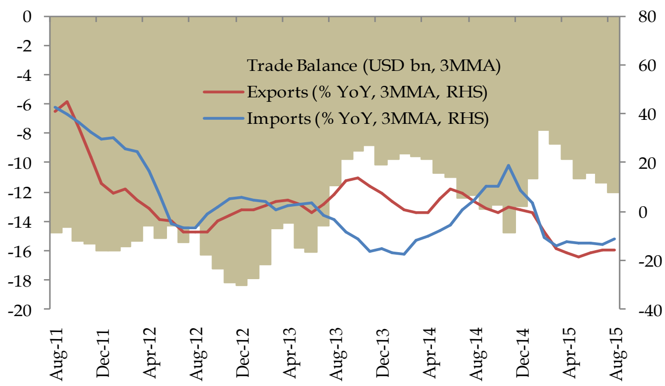
- Gold prices increased 0.5% MoM in Sept -15 as compared to a 0.9% MoM contraction in Aug-15, on positive US data releases and dovish comments from certain Fed officials.
- Brent prices declined 0.50% MoM in Sept-15 (vs. a sharp 15.6% MoM contraction in Aug-15).

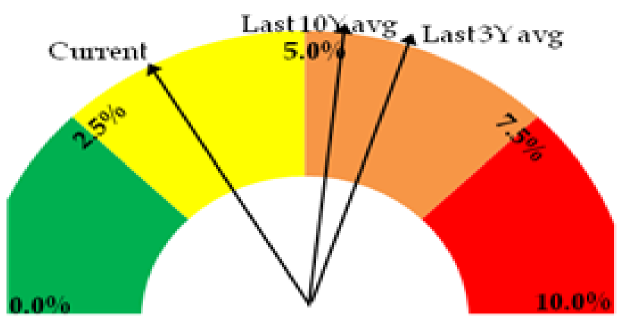
Domestic Market Macro Economics



Highlights of India's Balance of Payments (USD bn)	Q1 FY15	Q2 FY15	Q3 FY15	Q4FY15	Q1FY16
Trade Balance	-34.6	-38.6	-39.3	-31.7	-34.2
Merchandise Exports	*81.7*	*85.3*	*79*	*70.8*	*68*
Merchandise Imports	*116.3*	*123.9*	*118.3*	*102.5*	*102.2*
Invisibles	26.7	28.5	30.9	30.2	28
Services	*17*	*19*	*20.3*	*19.4*	*17.4*
Transfers	*16.4*	*16.3*	*16.4*	*16.4*	*16.2*
Income	*-6.7*	*-6.9*	*-5.8*	*-5.6*	*-5.6*
Current Account	-7.9	-10.1	-8.4	-1.5	-6.2
(as % of GDP)	-1.6	-2	-1.6	-0.3	-1.2

- RBI eased policy Repo rate by 50 bps to 6.75% from 7.25% (vs. an expectation of 25 bps). RBI surprised the market, by not only delivering higher than expected rate cut but also by maintaining a dovish tone to its policy statement.
- For FY16, the RBI:
  - Cut its GVA growth estimate to 7.4 from 7.6%. FY17 GVA growth is expected to improve to 7.8%
  - Revised lower its CPI inflation estimate for Jan-16 by 20 bps. Q4 FY17 inflation is expected at 4.8% as against its target of 5%
- India's Q1 FY16 Current Account Deficit (CAD) came in line with our expectation at USD 6.2 bn (1.2% of GDP). The quarterly deficit showed an improvement vis-à-vis the Q1 FY15 print of USD 7.8 bn (1.6% of GDP).
- April-Aug FY16 fiscal data continued to provide incremental comfort on two fronts (i) continued robust tax collections and (ii) concomitant improvement in the quality of spending on back of higher capex
- IIP growth rate was recorded at 4.2% YoY in July, compared to 4.4% in June (revised upwards from 3.8%).
- CPI inflation moderated to 3.66% YoY in Aug (Bloomberg consensus: 3.57%; YBL estimate: 3.33%) from a downwardly revised 3.69% in July. WPI inflation fell to -4.95% YoY (Bloomberg consensus: -4.40%; YBL estimate: -5.33%) from -4.05% in July.
- India's August trade deficit rose to USD 12.5bn, in line with expectations of an increase vis-a-vis August-2014 figure of USD 10.7bn. While imports posted a decline of 10% YoY, a higher and across-the-board decline in exports (-20.7% YoY) led to the deterioration in trade deficit
- The Nikkei India PMI fell to a 7 month low of 51.2 in Sept-15 on slower increase in new business and the seasonally adjusted Nikkei Services Business Activity Index fell to 51.3 in Sept-15 from 51.8 in Aug-15.
-





Current Financial year till day (FYTD) inflation running considerably lower vis-à-vis past trend

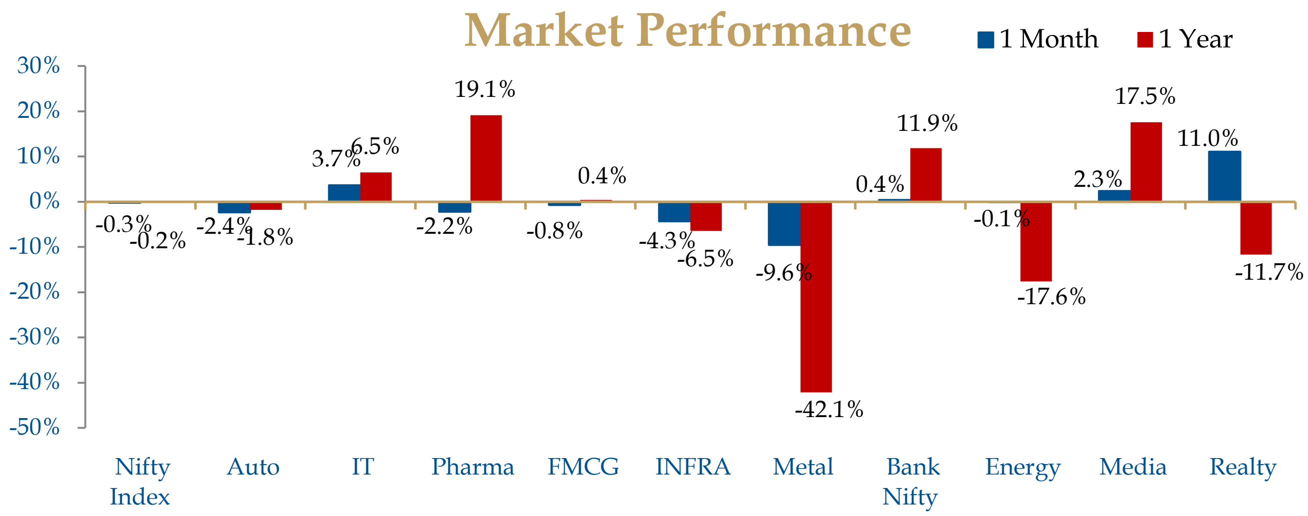
We expect:

- We expect FY16 growth to improve moderately to 7.8% from 7.3% in FY15 with a downward bias. Recent moderation in global growth amid slower than expected recovery in capex is likely to add downward bias to our expectation.

- CPI inflation to undershoot the 6% target for January by 40-50 bps amidst low commodity prices and food management measures by the government.
- RBI to ease policy repo rate by an additional 25-50 bps between Jan-Sept 2016 amidst continued comfort on inflation and lower than potential growth

Equity Market Insights

- The month of September saw the Indian stock markets remain under pressure with the BSE Sensex closing 26,155, lower by 0.5% for the month while the Nifty closed at 7,949; down by 0.3% during the same period. The CNX Mid-Cap index relatively underperformed with losses of 0.6% while the CNX Small-cap index relatively outperformed with gains of 1.3%.
- The FII pulled out about $ 0.98 bn from Indian equities but added about $ 0.1 bn to debt markets during the month. DII's were net buyers and ~ $1.58bn 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.
- Indian markets received a fillip with the Reserve Bank of India cutting rates by 50 bps, higher than expected.
- Monsoons would be another factor determining the outlook for the markets in the coming months. The data has been poor showing a 14% deficit in rainfall. This in turn would add further pressures particularly on the rural side and would have an impact on food inflation as well.
- Earning announcements: The month of October will be characterized by the start of the quarterly earnings announcements. The season will kick start with the announcement of results from the IT pack. In a seasonally better quarter, the companies are also expected to benefit from the movement in the currency. The recent numbers reported by the auto majors lends support to the auto and consequently to the auto ancillary stocks as well. The improvement has been particularly stark in the MHCV segment. However the LCV segment continues to see signs of weakness. In addition to this numbers for the 2 wheeler segment too remained under pressure. The latter is expected to see further weakness on account of lower demand from the rural side in the wake of the poor monsoons.
- 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 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.

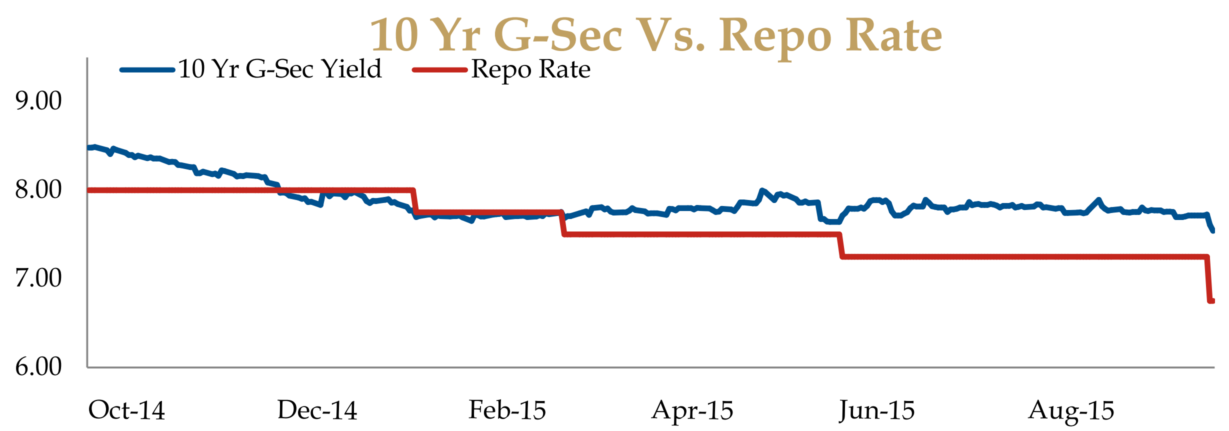
- We recommend equity investments through a Systematic Transfer route with a minimum investment horizon of 36 months.
- From a long term perspective we continue to remain positive on companies in infrastructure, capital goods and private sector banks. Investors could also look at investing in select stocks in the IT and auto space**.**

Debt Market Insights

- The average systemic liquidity surplus in Sept reduced to INR 63 bn as compared to an average INR 286 bn surplus in Aug-15.
- In Sept policy review, RBI surprised the market, by not only delivering higher than expected rate cut but also by maintaining a dovish tone to its policy statement. RBI eased policy repo rate by 50 bps to 6.75% from 7.25%
- Subdued global commodity prices, slowdown in global economic activity, quickened pace of policy transmission led by aggressive deposit rate cuts amid continued measures by government to remove structural bottlenecks are likely to remain enabling factors encouraging additional rate cuts

Outlook and Expectations

- Average 10 yr yield during Sept reduced to 7.73% from 7.78% in Aug. By end of the month the yield dropped 7.54% amid RBI's rate cut and increase in debt limits for FPIs.
- We now expect RBI to ease policy repo rate by an additional 25-50 bps between Jan-Sept 2016
- We continue to believe that short term rates are attractive at current levelsand suggest investing in shortterm 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 – September2015

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