YES FIRST

Global growth on a firm footing

Global economy continued to gain strength in August, although pace of recovery remained patchy with US, UK and some Asian economies seeing traction in growth while Eurozone continuing to witness slack in momentum. While IMF cut its forecast for global growth in 2014 by 30 bps to 3.4% following a moderation in first quarter, incoming data suggests that weakness in first quarter was temporary and economy is on the course of recovery.

Although geo-political tensions continue to persist, its impact on global growth recovery has been limited so far. Despite escalation of conflict in Syria and Iraq and supply disruptions in Libya and Nigeria, Brent prices have remained anchored at around USD 100-102per barrel. Rising oil production in US has been one of the major reasons for the same. US oil production in July achieved its highest level in 28 years, with imports declining to their lowest in 19 years despite the increased demand. This coupled with non-disruptive supply of oil from Iraq despite conflict have led to recent moderation of oil prices. Moreover, recent signing of peace treaty between Ukraine and Russia is also been a positive development for global energy prices.

Among major advanced economies, growth visibility improved further in US with second quarter GDP being revised higher to 4.2% QoQ annualized rate from 4.0% estimated earlier. Institute for Supply Management manufacturing index too marked the 5th straight month of expansion in August, rising to 59.0 from 57.0 in July. Taking comfort from the improving growth dynamics, US Fed chairperson, Janet Yellen sounded less dovish at Economic Symposium in Jackson Hole, underscoring expectation of an earlier than expected increase in the Fed Funds rate.

While US economic fundamentals continued to improve, Eurozone continued to face headwinds. Inflation continued to remain well below ECB's target of 2%, falling to 0.3% in August from 0.4% in July. The Euro zone manufacturing activity index also eased to a 13-month low of 50.7. With inflation remaining significantly below its target, ECB cut its main refinancing rate in its latest meeting to 0.05% from 0.15%. It also signaled EUR 700 bn of fresh aid to revive the moribund economy.

On the domestic front, India's economy grew at 5.7%YoY in June quarter, reinforcing turnaround in growth cycle witnessed following sharp uptick in lead indicators post elections. However, since second quarter, leading indicators have taken a breather. Core output moderated to 2.6%YoY in July from a steep rise of 7.2% previously. Likewise, PMI services and manufacturing too witnessed some easing. On the inflation front, inflation at wholesale level moderated in July but rose at retail level, suggesting that lingering concerns over deficient monsoon continue to remain a source of upside risk. On external front, India recorded USD 11.1 bn balance of payment surplus in Q1-FY15, while current account deficit stood at 1.7% of GDP during Q1-FY15 vs 4.8% of GDP a year earlier.

In line with expectations, Reserve Bank of India kept the policy repo rate unchanged at 8% in its third bi-monthly monetary policy review. Monetary policy status quo was driven by the expectation of CPI inflation moving towards the immediate glide path target of 8% in Jan-15. We continue to expect RBI to keep repo rate unchanged at 8% for the rest of FY15. As growth-inflation balance improves driven by policy support from the government in the area of food management and facilitation of project clearances, some room for monetary easing could emerge in H1 FY16.

Shubhada M. Rao
Chief Economist

Kanwar Vivek
Senior President and Head
Wealth Management & Global Indian Banking

Global Macro Developments

- ✓ The J.P.Morgan Global Manufacturing PMI stood at 52.6 in August; broadly steady from the 52.4 recorded in July. Though continuing to remain in the expansion zone, Euro Zone PMI clocked its lowest reading since July last year standing at 50.7 in August (vs. 51.8 in July).
- ✓ The final reading of Chinese HSBC/Markit PMI posted 50.2 in August down from 51.7 in July; highlighting that downside risks to growth continue to prevail.
- ✓ On the upside, US more than filled in the gap as corroborated by the manufacturing and construction data which signaled that the economy is entering third quarter on a strong footing.

Events and Data Calendar

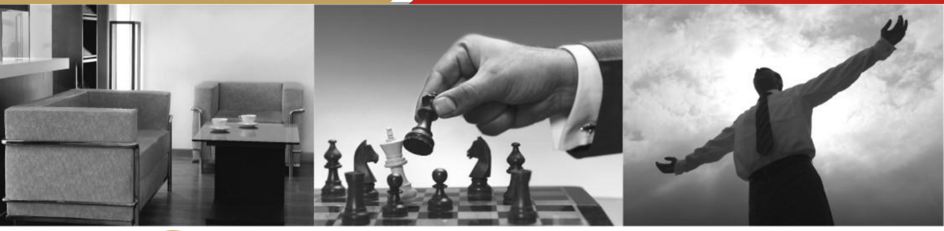
Region	Date	Event/Data	Period	Forecast	Actual	Prior	Change
US	08/01/2014	US Personal Consumption Expenditure Core (YoY) (JUN)	Jun	1.40%	1.50%	1.50%	⇨
	08/05/2014	US ISM Non-Manufacturing Composite (JUL)	Jul	56.5	58.7	56	⇧
	8/15/2014	US U. of Michigan Confidence (AUG P)	Aug P	82.5	79.2	81.8	⇩
	8/19/2014	US Consumer Price Index (YoY) (JUL)	Jul	2.00%	2.00%	2.10%	⇩
	8/21/2014	UK Retail Sales Incl. Auto (YoY) (JUL)	Jul	3.10%	2.60%	3.40%	⇩
	8/25/2014	US Markit US Composite PMI (AUG P)	Aug P	-	58.8	50.6	⇧
	8/26/2014	US Durable Goods Orders (JUL)	Jul	8.00%	22.60%	2.70%	⇧
	8/26/2014	US Consumer Confidence (AUG)	Aug	89	92.4	90.3	⇧
	8/28/2014	US Gross Domestic Product (Annualized) (2Q S)	2Q S-2014	3.90%	4.20%	4.00%	⇧
	8/29/2014	US Personal Consumption Expenditure Core (YoY) (JUL)	Jul	1.50%	1.50%	1.50%	⇨
UK	8/15/2014	UK Gross Domestic Product (YoY) (2Q P)	2Q P-2014	3.20%	3.20%	3.10%	⇧
	8/19/2014	UK Consumer Price Index (YoY) (JUL)	Jul	1.60%	1.60%	1.90%	⇩
Japan	8/13/2014	Japan Gross Domestic Product (QoQ) (2Q P)	2Q P-2014	-1.80%	-1.70%	-1.70%	⇨
EU	08/07/2014	EU European Central Bank Rate Decision (Aug 7)	Aug	0.15%	0.15%	0.15%	⇨
	8/27/2014	German GfK Consumer Confidence Survey (SEP)	Sep	8.6	8.6	8.9	⇩
	8/29/2014	Euro-Zone Consumer Price Index Estimate (YoY) (AUG)	Aug	0.30%	0.30%	0.40%	⇩

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

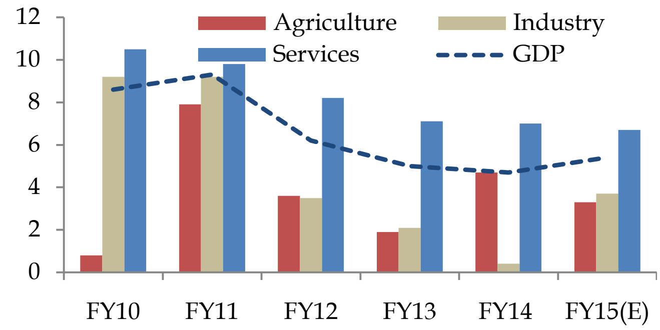
COMMODITY

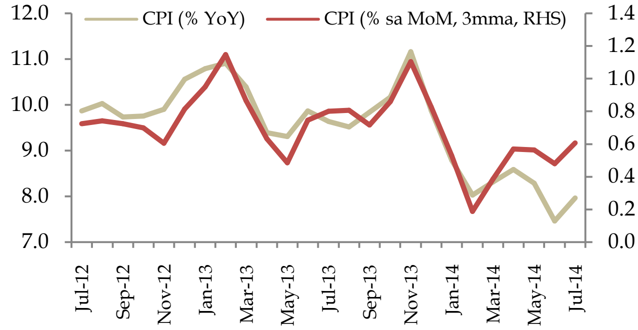
- ✓ Gold registered a 1.2% MoM decline during August vs. a 2.2% MoM decline during July as stronger dollar and rallies for equities lowered the metals save haven appeal. Further, the anticipation of an earlier than expected US interest rate hike following the Fed's minutes weighed heavily on the metal.

- ✓ WTI declined 5.6% MoM in August as compared to a 1.8% MoM decline in July, as ample supply and a stronger dollar continued to pressure oil markets.

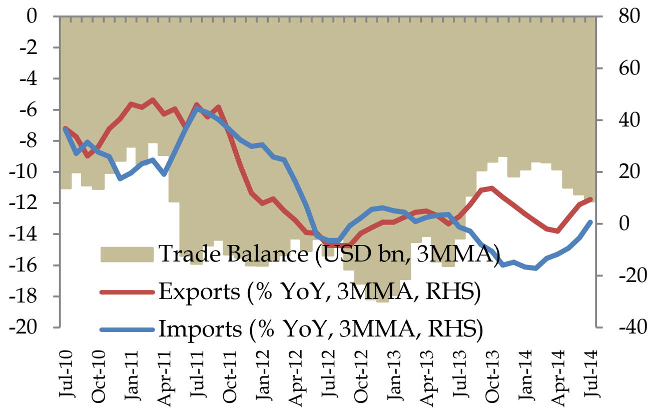


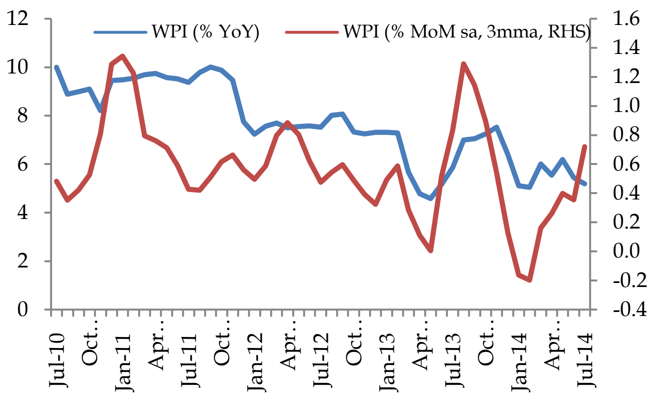
Domestic Market Macro Economics





- ✓ India's Q1FY15 GDP clocked a growth of 5.7%YoY, to mark the fastest pace of expansion since Mar-12, driven by industrial growth (4.2%YoY vs. 0.3% in Q1-FY14).
- ✓ Current account deficit narrowed to 1.7% of GDP in 1Q-FY15 from 4.8% in the 1Q-FY14 as trade deficit contracted by 31.4% YoY to USD 34.6bn in Q1, from USD 50.5bn in the corresponding quarter a year ago.
- ✓ CPI inflation for the month of July rose to 7.96%YoY as compared to 7.46%YoY on account of higher food and energy prices. Core CPI though moved marginally lower to 7.43%YoY July from 7.45%YoY previously.
- ✓ WPI inflation eased to 5.19%YoY in July as compared to 5.43% in June supported by favorable base.
- ✓ Core sector output during July moderated to 2.6% from 7.2%YoY in June on back of unfavorable base
- ✓ HSBC manufacturing PMI moderated to 52.4 in August from 53.0 in July but remained in the expansionary zone for the 10th consecutive month.
- ✓ HSBC PMI Services Business activity index moderated to 50.5 in August from June's 52.2
- ✓ Reserve bank kept the policy repo rate unchanged at 8% in the third bi-monthly monetary policy review.
- ✓ Status quo in latest policy was driven by the expectation of CPI inflation moving towards the immediate glide path target of 8% in Jan-15 along with balancing of risks on the back of expected decisive fiscal and administrative steps by the new government.



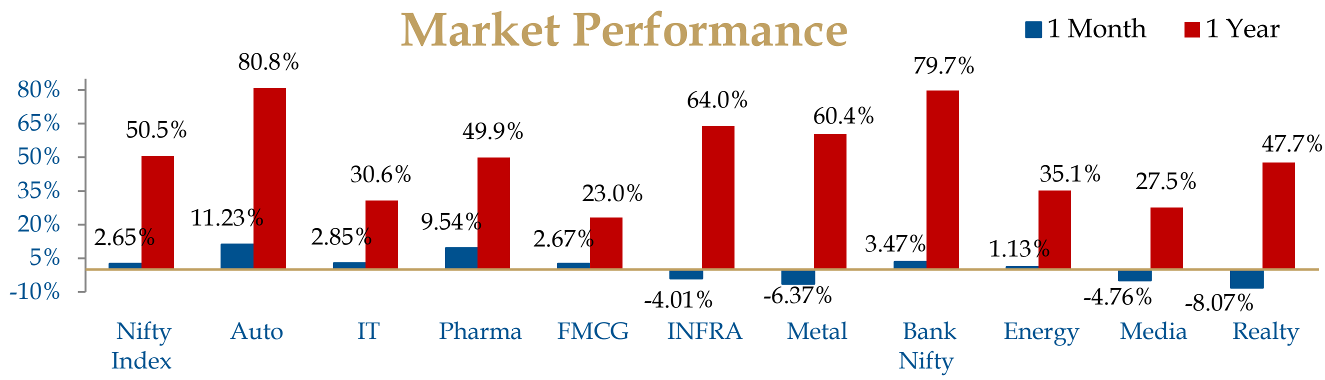


We expect:

- ✓ We expect Indian economy to grow by 5.4% in FY15 (with an upward bias), led primarily by improvement in industrial sector which is estimated to grow at 3.5% in FY15 as compared to 0.4% in FY14. Consumption, Exports and government's policy initiatives would provide fillip to growth in FY15.
- ✓ We expect average CPI inflation to decline to 7.8% in FY15 from 9.5% in FY14 and to remain within RBI's projected glide path.
- ✓ We expect CAD to increase marginally to 2% in FY15 from 1.7% (of GDP) in FY14 assuming merchandise exports grow by 7-8 % and imports clock a growth of 8.0%. In absolute terms, CAD is expected to go up marginally from USD 32bn in FY14 to USD 42bn in FY15.
- ✓ Going forward, assuming CPI inflation follows the projected glide path as set out by RBI, we believe monetary policy rates are set for a prolonged pause with repo rate staying at 8% for the rest of the current fiscal year.
- ✓ We expect INR to move towards 59 by Mar-15 encouraged by improving external sector fundamentals and stable policy regime

Equity Market Insights

- The month of August saw the Indian stock markets rally up. The benchmark BSE SENSEX closed at 26,638, up 2.49% for the month while the Nifty closed at 7,954, giving a monthly return of 2.65%. While the CNX Mid-Cap index outperformed the benchmark with returns of 3.35%; however the CNX Small- cap index underperformed the broader indices with negative returns of 0.63% during the month.
- The key factor that appears to be driving the run up seems to be the expectations of an economic recovery driven by Government action and policies. This has led to an increase in the institutional activity as well.
- Both FIIs and DII's were net buyers in equity markets by ~ $ 1bn and ~$ 0.5bn in August.



Factors to Watch

- A key event that is being tracked closely by the markets is the data related to the monsoons. This year there have been reports and forecasts that the El-Nino weather phenomenon could have an adverse impact on the monsoons. . While recent times have seen better data, however there are indications of poor rainfall in some parts of the country. Headwinds related to this could hurt the GDP growth and pose as an upside risk to inflation and could therefore lead to some near term consolidation in the markets.
- Announcements on policy measures by the Government which would strengthen the faith in an impending economic recovery.
- Other key events that would be watched closely especially by the FIIs would be the geo-political events surrounding Ukraine, domestic political developments and commodity prices.

Outlook & Expectations

- The quarterly earnings season saw a healthy growth in the top line for companies forming a part of the Nifty on a year-on year (YoY) basis. The only exception to this was the industrials which saw top line continue to remain under pressure. However EBITDA margins remained flat for most sectors on a YoY basis; indicating that companies are still seeing cost pressures. The picture on the bottom-line level was mixed with autos, construction and telecom reporting a robust growth while companies in the metals, cement and industrials space saw profits decline on a YoY basis. The overall results seem to suggest that the worst maybe over for India Inc. However signs of recovery are still feeble. This is one of the reasons why we have not seen any major earnings revisions by the Street. Market participants seem to prefer to wait for another quarter or two before incorporating better earnings numbers in their estimates. Major revisions could trigger re-rating for the stocks.
- Rolling our earnings estimates to FY15, we had pegged the EPS growth to be around 11%. This is arrived at by applying a multiple of 2x (historic average) to the expected GDP growth rate for FY15. Using this estimate, the SENSEX is currently trading at a forward earnings multiple of 18.1 times which is close higher to its 16 year historic average suggesting that despite the run up in prices, stocks are still available at reasonably attractive valuations.. 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.
- We continue to have a positive view on the IT sector. Select stocks in the auto and auto ancillary space too would see their earnings grow based on a recovery in the domestic markets as well as better performance of the export markets.

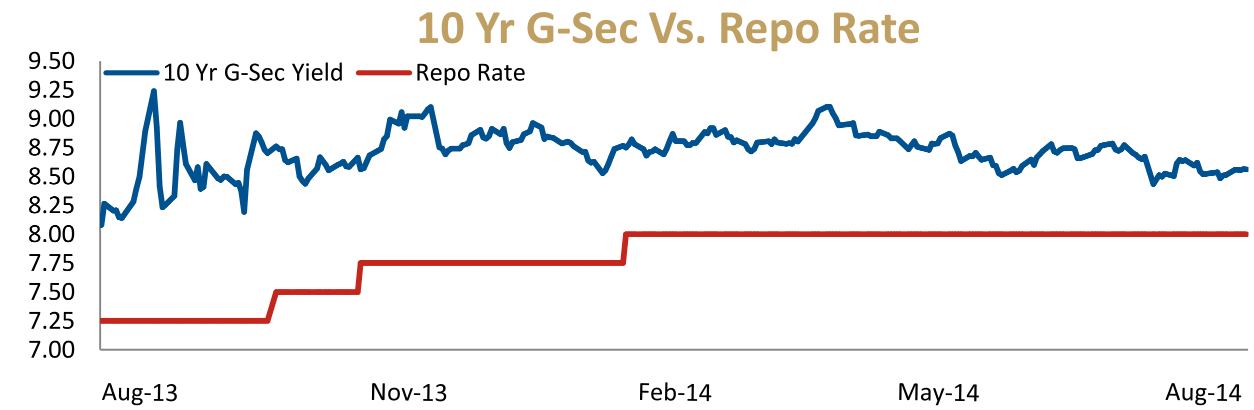
- From a longer term perspective, i.e. from a 2 to 3 years' horizon, investors could look at picking up stocks in sectors that stand to benefit from a revival in the economy. These would be consumer durables, infrastructure and banks.

Debt Market Insights

- The average systemic liquidity deficit in August reduced to an average INR 930bn as compared to INR 1111bn in July on the back of government spending.
- Average 10 yr yield during August remained lower at 8.56% as compared to 8.67% in July.
- RBI announced new liquidity framework in which, day-to-day liquidity requirements will be met through variable rate 14-day/7-day repo auctions equivalent to 0.75% of NDTL, supplemented by daily overnight fixed rate (at the repo rate) repos equivalent to 0.25% of NDTL and export credit refinance (at the repo rate) of 32% of bank-wise outstanding eligible export credit bills.
- Going forward, we expect improvement in the growth-inflation balance driven by complementary policy support from the government in the area of food management and facilitation of project clearances to create room for monetary easing in H1 FY16.

Outlook and Expectations

- The 10 Yr G sec yields were ranged within 8.48% to 8.64% levels for the month of August.
- We continue to expect RBI to maintain status-quo, realigning its stance more in favor of growth while waiting for previous rate hikes to have an impact on inflation expectations.
- 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 – September 2014

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	Shubhada M. Rao	Kanwar Vivek
Economist	Chief Economist	Senior President and Head
garima.kapoor@yesbank.in	shubhada.rao@yesbank.in	Wealth Management & Global Indian Banking
		kanwar.vivek@yesbank.in