From old risk to new

The year 2020 started on a positive note with the US and China signing the Phase One trade deal on 15 January, after nearly 18 months of trade animosity. The US pledged to reduce tariffs on USD 120 bn of Chinese imports from 15.0% to 7.5%. China reciprocated by halving the tariffs on US imports worth USD 75 bn. The cut in tariffs by both the countries will be effective from 14 February. Alongside, the UK officially exited from the European Union on 31 January, three-and-a-half years after the public vote to leave the EU. The two neighbors have now entered the transition phase which lasts until the end of this year. This implies the period of uncertainty remains till the two sides reconcile the terms of trade.

In the midst of a watchful eye on such events, the novel coronavirus (2019-nCoV) outbreak was declared as a global health emergency by the World Health Organization. The coronavirus which had its origin in China's Wuhan province has spread to nearly 31 countries with 1016 people reportedly dead from the virus in China. This is likely to post some near-term challenges to the anticipated global economic growth recovery.

In terms of the economic impact, trade and tourism are directly impacted from the coronavirus spread. Travel restrictions including quarantines are accelerating at a global level to restrict the spread of the virus. The indirect impact to the global economy stems from the disruption of supply chains. While China has stepped up efforts to prevent any financial meltdown in the mainland however the closure of industrial activity amidst extension of Lunar New Year holidays is likely to postpone China's economic growth recovery alongside that of the global economy. The fear of this has already started shaping up in the commodities market with the global oil prices trading at nearly 16.0% low of USD 54.0 per barrel month-to-date. Reportedly, OPEC+ is considering crude output cut of 600,000 barrels per day to offset the muted demand resulting from the impact from the coronavirus on industrial activity.

On domestic front, the government released the FY21 Union Budget where they invoked the escape clause to revise FY20 fiscal deficit higher to 3.8% of GDP vis-à-vis the initial target of 3.3%. The government further expects a lower fiscal deficit target of 3.5% in FY21. While the overall arithmetic appears broadly credible, the attainment of FY21 fiscal deficit target hinges on realizing record high disinvestment target along with substantially higher telecom revenue. On the data front, lead indicators for the months of December-January show an improvement vis-à-vis the previous month. Overall, for FY20, we expect GDP growth at 4.9% GDP vis-à-vis the official estimate of 5.0%. On inflation, we expect average CPI inflation to remain above 6% between Q4 FY20 and Q2 FY21, before cooling off to 3.0-3.5% range in H2 FY21. As such, we continue to expect an extension of pause on repo rate until H1 FY21. Thereafter, with inflation slipping below 4% and output gap persisting in the negative territory, the MPC is likely to opt for a 25 bps rate cut in Oct-20 policy review..

Shubhada M. Rao
Chief Economist

Dhavan Shah
Chief Product Officer,
Product and Program Management

Global Macro Developments

- Britain's senior minister Michael Gove said that Britain plans to introduce import controls on EU goods at the border after its post-Brexit transition period ends on 31st Dec this year
- The US and China signed the first phase of a trade deal on Jan 15. The deal stipulates that China will buy USD 77 bn in additional goods and services in 2020 and USD 123 bn in 2021 to meet the total USD 200 bn. Recall, China had bought USD 186 bn of US goods and services in 2017
- BoJ board member Takako Masai said the global economy is on track for a rebound around mid-year as manufacturing activity picks up, signaling that risks such as the coronovirus outbreak do not warrant an immediate expansion of stimulus
- In a bid to cushion the epidemic's economic blow, China injected CNY 1.7 trillion (USD 242.74 billion) via reverse repos, helping Chinese stocks reverse some losses and lifting the world equity index.
- Malaysian government officials said that India's move to cut back on palm oil purchases is "temporary" and will be resolved amicably between the two nations
- The Fed, in a unanimous decision, decided to keep interest rates unchanged at 1.5% to 1.75% on the back of sluggish pace of inflation coupled with a strong labor market
- The ECB, in its first-rate decision of the year, voted unanimously to keep the main deposit rate at -0.5%, in line with market expectations
- The IMF said that the global economic outlook remains sluggish as it trimmed its growth forecasts for 2019 and 2020 to 2.9% and 3.3%, respectively. Both figures are down compared with forecasts in October, and it marks the IMF's sixth straight reduction for 2019

Events and Data Calendar

Region	Date	Event/Data	Period	Forecast	Actual	Prior	Change
US	14-Jan-2020	CPI YoY	Dec	2.40%	2.30%	2.10%	↑
	7-Feb-2020	Unemployment Rate	Jan	3.50%	3.60%	3.50%	↑
UK	15-Jan-2020	CPI YoY	Dec	1.50%	1.30%	1.50%	↓
	11-Feb-2020	GDP YoY	4Q P	0.80%	1.10%	1.10%	→
	11-Feb-2020	Industrial Production YoY	Dec	-0.80%	-1.80%	-1.60%	↓
Japan	31-Oct-2019	Industrial Production YoY	Sep P	0.00	0.01	-0.05	↑
	15-Nov-2019	Industrial Production YoY	Sep F	--	1.30%	1.10%	↑
China	17-Jan-2020	GDP YoY	4Q	6.00%	6.00%	6.00%	→
	17-Jan-2020	Industrial Production YoY	Dec	5.90%	6.90%	6.20%	↑
	31-Jan-2020	Manufacturing PMI	Jan	5000.00%	5000.00%	5020.00%	↓
	10-Feb-2020	CPI YoY	Jan	4.90%	5.40%	4.50%	↑

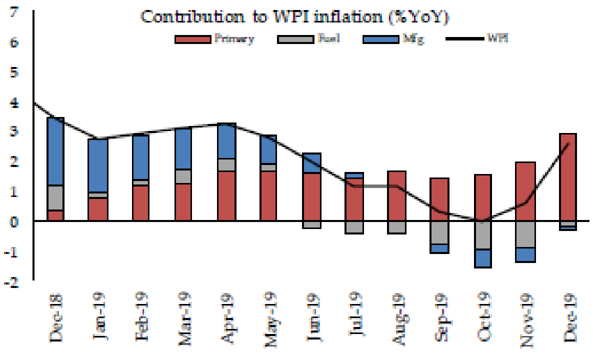
P* – Provisional Estimates F* - Final Estimates A* - Advanced Estimates T*- Third Estimates

COMMODITY

- Gold prices increased by 5.2% MoM in January vs. an increase of 0.6% MoM in December driven by heightened uncertainty after the coronavirus outbreak.

- Brent prices contracted by 3.4% in January vs. an increase of 5.0% in December on concerns over the economic impact of the spread in coronavirus

Domestic Market Macro Economics



India WPI Inflation

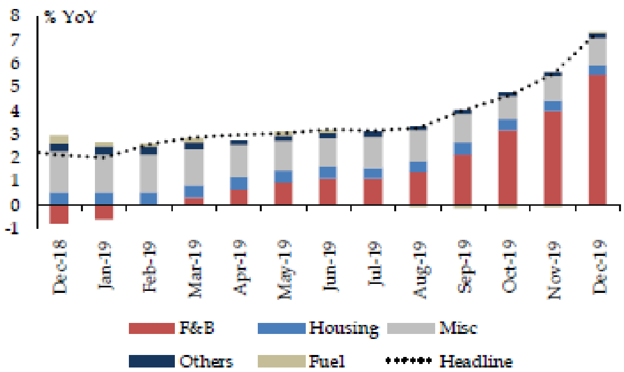
%YoY	Weights(%)	Sep-19	Oct-19	Nov-19
IIP	100	-4.3	-4.0	1.8
Sectoral Classification				
Mining	14.4	-8.6	-8.0	1.7
Manufacturing	77.6	-4.0	-2.3	2.7
Electricity	8.0	-2.6	-12.2	-5.0
Use Based Classification				
Primary goods	34.0	-5.2	-6.0	-0.3
Capital goods	8.2	-20.3	-22.0	-8.6
Intermediate goods	17.2	7.0	22.9	17.1
Infrastructure/ construction goods	12.3	-6.8	-9.7	-3.5
Consumer durables	12.8	-9.9	-18.8	-1.5
Consumer non-durables	15.3	-0.4	-1.8	2.0

Nov IIP

- India's Manufacturing PMI recorded close to an eight-year peak of 55.3 in January from 52.7 in December, led by sharp improvement in domestic and external demand conditions leading to new business orders, output demand, export orders and increase in employment.
- India's Services PMI recorded a seven-year peak of 55.5 in January from 53.3 in December led by better domestic demand conditions especially from the consumer services industry.
- After contracting for four consecutive months, growth in core sector finally turned positive clocking 1.3% YoY vis-à-vis a contraction of 0.6% YoY last month. Except crude oil and natural gas, all other six sectors within the core index have showed growth as against the Nov-19 print
- Fiscal deficit for Apr-Dec FY20 stood at 121.5% of full year's revised estimate. Despite relatively higher traction in non-tax revenues in FY20 so far, the higher FYTD accumulation of fiscal deficit is a reflection of lower than expected tax revenue collection, slow progress on disinvestments, and a relatively healthy pace of expenditure.
- Non-food bank credit growth continued to hover close to 2-year low levels in December with annualized print coming in at 7.1% vis-à-vis 7.8% in November.
- India's CPI inflation in Dec-19 accelerated to a 65-month high of 7.35% YoY from 5.54% in Nov-19 led by increase in food prices coupled with partial incorporation of increase in prices for few generic drugs and telecom tariffs.
- India's industrial production recovered from a contraction recorded in previous three consecutive months, coming in at 1.8% YoY in Nov-19 vis-à-vis a contraction of 4.0% in Oct-19, aided by expansion in Mining and Manufacturing sector along with support from a favorable statistical base

%YoY	Oct-19	Nov-19	Dec-19
Overall	-5.8	-0.6	1.3
Coal	-17.5	-2.5	6.1
Crude Oil	-5.1	-5.9	-7.4
Natural Gas	-5.7	-6.5	-9.3
Ref. Products	0.3	3.2	3.1
Fertilizers	11.8	13.6	10.1
Steel	-1.9	-0.1	1.9
Cement	-7.7	4.3	5.4
Electricity	-12.2	-5.0	-1.6

CORE Sector –Recovers a tad



India CPI Inflation

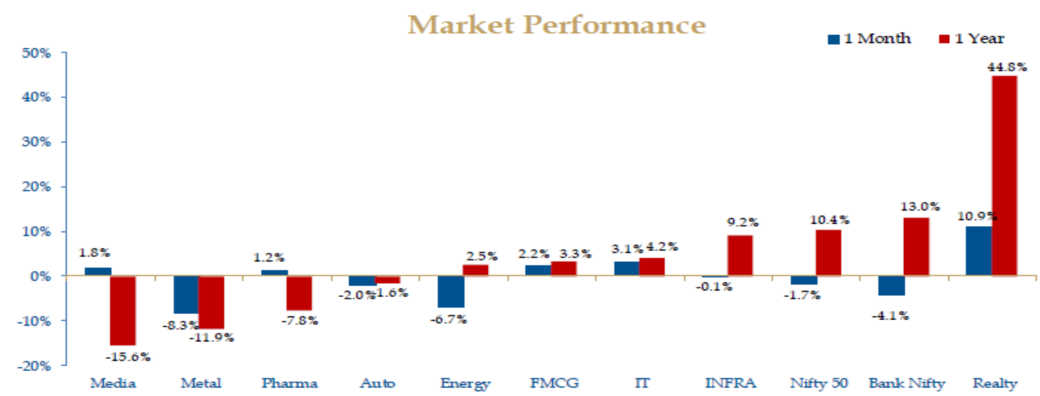
YES BANK

We expect:

- We foresee FY20 GDP at 4.9% vis-à-vis the official estimate of 5.0%. With H1 FY20 growth printing at 4.8% we expect sequential recovery with average growth in H2 FY20 coming in at ~5.1% on account of favorable statistical base along with factors like positive monsoon outturn, improved Rabi sowing, recent shift in terms of trade in favor of farm sector, and higher budgetary allocation for the rural sector in FY21
- We expect average CPI inflation to remain above 6% between Q4 FY20 and Q2 FY21, before cooling off to 3.0-3.5% range in H2 FY21

Equity Market Insights

- The equity market rally turned broad-based in January. Small caps significantly outperformed large caps with the Nifty Small Cap 100 rising 6.7% for the month versus a 1.7% fall in the Nifty. Similarly, Nifty Mid Cap 100 rose 5.3% outperforming the Nifty by 7%.
- This is in line with our view of the past few months that the extreme polarization that the market had witnessed in favour of selective large caps should continue to reverse as a revival in economic activity an corporate profits materializes going ahead.
- Union Budget for FY21 was presented on February 1 and was aimed at reviving growth by attracting foreign flows through equity and debt. Given the need to revive growth, Fiscal Deficit target for FY20 was revised to 3.8% of the GDP Vs. 3.3% estimated earlier. The growth estimates (GDP estimates) for the upcoming fiscal, too, brought little cheer to the markets



Outlook & Expectations

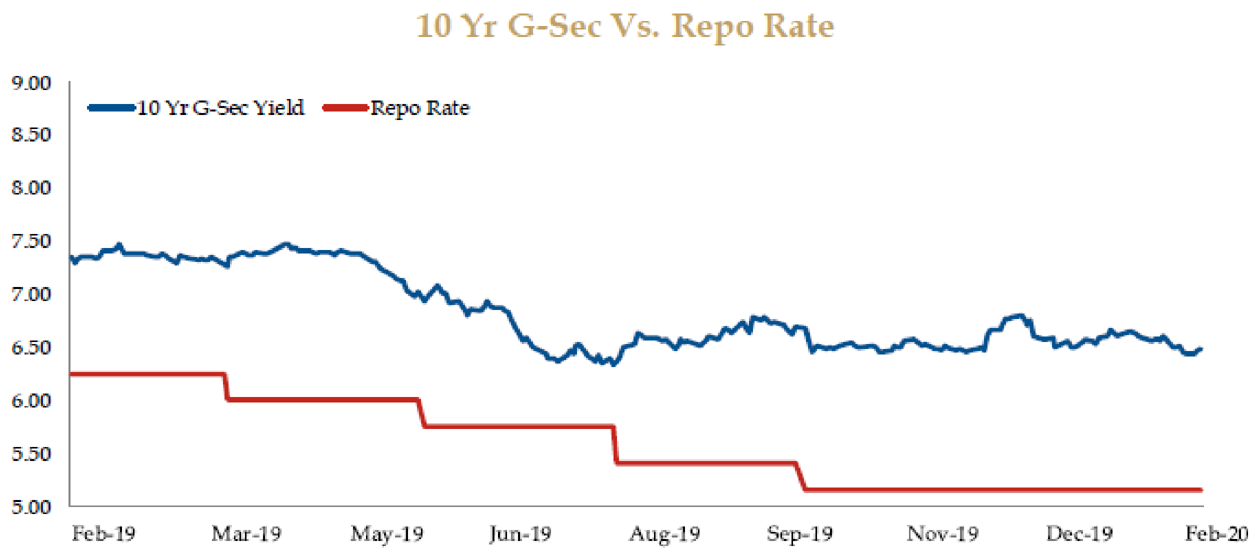
- In the absence of market friendly measures in the budget and given the cautious global environment owing to the spread of Coronavirus, markets could stay volatile in the near-term. However, eventually markets should move back to focusing on corporate earnings.
- The earnings yield of equities is attractive and supportive of high valuations. A bearish outlook on oil and commodities in general also upholds India's case. The fag-end monsoon onslaught, which fetched an excess to the tune of 110% of long-term averages, augurs well for the next Rabi crop.
- In our view, significant easing in financial conditions, both locally and globally, improving prospects for the rural economy given increase in food prices and better acreage, and various measures taken by the government so far should bring about an improvement in both economic activity and corporate earnings going forward.
- To offset the expenditure burden, GOI seems intent on fast-tracking disinvestments which augers well for the markets.
- As the key index inches upwards, allocation to large caps makes sense at this juncture. But we also note that consumption is in a cyclical downtrend now, the economy has slowed, liquidity issues remain and the Budget didn't particularly excite either. Therefore, we believe that a systematic withdrawal (SWP) approach is equally warranted. A staggered approach to investing would be a better one, given the present state of equities.

Debt Market Insights

- The average systemic liquidity maintained a surplus of INR 3,182 bn in January vs. a surplus of INR 2,631 bn in December.

- The average 10yr G-sec bond yield decreased to 6.58% in January from 6.63% in December amidst prevalence of surplus money market liquidity, outright OMO purchases and Operation Twist by the RBI.

- We expect average CPI inflation to remain above 6% between Q4 FY20 and Q2 FY21, before cooling off to 3.0-3.5% range in H2 FY21. As such, we continue to expect an extension of pause on repo rate until H1 FY21. Thereafter, with inflation slipping below 4% and output gap persisting in the negative territory, the MPC is likely to opt for a 25 bps rate cut in Oct-20 policy review



Outlook and Expectations

- We see money market liquidity to be in surplus mode in the near term

- Absence of additional borrowing in FY20, as indicated in Budget FY21, are supportive of market sentiment

- For FY21, the net G-sec borrowing is budgeted to increase to INR 5.45 tn from INR 4.74 tn, while T-Bill financing in quantum terms is expected to remain unchanged at INR 250 bn

- Prevalence of surplus money market liquidity and the introduction of *Operation Twist* by the RBI will lower the upside risk to domestic yields. Hence, despite the expectation of monetary policy pause until H1 FY21 and fiscal slippage, we expect 10Y G-sec yield to trade in the 6.3-6.7% range until Sep-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.

Radhika Piplani and Sanjana Shah
Economist
radhika.piplani@yesbank.in
sanjana.shah@yesbank.in

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

Vineet Dhar
Group President and Head
Wealth & Channel Management
vineet.dhar@yesbank.in

Disclaimer

In the preparation of the material contained in this document, Yes Bank Limited has used information that is publicly available, including information developed in-house. Information gathered & material used in this document is believed to be from reliable sources. Yes Bank Limited however does not warrant the accuracy, reasonableness and/or completeness of any information. For data reference to any third party in this material no such party will assume any liability for the same. Yes Bank Limited does not in any way through this material solicit any offer for purchase, sale or any financial transaction/commodities/products of any financial instrument dealt in this material. All recipients of this material should before dealing and or transacting in any of the products referred to in this material make their own investigation, seek appropriate professional advice.

We have included statements/opinions/recommendations in this document which contain words or phrases such as "will", "expect", "should" and similar expressions or variations of such expressions, that are "forward looking statements". Actual results may differ materially from those suggested by the forward looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws ,regulations and taxes and changes in competition in the industry. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated.

Yes Bank Limited and any of its officers directors, personnel and employees, shall not liable for any loss, damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this material in any manner. The recipient alone shall be fully responsible/ are liable for any decision taken on the basis of this material. All recipients of this material should before dealing and/or transacting in any of the products referred to in this material make their own investigation, seek appropriate professional advice. The investments discussed in this material may not be suitable for all investors. Any person subscribing to or investigating in any product/financial instruments should do so on the basis of and after verifying the terms attached to such product/financial instrument. Financial products and instruments are subject to market risks and yields may fluctuate depending on various factors affecting capital/debt markets. Please note that past performance of the financial products and instruments does not necessarily indicate the future prospects and performance thereof. Such past performance may or may not be sustained in future. Yes Bank Limited or its officers, directors, personnel and employees, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation in the financial instruments/products/commodities discussed herein or act as advisor or lender / borrower in respect of such securities/financial instruments/products/commodities or have other potential conflict of interest with respect to any recommendation and related information and opinions. The said persons may have acted upon and/or in a manner contradictory with the information contained here. No part of this material may be duplicated in whole or in part in any form and or redistributed without the prior written consent of Yes Bank Limited. This material is strictly confidential to the recipient and should not be reproduced or disseminated to anyone else.

The views and opinion specified herein are suggestive in nature and based on in depth market analysis and appreciation of facts considered critical by us. However, this does not mean or exclude the possibility of any alternate investment strategy. The opinion/views mentioned herein is only one of the strategies which can be adopted by you at your sole discretion for achieving your financial objectives and all investment decision made by you are at you sole risk and discretion and we shall not be liable for losses if any caused to you. Further past performance of you investments in accordance with our views may not be presumed as a guarantee for similar performance in future. All views/opinion stated herein shall be subject to the additional conditions, qualifications and riders if any specified for securities/investment options in the offer documents/Offering memorandum for such securities/investment options and we request you to peruse the same.