ABL Digital India Cross-Asset Weekly

Trend, Correlation & Macro Report | week ending 2026-07-10

30 instruments across equities, sectors, FX, commodities, rates & REITs | 105 weeks

REGIME: Risk-off

EXECUTIVE SUMMARY

India sits in a **Risk-off regime** (Markov posterior 0.49, essentially tied with Neutral at 0.44), with Nifty below its 40-week average even as breadth holds up—67% of sectors are above their 10-week MA and India VIX is a becalmed 12.3 (28th percentile). The single most important development this week is **crude's +4.0% jump (to MCX 6814)**, which reactivates India's core vulnerability as a net oil importer just as the DCC-GARCH Nifty–crude conditional correlation (−0.29, high persistence 0.88) says this linkage is sticky, not transient. The offsetting good news is that the currency and inflation buffers are intact—USDINR firm at 95.4 (−0.2% on the week), CPI at 3.5% with core 3.7%, and the RBI comfortably neutral at a 5.25% repo. The market's internals are highly concentrated: PC1 explains **65% of cross-sector variance**, so this is close to a single-factor tape where diversification across sectors buys you little. The key risk is a sustained crude grind higher feeding the oil→INR→inflation→rates chain, which would pressure the long-duration, rate-sensitive leadership (Realty, IT) that is currently carrying the index.

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For inquiries, contact admin@abldigitech.com

Executive Dashboard

India cross-asset state and the week's key readings.

REGIME	NIFTY 1W	SECTOR BREADTH	INDIA VIX
Risk-off	-0.3%	50% up	12.3

KEY CROSS-ASSET READINGS (level | 1w | 1m | 3m)

Nifty 50	24,206.9	-0.3%	+2.5%	+0.6%
Bank	58,045.9	+0.2%	+2.2%	+3.8%
IT	28,010.3	+2.1%	+0.8%	-9.7%
USDINR	95.4	-0.2%	+0.3%	+2.5%
DXY	101.0	+0.1%	+1.2%	+2.3%
US 10Y	4.6	+0.1	+0.1	+0.3
India VIX	12.3	+0.5	-2.5	-6.6
Gold	143,478.0	-2.3%	-6.2%	-5.7%
Crude	6,814.0	+4.0%	-10.6%	-26.4%
Copper	1,293.6	+0.5%	-3.5%	+4.8%
Embassy REIT	450.0	+0.7%	+4.9%	+0.6%

India Cross-Asset Analysis

Executive Summary

India sits in a **Risk-off regime** (Markov posterior 0.49, essentially tied with Neutral at 0.44), with Nifty below its 40-week average even as breadth holds up—67% of sectors are above their 10-week MA and India VIX is a becalmed 12.3 (28th percentile). The single most important development this week is **crude's +4.0% jump (to MCX 6814)**, which reactivates India's core vulnerability as a net oil importer just as the DCC-GARCH Nifty–crude conditional correlation (−0.29, high persistence 0.88) says this linkage is sticky, not transient. The offsetting good news is that the currency and inflation buffers are intact—USDINR firm at 95.4 (−0.2% on the week), CPI at 3.5% with core 3.7%, and the RBI comfortably neutral at a 5.25% repo. The market's internals are highly concentrated: PC1 explains **65% of cross-sector variance**, so this is close to a single-factor tape where diversification across sectors buys you little. The key risk is a sustained crude grind higher feeding the oil→INR→inflation→rates chain, which would pressure the long-duration, rate-sensitive leadership (Realty, IT) that is currently carrying the index.

Regime & Market State

The regime signal is genuinely ambiguous and should be treated that way. The Markov-switching model puts **48.7% weight on Risk-off and 44% on Neutral**, with Risk-on all but extinguished at 7.3%—so the honest read is "defensive-to-neutral," not outright crisis. The rule-based overlay explains the tension: Nifty is below its 40-week average (the bearish tell driving the Risk-off posterior), yet sector breadth at 67% above the 10-week MA and a **VIX of 12.3 in only the 28th percentile** describe a market that is drifting, not de-risking. Nifty itself was flat-to-soft (−0.3%) with breadth an even 50% up on the week.

For an investor, the implication is that this is a low-volatility, low-conviction tape where the index is being held back at the headline level while the median stock behaves fine. That combination—suppressed VIX plus a sub-trend index—is not a "buy the calm" setup; it means there is little risk premium priced for the crude shock now building, and any volatility repricing would start from a very low base (VIX up only 0.5 on the week, but down 7 points over three months). Cheap protection is the actionable read here.

Sector Rotation

Leadership this week is unambiguously **long-duration and rate-sensitive: Realty +5.4% on the week and +24% over three months**, comfortably the strongest cohort. That is the market voting for a benign rates path—and indeed Realty's 13-week correlation to the US 10Y has swung sharply negative (−0.43 vs −0.13 over 52 weeks), so this rally is being powered by rate expectations as much as fundamentals. IT is the week's other gainer (+2.1%) but remains the three-month laggard (−10%), a dead-cat bounce in a downtrend rather than a leadership change. The defensives tell the risk-off story from the other side: **FMCG −1.6%, Media −1.9%, and Pharma −0.3%** on the week even though Pharma is a strong three-month performer (+16%).

The "so what" is a caution flag hiding inside the leadership. Realty and IT are precisely the sectors most exposed to the crude→rates channel that this week's oil move threatens—Realty via its newly tight inverse link to yields, IT via its currency sensitivity (IT~USDINR 13-week correlation −0.62). The very sectors carrying the index are the ones that would be hurt first if crude forces the rates and INR view to shift. Metal's steadiness (+0.7%, tracking Copper +0.5%) and Energy's muted +0.2% offer little offset. This is momentum leadership built on a rates assumption that the oil tape is now testing.

Cross-Asset Correlation Structure

The dominant fact is **concentration: PC1 explains 65% of equity/sector variance**, with the highest loadings on FMCG, Pharma and IT. In plain terms, roughly two-thirds of what moves Indian equities right now is a single common factor, so cross-sector diversification is largely an illusion—when the market moves, it mostly moves together, and stock-picking within the index is fighting a strong beta undertow.

Where diversification *is* doing real work is across asset classes, and the DCC-GARCH conditional correlations sharpen this. The **Nifty–VIX conditional correlation is −0.64 with high persistence (0.81)**—a durable, reliable inverse hedge, which is exactly why volatility exposure is the cleanest offset to equity risk here. The **Nifty–crude conditional correlation of −0.29 (persistence 0.88)** is the one that matters this week: it is moderate but extremely sticky, meaning the crude drag on equities is a structural feature that will not decay quickly if oil keeps rising. Notably, the Nifty–USDINR conditional correlation has *decayed* to just −0.16 with low persistence (0.19), well below its −0.58 static 13-week reading—so the currency is not currently transmitting stress to equities. The takeaway: your diversifier is volatility and, to a lesser degree, the currency buffer—not sector rotation—and crude is the correlation you cannot diversify away.

Currency, Rates & the Oil-INR Channel

This is the central channel and it is, for now, in delicate balance. **USDINR is firm at 95.4 (−0.2% on the week, though +2% over three months)** even as DXY barely moved (101.0, +0.1%), and the Nifty–USDINR relationship has tightened statically (13-week −0.58) while its DCC-GARCH transmission has faded (−0.16). The rupee is holding, which is the first line of defense for an oil importer. But **crude's +4.0% weekly jump is the shock that tests it**: the mechanism runs oil → wider import bill and INR pressure → imported inflation → a higher rates path. India's 10Y G-sec at 6.76% is explicitly flagged as sensitive to exactly this—crude and US yields—so the transmission belt is primed even if it hasn't engaged.

Two things are cushioning the blow, and investors should watch both. First, crude is still **−26% over three months**, so this week's move is a bounce off a low base, not a breakout—the level, not just the change, keeps the inflation math benign for now. Second, forex reserves ex-gold at USD 571bn give the RBI ample firepower to defend the rupee. The practical implication: the oil-INR channel is currently a contained risk, not an active one, but it is the highest-gearing variable in the entire India view. A crude move that sticks above this week's levels—rather than mean-reverting toward the three-month trend—is what flips this from buffer to headwind, and it would hit the bond market and rate-sensitive equities before it shows up in the currency.

Macro Pulse

The macro backdrop is the strongest part of the India story and it is what justifies staying constructive despite the Risk-off regime tag. **Growth momentum is broad and positive: Manufacturing PMI 54.2, Services PMI a robust 57.3, IIP +5.1% YoY, and GST collections at Rs 1.95 lakh cr up 13.9% YoY**—that GST print is a real-time, hard-to-fudge signal of healthy domestic demand and formalization. Real GDP is projected at 6.6% for FY27. On the price side, **CPI at 3.5% (core 3.7%) sits comfortably below the RBI's 4% midpoint**, which is precisely what gives the MPC room to hold the repo at 5.25% in a neutral stance rather than tightening.

The "so what" is a supportive but not complacent picture. The disinflation-plus-growth combination is the ideal backdrop for the rate-sensitive leadership (Realty, and eventually IT) to work—but it is also the setup most exposed to a single variable going wrong, and that variable is oil-fed inflation. With core at 3.7% there is a cushion, but not a large one; a sustained crude rise is the most plausible path to eroding the very inflation cushion that underwrites the neutral RBI and the rate-sensitive rally. The macro says "constructive"; the crude tape says "watch the one thing that could undo it."

Cross-Asset Correlation Structure

(covered above — proceeding to risks)

Key Risks & What to Watch

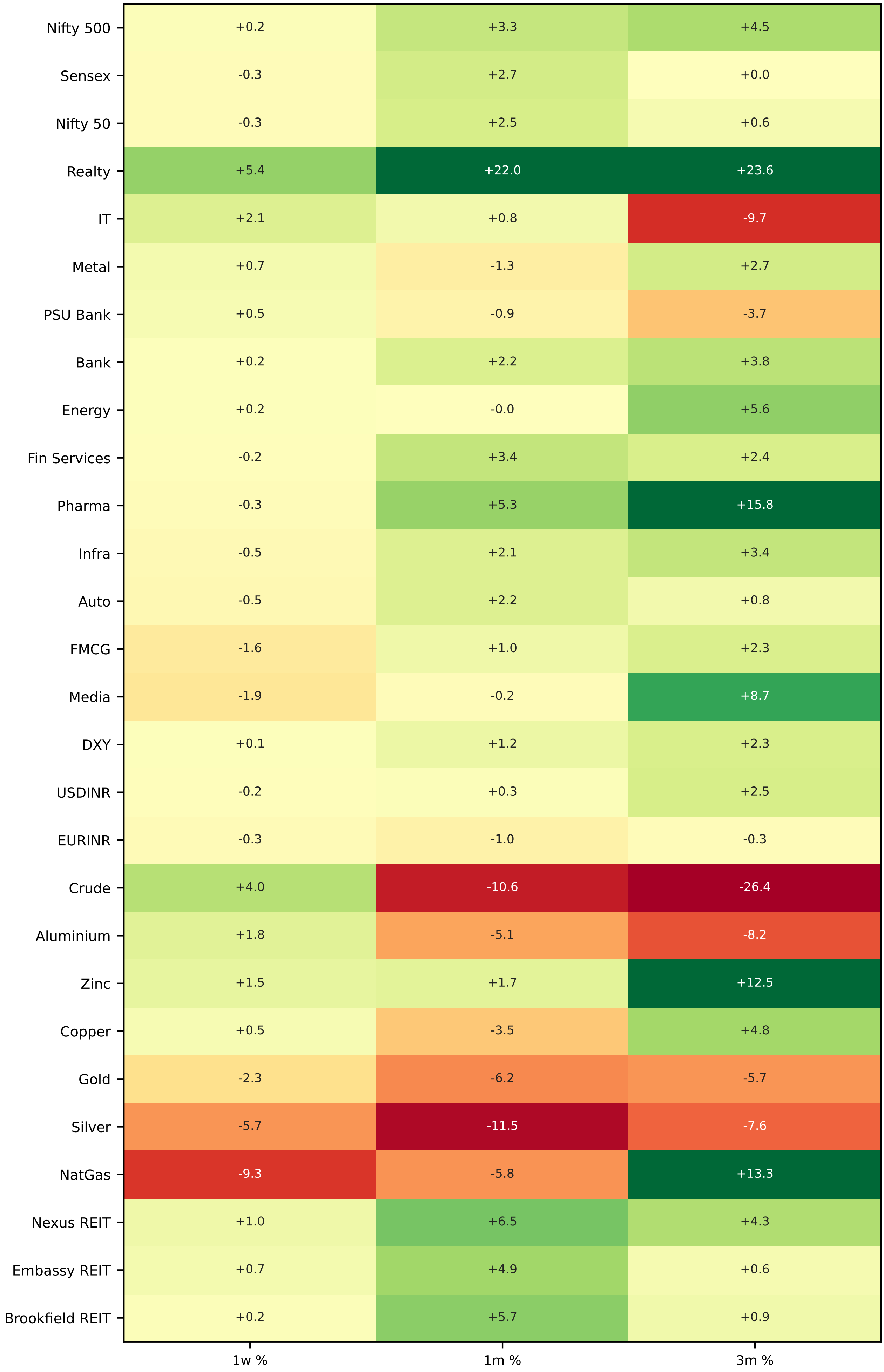
The central risk is a **sustained crude advance** feeding the oil→INR→inflation→rates chain: with the Nifty–crude conditional correlation persistent at 0.88 and the 10Y G-sec explicitly crude-sensitive, an oil grind higher would pressure bonds and the Realty/IT leadership before the rupee visibly cracks. The second risk is **concentration**: with 65% of variance in one factor and VIX at the 28th percentile, the market has priced almost no premium for a shock, so a single-factor drawdown would be sharp and offer little sector shelter. A third, subtler risk is that the current leadership is built on a benign-rates assumption (Realty~10Y at −0.43) that this week's crude move directly challenges.

On the modest predictive skill: the lead-lag readings are weak and should not be leaned on—**one-week-lagged correlations into Nifty are small (USDINR −0.09, crude −0.10, US 10Y −0.08, VIX +0.02)**. Only the *contemporaneous* signals carry information (VIX −0.64, USDINR −0.35, crude −0.28), which means these are confirming, coincident indicators, not a forecast. Treat them as a dashboard, not a crystal ball.

Specific, observable signals to confirm or change the view: **(1)** crude (MCX) holding above ~6800 and pushing toward its three-month-ago levels rather than reverting—the trigger for the inflation/rates concern to become real; **(2)** India 10Y G-sec breaking above ~6.85–6.90%, which would confirm the crude→rates transmission is engaging; **(3)** USDINR weakening through 96, signaling the currency buffer is starting to give; **(4)** India VIX rising off its 12.3 base through the 40th–50th percentile, which would mark the market beginning to price the risk it currently ignores; **(5)** Realty stalling and its inverse correlation to the 10Y compressing, the earliest sign the rate-sensitive leadership is losing its footing; and **(6)** on the constructive side, the next CPI print holding at or below 3.5% with a firm rupee, which would confirm the crude move is noise and clear the runway for the RBI to stay neutral and the duration trade to extend.

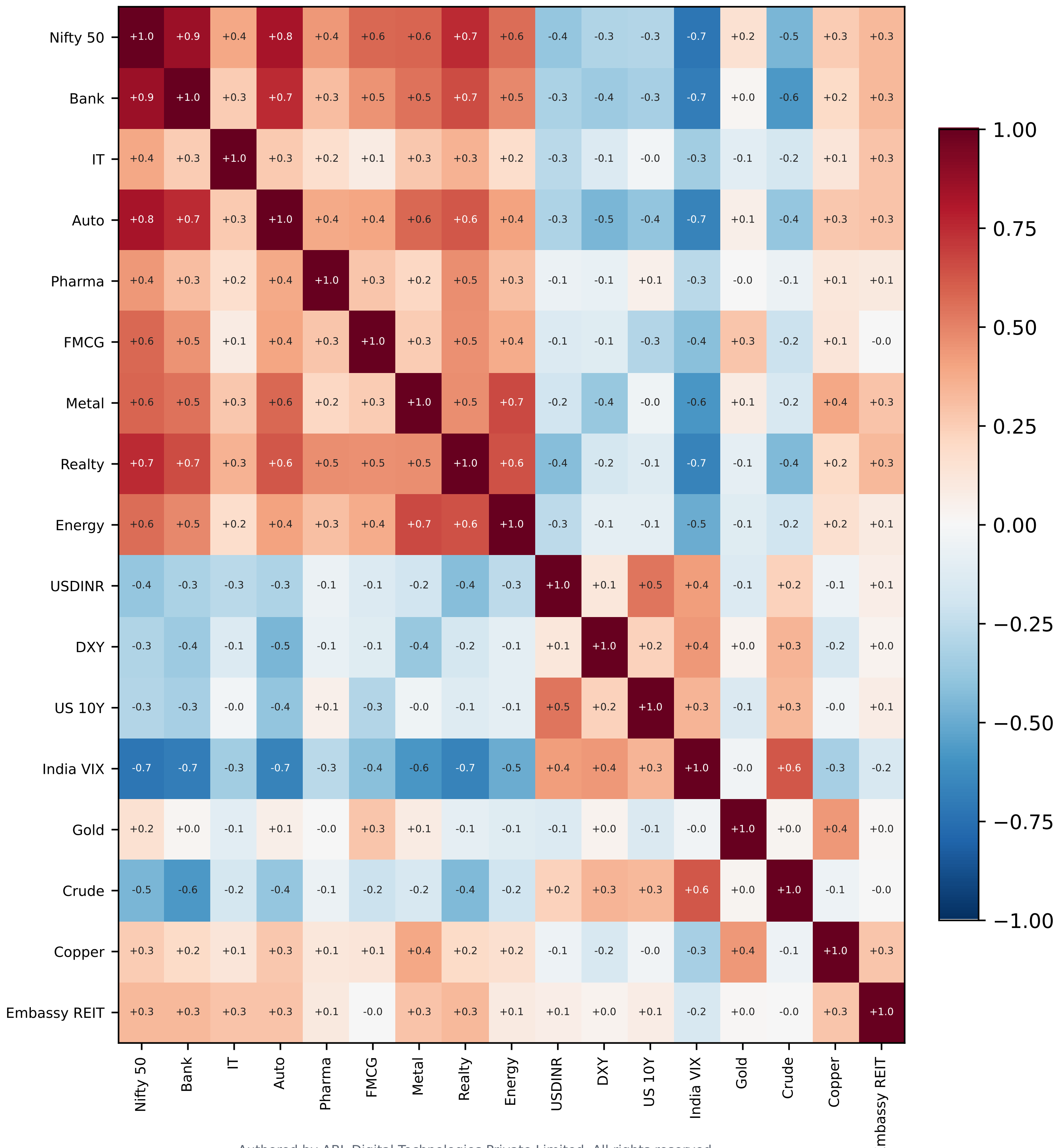
Weekly Returns Heatmap

Price return (%) by instrument over 1w / 1m / 3m. Commodities priced in MCX (INR, Kite).



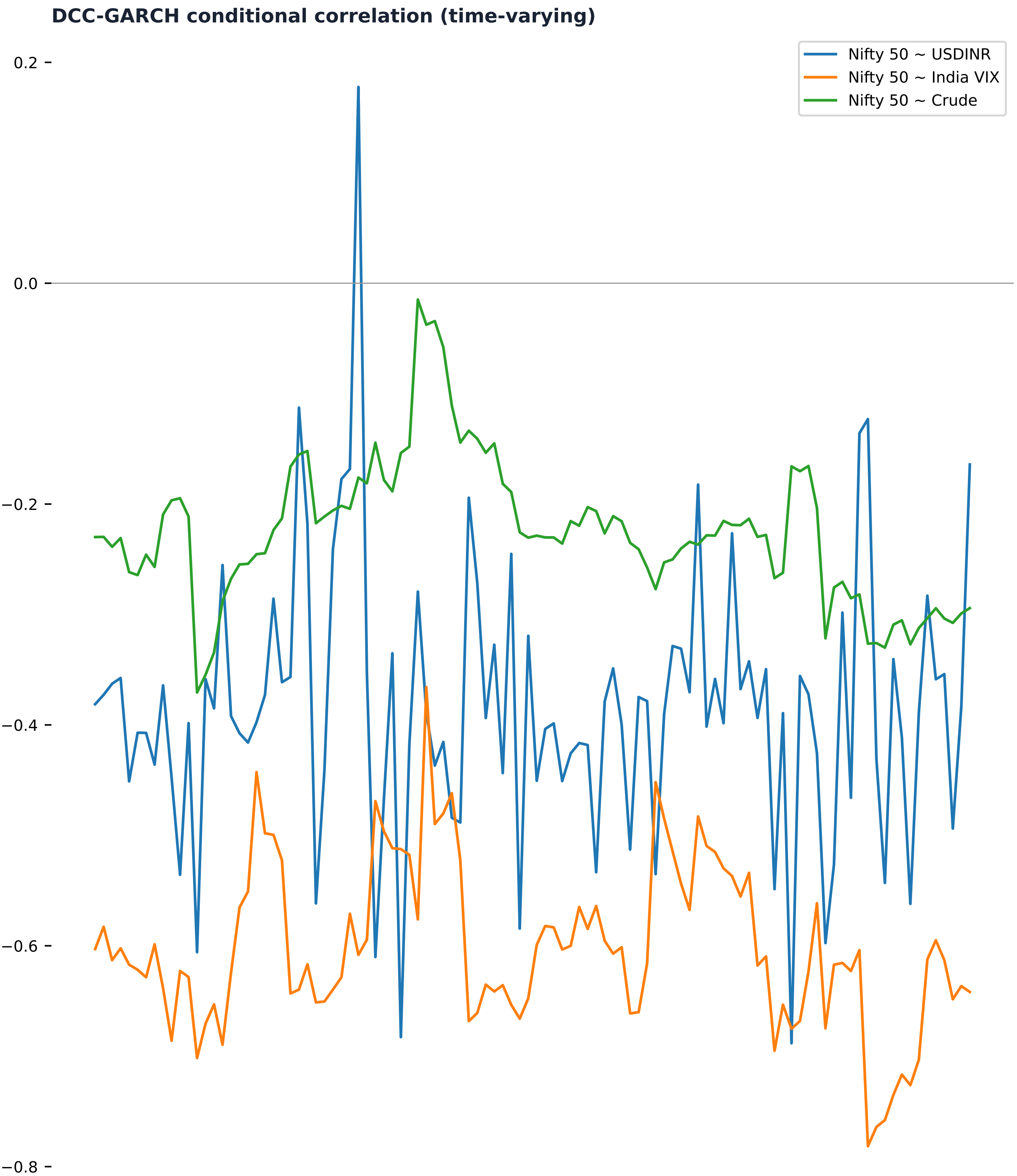
52-Week Cross-Asset Correlation

Correlation of weekly changes (log-returns; diffs for VIX & rates).



Regime & Conditional Correlations

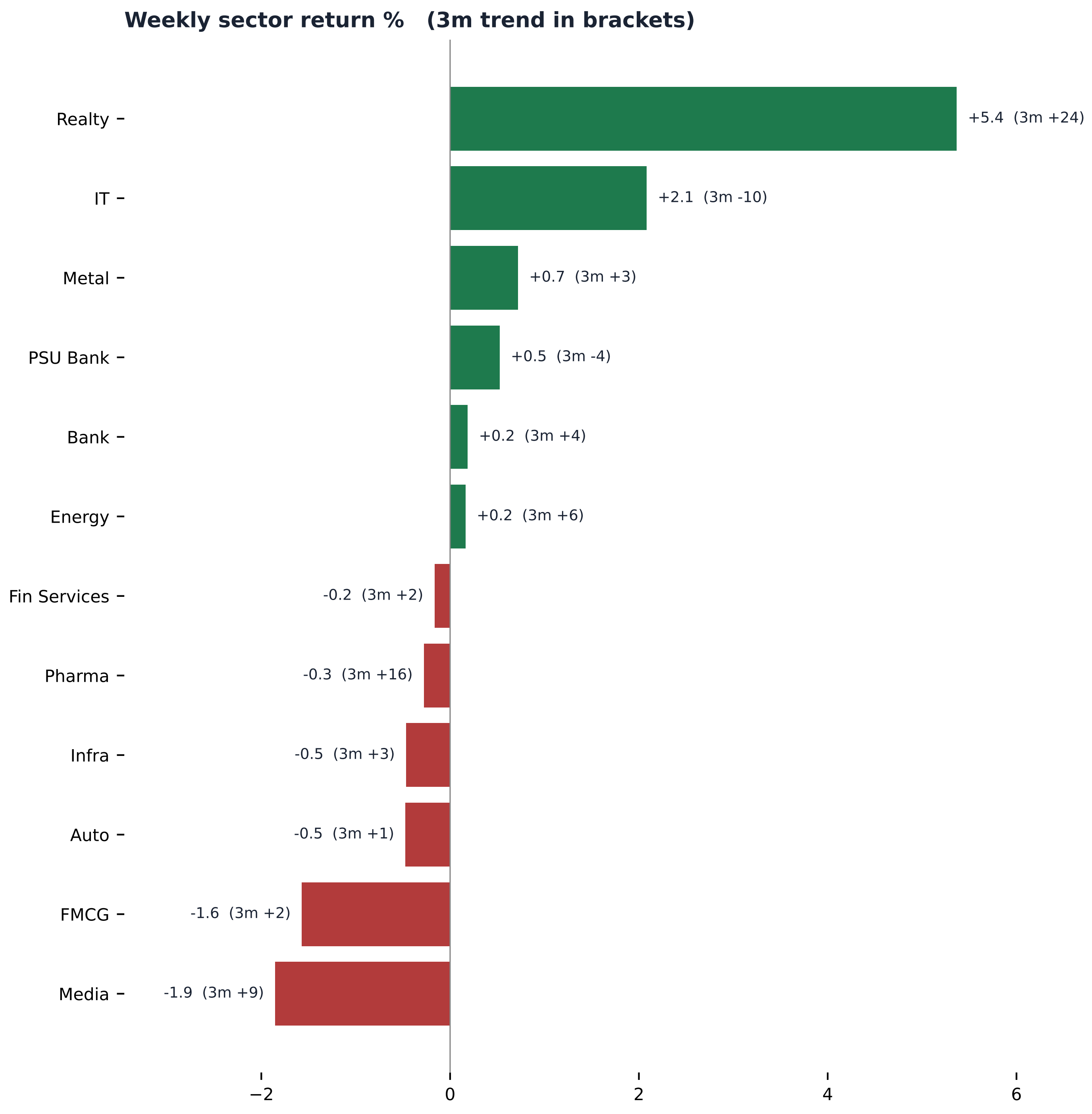
Markov-switching regime: Risk-off (Markov-switching). Smoothed posterior: Neutral 0.44, Risk-on 0.07, Risk-off 0.49



Now: Nifty 50 ~ USDINR -0.16 (persist 0.1936), Nifty 50 ~ India VIX -0.64 (persist 0.8134), Nifty 50 ~ Crude -0.29 (persist 0.8841)

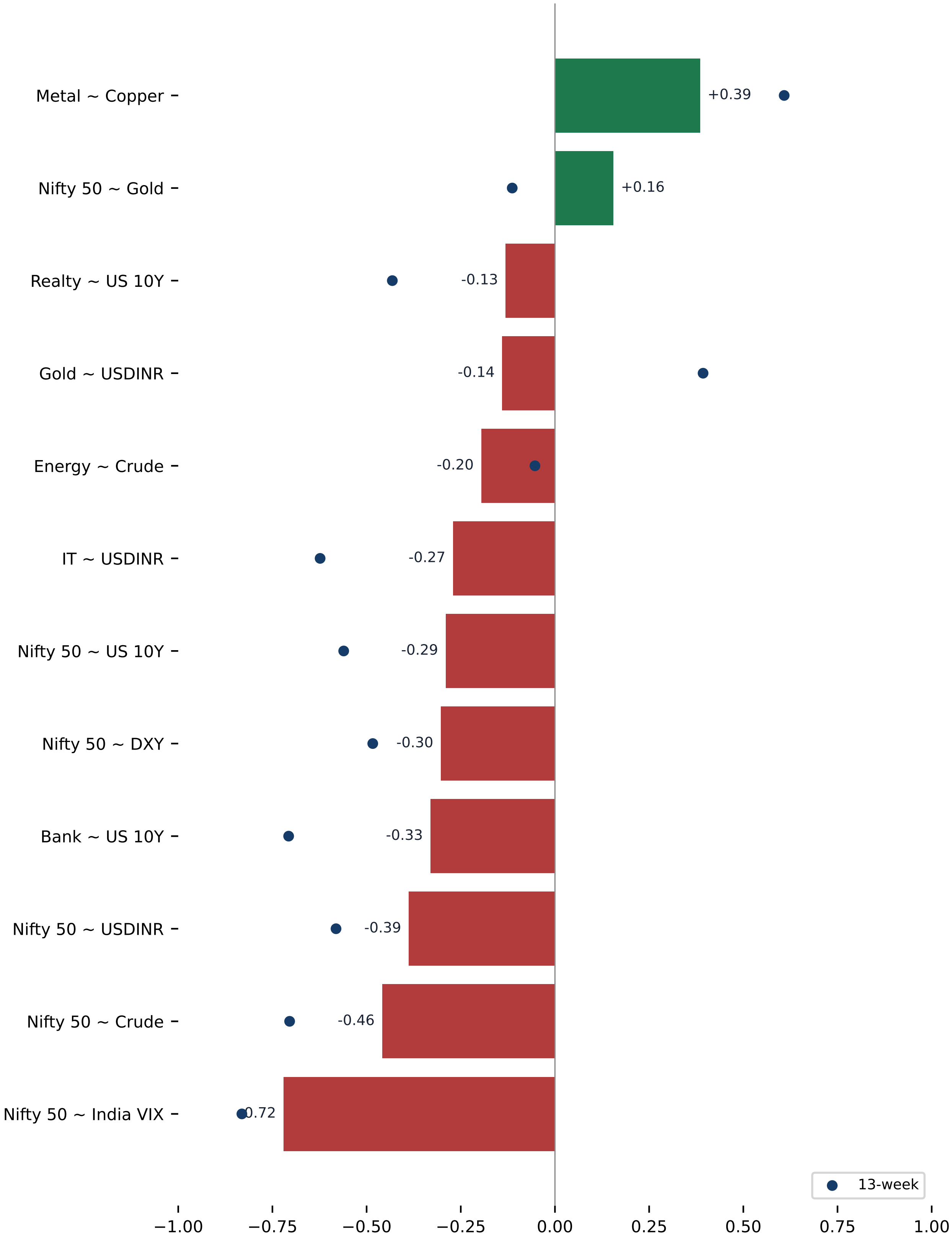
Sector Rotation

NSE sectoral indices, weekly return. Breadth: 50% of sectors up this week; 67% above their 10-week average.



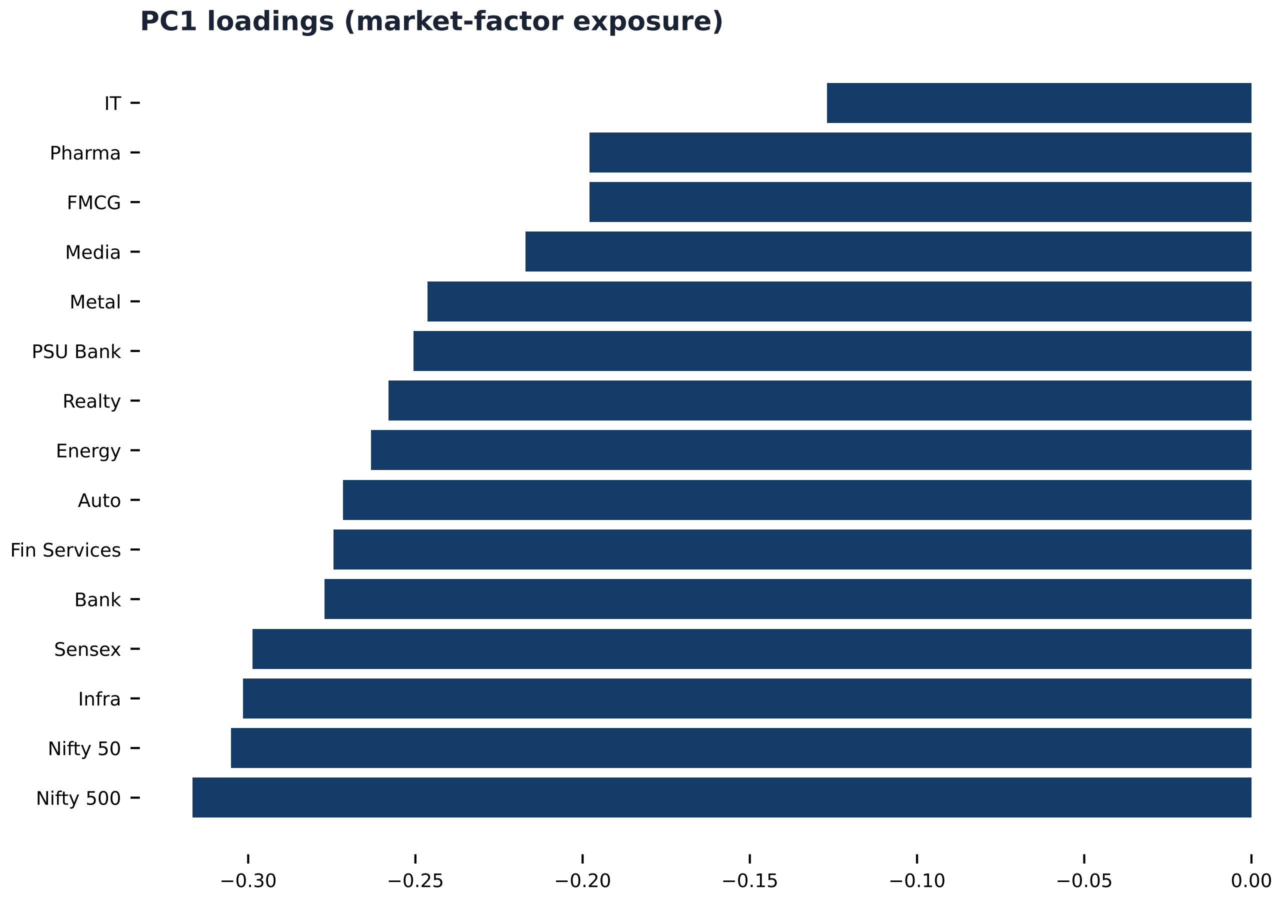
Cross-Asset Relationship Watch-List

India-specific pairs: 52-week correlation of weekly changes (dot = last 13 weeks).



Risk Concentration & Lead-Lag

PCA on equity + sector weekly moves: PC1 explains 65% of variance (PC2 8%). Higher PC1 = more single-factor / less diversificatio



LEAD-LAG INTO NIFTY 50 (weekly; honest — skill is modest)

Leader	Contemp. corr	1-week-lag corr
DXY	-0.21	-0.19
Crude	-0.28	-0.10
USDINR	-0.35	-0.09
US 10Y	-0.19	-0.08
India VIX	-0.64	+0.02

Macro Pulse

Latest India macro prints (release-based figures are the official print with its as-of date; markets are weekly).

FII/DII latest cash flows: DII net Rs 2,020 cr, FII net Rs 2,604 cr

INDICATOR	LATEST	AS OF
RBI Repo Rate	**5.25%**	Jul 2026 (MPC, neutral)
India 10Y G-sec yield	**6.76%**	Jul 2026 (RBI/FBIL; +ve on c
CPI Inflation YoY	**3.5% (core 3.7%)**	Apr 2026
GST Collections	**Rs 1.95 lakh cr (+13.9% YoY)**	Jun 2026
Mfg PMI	**54.2**	Jun 2026
Services PMI	**57.3**	Jun 2026
IIP YoY	**+5.1%**	May 2026
Real GDP growth	**6.6% (FY27 proj.)**	RBI FY2026-27
Forex Reserves (ex-gold)	**USD 571 bn**	2026-05
Real House Prices (idx)	**162.6**	2025-10 (NHB/BIS)
CPI Index (FRED/OECD)	**157.6**	2025-03

Release-based series (repo/CPI/GST/PMI/IIP/GDP) are entered from official releases in config/macro_prints.yaml and refreshed monthly.