ABL Digital India Cross-Asset Weekly

Trend, Correlation & Macro Report | week ending 2026-07-17

30 instruments across equities, sectors, FX, commodities, rates & REITs | 106 weeks

REGIME: Risk-off

EXECUTIVE SUMMARY

The Markov-switching model places India in a **Risk-off** regime this week, but only marginally so — the posterior splits 46.9% Risk-off against 43.8% Neutral, with Risk-on all but extinguished at 9.3%, so this is better read as an indecisive market leaning defensive rather than one in outright retreat. Nifty 50 was flat on the week (0.0%), breadth was split down the middle (50% of sectors up, 75% still above their 10-week average), and India VIX sits at a benign 13.3 (42nd percentile) — a picture of low-volatility drift, not stress. The single most important development this week is the **4.4% jump in crude** (MCX ₹7,114), which, against a USDINR that has already slid to 95.7 (+3% over three months), reactivates the oil→INR→inflation→rates channel just as CPI has cooled to a comfortable 3.5%. The key risk is precisely that channel: a sustained crude bounce from oversold levels would pressure the rupee and the 6.76% G-sec yield, eroding the disinflation that currently underwrites the RBI's neutral 5.25% stance. With PC1 explaining 66% of cross-sector variance, this remains a concentrated, single-factor tape where diversification within equities buys little protection.

Executive Dashboard

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

REGIME	NIFTY 1W	SECTOR BREADTH	INDIA VIX
Risk-off	+0.0%	50% up	13.3

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

Nifty 50	24,211.0	+0.0%	+0.8%	-0.6%
Bank	58,131.4	+0.1%	+0.8%	+2.8%
IT	29,015.8	+3.6%	+5.8%	-8.8%
USDINR	95.7	+0.4%	+1.5%	+3.4%
DXY	100.9	-0.0%	+0.1%	+2.9%
US 10Y	4.6	+0.0	+0.1	+0.3
India VIX	13.3	+1.0	+0.3	-3.9
Gold	142,017.0	-1.0%	+0.5%	-7.0%
Crude	7,114.0	+4.4%	+6.7%	-18.4%
Copper	1,299.5	+0.5%	+6.2%	+1.3%
Embassy REIT	450.0	+0.0%	+5.7%	+2.3%

India Cross-Asset Analysis

Executive Summary

The Markov-switching model places India in a **Risk-off** regime this week, but only marginally so — the posterior splits 46.9% Risk-off against 43.8% Neutral, with Risk-on all but extinguished at 9.3%, so this is better read as an indecisive market leaning defensive rather than one in outright retreat. Nifty 50 was flat on the week (0.0%), breadth was split down the middle (50% of sectors up, 75% still above their 10-week average), and India VIX sits at a benign 13.3 (42nd percentile) — a picture of low-volatility drift, not stress. The single most important development this week is the **4.4% jump in crude** (MCX ₹7,114), which, against a USDINR that has already slid to 95.7 (+3% over three months), reactivates the oil→INR→inflation→rates channel just as CPI has cooled to a comfortable 3.5%. The key risk is precisely that channel: a sustained crude bounce from oversold levels would pressure the rupee and the 6.76% G-sec yield, eroding the disinflation that currently underwrites the RBI's neutral 5.25% stance. With PC1 explaining 66% of cross-sector variance, this remains a concentrated, single-factor tape where diversification within equities buys little protection.

Regime & Market State

The regime signal is genuinely finely balanced and should be traded as such. A 46.9%/43.8% Risk-off-over-Neutral posterior is not a conviction call — it is a market that has lost its Risk-on impulse (9.3%) without committing to de-risking. The rule-based overlay reconciles the ambiguity: Nifty is below its 40-week average (the bearish tell that tips the model defensive), yet 75% of sectors hold above their 10-week line and VIX at 13.3 sits only in the 42nd percentile. In plain terms, the trend is soft but the internals and volatility are not confirming distribution. For an investor this argues against chasing either direction — the flat 0.0% Nifty week is honest signal, not noise being averaged out. The practical posture is neutral-to-cautious: keep beta modest, avoid adding risk into strength, but recognise there is no volatility premium being paid to hedge aggressively at a 13-handle VIX. The regime will resolve on the trend, not the tape's calm: reclaiming the 40-week average flips the model toward Neutral/Risk-on; a VIX break above the mid-teens with breadth rolling over confirms the Risk-off lean.

Sector Rotation

Rotation this week is narrow and rate-sensitive. **IT led (+3.6% on the week)** despite being the worst three-month performer (−9%) — a bounce in a beaten-down group rather than fresh leadership, and one to treat skeptically given IT's high PC1 loading (it moves with the market factor, not against it). Media (+2.1%) was the only other notable gainer. The losers — FMCG (−1.0%), Metal (−0.7%), Infra (−0.5%) — are defensives and cyclicals alike, underscoring that this was factor churn, not a clean risk-on or risk-off rotation. The more durable story is in the three-month column: **Realty (+19%) and Pharma (+14%)** are the structural leaders, both benefiting from the disinflation-and-easing backdrop, while PSU Bank (−5%) and IT (−9%) lag. Realty's leadership is coherent with a falling-rate regime and is worth respecting; its vulnerability, discussed below, is any back-up in yields. The takeaway for positioning: the weekly moves are largely mean-reversion inside a concentrated market and offer little actionable edge, whereas the quarter-length trend still favours rate-beneficiaries (Realty, Pharma) over global-cyclical and PSU banking exposure.

Cross-Asset Correlation Structure

Diversification is doing real work in some pairs and failing in others, and the DCC-GARCH conditional correlations tell you which to trust. The **Nifty–VIX relationship is the dominant, most reliable hedge**: conditional correlation −0.63 with high persistence (0.82), meaning the inverse equity-volatility link is stable and will hold — long-volatility structures remain the cleanest offset to equity risk. By contrast, the **Nifty–crude conditional correlation is only −0.09 with weaker persistence (0.61)**, far shallower than the 52-week/13-week static reads of −0.37/−0.41 suggest; the crude hedge is real over long windows but is *not* currently active, so investors should not lean on falling oil to cushion equities right now. The **Nifty–USDINR conditional correlation is −0.36 but with very low persistence (0.19)**, i.e. an unstable relationship — the rupee and equities are moving together loosely today but that co-movement is not something to underwrite. The static tables reinforce the rate-sensitivity theme: Bank~US 10Y has tightened to −0.70 (13w) and Realty~US 10Y to −0.41, so the domestic financials-and-property complex is now acutely geared to yields. Net message: your best in-portfolio hedge is volatility, not oil or the dollar, and your biggest concentrated exposure is to the rates path.

Currency, Rates & the Oil-INR Channel

This is the week's central channel and it is being switched back on. Crude jumped 4.4% to ₹7,114 even as it remains down 18% over three months — an oversold bounce, but a directionally important one for a net oil importer. **USDINR at 95.7 is already 3% weaker over the quarter**, so the rupee enters this crude move from a position of weakness rather than strength, and the −0.55 (13w) Nifty–USDINR correlation means further rupee slippage is an equity headwind. The transmission runs oil→imported inflation→INR→G-sec yields: the India 10Y already sits at 6.76% and is flagged as positively geared to both crude and US yields, while the US 10Y at 4.6% removes any external tailwind for Indian duration. The offsetting comfort is that **CPI is only 3.5% (core 3.7%)** and USD 571bn of ex-gold reserves gives the RBI ample room to lean against disorderly rupee moves. So the base case is manageable, not alarming — but the margin of safety in the disinflation story is what a sustained oil rally would spend. IT is the natural currency hedge here (IT~USDINR −0.56 on 13 weeks — it benefits as the rupee weakens), which partly rationalises this week's IT bounce and makes the sector a sensible pair against INR risk. Watch the 6.76% yield and 95.7 rupee together: if both push higher on crude, the rate-sensitive Realty/Bank leadership is where the damage shows first.

Macro Pulse

The domestic macro backdrop remains the strongest part of the India story and is what keeps the Risk-off regime shallow rather than deep. Growth signals are firmly expansionary: **Manufacturing PMI 54.2, Services PMI 57.3, IIP +5.1%**, and GST collections of ₹1.95 lakh crore up a robust 13.9% YoY — the latter a real-time confirmation that activity and formalisation are running hot, not cooling. Inflation at 3.5% sits comfortably below the RBI's midpoint, and with the MPC explicitly at a **neutral 5.25% repo**, policy is neither a tailwind nor a threat — it is on hold, watching the same crude-and-currency variables investors are. Real GDP growth is projected at 6.6% for FY27. The essential point for an investor is the *sequencing*: strong domestic demand plus contained inflation is a supportive equity backdrop, but the entire configuration is conditional on the imported-inflation channel staying quiet. The macro tiles are lagged (CPI is April, GST June) and therefore describe a benign world *before* this week's crude move — they are the reason to stay constructive, not a reason to ignore the fresh oil signal.

Key Risks & What to Watch

The dominant risk is a sustained crude recovery converting this week's 4.4% bounce into a trend, dragging USDINR beyond 95.7 and pushing the 6.76% G-sec yield higher — a sequence that would hit the Realty and Bank leadership hardest given their tightened −0.41 and −0.70 correlations to yields, and would erode the 3.5% CPI cushion that anchors the RBI's neutral stance. The second risk is concentration: with **PC1 explaining 66% of variance**, a single-factor drawdown would sweep the index regardless of sector selection, so diversification *within* equities offers thin protection — only the −0.63 Nifty–VIX relationship reliably offsets it. On lead-lag, keep expectations modest: the one-week predictive signals into Nifty are weak and near-random (crude −0.21, USDINR −0.09, VIX +0.01 at the one-week lag) — these are tilts, not timing tools, and should never be traded as certainty; the −0.64 VIX correlation is contemporaneous, i.e. confirmation, not foresight.

Concretely, the view stays constructive-but-cautious as long as: crude fails to hold above ₹7,100 and rolls back over; USDINR stabilises at or below 95.7; the India 10Y holds near 6.76% rather than breaking higher; and VIX stays sub-15. It **changes to genuinely defensive** if crude extends its gain into a second week, USDINR breaks toward 96+, the G-sec yield pushes through 6.85–6.90%, and breadth deteriorates below the 40-week average with VIX lifting out of its 42nd-percentile calm. Conversely, a

India Cross-Asset Analysis (cont.)

reclaim of the Nifty 40-week average alongside easing crude would flip the regime toward Neutral/Risk-on and argue for adding beta — most cleanly in the rate-sensitive Realty and Pharma leaders.

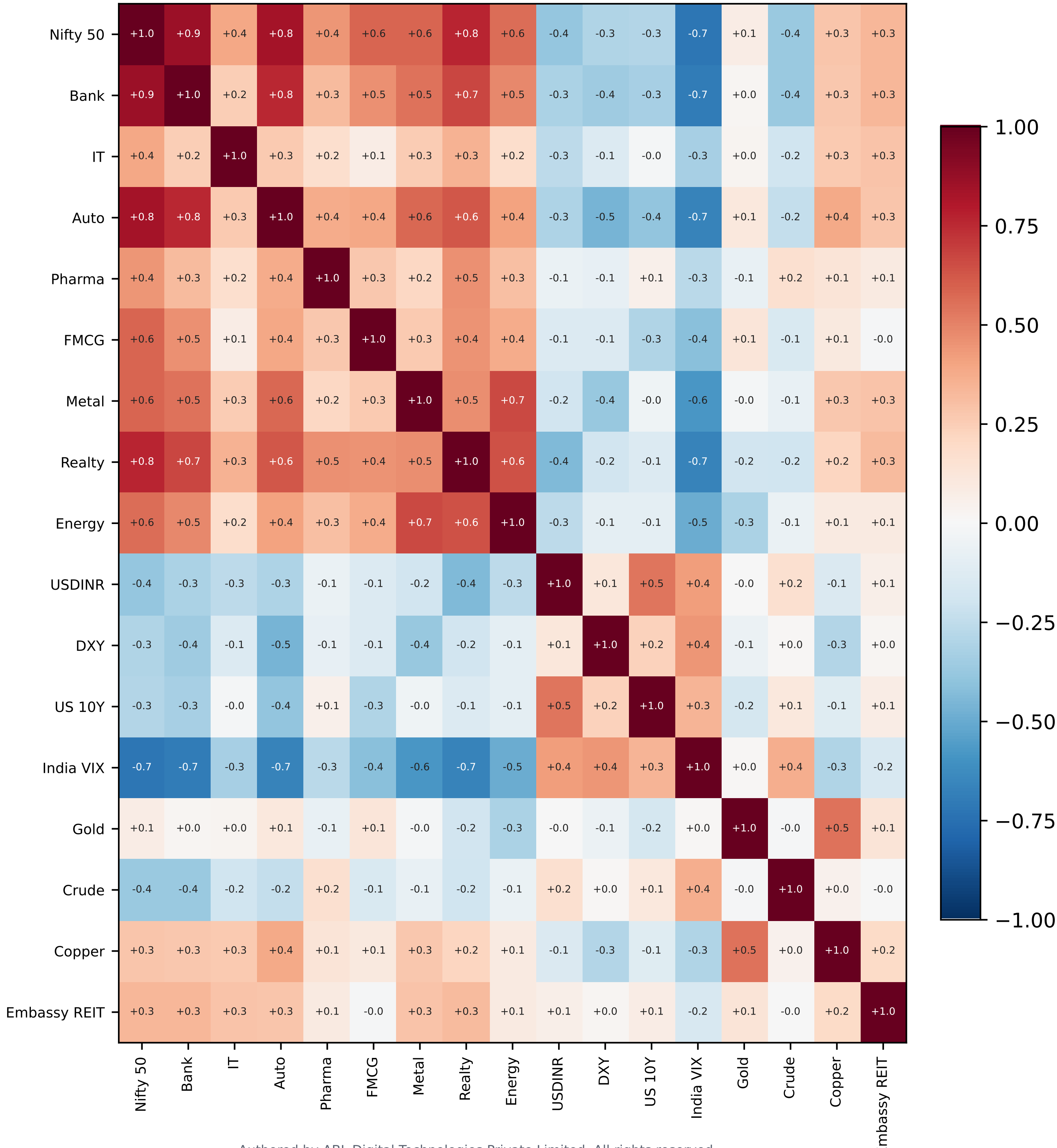
Weekly Returns Heatmap

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

	1w %	1m %	3m %
Sensex	+0.1	+1.1	-1.1
Nifty 50	+0.0	+0.8	-0.6
Nifty 500	-0.0	+0.9	+2.1
IT	+3.6	+5.8	-8.8
Media	+2.1	-0.0	+7.0
Auto	+0.4	+1.5	+2.1
Bank	+0.1	+0.8	+2.8
PSU Bank	+0.1	-2.9	-4.5
Fin Services	+0.0	+1.5	+1.2
Energy	-0.1	-3.3	+0.9
Pharma	-0.1	+4.8	+14.0
Realty	-0.2	+15.4	+19.1
Infra	-0.5	-1.4	+0.7
Metal	-0.7	-3.2	-2.2
FMCG	-1.0	-1.5	-1.7
EURINR	+3.5	+1.0	+0.6
USDINR	+0.4	+1.5	+3.4
DXY	-0.0	+0.1	+2.9
Crude	+4.4	+6.7	-18.4
Copper	+0.5	+6.2	+1.3
Aluminium	+0.4	+2.8	-9.0
Zinc	-0.4	+6.0	+7.2
NatGas	-0.8	-8.0	+8.9
Gold	-1.0	+0.5	-7.0
Silver	-1.2	+3.3	-11.4
Embassy REIT	+0.0	+5.7	+2.3
Brookfield REIT	+0.0	+4.9	+2.3
Nexus REIT	+0.0	+5.7	+4.2

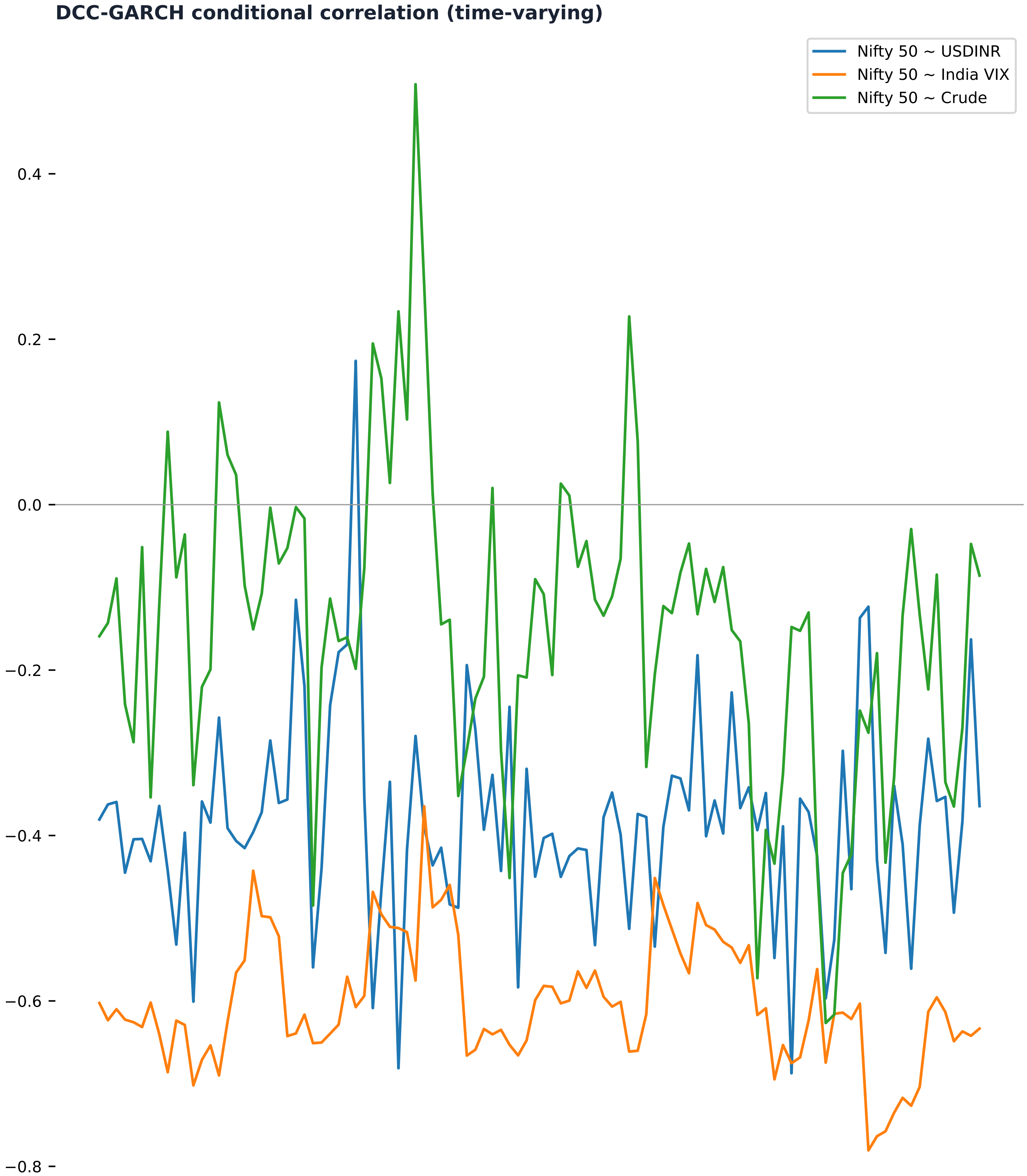
52-Week Cross-Asset Correlation

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



Regime & Conditional Correlations

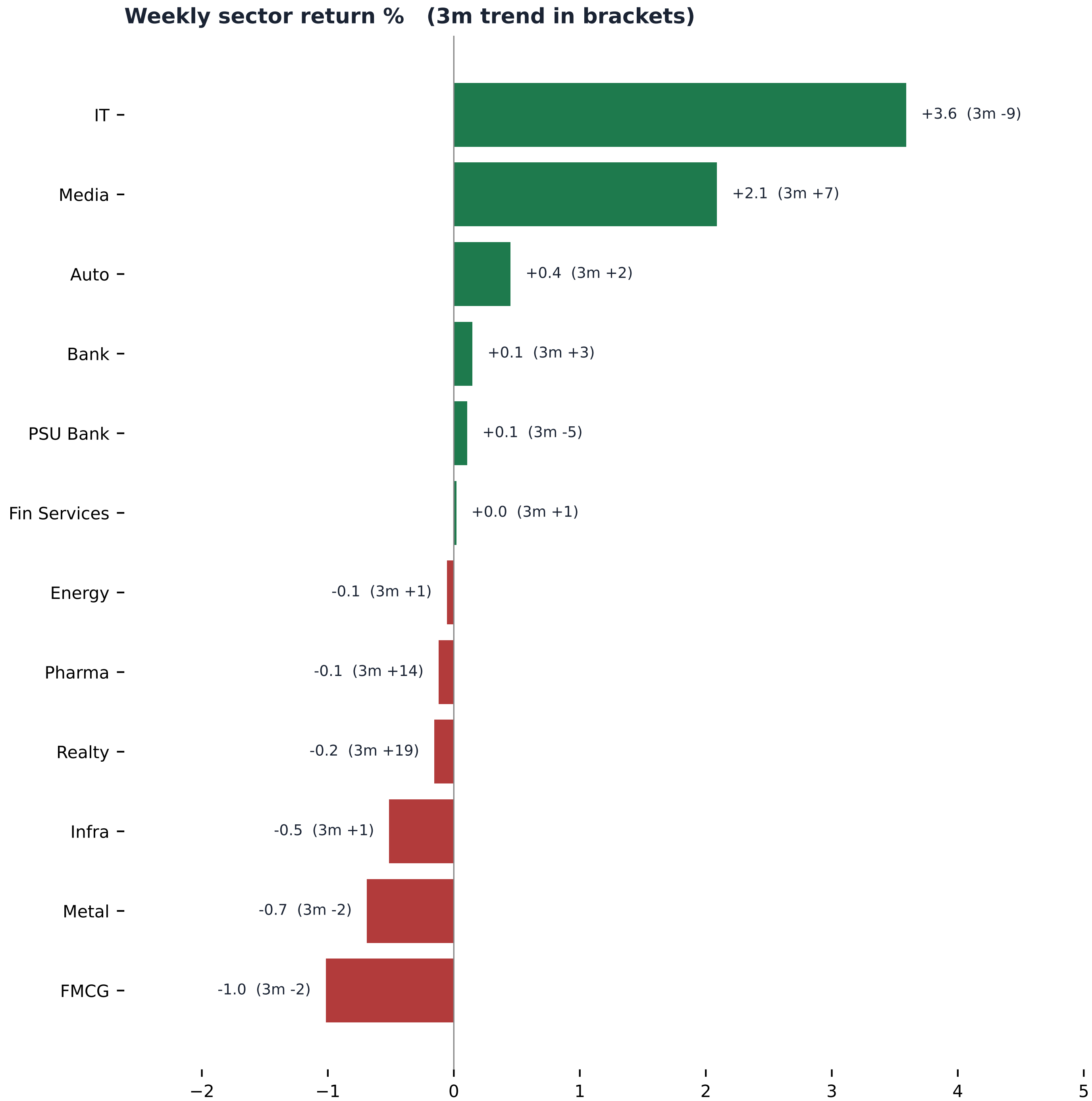
Markov-switching regime: Risk-off (Markov-switching). Smoothed posterior: Neutral 0.44, Risk-on 0.09, Risk-off 0.47



Now: Nifty 50 ~ USDINR -0.36 (persist 0.1922), Nifty 50 ~ India VIX -0.63 (persist 0.8161), Nifty 50 ~ Crude -0.09 (persist 0.6104)

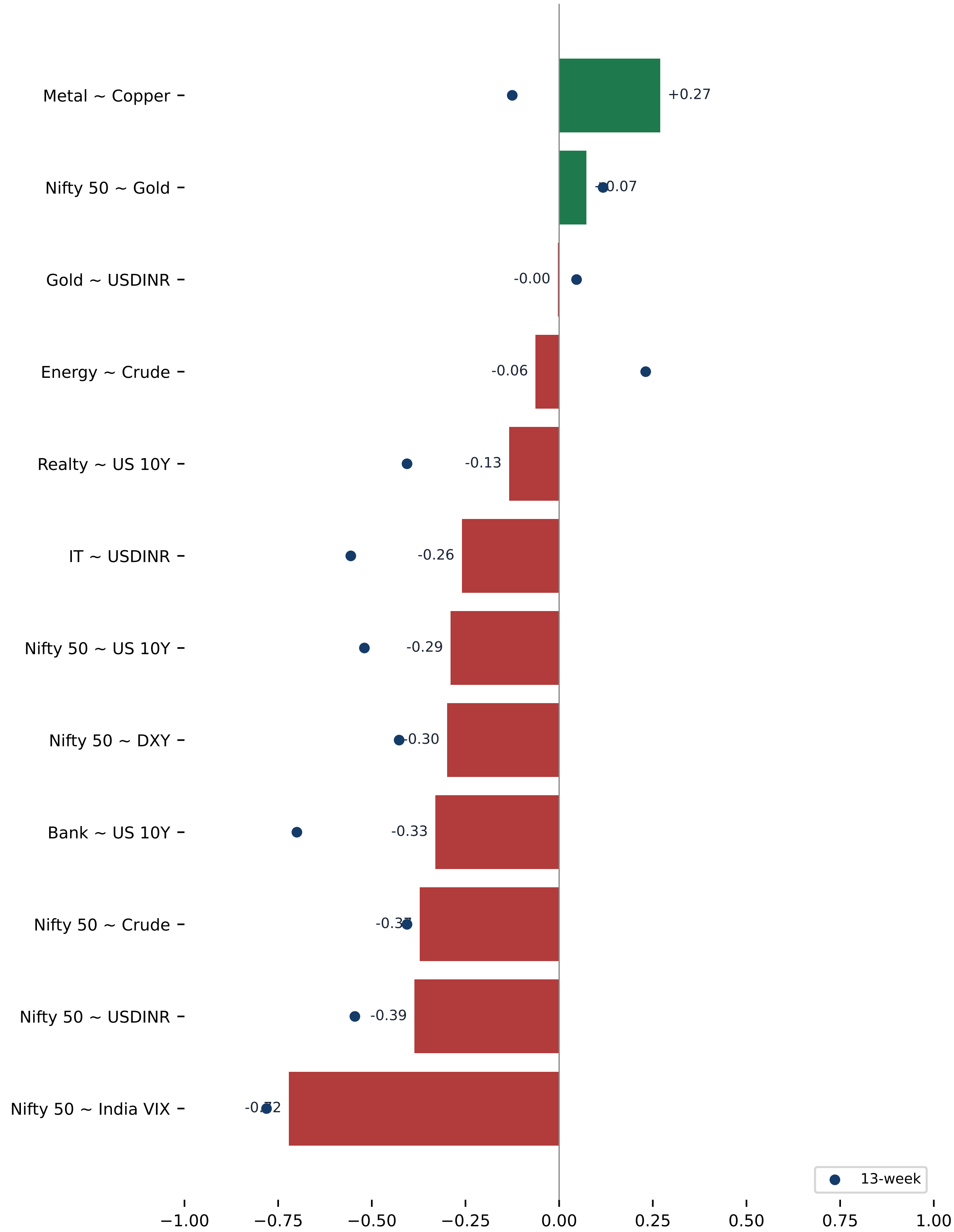
Sector Rotation

NSE sectoral indices, weekly return. Breadth: 50% of sectors up this week; 75% above their 10-week average.



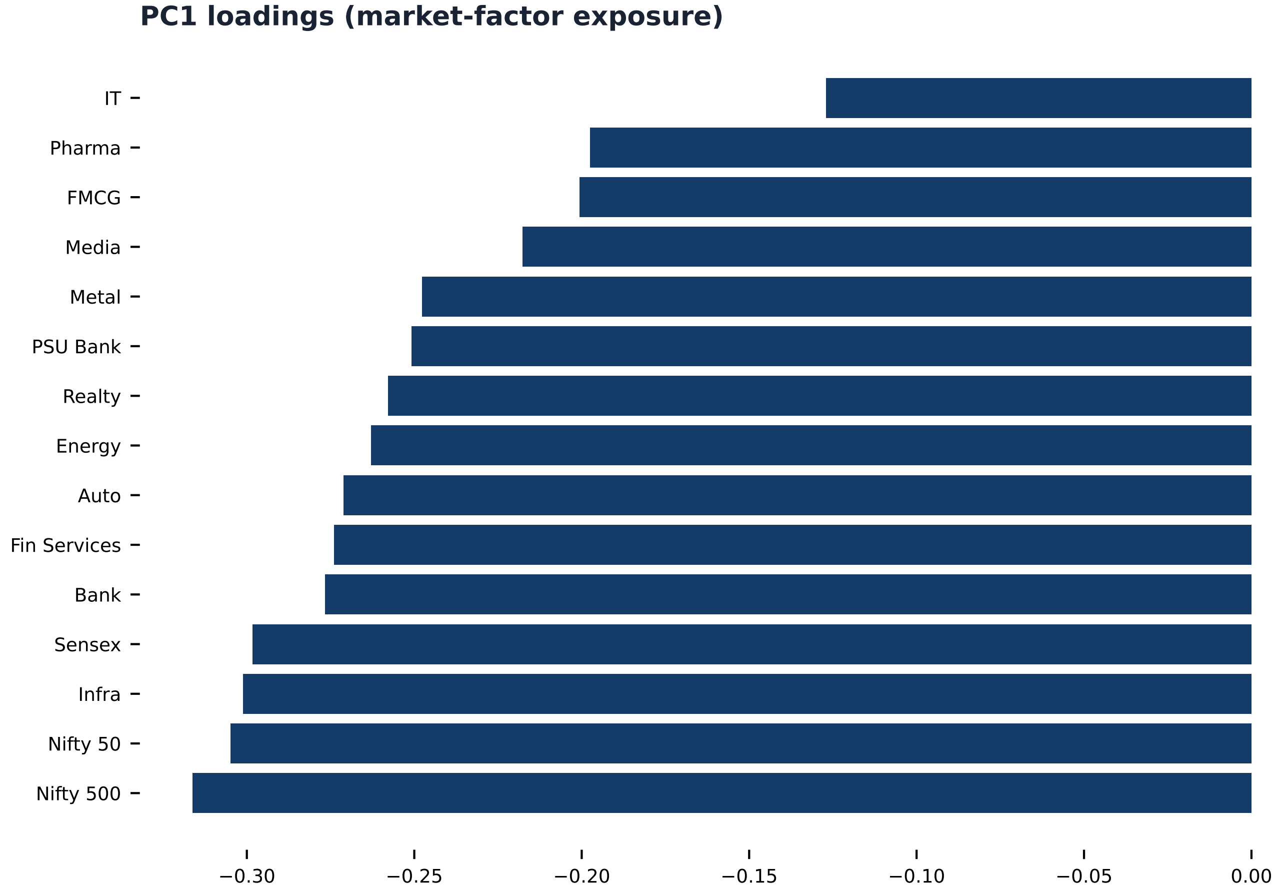
Cross-Asset Relationship Watch-List

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 66% 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
Crude	-0.19	-0.21
DXY	-0.21	-0.19
USDINR	-0.35	-0.09
US 10Y	-0.19	-0.09
India VIX	-0.64	+0.01

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 2,172 cr, FII net Rs -3,062 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.

Historical Trend - Key Metrics

Key readings from every weekly report, most recent on the right. Cells are colour-coded green (favourable / risk-on), amber (neutral) and red (adverse / risk-off) so the multi-month trend is readable at a glance.

R+ risk-on / favourable   N neutral   R- risk-off / adverse

	02-06	02-13	02-20	02-27	03-06	03-13	03-20	03-27	04-03	04-10	04-17	04-24	05-01	05-08	05-15	05-22	05-29	06-05	06-12	06-19	06-26	07-03	07-10	07-17
Regime	R-	N	R-	N	N	R-	N	R-	N	R-	R+	R-	R+	R+	R-	R+	N	R-	R+	R+	R-	R+	R-	R-
Nifty 1w %	+3.5	-0.9	+0.4	-1.5	-2.9	-5.3	-0.2	-1.3	-0.5	+5.9	+1.3	-1.9	+0.4	+0.7	-2.2	+0.3	-0.7	-0.8	+1.1	+1.7	+0.2	+0.9	-0.3	+0.0
Breadth %	83	58	67	42	8	0	50	17	42	100	92	33	75	92	17	50	67	25	67	92	42	75	50	50
India VIX	12	13	14	14	20	23	23	27	26	19	17	20	18	17	19	18	16	16	15	13	13	12	12	13
USDINR 1w %	-1.2	-0.0	+0.2	+0.4	+1.0	+0.7	+1.4	+0.9	-2.1	+0.3	-0.5	+1.8	+0.7	-0.5	+1.6	-0.3	-0.7	-0.1	+0.2	-0.8	-0.0	+1.3	-0.2	+0.4
Bank 1w %	+0.9	+0.1	+1.6	-1.1	-4.5	-7.0	-0.6	-2.2	-1.4	+8.5	+1.2	-0.8	-2.2	+0.8	-2.9	+0.6	+0.3	+0.5	+4.3	+1.5	+0.9	-0.4	+0.2	+0.1

Each column is one weekly report - read left (older) to right (latest) for the trend over the past months.