ABL Digital India Cross-Asset Weekly

Trend, Correlation & Macro Report | week ending 2026-07-24

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

REGIME: Neutral

EXECUTIVE SUMMARY

India sits in a **Neutral regime** this week, with the Markov-switching model assigning a 67.4% posterior to Neutral and, tellingly, 30.6% to Risk-off versus just 1.9% to Risk-on — the balance of risk is skewed down, not up. The single most important development is not in equities, which drifted -0.4% on the Nifty, but in the macro plumbing: **crude is down 22% over three months** (7930 on MCX), and with **CPI at 3.5%** (core 3.7%) sitting a full 175bp below the **5.25% repo rate**, the entire oil→INR→inflation→rates chain that usually constrains India has gone quiescent — a structurally supportive backdrop. The tension is that the rupee has still weakened ~2% over three months to 96.4 despite collapsing crude, telling you the pressure on INR is coming from the dollar and flows, not oil. Diversification is only partly working: the Nifty–VIX conditional correlation is a deeply negative -0.59 and highly persistent (0.82), while equity–FX and equity–crude hedges have decayed toward zero. The key risk is a dollar/US-rate shock: with **PC1 explaining 66%** of cross-sectional variance, this remains a single-factor market where a global de-risking impulse would override India's clean domestic story.

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Executive Dashboard

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

REGIME	NIFTY 1W	SECTOR BREADTH	INDIA VIX
Neutral	-0.4%	58% up	13.0

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

Nifty 50	24,238.5	-0.4%	+0.8%	+1.4%
Bank	57,945.0	-1.0%	-0.4%	+3.3%
IT	29,161.8	-0.2%	+6.7%	+2.2%
USDINR	96.4	+0.2%	+2.3%	+2.3%
DXY	100.8	+0.0%	-0.6%	+2.3%
US 10Y	4.5	+0.0	+0.2	+0.2
India VIX	13.0	-0.2	-0.1	-6.7
Gold	141,831.0	+0.7%	-1.8%	-4.8%
Crude	7,930.0	-0.2%	+21.5%	-21.7%
Copper	1,311.5	+0.7%	+3.1%	+4.2%
Embassy REIT	452.5	+0.0%	+5.7%	+4.5%

India Cross-Asset Analysis

Executive Summary

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Regime & Market State

The quantitative read and the rule-based read disagree in an instructive way. The Markov model calls **Neutral (0.674)** with a meaningful Risk-off tail **(0.306)**, while the rule-based lens is more mixed: the Nifty is *below* its 40-week average (a bearish structural marker) yet **75% of sectors sit above their 10-week MA** and breadth was 58% positive on the week — a tape with healthy internals under a heavy index. **India VIX at 13.0 (37th percentile)** confirms there is no fear being priced; volatility is cheap. For an investor, this is the textbook "no trend, positive carry, complacent vol" configuration: it favors staying invested and harvesting breadth rather than chasing beta, but the 31% Risk-off posterior and sub-40-week index price argue against adding leverage. The absence of a Risk-on signal (1.9%) means there is no statistical basis for an aggressive pro-cyclical tilt here — this is a market to hold and rotate within, not to press.

Sector Rotation

The weekly leaders — **PSU Bank +2.8%, Pharma +1.4%, Media +1.1%, Energy +1.0%** — sit against laggards in the private financials complex, with **Fin Services -1.2%, Bank -1.0%**. But the more revealing signal is the divergence between one-week and three-month returns. **Pharma (+1.4% / +15% 3m)** and **Realty (-0.1% / +18% 3m)** are the genuine trend leaders, while this week's PSU Bank pop (+2.8%) sits on a *negative* three-month base (-2%), marking it as a tactical bounce rather than a durable rotation. The weakness in Bank and Fin Services is consistent with the rates picture below — the **Bank–US 10Y correlation has intensified to -0.67 over 13 weeks** (from -0.33 over 52 weeks), so financials are trading as rate-sensitive instruments right now. The actionable read: Realty and Pharma own the medium-term momentum, Realty's leadership is a direct bet on the disinflation/rate-cut channel, and the defensive skew of the weekly leaderboard (Pharma, Media, FMCG all green) is quietly consistent with the Neutral-to-defensive regime signal rather than contradicting it.

Cross-Asset Correlation Structure

This is where diversification math matters. The **DCC-GARCH conditional correlations** say that the only *reliable, persistent* hedge in the book is volatility itself: **Nifty–VIX at -0.59 with 0.82 persistence** — a stable, dependable inverse relationship, meaning long-vol or protective structures will keep paying off as hedges. By contrast, **Nifty–USDINR conditional correlation is only -0.26 with very low persistence (0.19)**, and **Nifty–Crude is a near-zero -0.09** — so the FX and commodity "diversifiers" are neither strong nor stable right now, and an investor should not rely on them to offset equity risk. The static correlation matrix reinforces the single-factor worry: the Nifty's inverse relationship to US 10Y has *deepened* (-0.30 → -0.52 over 13 weeks) and to DXY (-0.31 → -0.44), meaning the market's swing factor has migrated toward **US rates and the dollar**. Combined with **PC1 at 66%**, the practical implication is that stock-picking alpha is scarce — two-thirds of return dispersion is one common factor — and the diversification you actually get comes from the low-

India Cross-Asset Analysis (cont.)

PC1-loading defensives (**IT, Pharma, FMCG**), not from cross-asset hedges.

Currency, Rates & the Oil-INR Channel

Here is India's central channel, and it is currently a tailwind that the market has not fully cashed. **Crude down 22% over three months** removes the primary imported-inflation threat for a net oil importer; **CPI at 3.5% with core at 3.7%** validates that the pass-through is benign; and the **RBI at a neutral 5.25% repo** has room it is not using. The **India 10Y at 6.76%** — flagged as sensitive to crude and US yields — should have more downside if crude stays soft, which is precisely why rate-sensitive **Realty (+18% 3m)** has led. The complication is the rupee: **USDINR at 96.4 is up ~2% over three months even as crude collapsed**, so the depreciation is being driven by dollar strength and flow dynamics, not the oil bill. That matters because the **Nifty–USDINR correlation (-0.37/-0.32)** and **Nifty–Crude (-0.37/-0.21)** are being partly muted — falling crude is cushioning the equity hit from a softer rupee. The investor takeaway: the domestic disinflation-and-easing thesis is real and under-owned in rate-sensitives, but it is hostage to the dollar; if DXY (100.8, flat this week) turns higher, INR weakness could overwhelm the crude benefit and re-tighten financial conditions through the 10Y.

Macro Pulse

The macro tiles describe an economy running hot on activity and cool on prices — the ideal combination. **Manufacturing PMI 54.2 and Services PMI 57.3** signal firm, broad-based expansion; **IIP +5.1%** and **GST collections at Rs 1.95 lakh cr (+13.9% YoY)** corroborate real, tax-visible demand rather than survey optimism; and **FY27 real GDP is projected at 6.6%**. Against that growth, **CPI at 3.5%** and **forex reserves (ex-gold) of USD 571bn** give the RBI both the justification and the buffer to ease if it chooses. For an investor, this is a rare quadrant: nominal growth strong enough to support earnings, inflation low enough to permit rate cuts, and a reserve cushion to defend the currency. The gap between this genuinely constructive macro and the merely Neutral market regime is the opportunity — the fundamentals are doing better than the tape, which argues for accumulating quality cyclicals and rate-sensitives on weakness rather than de-risking.

Currency, Rates & the Oil-INR Channel

(covered above — see Macro Pulse and the Oil-INR section)

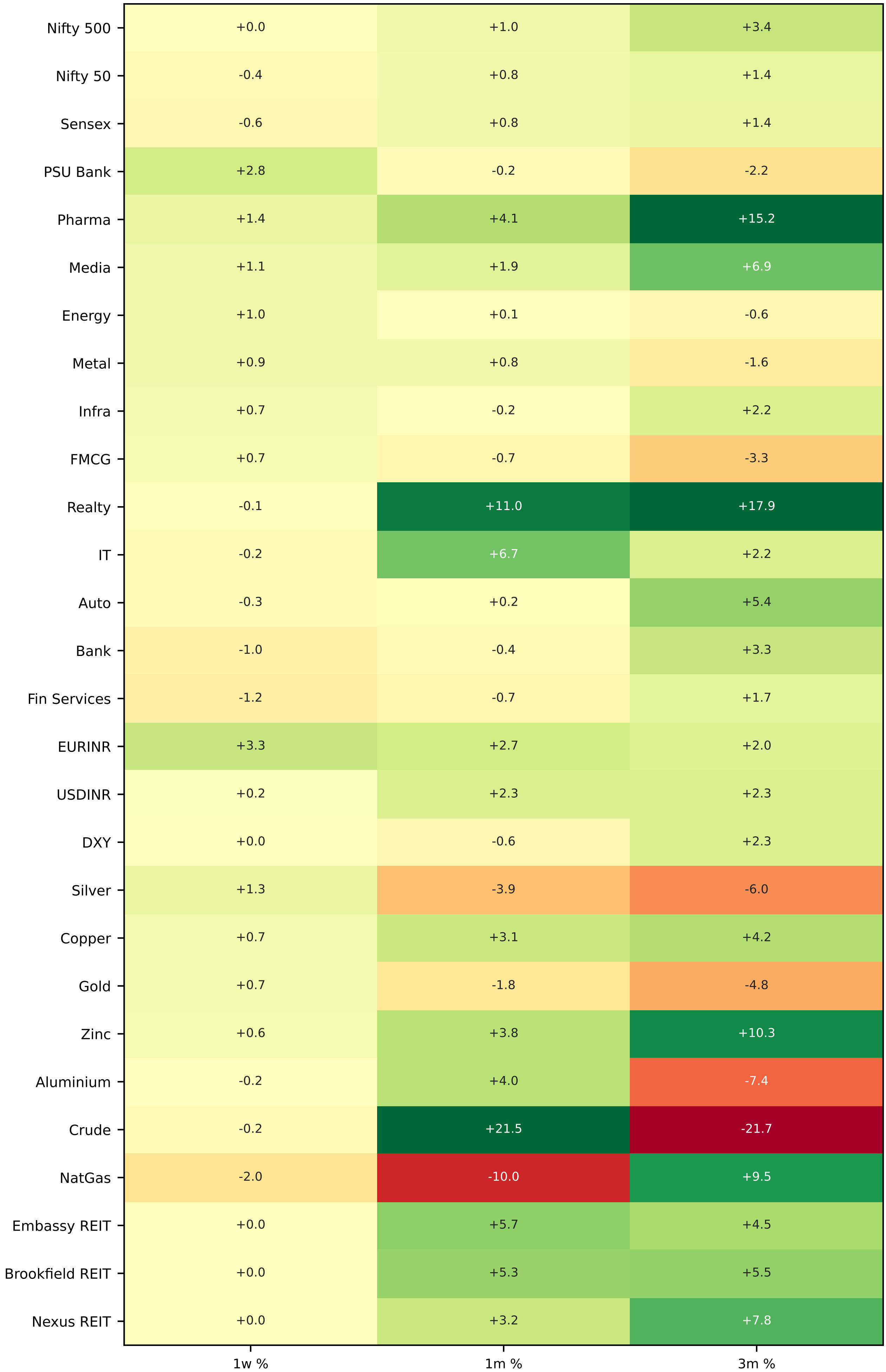
Key Risks & What to Watch

The dominant risk is external, not domestic: with **PC1 at 66%** and the Nifty's correlation to **US 10Y (-0.52 13w)** and **DXY (-0.44 13w)** having deepened, a rise in US yields or a dollar breakout would transmit straight into Indian equities and compress the disinflation trade — Banks (Bank–US10Y -0.67) and Realty (Realty–US10Y -0.33) would lead the drawdown. The second risk is that the crude tailwind reverses; the buffer it provides against a weak rupee is real but thin. On predictive skill, be honest about its limits: the **lead-lag signals are modest**. USDINR and VIX carry a strong *contemporaneous* inverse read (-0.35 and -0.64) but essentially **no one-week predictive carry** (USDINR 1w-lag -0.09, VIX +0.01); only **crude shows a slightly higher lagged than contemporaneous correlation (-0.19 → -0.21)**, hinting crude is a mild leading indicator — but at r≈-0.2 this is a weak edge, not a timing signal, and should size positions accordingly.

Watch these observable triggers. **Confirming the constructive view:** India 10Y breaking below ~6.6% (crude disinflation feeding through to rates), USDINR stabilizing or strengthening back through 96 while DXY holds near 100–101, and Realty/Pharma leadership persisting with breadth staying above 70% above the 10w MA. **Changing the view:** DXY breaking decisively above ~102 or US 10Y rising back toward/through 4.7% (which would deepen the equity–rates correlation and hit financials), crude reversing higher toward INR 8,500+ on MCX (re-arming the import-inflation channel), India VIX lifting off its complacent 13 handle (the persistent -0.59 conditional correlation means that move would be immediately negative for the index), or the Markov Risk-off posterior climbing above ~0.45 alongside a break of the still-supportive 75%-above-10w-MA breadth reading.

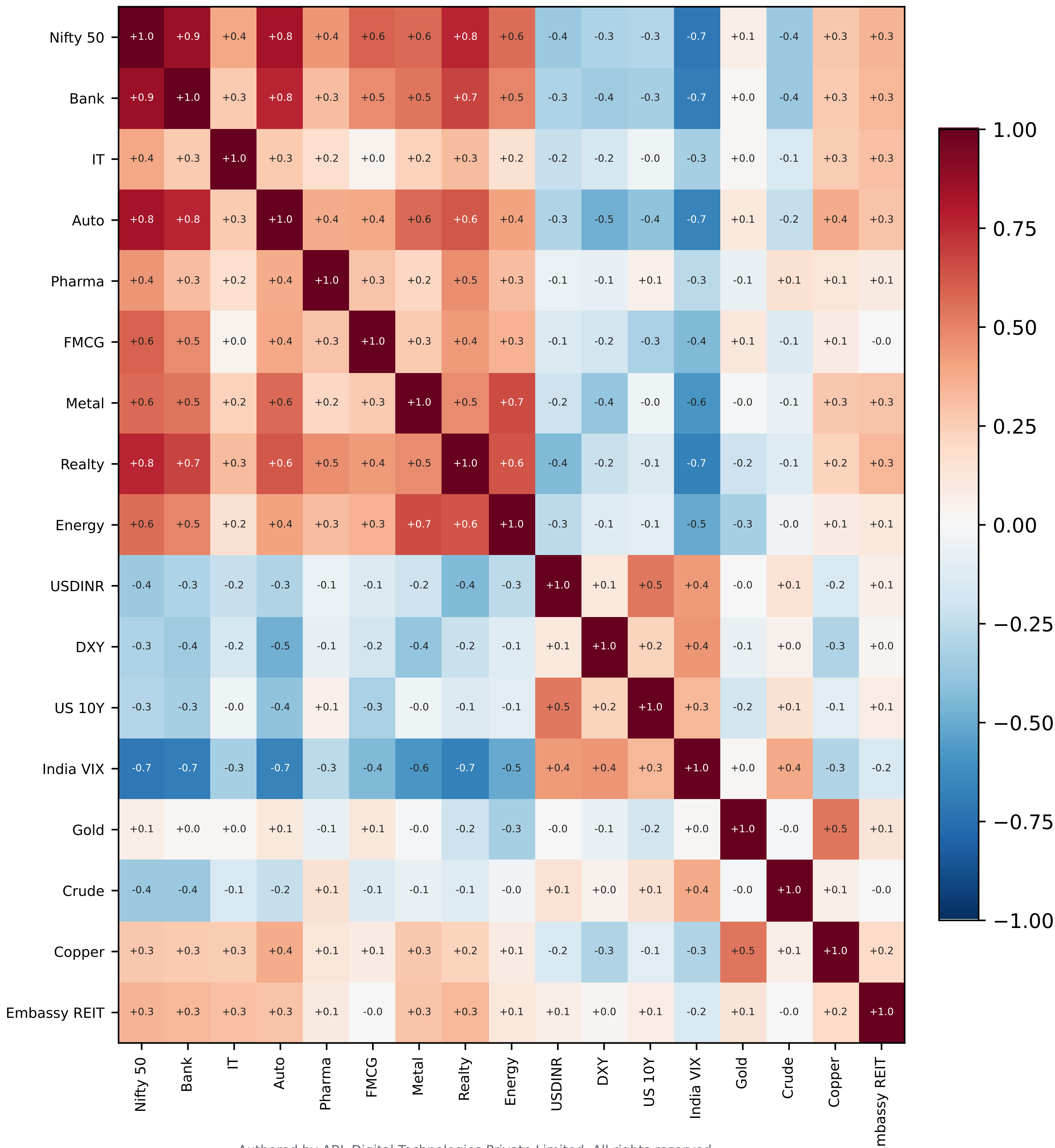
Weekly Returns Heatmap

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



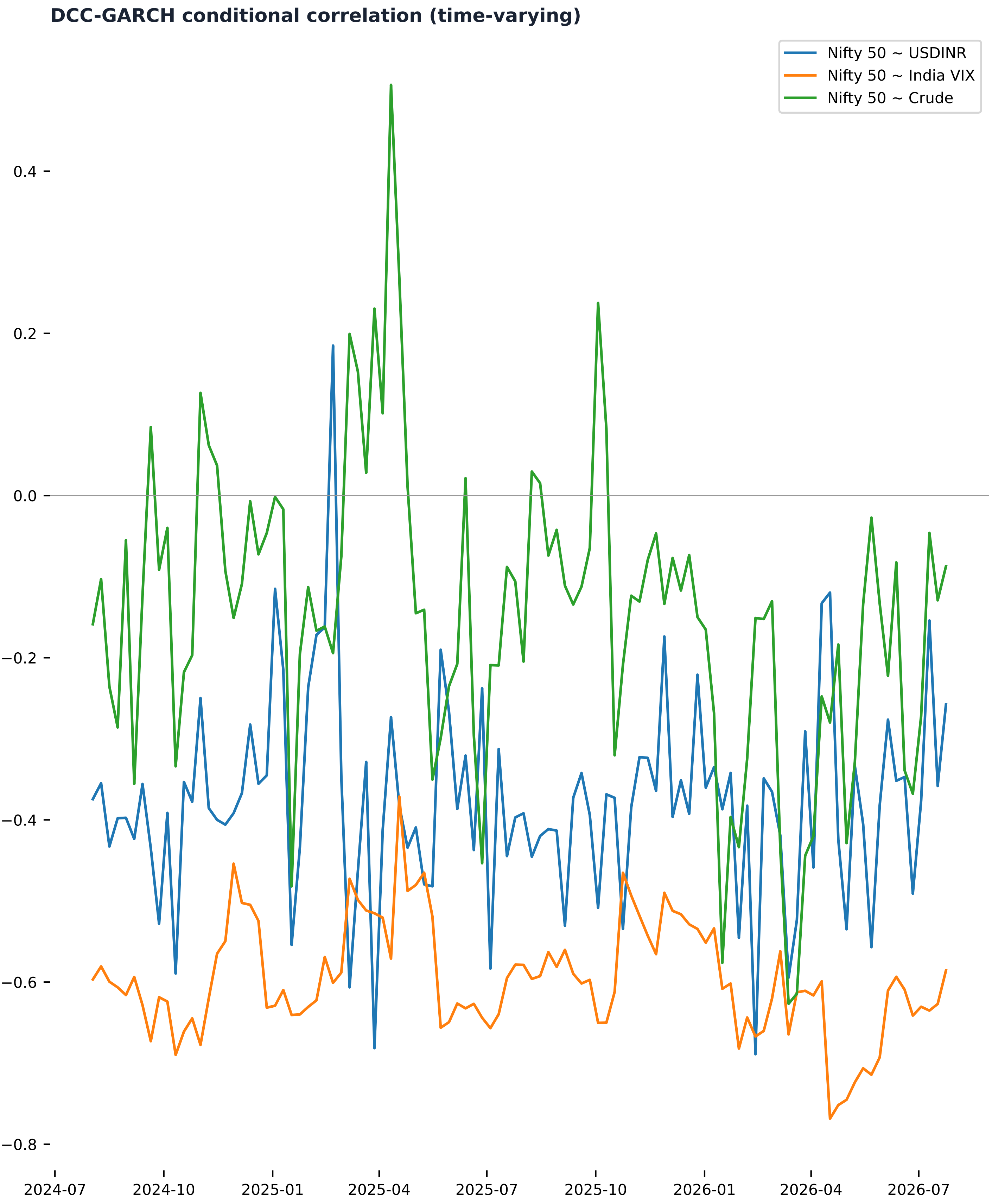
52-Week Cross-Asset Correlation

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



Regime & Conditional Correlations

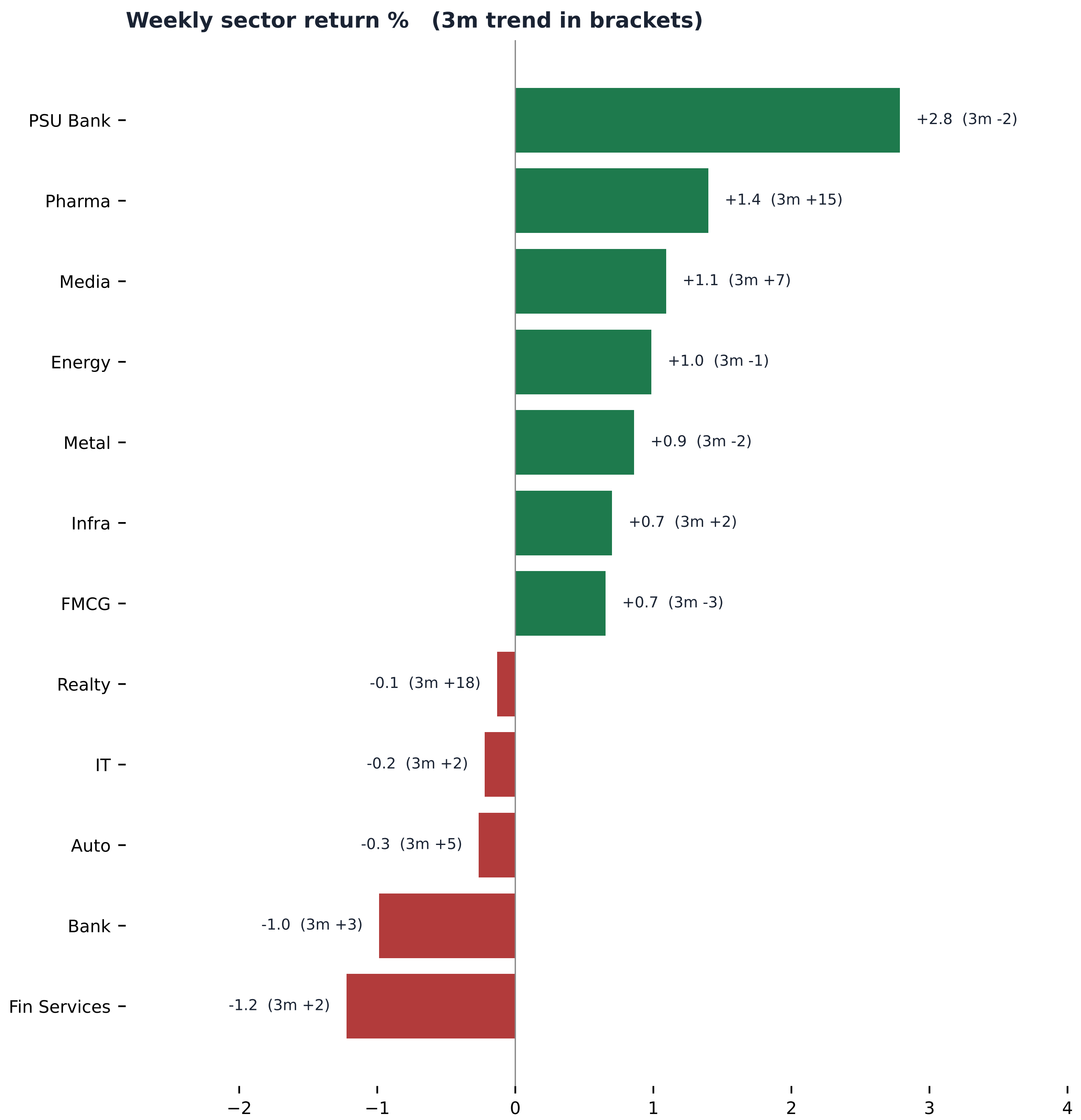
Markov-switching regime: Neutral (Markov-switching). Smoothed posterior: Neutral 0.67, Risk-on 0.02, Risk-off 0.31



Now: Nifty 50 ~ USDINR -0.26 (persist 0.1944), Nifty 50 ~ India VIX -0.59 (persist 0.8162), Nifty 50 ~ Crude -0.09 (persist 0.6127)

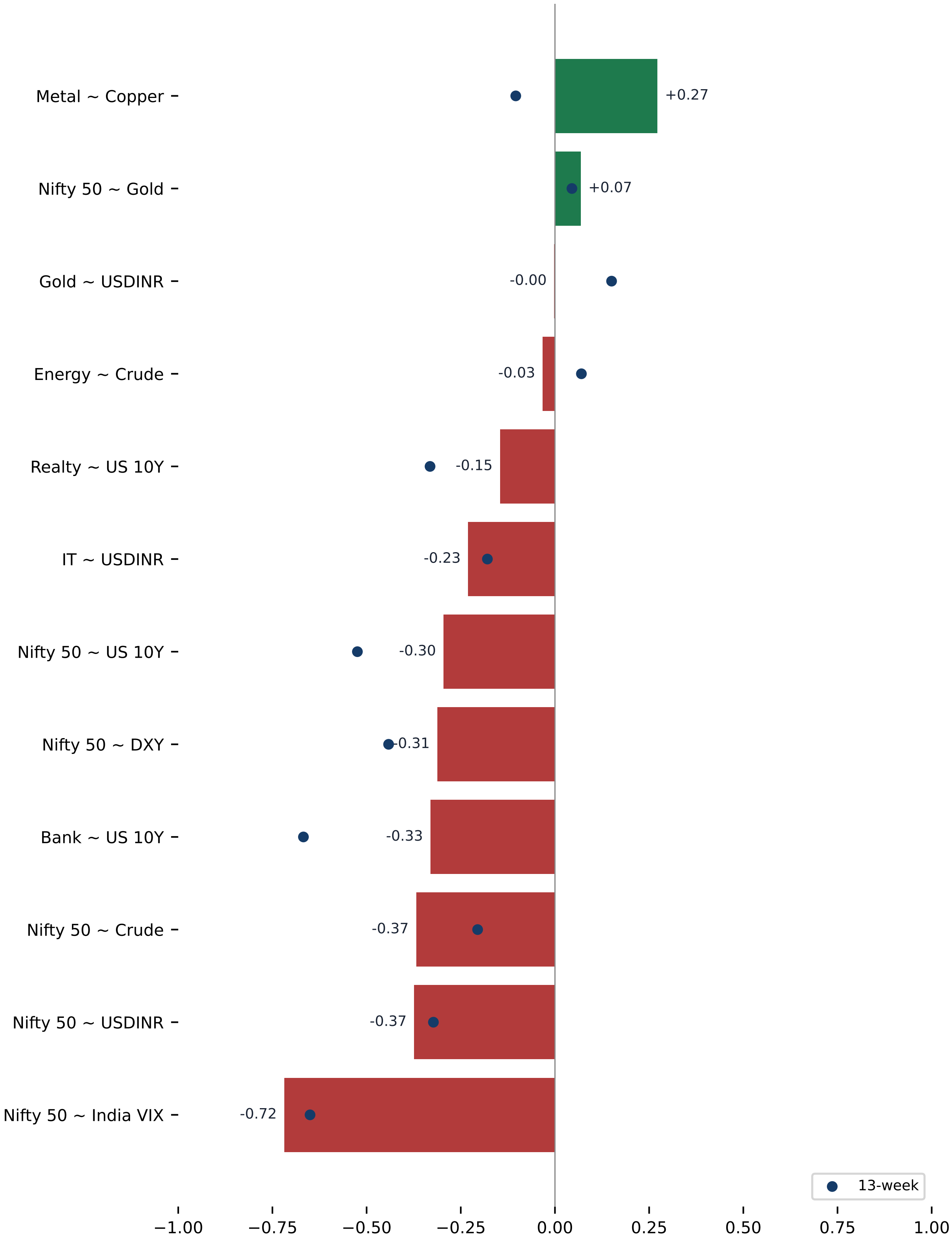
Sector Rotation

NSE sectoral indices, weekly return. Breadth: 58% of sectors up this week; 75% above their 10-week average.



Cross-Asset Relationship Watch-List

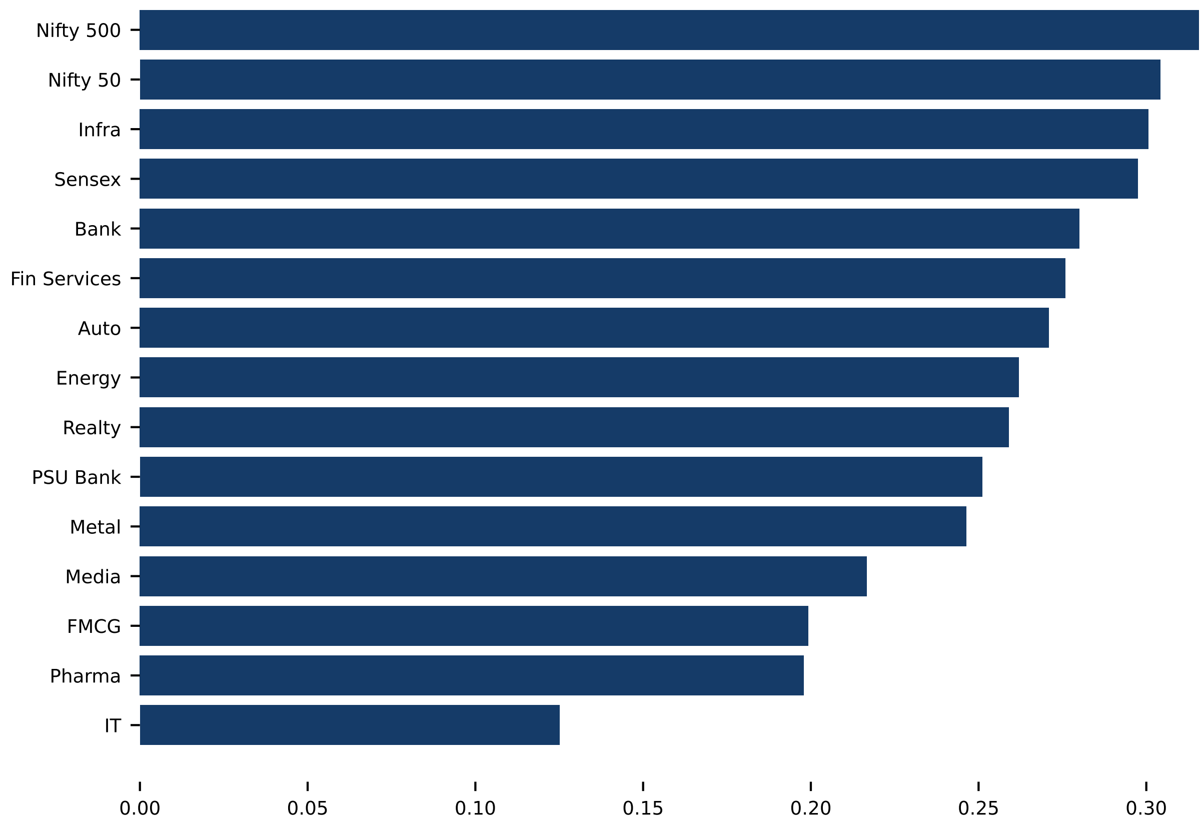
India-specific pairs: 52-week correlation of weekly changes (dot = last 13 weeks).



Risk Concentration & Lead-Lag

PCA on equity + sector weekly moves: PC1 explains 66% of variance (PC2 8%). Higher PC1 = more single-factor / less diversificatio

PC1 loadings (market-factor exposure)



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	-0.08
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 1,018 cr, FII net Rs -376 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

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

	05-08	05-15	05-22	05-29	06-05	06-12	06-19	06-26	07-03	07-10	07-17	07-24
Regime	R+	R-	R+	N	R-	R+	R+	R-	R+	R-	R-	N
Nifty 1w %	+0.7	-2.2	+0.3	-0.7	-0.8	+1.1	+1.7	+0.2	+0.9	-0.3	+0.0	-0.4
Breadth %	92	17	50	67	25	67	92	42	75	50	50	58
India VIX	17	19	18	16	16	15	13	13	12	12	13	13
USDINR 1w %	-0.5	+1.6	-0.3	-0.7	-0.1	+0.2	-0.8	-0.0	+1.3	-0.2	+0.4	+0.2
Bank 1w %	+0.8	-2.9	+0.6	+0.3	+0.5	+4.3	+1.5	+0.9	-0.4	+0.2	+0.1	-1.0

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