ABL Digital India Cross-Asset Weekly

Trend, Correlation & Macro Report | week ending 2026-08-07

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

REGIME: Risk-on

EXECUTIVE SUMMARY

India sits firmly in a Risk-on regime — the Markov-switching model puts 79% posterior weight there and zero on Risk-off, corroborated by Nifty above its 40-week average, 92% of sectors above their 10-week line, and an India VIX of 11.9 sitting in just the 22nd percentile. The single most important development this week is not the 1.6% Nifty gain but the collapse in crude, down 6.9% on the week and 22% over three months to 7554 on MCX — an outright macro tailwind for a net oil importer that eases the imported-inflation impulse and hands the RBI room while it holds at a neutral 5.25%. Yet the puzzle that should temper enthusiasm is that USDINR has not participated: the rupee is dead flat at 95.4 despite cheaper oil and a soft DXY (99.7), telling you the currency's weakness is being driven by capital-flow and rate-differential pressure rather than the trade channel. Beneath the index, leadership is cyclical — Auto (+7.6%), Metal (+3.8%) and IT (+3.3%) led — but with PC1 explaining 66% of cross-sectional variance, this remains a concentrated, largely single-factor tape that will move together if the factor turns. The key risk is that the crude dividend never reaches the rupee or the bond market, leaving India 10Y G-sec stuck near 6.76% and a stubbornly firm USDINR to cap the equity re-rating that lower oil would otherwise justify.

Executive Dashboard

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

REGIME	NIFTY 1W	SECTOR BREADTH	INDIA VIX
Risk-on	**+1.6%**	**83% up**	**11.9**

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

Nifty 50	24,774.3	+1.6%	+2.3%	+2.5%
Bank	58,247.9	+1.7%	+0.3%	+5.3%
IT	31,715.2	+3.3%	+13.2%	+7.9%
USDINR	95.4	+0.0%	+0.1%	+1.0%
DXY	99.7	-0.1%	-1.2%	+1.9%
US 10Y	4.7	+0.0	+0.2	+0.4
India VIX	11.9	+0.2	-0.3	-4.9
Gold	142,050.0	+0.4%	+0.1%	-12.4%
Crude	7,554.0	-6.9%	-0.8%	-22.2%
Copper	1,345.0	-0.6%	+2.5%	-3.9%
Embassy REIT	438.0	+0.0%	-2.7%	+3.9%

India Cross-Asset Analysis

Executive Summary

India sits firmly in a Risk-on regime — the Markov-switching model puts 79% posterior weight there and zero on Risk-off, corroborated by Nifty above its 40-week average, 92% of sectors above their 10-week line, and an India VIX of 11.9 sitting in just the 22nd percentile. The single most important development this week is not the 1.6% Nifty gain but the collapse in crude, down 6.9% on the week and 22% over three months to 7554 on MCX — an outright macro tailwind for a net oil importer that eases the imported-inflation impulse and hands the RBI room while it holds at a neutral 5.25%. Yet the puzzle that should temper enthusiasm is that USDINR has not participated: the rupee is dead flat at 95.4 despite cheaper oil and a soft DXY (99.7), telling you the currency's weakness is being driven by capital-flow and rate-differential pressure rather than the trade channel. Beneath the index, leadership is cyclical — Auto (+7.6%), Metal (+3.8%) and IT (+3.3%) led — but with PC1 explaining 66% of cross-sectional variance, this remains a concentrated, largely single-factor tape that will move together if the factor turns. The key risk is that the crude dividend never reaches the rupee or the bond market, leaving India 10Y G-sec stuck near 6.76% and a stubbornly firm USDINR to cap the equity re-rating that lower oil would otherwise justify.

Regime & Market State

The regime read is unusually clean: 79.2% Risk-on, 20.8% Neutral, and a hard zero on Risk-off, with the rule-based overlay confirming all three legs — trend (Nifty above its 40-week average), breadth (92% of sectors above their 10-week MA, 83% up on the week), and volatility (VIX 11.9, 22nd percentile). For an investor this is a high-conviction "stay long, stay in cyclicals" signal, but the low-VIX percentile is a double-edged reading: it reflects genuine calm rather than complacency for now, yet at these levels the market is priced for continuation and offers little cushion if any of the macro tiles disappoints. The +1.6% weekly move is orderly and broad rather than narrow and euphoric, which is the healthier configuration — breadth this wide typically precedes durable trends rather than blow-off tops. The practical implication: this is a regime to lean into on the long side while treating cheap protection (implied vol in the low-20s percentile) as attractively priced insurance rather than a trade to fade.

Sector Rotation

The rotation is unambiguously pro-cyclical and pro-risk. Auto's +7.6% week (and +13% over three months) is the standout, consistent with a consumption-and-rates-sensitive complex responding to the prospect that lower oil and contained inflation keep policy accommodative; Metal (+3.8%) and IT (+3.3%) round out the leadership, the latter benefiting from a weaker rupee that flatters exporter earnings. The laggards tell the corroborating story: Energy (-0.9% week, -5% over three months) is the direct casualty of the crude slide, and Realty's -0.6% week sits oddly against its +15% three-month run — the best medium-term performer taking a breather rather than breaking down. Note the divergence between short and medium horizons in defensives: FMCG rose 2.5% on the week but is still -2% over three months, and Pharma's +0.5% week masks a strong +11% quarter — meaning the recent tape is money rotating *out* of defensive safety and *into* cyclical beta, exactly what a Risk-on regime should produce. For positioning, the message is that the reward this week has been for cyclicality and export leverage, not for defensiveness, and the rotation is confirming the regime rather than fighting it.

Cross-Asset Correlation Structure

Diversification is working selectively, and the DCC-GARCH conditional correlations are more informative than the trailing windows because they tell you what is *stable*. The Nifty-VIX relationship is doing its job as a hedge — conditional correlation -0.67 with very high persistence (0.83), meaning long-vol exposure is a reliable, durable offset to equity risk rather than a fair-weather one. The rupee hedge is real-time strong (Nifty-USDINR -0.59) but its persistence is low (0.18), so that negative correlation is transient and should not be relied upon to hold through a shock — a caution for anyone treating currency positions as a stable equity diversifier. Most striking, the Nifty-Crude conditional correlation has collapsed to essentially zero (-0.04), so crude is *not* currently transmitting into equity beta directly; the oil benefit to India is flowing through the slower macro chain (inflation, rates, terms of trade), not through a day-to-day equity link. Overlaying the PCA, with PC1 capturing 66% of variance — and highest loadings on Pharma, FMCG and IT while the broad Nifty 50/500 load *lowest* — the common factor is running through the defensive-plus-IT complex, while the headline indices retain more idiosyncratic breadth. The takeaway: this is a moderately concentrated, single-factor market where genuine diversification is thin, and the most dependable ballast right now is volatility exposure, not cross-asset or cross-sector spread.

Currency, Rates & the Oil-INR Channel

This is the crux of the India view and where the signals are in tension. The textbook chain — cheaper crude improves the import bill, narrows the current-account and imported-inflation pressure, strengthens INR, lowers yields, supports equities — is only half-firing. Crude has fallen 22% over three months, CPI is already benign at 3.5% (core 3.7%), and the RBI is comfortably neutral at 5.25%, yet USDINR is pinned at 95.4 (0% on the week, still +1% over three months, i.e. weaker) and the India 10Y G-sec sits at 6.76%. The rupee's refusal to strengthen on a large oil dividend implies the dominant force is external — a still-firm US 10Y at 4.7% and portfolio-flow dynamics — rather than the trade channel, which matters because Bank (conditional to US 10Y at -0.72 over 13 weeks) and Realty (Realty~US10Y -0.35) are the sectors most hostage to where global yields go next. The lead-lag structure reinforces the read but only modestly: crude carries a small negative one-week-lag correlation into Nifty (-0.24) and USDINR a -0.36 contemporaneous but only -0.12 lagged relationship — these are weak, weekly-horizon tendencies, emphatically not tradeable certainties. The investable conclusion is that the equity re-rating from lower oil is real but *conditional*: it is waiting on the rupee to convert the terms-of-trade windfall into disinflation the bond market can price, and until USDINR breaks below 95 or the 10Y moves down toward 6.5%, rate-sensitive Banks and Realty face a headwind that cheap crude alone has not cleared.

Macro Pulse

The domestic macro backdrop is unambiguously supportive and validates the Risk-on regime from the fundamentals side. Growth momentum is intact — Manufacturing PMI 54.2 and Services PMI 57.3 both comfortably expansionary, IIP running +5.1%, and RBI's FY27 real GDP projection at 6.6%. The fiscal and demand pulse is strong, with GST collections at Rs 1.95 lakh crore up 13.9% year-on-year, a genuinely robust signal of nominal activity and formalization. Critically, inflation gives the central bank latitude: headline CPI at 3.5% with core at 3.7% is inside target, and against 22%-lower crude the near-term inflation risk is skewed lower, meaning the neutral 5.25% repo stance has an easing option embedded rather than a hiking bias. Forex reserves (ex-gold) at USD 571 bn provide an ample buffer to defend the rupee if flow pressure intensifies. The one thing to respect is data lag — CPI is an April print and reserves are to May — so the macro tiles confirm the direction but do not yet capture the very recent oil move; the next inflation print is the one that will tell you whether the crude dividend is showing up in the hard data.

Key Risks & What to Watch

The central risk is a broken transmission: crude has done its part, but if USDINR stays stuck at 95+ and the India 10Y refuses to fall from 6.76%, the disinflationary windfall never reaches valuations, and rate-sensitive Banks and Realty — the sectors most tied to yields — cap the index despite a benign regime. The second risk is concentration: with PC1 at 66%, a reversal in the single common factor would drag sectors down together, and the thin, low-persistence nature of the currency and crude hedges means only long-volatility exposure would actually cushion the fall — dangerous when VIX at the 22nd percentile signals the market is not paying up for that protection. The third is external: a renewed rise in the US 10Y from 4.7% or a firmer DXY from 99.7 would pressure the rupee and, through the -0.72 Bank-to-US10Y linkage, hit financials hardest. Concretely, the view is confirmed if USDINR breaks below 95 toward the low-94s, the India 10Y grinds down toward 6.5%, and the next CPI print comes in at or below 3.5% with core softening — that sequence would let the oil dividend re-rate equities and extend the cyclical leadership in Auto, Metals and IT. The view changes, and risk should be cut, if any of the following appear: USDINR pushing through 96 despite cheap crude (signalling flow-driven rupee stress the oil channel cannot offset), India VIX lifting off its lows past ~15, sector breadth rolling back under 50% above the 10-week line, or crude reversing sharply higher and reviving the import-cost pressure this entire constructive case is built on removing.

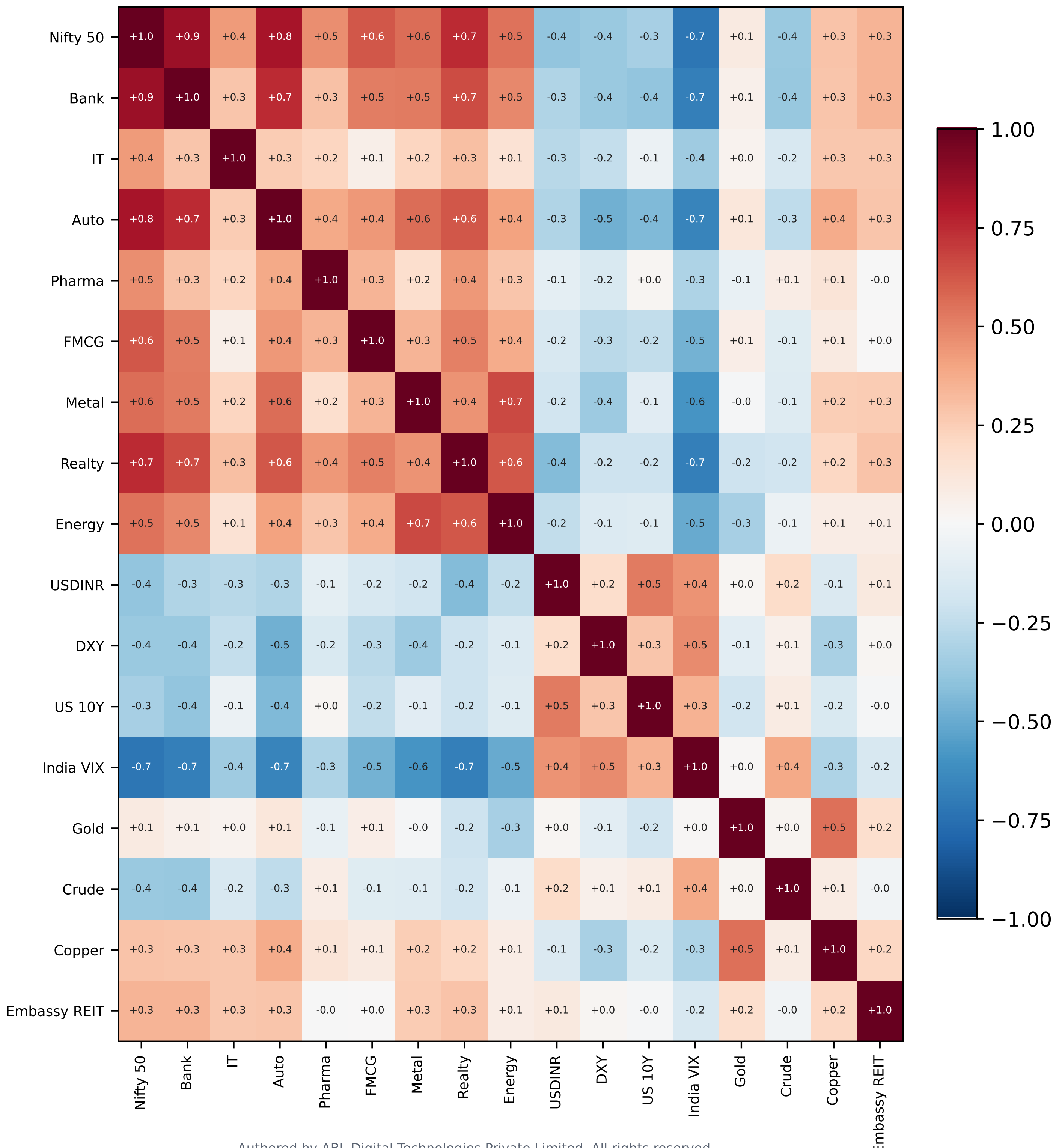
Weekly Returns Heatmap

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

	1w %	1m %	3m %
Nifty 50	+1.6	+2.3	+2.5
Nifty 500	+1.5	+1.9	+3.0
Sensex	+0.7	+1.4	+1.7
Auto	+7.6	+8.1	+12.5
Metal	+3.8	+2.5	+0.6
IT	+3.3	+13.2	+7.9
Media	+3.1	+3.7	+7.7
FMCG	+2.5	-0.3	-2.2
Bank	+1.7	+0.3	+5.3
Infra	+1.4	+0.4	+0.9
PSU Bank	+1.3	+0.9	+0.0
Pharma	+0.5	+3.9	+10.6
Fin Services	+0.3	+0.4	+5.2
Realty	-0.6	+2.5	+15.1
Energy	-0.9	-0.6	-4.5
EURINR	+0.0	+4.1	-1.2
USDINR	+0.0	+0.1	+1.0
DXY	-0.1	-1.2	+1.9
Zinc	+0.8	+3.7	+6.3
NatGas	+0.7	-6.4	-3.9
Aluminium	+0.7	+0.5	-11.1
Gold	+0.4	+0.1	-12.4
Silver	+0.4	-1.2	-27.4
Copper	-0.6	+2.5	-3.9
Crude	-6.9	-0.8	-22.2
Embassy REIT	+0.0	-2.7	+3.9
Brookfield REIT	+0.0	+1.1	+4.6
Nexus REIT	+0.0	+1.4	+6.4

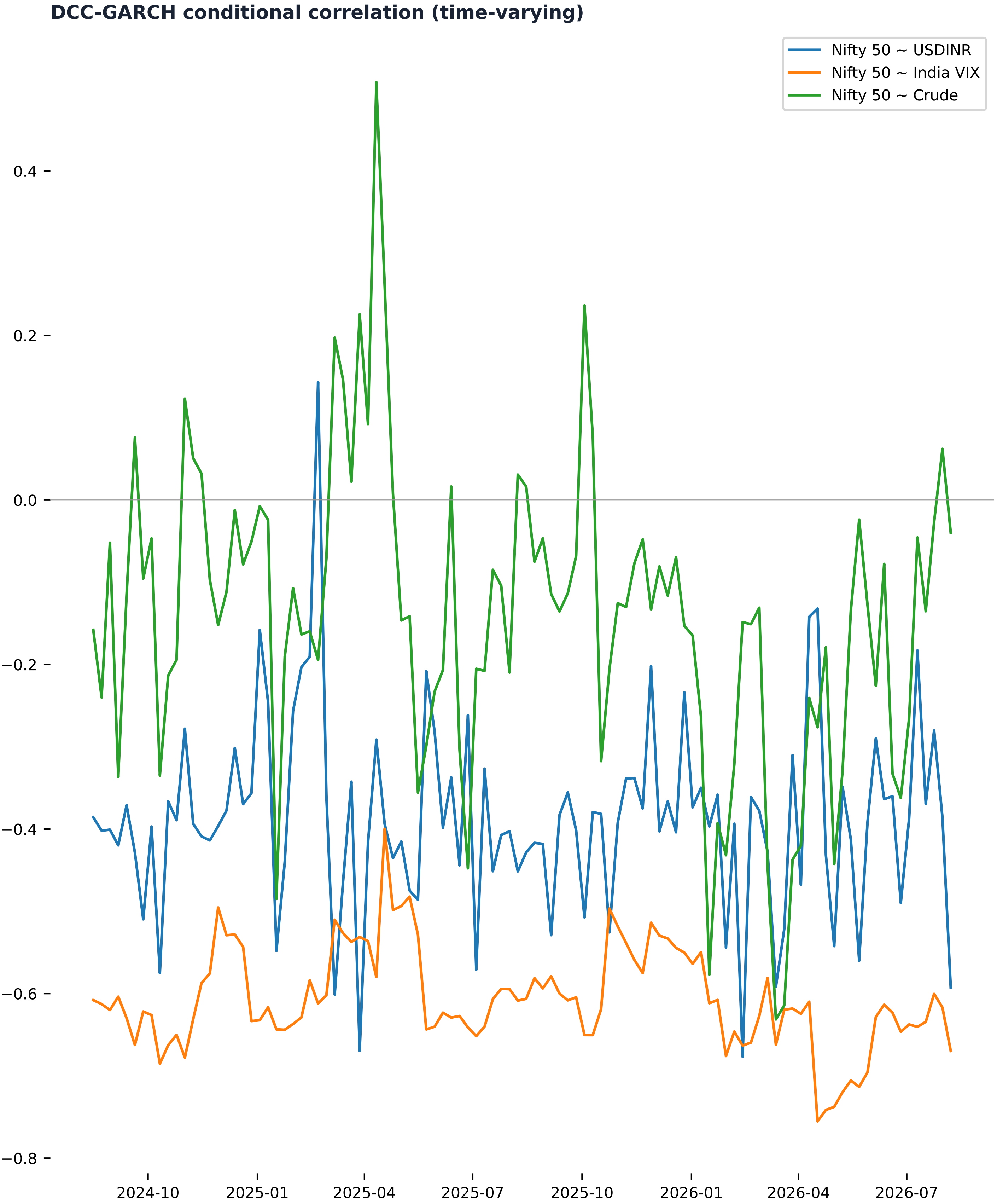
52-Week Cross-Asset Correlation

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



Regime & Conditional Correlations

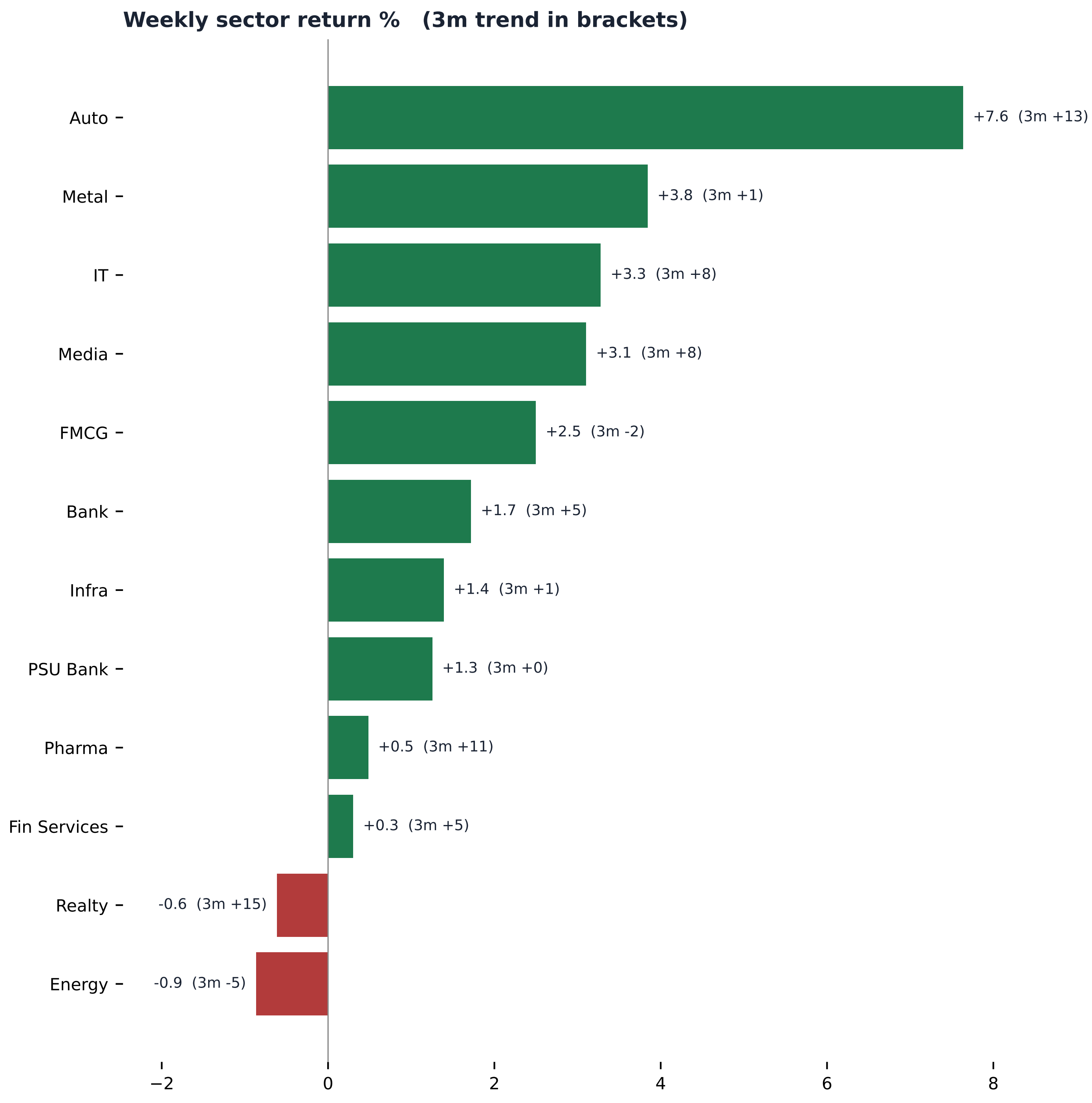
Markov-switching regime: Risk-on (Markov-switching). Smoothed posterior: Risk-off 0.00, Risk-on 0.79, Neutral 0.21



Now: Nifty 50 ~ USDINR -0.59 (persist 0.182), Nifty 50 ~ India VIX -0.67 (persist 0.8268), Nifty 50 ~ Crude -0.04 (persist 0.6059)

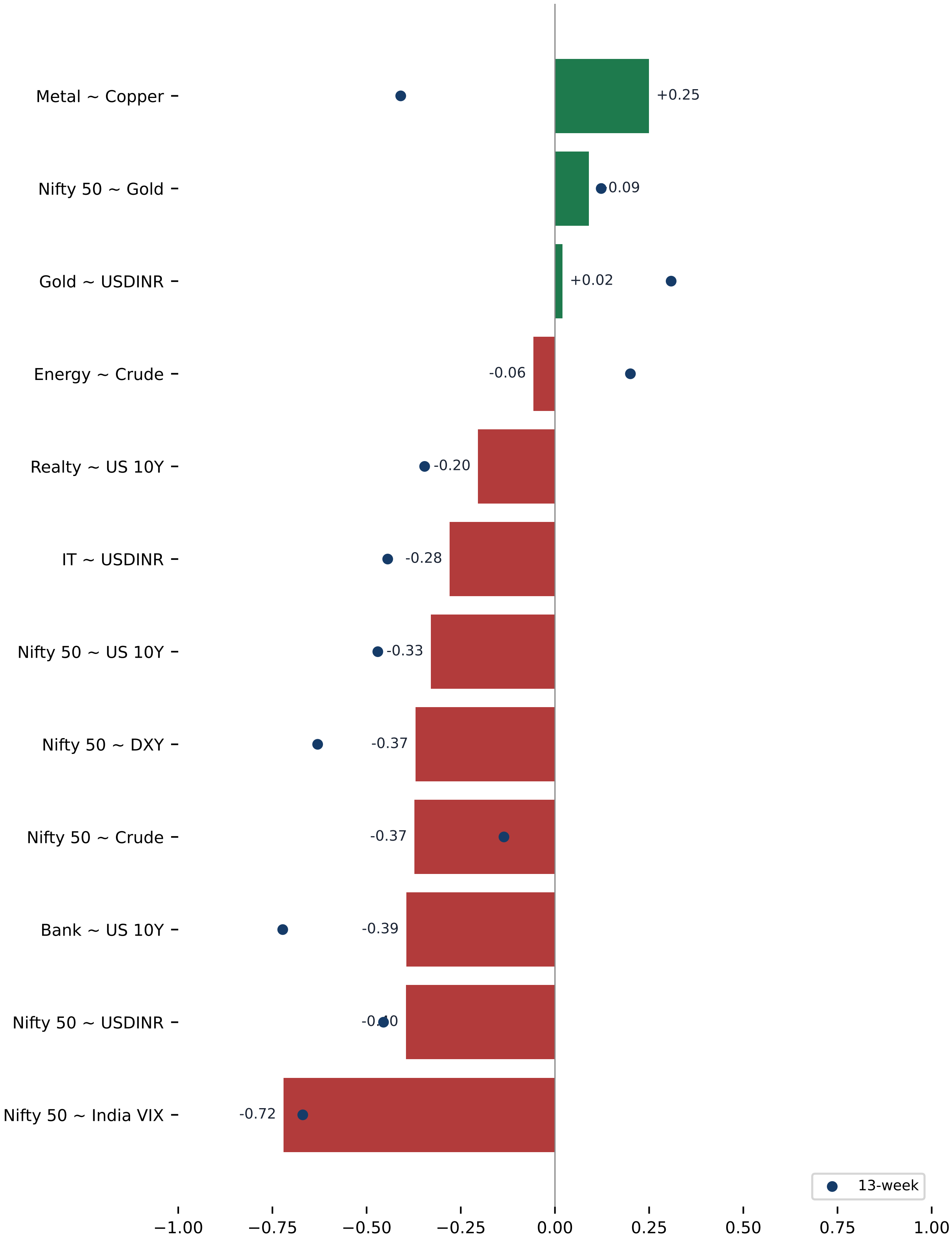
Sector Rotation

NSE sectoral indices, weekly return. Breadth: 83% of sectors up this week; 92% above their 10-week average.



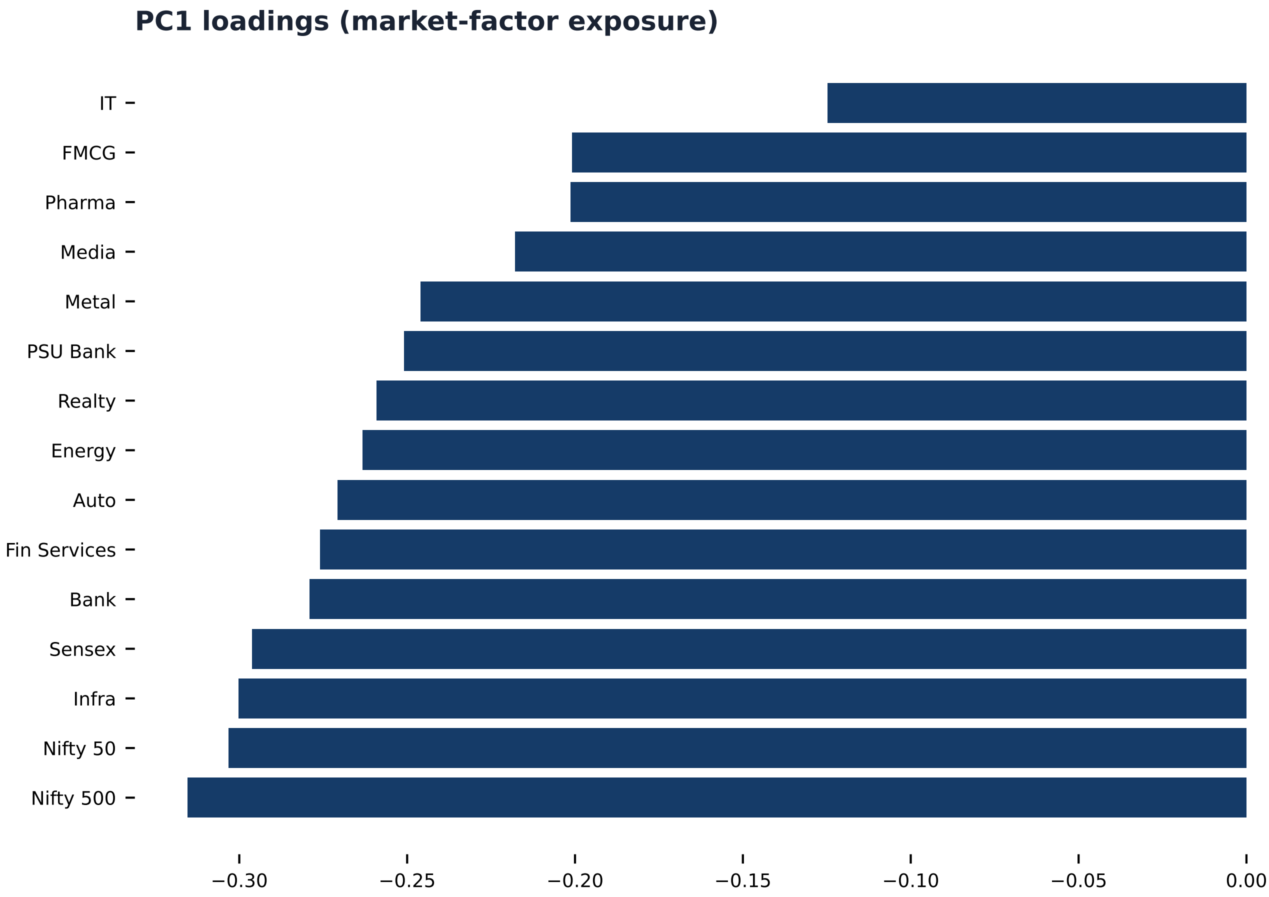
Cross-Asset Relationship Watch-List

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	-0.18	-0.24
DXY	-0.24	-0.20
USDINR	-0.36	-0.12
US 10Y	-0.21	-0.10
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 2,260 cr, FII net Rs 277 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)	**161.9**	2026-01 (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

	02-27	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	07-24	07-31	08-07
Regime	N	N	R-	N	R-	N	R-	R+	R-	R+	R+	R-	R+	N	R-	R+	R+	R-	R+	R-	R-	N	R+	R+
Nifty 1w %	-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	-0.4	+1.0	+1.6
Breadth %	42	8	0	50	17	42	100	92	33	75	92	17	50	67	25	67	92	42	75	50	50	58	58	83
India VIX	14	20	23	23	27	26	19	17	20	18	17	19	18	16	16	15	13	13	12	12	13	13	13	12
USDINR 1w %	+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	+0.2	-0.7	+0.0
Bank 1w %	-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	-1.0	+0.7	+1.7

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