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Chart 1: FCI

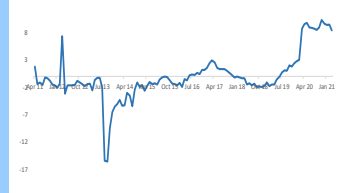


Chart 2: Aggregate Demand Conditions



Chart 3: Money Market Conditions



Chart 4: Debt Market Conditions

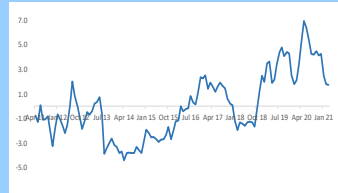


Chart 5: Equity Market Conditions

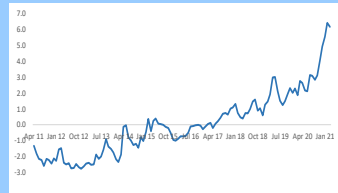


Chart 6: Forex Market Conditions



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INDIA



Economy

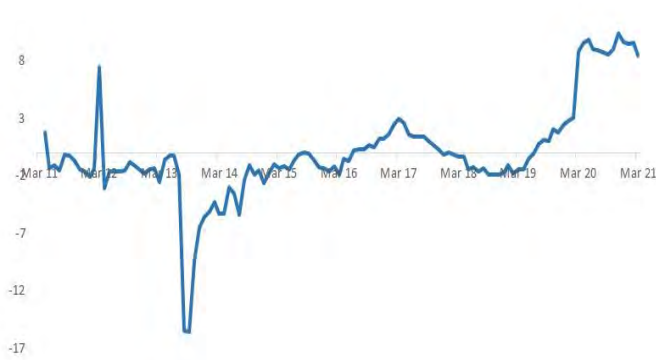
Financial conditions in March 21 worst since the onset of Covid-19 pandemic

Our proprietary Financial Conditions Index (FCI) score fell to its lowest level since Mar 2020, mainly due to tightening conditions in the debt, forex and aggregate demand markets. On the other hand, buoyancy in the stock market and continued easy liquidity conditions provided support to equity and money market scores. FCI fell to 8.5 in Mar '21 from 9.6 in Feb and the local maxima of 10.4 in Nov '20.

- ▶ **Financial conditions tightened to their worst since Mar 2020:** Financial conditions worsened in Mar 2021, tightening to their worst level since the onset of the pandemic. FCI score fell to 8.5 in Mar 2021, down from 9.6 in Feb 2021 and 8.8 in Mar 2020. During Mar 2020 to Feb 2021, FCI averaged 9.3, reaching its best score during the months of Oct-Dec 2020. Out of the five FCI components, tighter conditions in three components viz. debt market, forex market and aggregate demand market conditions dragged down overall FCI while easier conditions in stock and money market provided moderate support.
- ▶ **Aggregate demand conditions worst since May 2020:** Falling money supply and non-food bank credit growth pulled down Aggregate Demand (AD) Score to 0.1 in Mar 2021 from 0.64 in Feb 2021. This is the AD lowest score since May 2020. We estimate that M3 money supply growth fell to 11.7% in Mar 2021 after remaining well above 12% for most part of FY21. M3 growth in Mar 2021 is the lowest since May 2020. Moreover, we estimate that non-food bank credit growth in Mar 2021 fell to ~5.2% from 6.5% growth in Feb 2021. This is also the likely to be the lowest non-food bank credit growth since Sep 2020.
- ▶ **Money market conditions remain relatively easy:** Money market conditions remained relatively easy during the month. Average liquidity surplus during Mar 2021 declined to Rs 5.9trn from Rs 6.8trn in the preceding month. However, overnight call rate eased to 3.16% in Mar 2021 from 3.22% in Feb, providing support to money market score. At the upcoming monetary policy review, we expect the MPC to hold rates, keeping repo rate steady at 4%. In Mar 2021, money market score fell to 2.72 from 3.2 in Feb 2021.
- ▶ **Equity market conditions continue to be easy:** Equity market conditions continued to be easy, buoyed by robust performance by indices and lower volatility. Nifty50 Index averaged 14,835 in Mar 2021 from 14,957 in the preceding month while the PE ratio continued to trend at ~35, broadly unchanged from previous month. Moreover, domestic and global volatility was lower during the month. India VIX stood at 21.9 (23.4 in Feb) while US VIX stood at 21.8 (23 in Feb). Higher index values and lower volatility together provided good support to equity market score as it came in at 6.2 in Mar 2021 from 6.4 in Feb.
- ▶ **Debt market conditions continue to tighten; play big drag on FCI:** In line with the trend observed in the past few months, the biggest drag on financial conditions came from debt market. Almost all yields increased sharply during Mar 2021 as concerns of higher supply and sharp uptick in inflation on the back of large stimulus kept market conditions jittery. India's 10-yr gilt yield jumped to 6.2% in Mar 2021 from 6.09% in Feb 2021 while 10-yr US yield increased to 1.6% from 1.24%. Corporate risk premia also increased moderately. This led to debt market score falling to 1.74 in Mar 2021 from 1.8 in Feb 2021.
- ▶ **FX score falls to 53-month low as forward premia at the short end surges:** Although the rupee remained broadly unchanged at 72.8/dollar during Mar and Feb 2021, sharp surge in forward premia at the short end led to the FX market score falling to 0.78 in Mar 2021 from 1.2 in Feb. 1-month forward premia surged to 6.14 in March 2021 from 4.47 in Feb. However, forward premia on 3-month and 6-month tenors softened by 3-16bps. The reason behind the sharp uptick in 1-month forward premia could be banks converting dollars to rupees before the financial year end.

Financial Conditions Index and its components

Chart 1: Financial Conditions Index



Source: Bloomberg, I-Sec Research

Chart 2: Aggregate demand conditions



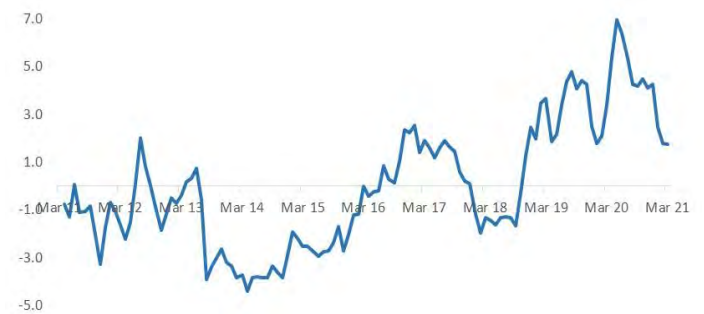
Source: Bloomberg, I-Sec Research

Chart 3: Money market conditions



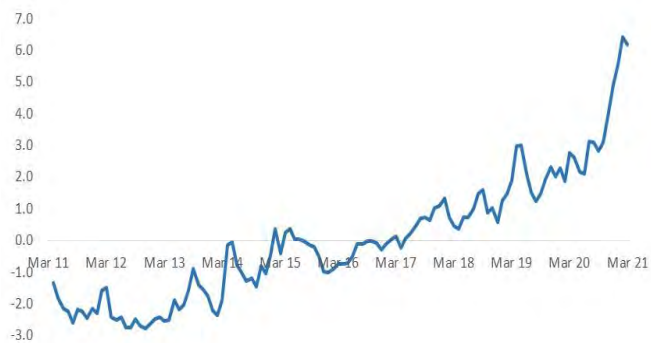
Source: Bloomberg, I-Sec Research

Chart 4: Debt market conditions



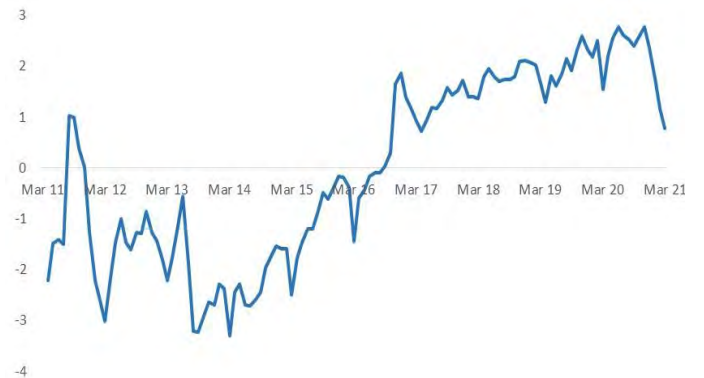
Source: Bloomberg, I-Sec Research

Chart 5: Equity market conditions



Source: Bloomberg, I-Sec Research

Chart 6: Forex market conditions



Source: Bloomberg, I-Sec Research

Constituents of sub-indices and their movement

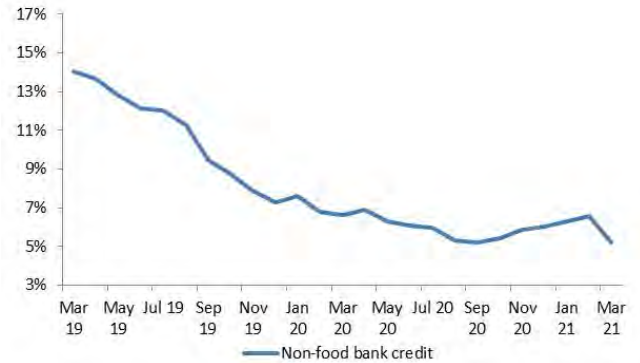
Aggregate demand conditions

Chart 7: M3 growth (% y/y)



Source: Bloomberg, I-Sec Research

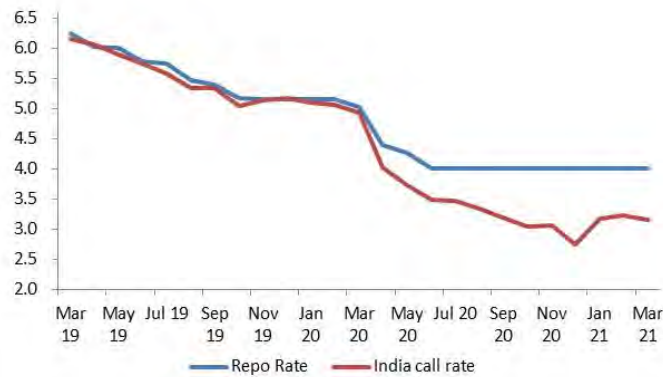
Chart 8: Non-food bank credit growth (% y/y)



Source: Bloomberg, I-Sec Research

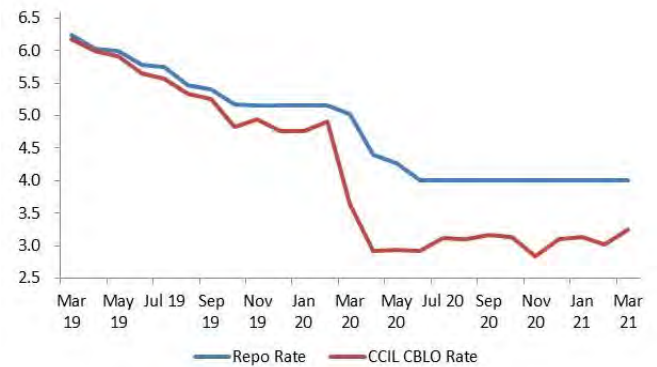
Money market conditions

Chart 9: Spread between repo and call rate



Source: Bloomberg, I-Sec Research

Chart 10: Spread between repo and CBLO rate



Source: Bloomberg, I-Sec Research

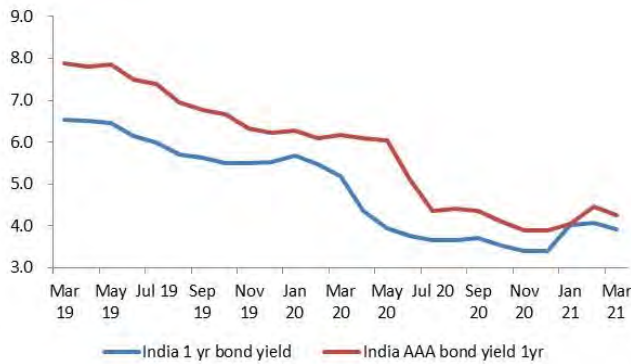
Chart 11: Interbank liquidity



Source: Bloomberg, I-Sec Research

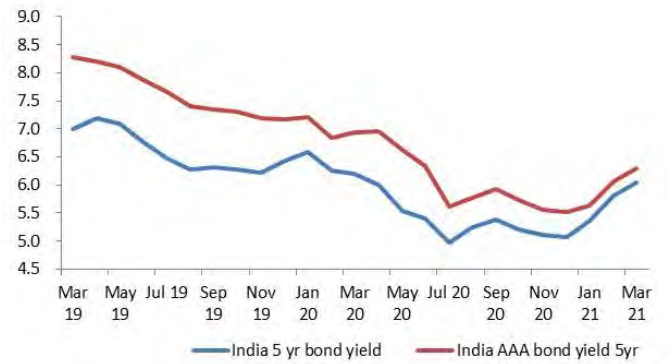
Debt market conditions

Chart 12: Spread between 1yr gilt & AAA bond



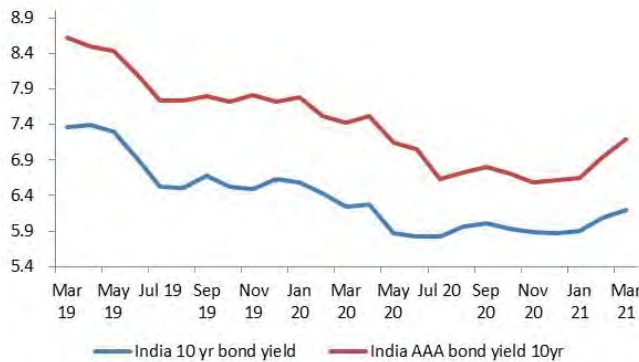
Source: Bloomberg, I-Sec Research

Chart 13: Spread between 5yr gilt & AAA bond



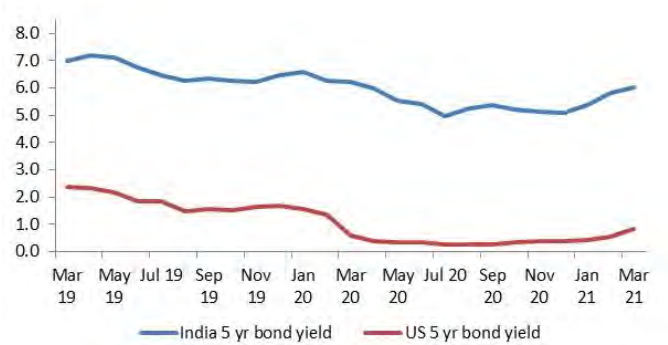
Source: Bloomberg, I-Sec Research

Chart 14: Spread between 10yr gilt & AAA bond



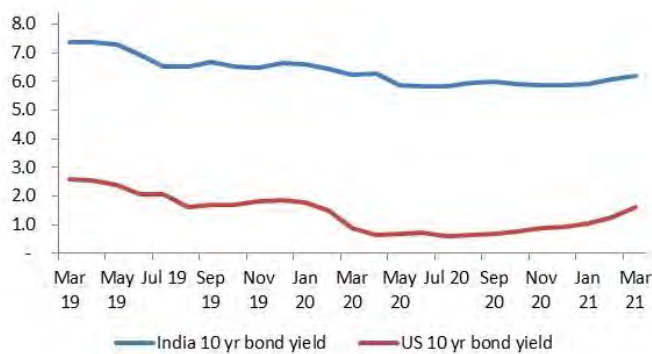
Source: Bloomberg, I-Sec Research

Chart 15: Spread between 5yr AAA & US bond



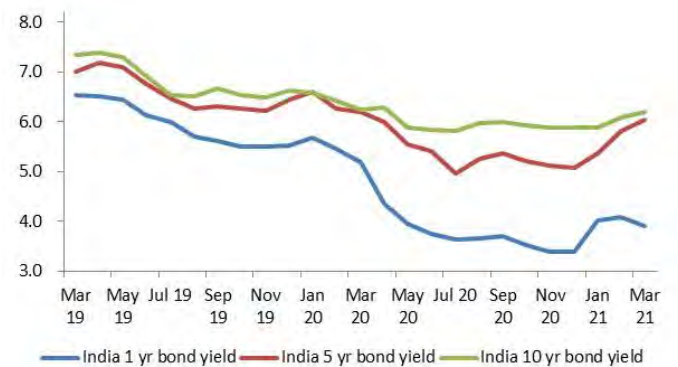
Source: Bloomberg, I-Sec Research

Chart 16: Spread between 10yr AAA & US bond



Source: Bloomberg, I-Sec Research

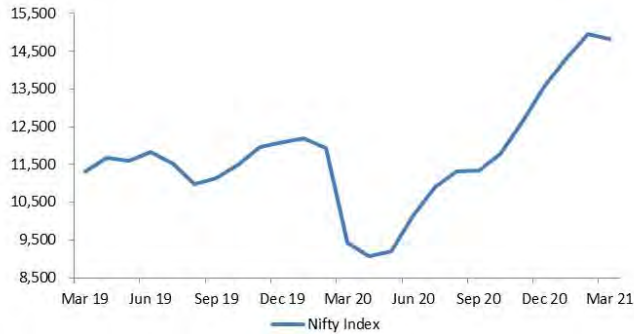
Chart 17: India 1yr, 5yr and 10yr yields



Source: Bloomberg, I-Sec Research

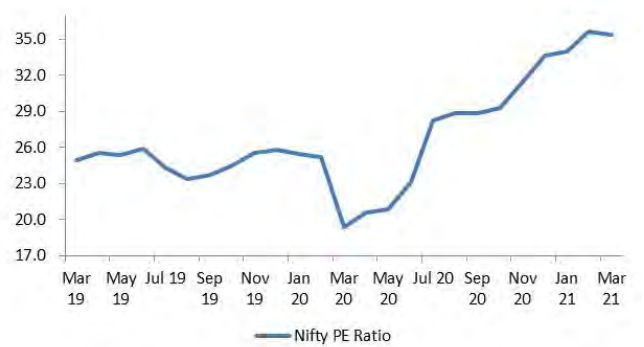
Equity market conditions

Chart 18: Nifty Index (monthly average)



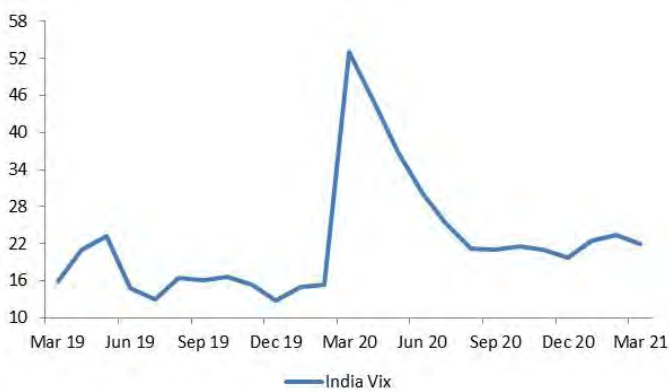
Source: Bloomberg, I-Sec Research

Chart 19: Nifty PE (monthly average)



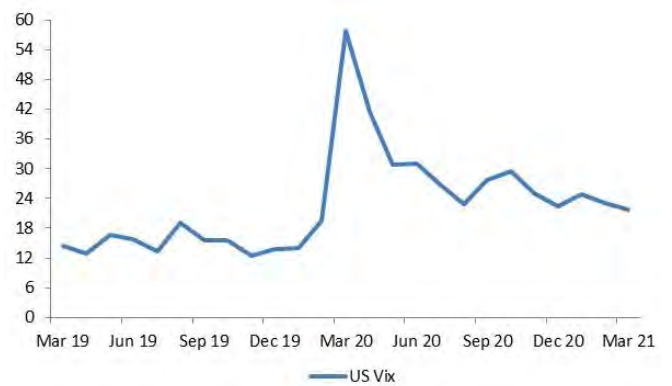
Source: Bloomberg, I-Sec Research

Chart 20: India VIX



Source: Bloomberg, I-Sec Research

Chart 21: US VIX



Source: Bloomberg, I-Sec Research

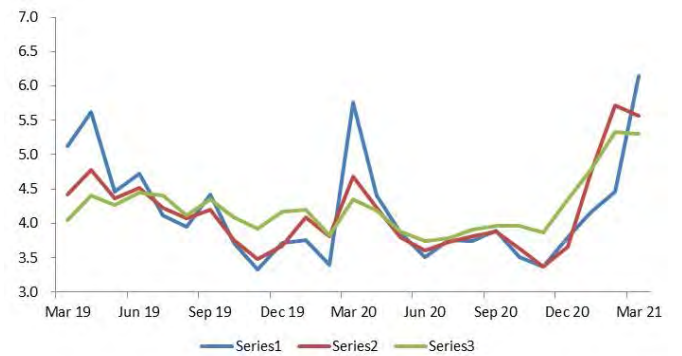
Forex market conditions

Chart 22: USDINR



Source: Bloomberg, I-Sec Research

Chart 23: Forward Premia



Source: Bloomberg, I-Sec Research

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