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Chart 1: FCI

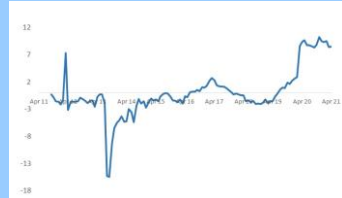


Chart 2: Aggregate Demand Conditions



Chart 3: Money Market Conditions

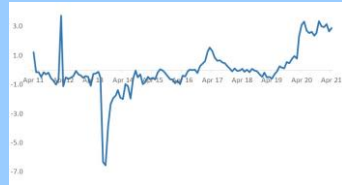


Chart 4: Debt Market Conditions



Chart 5: Equity Market Conditions

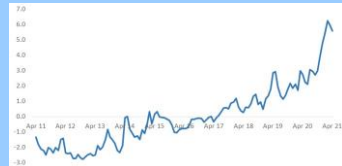


Chart 6: Forex Market Conditions



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INDIA

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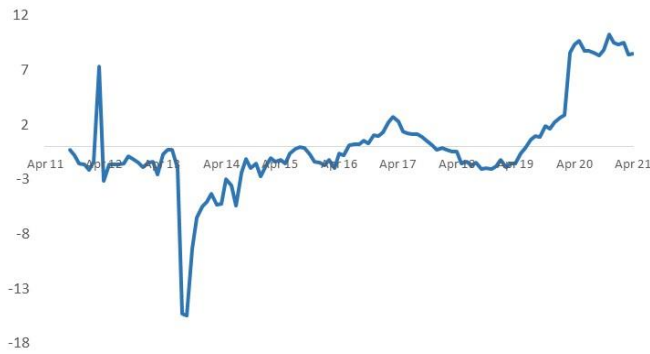
Economy

Financial conditions improve moderately in Apr 2021

- ▶ **Financial conditions improve moderately in Apr 2021:** The second wave of Covid-19 is worsening rapidly in India, posing a significant risk to growth forecasts for FY22. To minimize the impact of the second wave on the economy, it is critical for the central bank and other authorities to keep financial conditions benign so that the fragile recovery can gain traction. Our proprietary Financial Conditions Index (FCI) which tracks conditions in aggregate demand, stock, money, debt and forex markets, posted moderate improvement in financial conditions during the month. FCI improved to 8.51 in Apr 2021 from 8.42 in Mar 2021. While conditions in the stock, debt and aggregate demand markets worsened, money and forex markets provided support to financial conditions.
- ▶ **Aggregate demand conditions worsen significantly:** Aggregate demand conditions, which are based on M3 money supply growth and non-food bank credit growth, worsened significantly during Apr 2021. We estimate that M3 money supply growth fell to 12-month low of 11.1% and non-food bank credit growth fell to 6-month low of 5.7% during the month. The rapidly worsening second wave of Covid-19 is likely to keep economic activity subdued and bank credit growth muted in the near future. As per our calculation, AD score fell to -0.23 in Apr 2021 from 0.37 in Mar 2021.
- ▶ **Money market conditions register modest gains:** Money market conditions recorded modest gains during Apr 2021. While the overnight call rate inched up moderately during the month, overnight rates in the collateralized segments eased by 4 to 11bps. Average daily liquidity absorption under LAF also increased moderately during the month. Money Market Score increased to 2.91 in April 2021 from 2.72 in the preceding month.
- ▶ **Equity market conditions worsen significantly as market falls during Apr 2021:** Equity market conditions worsened significantly during the month as worsening second wave of Covid-19 posed a major headwind to the fragile recovery. The rapidly worsening Covid situation and slow pace of vaccinations weighed on the equity market. Nifty index averaged 14,614 during April 2021, down from 14,835 in Mar 2021. Nifty market cap and PE ratio also fell commensurately. While there was some improvement on the VIX (India and US) front, lower index value outweighed the same. Stock Market Score fell to 5.58 in Apr 2021 from 6.18 in Mar 2021.
- ▶ **Domestic yields ease; however, rising US yields lower debt market score:** During the first monetary policy for FY22 during 5-7 Apr 2021, the RBI announced the Government Securities Acquisition Program (G-SAP). The central bank also announced that under G-SAP 1.0, it will purchase government securities worth Rs 1trn in Q1FY22. The market expected the RBI to purchase government securities worth Rs 3trn during FY22. This provided a big relief to the bond market and yields eased significantly after the announcement of the policy. In Apr 2021, the benchmark 10-yr gilt yield fell to 6.06% from 6.19% in Mar 2021. Similarly, yields across other tenors also eased significantly. In line with falling bond yields, corporate bond yields also fell, bringing down borrowing costs for many market players. However, rising US bond yields weighed on the market. After inching up sharply in Mar 2021, US yields increased again in Apr 2021. As a result, debt market score fell to 1.13 in Apr 2021 from 1.8 in Mar 2021.
- ▶ **FX score improves sharply due to falling forward premia:** The forex market score improved to 3-month high of 1.59 in Apr 2021 from 0.78 in Mar 2021. The rupee depreciated significantly after the announcement of G-SAP 1.0 by the RBI in the beginning of the month. Rupee averaged 74.5/dollar in Apr 2021, down from 72.7 in the preceding month. However, a sharp fall in forward premia led to improvement in the forex market score. The 1-m, 3-m and 6-m forward premia fell by 120bps, 80bps and 50bps respectively in April compared to March. However, forward premia has again increased in May 2021, hence we expect forex market score to worsen next month.

Financial Conditions Index and its components

Chart 1: Financial Conditions Index



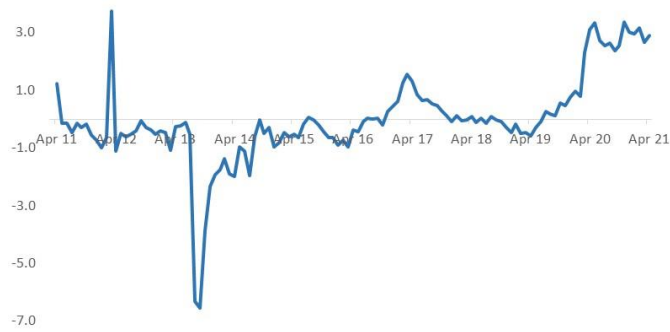
Source: Bloomberg, I-Sec Research

Chart 2: Aggregate demand conditions



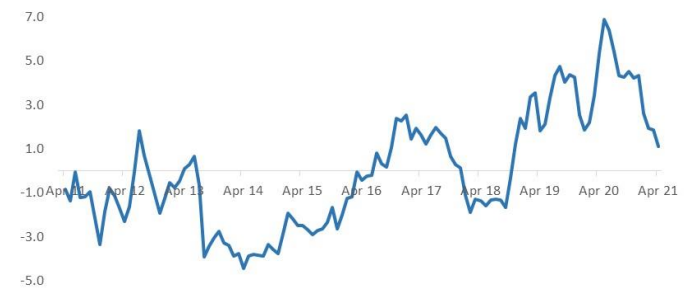
Source: Bloomberg, I-Sec Research

Chart 3: Money market conditions



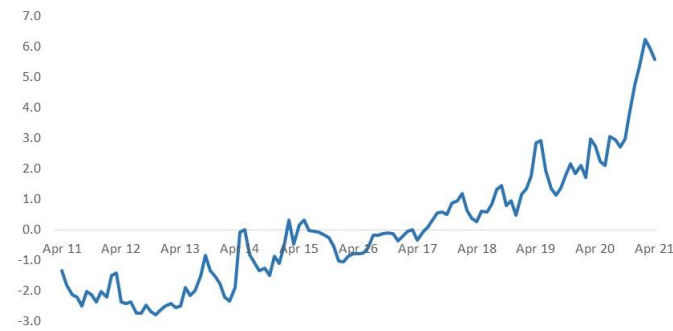
Source: Bloomberg, I-Sec Research

Chart 4: Debt market conditions



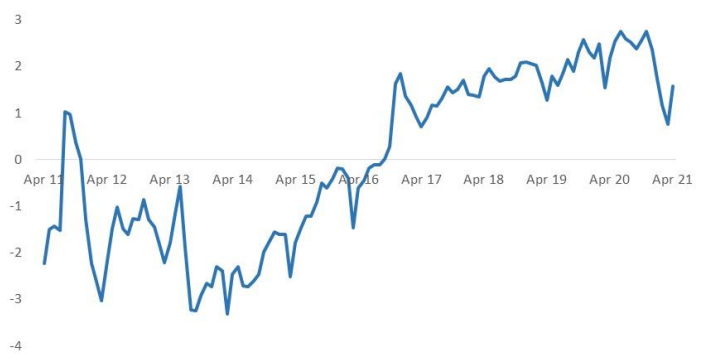
Source: Bloomberg, I-Sec Research

Chart 5: Equity market conditions



Source: Bloomberg, I-Sec Research

Chart 6: Forex market conditions

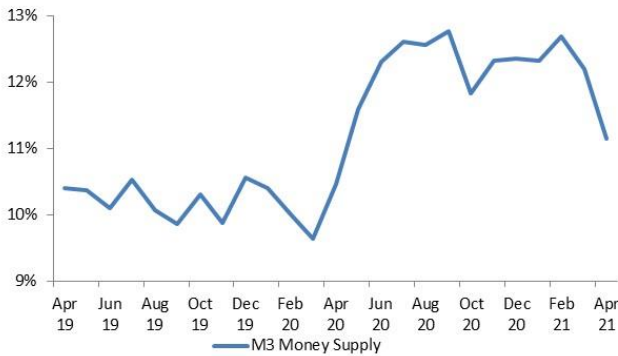


Source: Bloomberg, I-Sec Research

Constituents of sub-indices and their movement

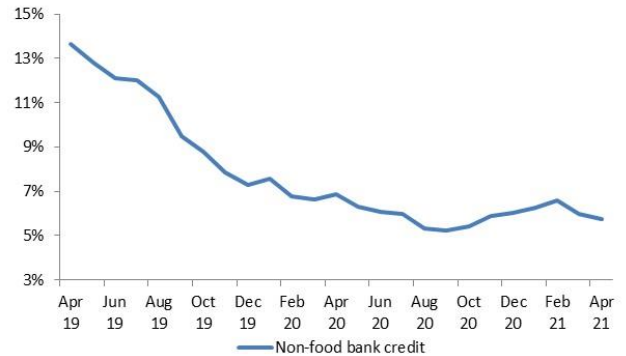
Aggregate demand conditions

Chart 7: M3 growth (% y/y)



Source: Bloomberg, I-Sec Research

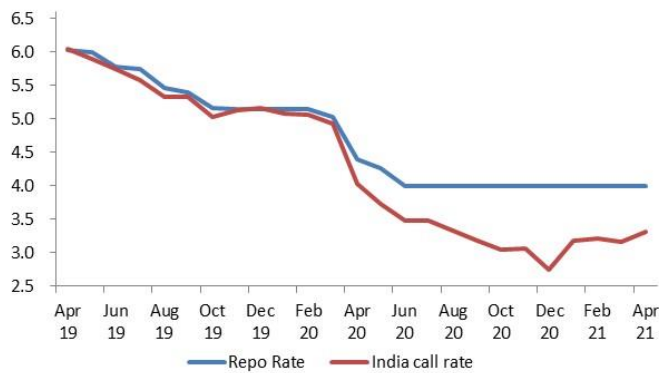
Chart 8: Non-food bank credit growth (% y/y)



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

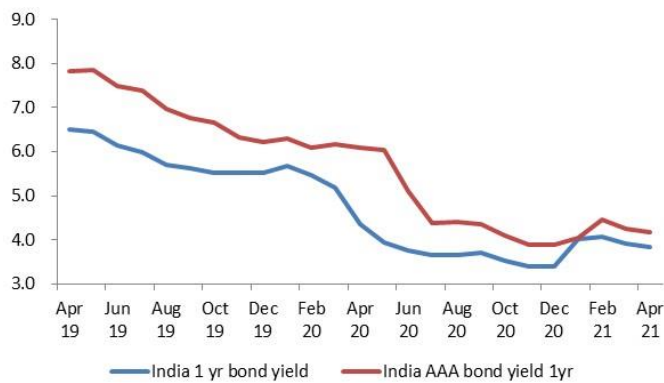
Chart 11: Interbank liquidity



Source: Bloomberg, I-Sec Research

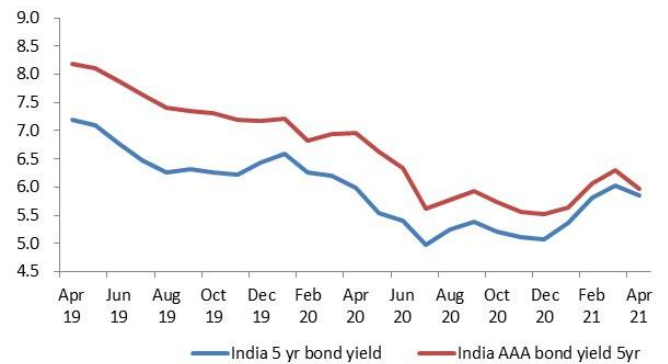
Debt market conditions

Chart 12: Spread between 1yr gilt & AAA bond



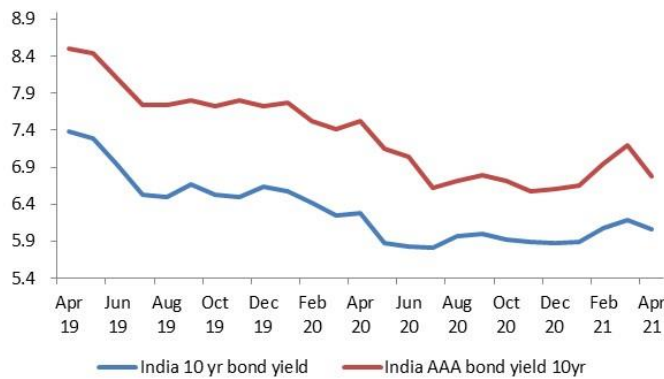
Source: Bloomberg, I-Sec Research

Chart 13: Spread between 5yr gilt & AAA bond



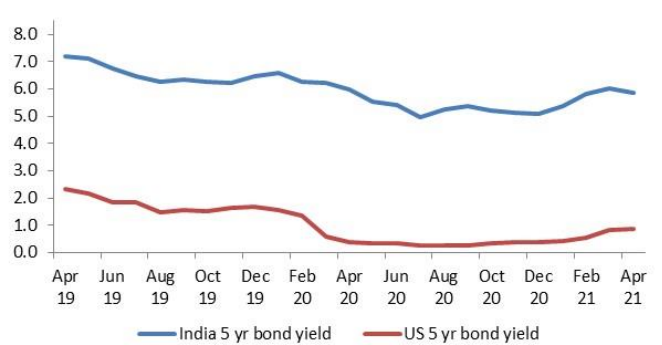
Source: Bloomberg, I-Sec Research

Chart 14: Spread between 10yr gilt & AAA bond



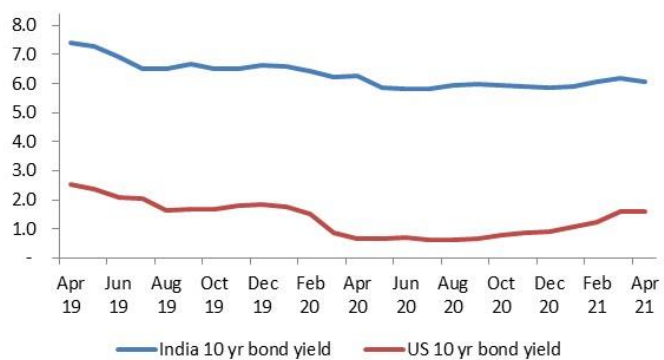
Source: Bloomberg, I-Sec Research

Chart 15: Spread between India & US 5yr bond



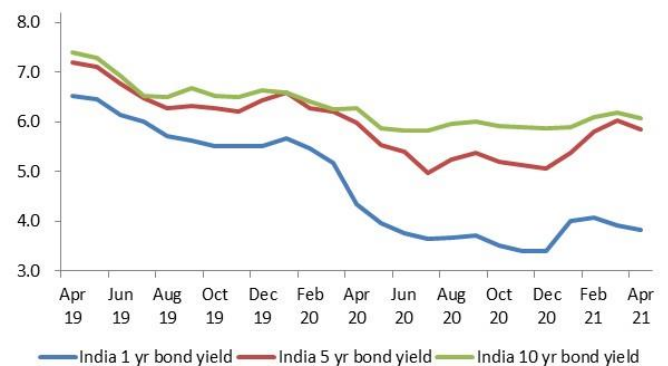
Source: Bloomberg, I-Sec Research

Chart 16: Spread between India & US 10yr bond



Source: Bloomberg, I-Sec Research

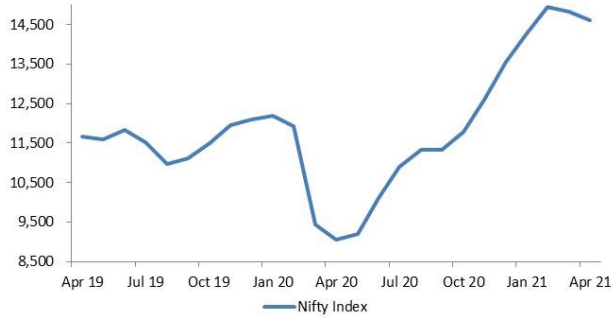
Chart 17: India 1yr, 5yr and 10yr yields



Source: Bloomberg, I-Sec Research

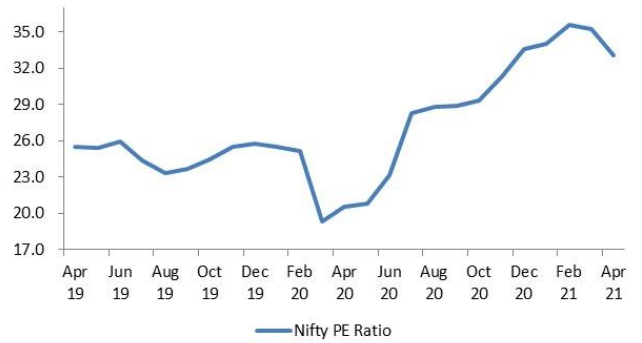
Equity market conditions

Chart 18: Nifty Index (monthly average)



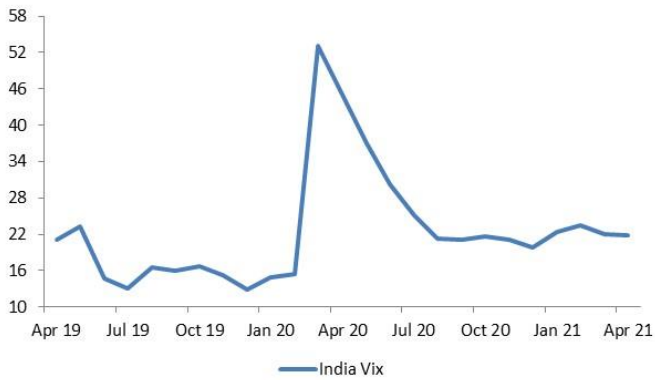
Source: Bloomberg, I-Sec Research

Chart 19: Nifty PE (monthly average)



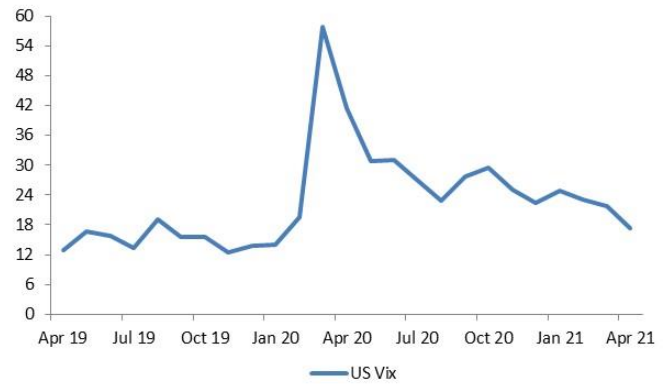
Source: Bloomberg, I-Sec Research

Chart 20: India VIX



Source: Bloomberg, I-Sec Research

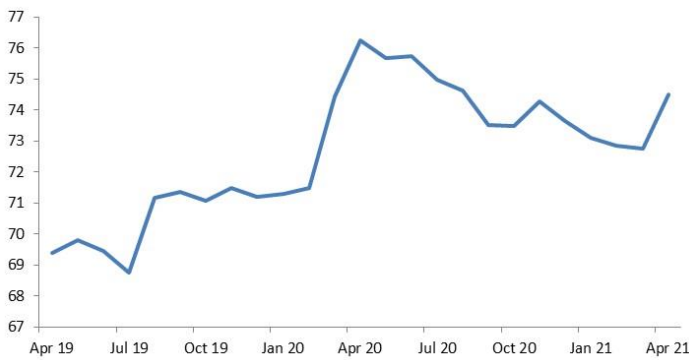
Chart 21: US VIX



Source: Bloomberg, I-Sec Research

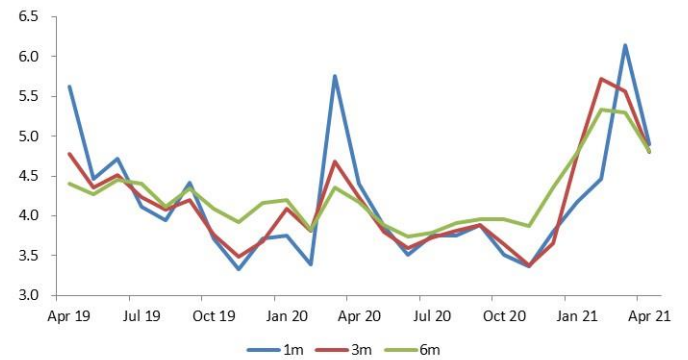
Forex market conditions

Chart 22: USDINR



Source: Bloomberg, I-Sec Research

Chart 23: Forward Premia



Source: Bloomberg, I-Sec Research

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