

i4 MARKETS INDEX

The Financial Conditions Index by ICICI Bank



What is i4Markets index telling us?

ICICI Bank's i4Markets Index or the financial conditions index (FCI), which has eased substantially through April-November, is expected to continue easing, assisted primarily by stock, money and bond markets, even while forex markets could be subject to some volatility. This bodes well for overall growth and could aid in amplifying the fledging sign of growth recovery that is being witnessed in real economy data. Our analysis establishes FCI as a lead indicator/predictor of GDP, with financial conditions up to 3-4 preceding quarters affecting GDP. Given that aggregate financial conditions have been easing since the beginning of the fiscal, H2 growth momentum could be aided somewhat by these easing conditions in the financial markets.

Financial conditions continue to ease further in November led by stock and money markets

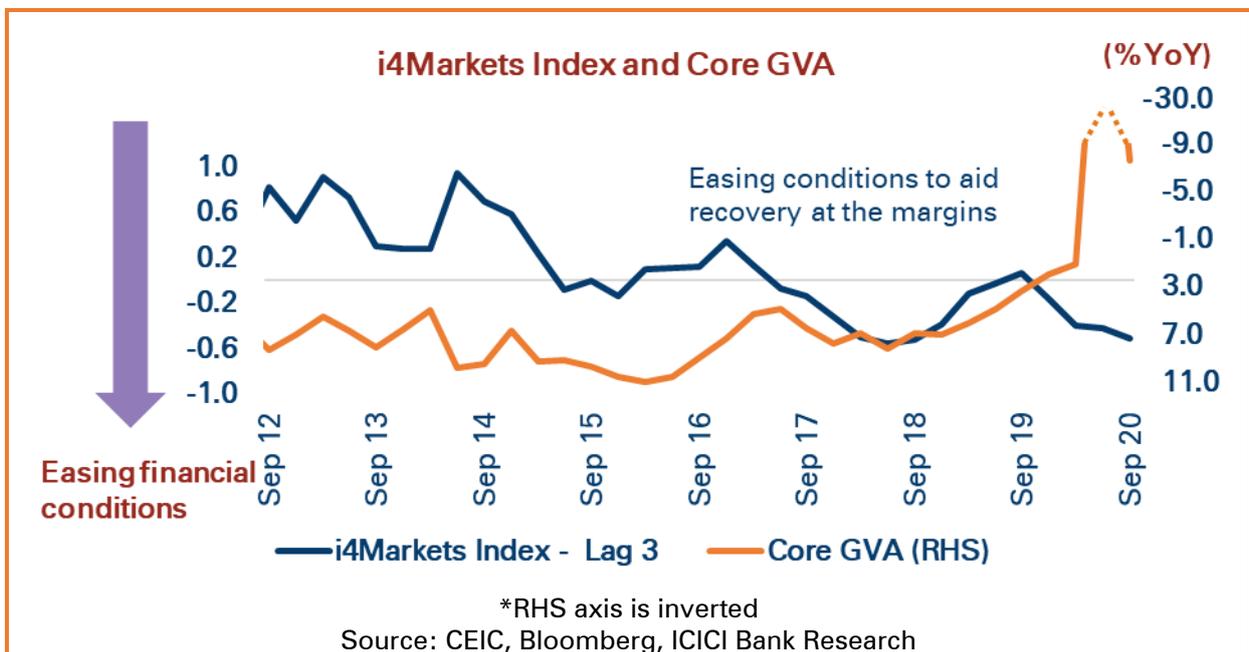
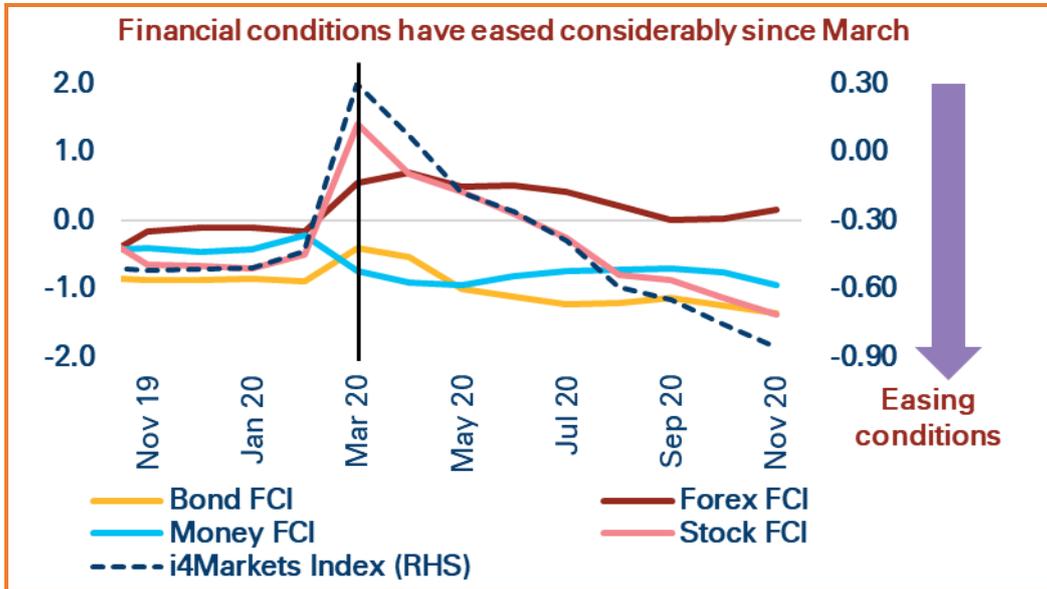
- i4Markets Index for November is showing a reading of -0.9, compared to -0.8 in October, indicating further easing in financial conditions, assisted by easing in stock, money and bond market FCI in that order
- RBI/MPCs continued focus on easing financial conditions across the yield curve have led to easing conditions in the bond markets, reflecting in bond market FCI easing from -1.2 in October to -1.4 in November. Abundant liquidity in the system has sent the money market rates crashing below the reverse repo rate in November, with call rates and CBLO rates averaging ~90, 120 bps respectively lower than the Repo rate. Thus, money market FCI eased to -1.0 in November vs. -0.8 in October
- Conditions in the stock markets continue to ease assisted by global liquidity conditions leading to portfolio inflows. FYTD equity FPI flows have been to the tune of ~USD 22.7 bn. The month of November witnessed a record high inflows of ~USD 8.13 bn (post inflows of ~USD 2.66 bn in October) in line with global risk on sentiment, indicating conditions in the stock market remain robust. This has led to stock market FCI easing from -1.2 in October to -1.4 in November
- However, conditions in the forex markets tightened further in November compared to October. A substantial amount of foreign fund inflows in November amidst global risk-on sentiment fuelled by the accommodative stance by DM central banks, should have supported the Rupee, however, RBI's intervention strategy led the Rupee to depreciate in November (averaging 74.3) compared to October (averaging 73.5). Thus, forex market FCI moved from 0.02 in October to 0.15 in November

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03 December, 2020

Please see important disclaimer at the end of the report



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