i4 MARKETS INDEX

The Financial Conditions Index by ICICI Bank

ICICI Bank Global Markets

What is the i4Markets index telling us?

Financial conditions as per ICICI Bank's i4Markets index tightened in December as compared to November, led by tightening seen in equity, forex and bond markets. The continued pull back of funds by FPIs for a third straight month weighed on the equity and forex markets. Simultaneously, elevated crude oil prices amidst widening trade deficit also played on the forex market sentiment. The conditions in the bond market were tightened by the global central banks' hawkish commentaries amidst rising inflationary pressures, while the increased frequency of VRRR auctions by RBI weighed on the rates in money market. Going ahead, we expect the conditions to tighten further given the expectation of the aggressive policy tightening of DM central banks. However, comfortable RBI forex reserves, the Government's infrastructure push and India Inc.'s Q3FY22 earnings season may provide some relief to the markets. Nonetheless, restrictions imposed by certain states to curb the infection spread may limit the upside in the near-term.

Financial conditions tightened in December

- i4Markets Index is at -0.53 in December vs. -0.63 in November
- Bond market conditions tightened in December as the bond market FCI moved to -1.12 (vs. -1.14 in November), led by the rise seen in 10-year benchmark paper, which rose by 6 bps, on an average, in December. The spread between 10-year benchmark paper of India and the US also jumped sharply by 16 bps, on an average. Going forward, the bond market will focus the upcoming budget session and RBI/MPC meet to take further cues
- Money market FCI eased to -0.28 (vs. -0.27) as RBI's continuation with the accommodative stance and benign November CPI print supported the 5-year MIFOR and OIS rates, which came down, on an average, by 18 and 15 bps, respectively. Meanwhile, call spread and tri-party repo spread inched up by 8 and 5 bps, respectively on the back of higher cut-offs at VRRRs auctions
- Equity market FCI rose to -0.45 (vs. -0.81), indicating tightening of the financial conditions in equity market as FPIs continued to be the net sellers for a third straight month. FPIs pulled back funds to the tune of ~USD 1.74bn (vs. an outflow of ~USD 0.76bn in November). Moreover, NSE PE ratio and Nifty index, on an average, also declined by 5.4% and 3.1% MoM, respectively
- Forex market FCI inched up to -0.12 (vs. -0.22), as USD/INR averaged in December at 75.36 vs. 74.51 in November given the substantial FPI outflows in equity market. Moreover, the continued global

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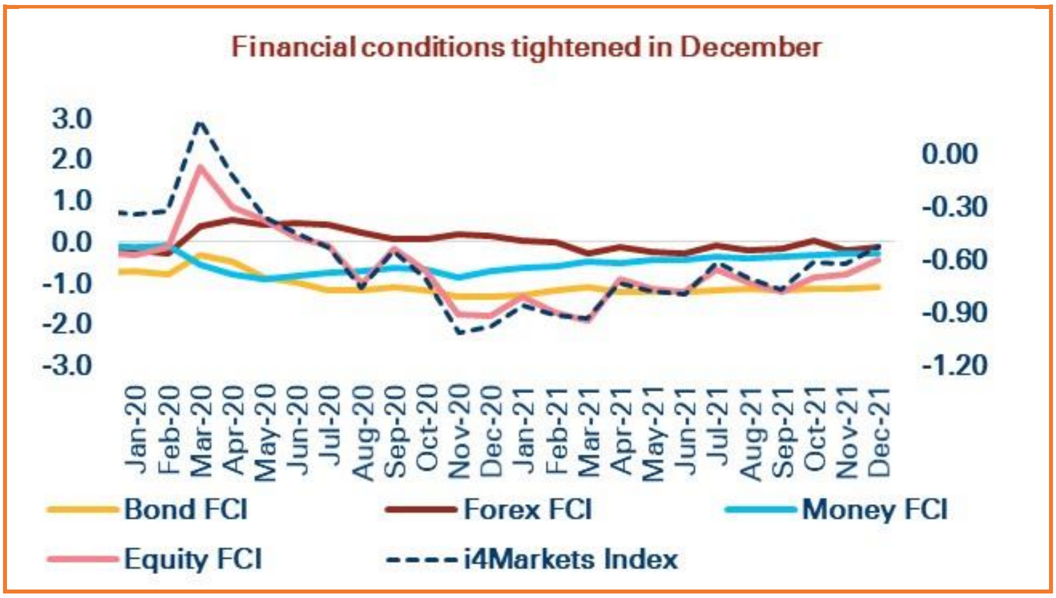
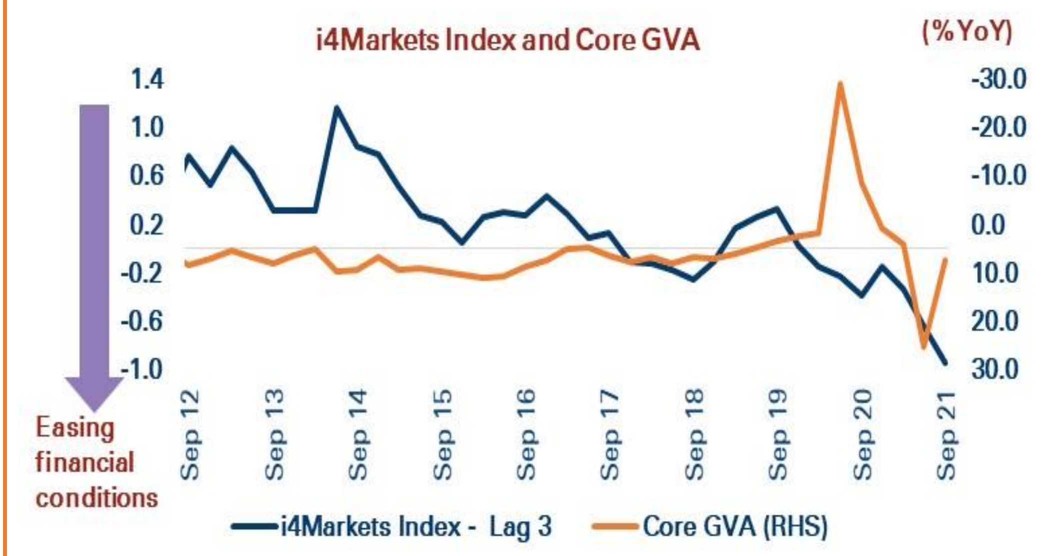
USD strength on the back of a more hawkish pivot by the US Fed and elevated crude oil prices also played on the sentiment. We expect INR to depreciate on the back of widening trade deficit, uncertain economic lookout due to Omicron variant and a quick pace of global monetary policy normalisation. FPI inflows in IPOs and RBI's intervention supported by sufficient forex reserves will continue to curb any sharp volatility.





*RHS axis is inverted

Source: CEIC, Bloomberg, ICICI Bank Research

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