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 March as compared to February, led by tightening seen in equity, forex and money markets. The lingering Russia-Ukraine crisis and resultant newly imposed sanctions from the West along with China's new outbreak are keeping the financial markets volatile. Equity market continues to bear the brunt of supply-chain disruptions and rising input costs. FPI net selling of equities continued for a sixth straight month. Widening trade deficit and elevated crude oil prices weighed on INR which depreciated 0.6% in March. Hawkish commentaries by the DM central bankers amidst rising inflationary concerns weighed on debt market. Higher supply to the tune of INR 8.45tn (59% of the total gross market borrowing in FY23) also weighed on bond prices. Focus is now on the upcoming MPC meet and its forward guidance. We expect status quo in April meeting and RBI to telegraph its monetary policy roadmap. In addition, expectations of a half-a-percent rate hike in upcoming FOMC policy in May and quicker pace of quantitative tightening (QT) will also weigh on the conditions in the domestic markets.

Financial conditions continued to tighten on the back of Russia-Ukraine crisis

- i4Markets Index is at -0.3 in March vs. -0.35 in February
- Bond FCI remained accommodative at last month's level with a value of -1. With higher supply pressure in the bond markets, 10-year benchmark yields climbed 15bps on an average in March. 3m T-bill averaged at 3.79, at the same elevated level as previous month. Expectation of front-loading of policy rate hikes by the FOMC amidst robust labour market and comments on starting the QT as soon as May pushed up 10-year UST towards the month-end which also affected the domestic bond prices. Going ahead, focus is now on the MPC meeting and its guidance on normalisation as inflationary pressures are starting to build-up in domestic scenario
- Money FCI tightened in March with a value -0.14 vs. -0.19 in February. 5-year OIS inched up 18bps on an average. Tri-party repo and Market repo spreads also increased by 5bps and 4bps, respectively. RBI's communication on coming out of easy policy will dictate the direction in money market

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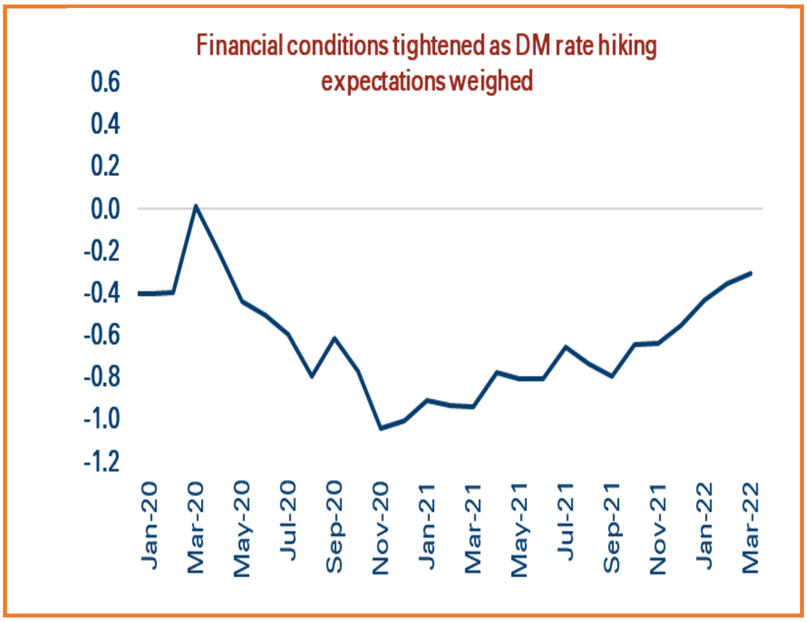
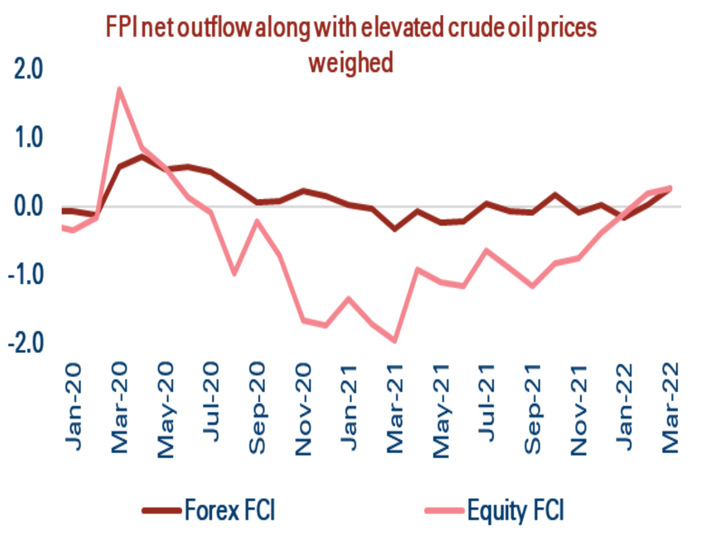
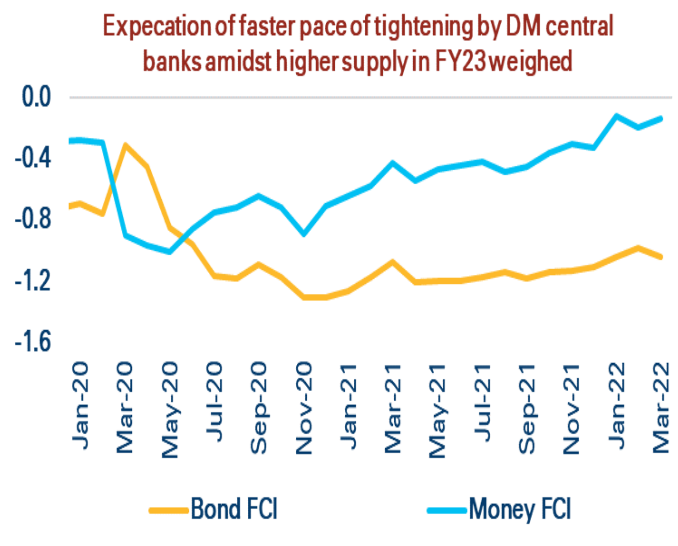
• Equity FCI saw tightening as it inched up to 0.26 vs. 0.18 in February. FPIs bearish outlook amidst elevated commodity prices and resultant margin pressures for India Inc. weighed on equities. NSE PE and Nifty index both declined 4% and 2% MoM, respectively on an average.
• Forex FCI rose to 0.26 in March, indicating tightened conditions as USD/INR averaged 76.26 vs. 74.99 in the month before. The continued USD strength due to hawkish Fed, FPI outflows and elevated crude oil prices weighed on INR. We expect, going ahead, INR to continue to depreciate due to widening trade deficit and quicker tightening by DM central banks. However, RBI intervention will continue to curb any sharp volatility in the pair given a robust import cover.







Source: Bloomberg, CEIC and ICICI Bank Research

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