



IMPACT OF CHANGES IN INTEREST RATE ON SENSEX AND NIFTY

(Study of facts from January, 2015 to June, 2015)



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ABSTRACT

T*his paper is based on facts how Sensex reacts whenever there is change in interest rate by Reserve Bank of India (RBI) or if there is a hope of change than how stock market reacts. This paper will be able to tell that how traders speculators react with change in interest rate and how hope from RBI also creates huge volatility in the stock market. This will help investors to know where markets will go if there is a change in interest rate.*

KEYWORDS: RBI, Interest Rate, Sensex, Volatility, Industry and Economy

INTRODUCTION

Share price movement is analyzed by technical approach and fundamental approach. Technical approach consists of charts, patterns. Basically technical approach is based on previous trend. Secondly, we have fundamental approach which analyzes economy, industry and economy.

Interest rate in India is set by Reserve Bank of India (RBI). Increase or decrease in interest rate affects economy and then to industry and ultimately its effect can be seen in companies profit. Analyzing interest rate on sensex is the study of fundamental approach.

If the price of the share is lower than its intrinsic value, investor buys it. But, if he finds the price of the share higher than the intrinsic value he sells and gets profit. The technical analyst mainly studies the stock price movement of the security market. If there is an uptrend in the price movement the investor purchases the scrip. With the onset of fall in price he sells it and move from the scrip. Basically, technical analysis and fundamental analysis aim at good return on investment.

Shareholder is interested in dividend and capital gain from shares which he holds.

Various External factors are:

- ✧ Exchange rate
- ✧ Gross domestic product (GDP)

- ✧ Foreign institutional investors (FIIs)
- ✧ Inflation
- ✧ Interest rate
- ✧ Reserve Bank of India regulations

But our study will consider impact interest rate changes on stock market.

REVIEW OF LITERATURE

Ahmed (2008), by applying Toda and Yamamoto Granger causality test, variance decomposition and impulse response functions, concluded that stock prices in India lead economic activity except movement in interest rate. Interest rate seems to lead the stock prices.

Coleman & Agyire-Tetty (2008) try to explore the impact of some macroeconomic variables on the performance of Ghana Stock Exchange with the help of quarterly time series data for the period from 1991 to 2005 by using co integration and error correction model. The findings suggest that there is a weak effect of Treasury bill rates and on at the other hand market takes time to respond in inflation scenario. More reliable results can be generated by including some other macroeconomic variables like money supply and industrial production in this study



Ahmed & Imam (2007) investigates the relationship between stock market and different macroeconomic variables such as money supply, Treasury bill rate, interest rate, GDP, industrial production index. They use series of tests such as unit roots, co integration, and vector error correction models. They analyze the Monthly data series for the period of July 1997 to June 2005 and they found that generally there exists no long run relationship between stock market index and macroeconomic variables but interest rate change or T-bill growth rate may have some influence on the market return.

Frimpong (2009) concluded that with the exception of exchange rate, all other macroeconomic variables impact stock prices negatively.

Buyuksalvarci (2010) concluded that interest rate, industrial production index, oil price, foreign exchange rate have a negative effect, while money supply has a positive influence on Turkish Index return. On the other hand, inflation rate and gold price do not appear to have any significant effect.

Liu and Shrestha (2008) found that a co-integrating relationship exists between stock prices and the macro-economic variables like money supply, industrial production, inflation, exchange rate and interest rates.

OBJECTIVES

- 1) To analyze the impact of interest rate change on sensex
- 2) To help investors to know change in sensex due to change in interest rate.

PERIOD OF THE STUDY

Six months from January 2015 to June 2015

FACTS FROM VARIOUS SOURCES

On 15 JANUARY 2015

RBI cuts Repo rate by 25 basis points and sensex zoomed by 728 points and crossed mark of 28000. That was first reduction since may 2013. Sensex closed at 28075.55 after a jump of 2.66%. nifty was up 216.60 points and closed at 8494.15 and 46 out of nifty 50 were in advance.

Major gainers of sensex was HDFC, SBI, ICICI banks

SOURCE: THE FINANCIAL EXPRESS

ON 02 JUNE 2015

RBI cuts bank rate by 25 basis points and sensex and nifty fall by 660 and 197 points respectively reason behind was hope from RBI was bank rate will down by 50 basis points. At 3:05 pm SBI falls 4% to Rs. 267 and becomes nifty top loser. HDFC bank, Hindalco, Axis bank, IndusInd bank, ICICI bank fall over 3.5%

At 2:55pm 47 stocks from nifty 50 were in negative zone
SOURCE www.ndtv.com

On 22june 2015

Sensex closes at 27730.21 after it surges 414 points and nifty closes at 8353.10 after it spiked 128.15 points Reason was their was a hope of rate cut and which will benefit companies.

Bank nifty was up by 2.5% as HDFC, ICICI, SBI share was up between 2 to 3.6%

SOURCE: www.moneycontrol.com

CONCLUSION

Change in interest rate creates huge volatility in the market due to which capital markets can go in any way direction. If interest rate changes are favorable then markets go up and vice-versa.

On 15january 2015, rate was after a long time and market touches new heights with cut in repo rate but on 02june 2015, expectations was high from RBI but markets seen disappointment and it fell with high dip. Traders was expecting 50 basis points rate cut but 25 basis points was cut by RBI.

On 22june 2015, hope RBI will cut 25 basis points gave a market upward wave and sensex and nifty both zoomed up.

One thing which is clear from interest change was Bank shares were most affected with change in bank or repo rate. Everytime we can see banking shares were either top gainers or top losers with change in bank or repo rate change.

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