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BSE Sensex: Case study of political events as a major factor which impacts Sensex

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Abstract

Purpose of this case study is to understand the concept of BSE Sensex and impact of political events on Sensex in real life scenario.

Sensex is share market and is the aggregation of buyers and sellers of shares. It is Asia's biggest market and was established in 1875. It is fastest stock exchange in world with the speed of 6 micro seconds. Sensex has obtained an ISO 9001:2000 certifications. Political Events and Government Policies impact Sensex heavily. All events which had major impact of Sensex were Demonetisation, introduction of GST in the market, Trump elected as President of US, Brexit happened and there were many more events occurred. So we will try to find the relation of these events with Sensex movement.

Keywords: SENSEX / BSE, stock market, customer sentiments, GST, demonetization

Introduction

Sensex is a portmanteau of the words Sensitive and Index. BSE (Bombay Stock Exchange Ltd.) is a share market and is the aggregation of buyers and sellers of shares. It is Asia's biggest market and was established in 1875. It is fastest stock exchange in world with the speed of 6 micro seconds. Sensex has obtained an ISO 9001:2000 certifications. It is also the first Exchange in the country and second in the world to receive Information Security Management System Standard BS 7799-2-2002 certification for its On-Line trading System. It is a free float market-weighted stock market index of 30 Blue chip companies, these are financially strong companies and are also known as member companies. The index is calculated based on a free float capitalization method; this method is a variation of the market capitalization method. Every day companies stock's price changes which lead to change in BSE index value.

BSE offers following products/services to its customers:

1. Equity Share
2. Derivatives
3. Foreign Currencies
4. Systematic Investment Plan
5. Debentures

Objectives

1. Is to study Indian Sensex i.e. BSE Sensex
2. Is to study various political events occurred in last 2 years
3. Is to study impact of political events on stock market

BSE Index major achievements i.e. when it has crossed major index points are as follows

Date	BSE Index
Jul 1990	1000
Oct 1999	5000
Feb 2006	10000
Dec 2007	20000
May 2014	25000
Mar 2015	30000
Jan 2018	35000

Source: <https://www.bseindia.com/>

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Study of political events / government policies as major factors responsible for movement in Sensex

Sensex is huge organisation, around 5000 companies listed across 30 different sectors. And through this journal we will study impact of political events and government policies on Sensex. However, other factors which affect stock market are:

1. Blue Chip Companies
2. Commodities like
 - a. Gold
 - b. Crude Oil
 - c. Foreign Currency
3. Inflation
 - a. Consumer Price Index
 - b. Wholesale Price Index
4. International Stock Markets

Political Events / Government Policies consists of events happened in Indian and international market. In this era of

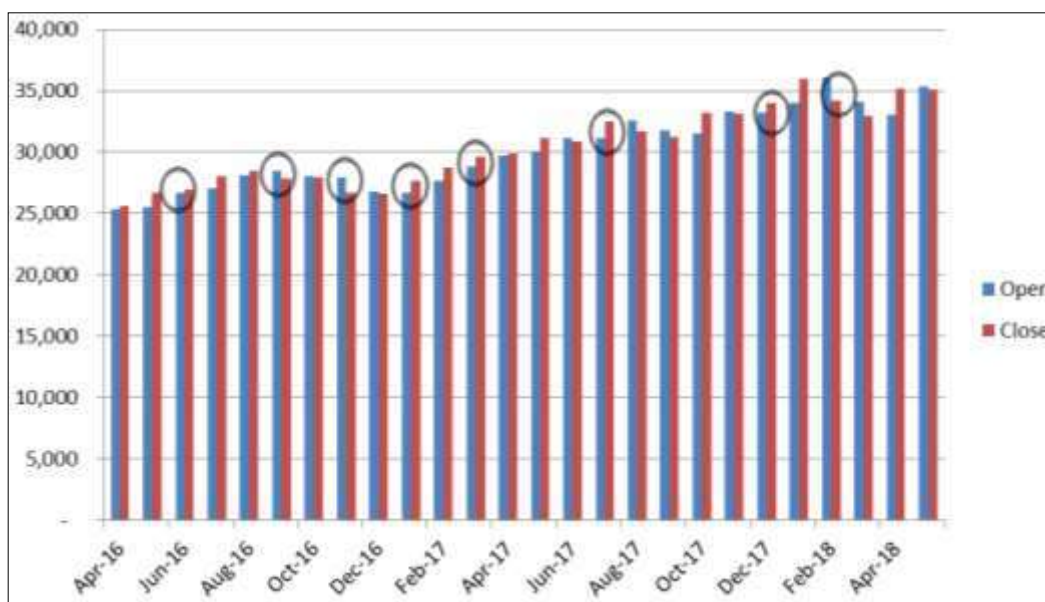
globalisation events occurred outside country also affect country's financial market.

Indian and International market political events include

1. Elections
2. Political parties' assemblies
3. Political Conspiracies
4. Political Debates
5. Announced by the head of government
6. Decisions by minister of the parliament

Only difference is in International Political events includes events happened in countries like US, European Union and Asian Countries, as these countries are inter related to each other.

Political Events / Government Policies also don't have direct relation with Sensex movement. It depends on investors / market sentiments i.e. depending on mood in market of investors.



Major events occurred in last 2 years and upcoming events which may affect Indian Stock Market are

1. **Jun 2016:** Britain has opted to exit European Union with the 'Leave' camp winning with 51.9 per cent votes in a historic referendum, after that Prime Minister of UK has announced his resignation. It may take few years to put everything on one plate for the UK to separate from the EU law, finance, trade, foreign policy. The immediate impact on the stock market was, Sensex opened lower by 635 points and went down by 1,091 points by the end of the day.
2. **Sep 2016:** Surgical Strikes done by Indian army on Pakistan soil and when Director General of Military Operations announced, that Indian Army carried out surgical strikes on terror launch pads in Pakistan. It created a huge impact on BSE. Investor's wealth fell by Rs 2.42 lakh crore to Rs 109.62 lakh crore on the BSE.
3. **Nov 2016:** Demonetisation is an act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired and replaced with new notes or

coins. After the announcement of demonetisation on 8 November 2016, Sensex fall down at first instance due to lack of enough cash in the system.

4. **Jan 2017:** Donald Trump won the US elections by defeating Hillary Clinton. It was a surprise news in the international market, which impacted all economies across the world including India. Sensex had fallen as much as 5 per cent on the day of its announcement.
5. **Mar 2017:** The ruling BJP registered substantial victories in state elections this year. It has won a two-third majority in Uttar Pradesh. This size of the victory emerged as a surprise and the Sensex raced to a two-year high in March. The bullishness in Indian markets comes after nearly three years. In 2014, the Sensex had risen 14% from January 1 to May 16 in anticipation of the BJP's victory in the Lok Sabha elections that year. It made an effort twice, once in 2015 and then in 2016, but dropped short each time. Therefore, this attempt was special.
6. **Jul 2017:** GST is value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is collected by government

from businesses selling the goods and services. Net profit after adjustment for one-time items of 1,289 BSE companies declined by 3.54% in the fiscal-second quarter, it is also declined in comparison to last quarter since it was introduced in the market i.e. Jul'17.

7. **Dec 2017:** Stock markets again witnessed a roller coaster ride on 18 December, the day the Gujarat election results came in. The BSE witnessed a swing of 1,200 points in earlier trade and finally settled trade with half a percent gains on 18th December after elections results indicated that BJP will form its government in Gujarat as well as Himachal Pradesh. Positive country-wide cues also supported sentiment. The 30-share BSE index fell 867 points in the opening as early voting counts suggested that the BJP and the Congress were in a close race to win Gujarat, but as the vote counts moved in favour of BJP it recovered immediately to rally 339 points intraday. The rally has since continued, and the Sensex has scaled an all-time high.
8. **Feb 2018:** Even historically, stocks have responded negatively to the Budget. The benchmark Sensex has fallen in eight out of the last 10 counts in the one-month before the Union Budget. This included three interim Budgets. The Sensex has fallen in the range of 0.54 per cent and 6.90 per cent on these counts. Excluding the interim Budgets, the Sensex has fallen in nine out of the last 10 full-fledged Budgets. However, this time a month after the Budget, the Sensex has gained 0.58-10.47 per cent.
9. **2018:** While all eyes are focused on the general elections of 2019 and the tone will be set by the state's elections in 2018. As many as eight state elections are taking place during this year, including important and large states like Karnataka, Madhya Pradesh, Rajasthan, and Chhattisgarh. Traders will start taking sides based on the outcome of these elections. A victory for the ruling party in the centre, BJP will be taken positively by the market, while any shocks, especially in BJP ruled states will make markets nervous.

Recommendation

As per my analysis through this case study; I have analysed that political events impacts heavily on stock market.

Political parties have power to regulate:

1. Foreign Trade policies
2. From internal trade policies
3. Impact on fund release with in various sectors in Indian economy
4. Tax payment regime
5. Interest regulations within Indian market
6. Development within economy
7. View towards foreign investors
8. And various other factors

So my recommendation for any individual who is planning to invest in Indian stock market, they should work on Indian political events as well. Before analysing current political scenario, it is not recommended to invest in stock market. And once they gain hold on this scenario then investors can focus on other factors which impact stock market and then they can invest in stock market.

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