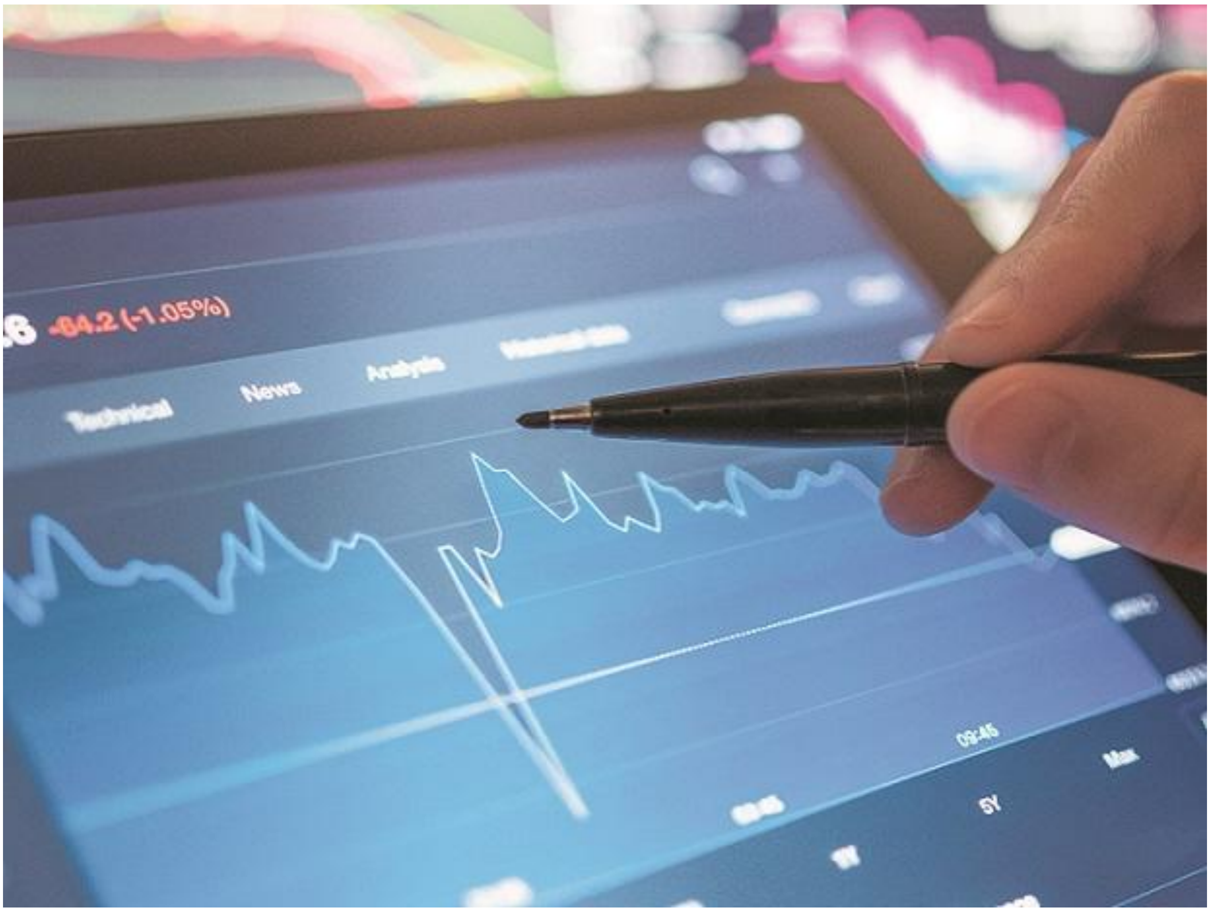
Market turnover zooms on higher volatility, institutional participation



The overall derivatives and cash turnover on the exchanges has surged to record highs in the past few months, amid a surge in volatility and greater institutional participation, especially from overseas investors.

The daily average turnover in the futures & options (F&O) segment for February stood at Rs 45.5 trillion, a 19 per cent gain over the previous month and 127 per cent higher than the average turnover clocked for the last calendar year, the exchange data showed. The average turnover has, in fact, seen a sustained month on month rise since April last year.

Turnover on the cash segment for the month of February stood at Rs 88,497 crore, also a record. This is 55 per cent higher than the average turnover seen last year.

February was characterised by wild swings, with gains of 6 per cent for the benchmark indices. A growth-focussed Union Budget coupled with easy liquidity globally led foreign portfolio investors (FPIs) to purchase stocks worth nearly Rs 22,000 crore even as domestic institutional investors (DIIs) offloaded shares worth Rs 16,575 crore during the month, the data compiled by BS Research Bureau showed.

B Gopkumar, CEO, Axis Securities said increased institutional participation and higher volatility has contributed to the increase in market turnover, both in cash and F&O. "Retail and high net worth participation, particularly in mid and small cap segment, has seen a surge and delivery volumes have spiked as well in the past few weeks," he said.

"The surge in volatility has led to a lot of options writing," added Sandip Raichura, CEO-retail, Prabhudas Lilladher.

Last month’s Union Budget guided for a 28 per cent increase in government expenditure, balanced by divestment and monetization of public sector enterprises.

"We look for earnings per share to grow on average over 25 per cent over the next 3 years.

It would be unprecedented for the stock market to fall in an environment of such strong growth. We change our stance on India from market-weight to overweight and see 15 per cent upside from current levels with a Sensex price target of 58,450," foreign brokerage Julius Baer said in a recent note.

The brokerage, however, cautioned that the earnings recovery forecast by analysts needs to be sustained, in order to justify current market levels.

Credit Suisse, for its part, also has a constructive outlook for Indian equities from a medium term perspective. "We recommend investors to focus on buying the dips with a preference for cyclical sectors over defensives. While we expect overall earnings still have some headroom to surprise positively, risks arising from rising cost headwinds and yields should be monitored closely," it said in a recent note.

Retail participation in the F&O segment, especially on weekly and monthly expiry days, however, has been affected owing to the peak margin norms, which became effective from December 1. It remains to be seen if the turnover will get significantly impacted in the phase two, which began March 1.

Experts expect a 20-30 per cent decline in retail derivatives volumes in phase two.

Peak margin rules dictate a short-margin penalty — ranging from 0.5-5 per cent of the shortfall per day — if brokers fail to secure the minimum margin for intraday positions. From March 1, penalty will be levied if margin blocked is less than 50 per cent of the minimum margin required.

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