AN EMPIRICAL RELATIONSHIP BETWEEN SELECTED INDIAN

STOCK MARKET INDICES AND MACROECONOMIC INDICATORS

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ABSTRACT

This paper tends to convey the relationship between macroeconomic variables and Indian stock market. The Pearson's correlation and multivariate stepwise regression is applied to understand the impact of macroeconomic indicators on the performance of stock market. Granger's causality test is applied for the dynamic causal relationship among the variables. The explained variables in the study includes average monthly closing price of BSE 100 and CNX 100 while the explanatory variables are Index of Industrial Production (IIP), Wholesale Price Index (WPI), Money Supply (M3), Interest Rates (IR), Trade Deficit (TD), Foreign Institutional Investment (FII), Exchange rate (ER), Crude Oil Price (CP) and Gold Price (GP). The data used in the study is in the monthly frequency and period of the study includes from January 2011 to December 2012. The empirical results exhibit significant impact of macroeconomic variables on Indian stock market. The Indian Stock market improves with the increase in the inflow of foreign investment. Thus foreign capital is value addition to the market as it has significantly positive impact on stock market. The gold prices are used as best alternative for investment which hampers the stock prices of share market.

The Granger causality test signifies that there exists causal relationship from FII to stock market. Apart from this, there is no any causal relationship among the variables. Thus, any movement in the value of foreign investment has influence on stock market. The negative impact exchange rates on stock market appear during the period of study. With the strengthening of dollar, Indian currency depreciates in the international market. The stock market declines due to the decrease in the value of rupee with respect to US dollar. The appreciation in the value of Indian rupee with respect to US dollar needs to improve so as to facilitate bullish trend in the market.

KEYWORDS: Stock Exchanges, Industrial Production, Growth Rate, Macroeconomic Variables