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The bank fraud and Tariff hikes by USA – Impact on Banking and Metal stocks

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Two major developments i.e. the bank fraud involving some companies in the gems and jewellery space which came to light on February 15, 2018 and the announcement of Donald Trump's plan to hike tariffs on foreign steel and aluminium in USA on March 1, 2018 within a span of 15 days has led some sharp movements in the stock markets. The markets were already in a state of flux with the NPA issue casting a shadow on PSB stocks. Also with US treasury yields moving up, there was added uncertainty in the market.

We have analysed the movement for Banking stocks and Metal stocks during February and March 2018 in the light of these two incidents.

For banks, we have considered stock movements 20 days before and after the event while for the announcement regarding tariffs by Donald Trump on steel and aluminium imports in USA, 10 days before and after have been considered for the analysis.

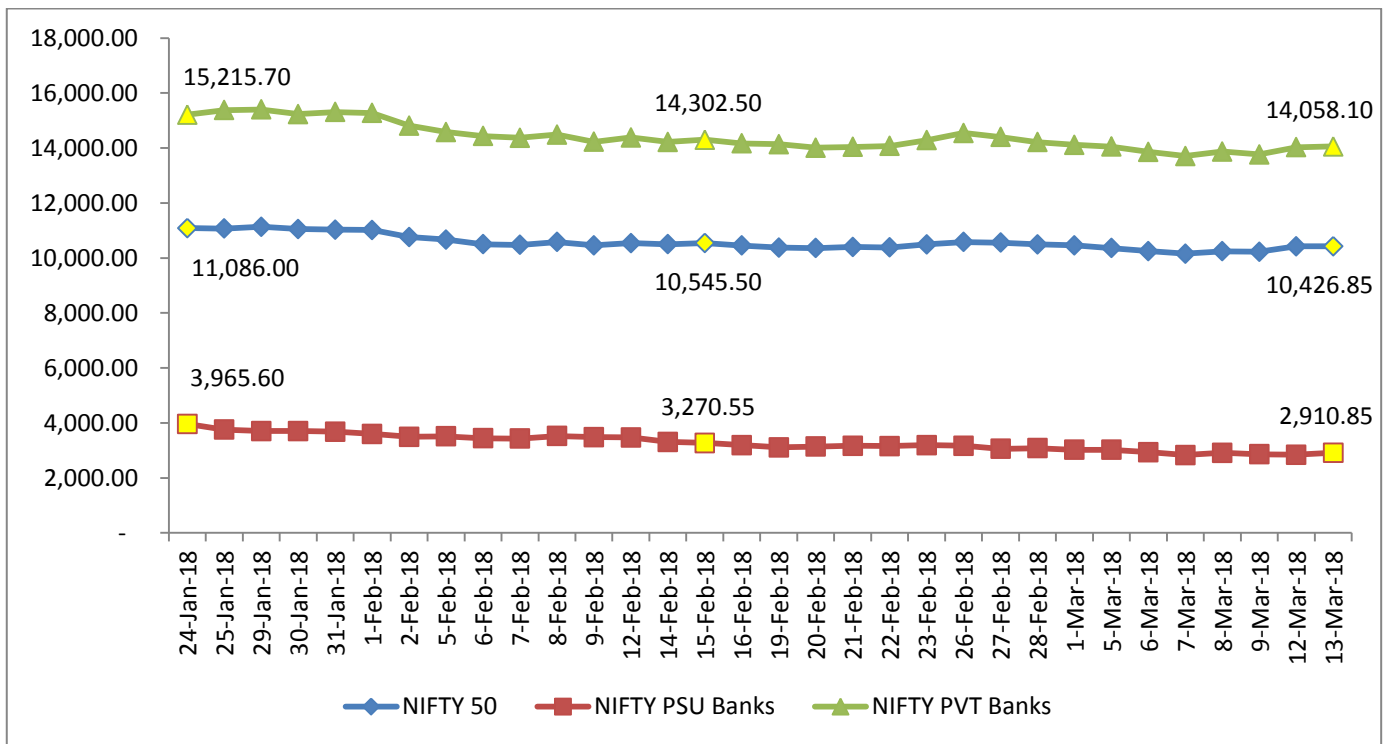
On January 24, 2018, NIFTY 50 closed at a high of 11,086. The markets have been registering a downward trend since then. *On February 15, 2018, NIFTY 50 closed at 10,545.5 down by close to 4.9% compared with January 24, 2018.* However, once the case of bank scam was out in the open, the markets resisted the crash and moved south only marginally till March 12, 2018 registering a decline of just about 1.1%.

However, *the NIFTY PSU Bank stocks declined at a much higher rate of over 11% between February 15, 2018 and March 13, 2018 showing the impact of the scam on the public sector banks. Private Banks stocks (NIFTY PVT Banks) moved down only marginally by about 1.7% during the period.*

For metals, between February 19, 2018 and February 28, 2018, the metal stocks registered growth of 1.8% while NIFTY 50 had registered an increase of about 1.1%. However, post the announcement to hike tariffs on foreign steel and aluminium by USA government on March 1, 2018, NIFTY Metals index was affected and recorded a decline of 4.4% till March 13, 2018 as against a decline of 0.3% recorded by NIFTY 50.

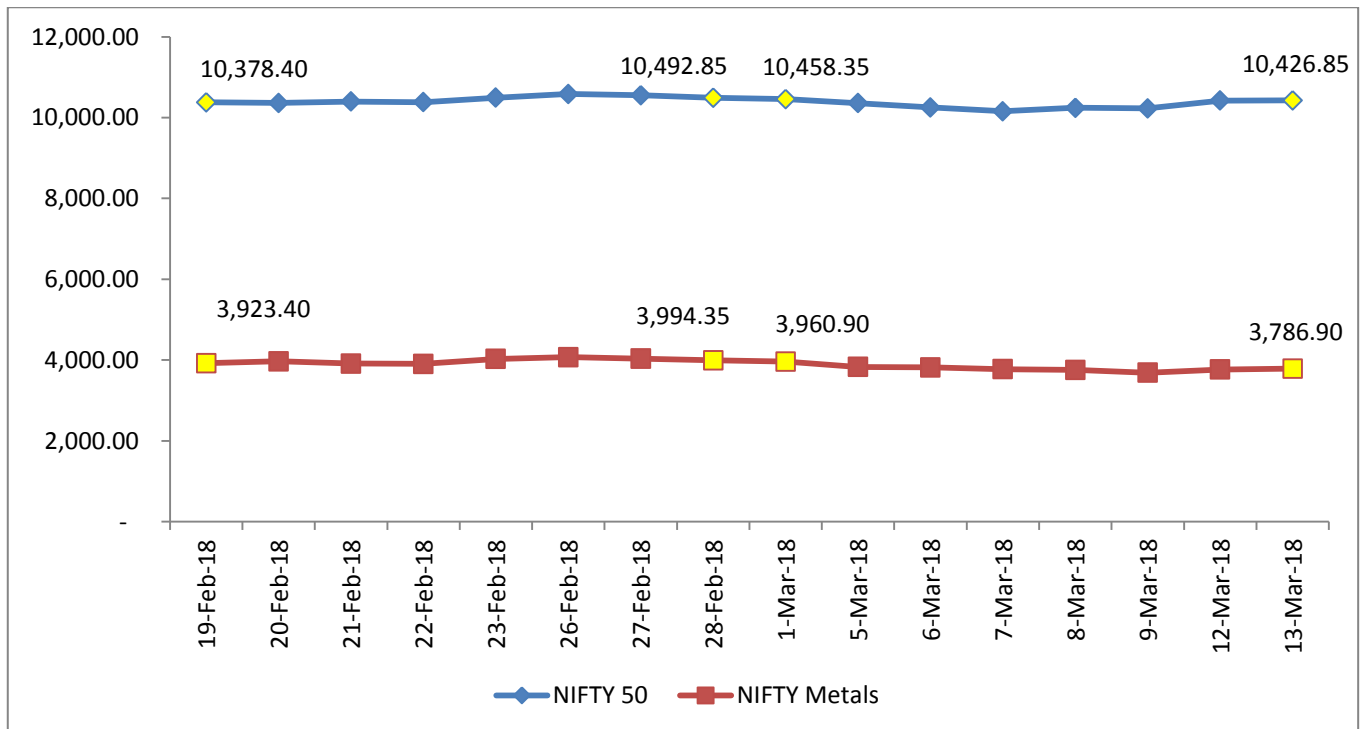
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Chart 1: Market movements (For Bank stocks)



Source: NSE India

Chart 2: Market Movements (For Metal stocks)



Source: NSE India

The ‘Beta’ (β) for the indices pre and post these important announcements that affected the stock market are tabulated below. *Beta is a measure that is used in fundamental analysis to ascertain the volatility of a stock/index in relation to the overall market.*

Table 1: Beta for Banking Stocks

β	NIFTY PSU Banks	NIFTY PVT Banks
Jan 24 - Feb 14	0.78	1.17
Feb 15 - Mar 13	1.18	1.19

Source: CARE Ratings

- PSU Bank stocks reacted at a higher rate compared with the Nifty post the bank scam. Prior to the scam the beta was 0.78, i.e, 22% less volatile than the market.
- In case of Private Banks, the beta remained more or less unchanged in the two periods.

Table 2: Beta for Metal Stocks

β	NIFTY Metals
Feb 21 – Feb 28	1.94
Mar 1 - Mar 13	1.15

- Beta for Metal stocks prior to the announcement was at 1.94, highly volatile against the market
- However, the beta post tariff hike announcement was at 1.15 between March 1, 2018 and March 13, 2018.

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