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Stock market movements

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The Indian stock market has been particularly buoyant this year with the stock indices scaling new heights. The overtly buoyant sentiment has been driven by some positive economic numbers in the areas of

- GDP growth and industrial production (under new methodology)
- Lower inflation – both CPI and WPI
- Expectation of lower interest rates (though timing is uncertain)
- Strong external position
- A strong rupee
- Large foreign flows in both equity and debt segments
- Powerful show by the government in the state elections
- Passage of critical reforms including GST
- Forecast of good monsoon
- Expectation of the first few steps being taken to address the issue of NPAs with banks.

These pointers have more than offset the negative fallout of the demonetization policy undertaken last year as well as low investment rates in the economy.

While the performance has been impressive, it is also interesting to note that stock markets world over have also been witnessing impressive upswings as the global environment too has turned positive with both World Bank and the IMF projecting better prospects for 2017 though no major turnaround is expected. Yet, there is optimism across most markets as can be witnessed from the table below.

Movement in stock indices for 33 countries has been presented in the table below which looks at changes for the five month period December end 2016 to May end 2017. To maintain comparability, the changes have been reckoned in dollar terms, which hence also take into the account the movement in exchange rates. The table shows that:

- The median value of change in stock market indices was 14.9%
- 5 countries witnessed changes of above 20%: Poland, Argentina, South Korea, Turkey and India.

- 11 had changes of between 15-20%.
- Stock indices had declined in Canada and Russia.

Therefore, what is being witnessed in India is not quite singular and is being observed in a large number of countries.

Table 1: Movement in benchmark stock indices across countries (% change in dollar terms)

Country	%	Country	%
Poland	30.2	Sweden	13.1
Argentina	29.6	Malaysia	12.7
S Korea	25.0	Israel	10.3
Turkey	24.2	Britain FTSE	10.0
India	23.0	South Africa	9.7
Denmark	19.9	Indonesia	9.6
Mexico	17.8	Japan	8.4
Chile	17.2	Egypt	8.2
Germany	17.1	USA S & P 500	7.7
Singapore	16.4	Thailand	6.4
Taiwan	16.3	USA DJIA	6.3
Hong Kong Hang Seng	16.0	Brazil	4.5
France	15.9	Australia	3.7
Netherlands	15.6	China	2.4
Switzerland	15.2	Canada	-0.3
Belgium	14.9	Russia	-8.6
Italy	14.9		

Source: Economist

The main factors driving such optimism are:

- Reduction in uncertainty in areas like North Korea and GCC - the latter can be reversed with the recent Qatar crisis.
    - Victory of Mr Macron has sent positive sentiment across the euro region. The same holds for the regional elections victories for Ms Merkel.
- Global prospects appear brighter:
    - USA looking to grow backed by strong infra spending promised by Donald Trump and tax incentives for industry and the rich. Corporate results announced have been positive.
    - China to build massive infra including a Belt Road across 65 countries – an indication that there will be a major recovery
    - Euro region to continue with the recovery process with factory output growing quite steadily
- Central banks like the ECB appear to still be in an accommodative stance.
- Oil shows signs of recovering after the recent OPEC meet – and is expected to stabilize. US antipathy to the Paris Accord would mean going back to fossil fuel which will increase price of oil.

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