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HYPOTHESIS (ES)

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FINDINGS

RECOMMENDATIONS/SUGGESTIONS

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A STUDY ON RELATIONSHIP BETWEEN BANKEX AND STOCK MARKET INDICES

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ABSTRACT
The study examines the relationship between BANKEX and Stock Market Indices over a sampling period from 1st January 2006 to 31st December 2015. Statistical tools i.e. Person's correlation, Regression, Augmented Dickey Fuller (ADF) Unit Root test Hypothesis and Pair-Wise Granger Causality Test were used to test the relationship. The finding from the study reveals that sectoral indices have influence over each other and there exists unidirectional causality between the selected sectoral indices.

KEYWORDS
BANKEX, SENSEX, NIFTY, performance of sectoral indices.

INTRODUCTION
Indian financial market has been going through a fascinating change and it opened up investment opportunities in the financial sector. The stock market is an avenue for every investor in India. Therefore, the investors have to forecast the market price in order to maximize their investment worth. Initially, the stock market index was formed and later on sectoral indices were developed and these are collectively providing the information to the investors to invest their funds. Identifying the importance of stock market indices, a study has been undertaken to examine a relationship between the leading stock market index of the country (NIFTY & SENSEX) and BANKEX which are most important to the overall performance of the economy. This study concentrates on the particular aspect of Bank Indices (BANKEX), as without a sound and effective banking system in India, it cannot have a healthy economy. It was felt that the efficiency of financial system of the banking sector was not only measured by quantitative growth in the terms of branch expansion but also in the growth of deposits/advances. The system of BANKEX was brought into effect since 2002 in BSE and 2003 in NSE for the efficient evaluation of banking operations in the stock market.

STATEMENT OF THE PROBLEM
Indian Stock market indices are influenced by both macro & micro factors and also by other sectoral indices. The world economy faces volatility due to various businesses, political, social and globalized economic environments which is reflected in the market capitalization. Indian economy also faces the same kind of problems. Indian Capital market consists of various sectoral indices in which the Performance of bank indices is an important indicator of the functioning of an economic system. Taking into consideration that volatility of banking stocks that has hogged the limelight. An important issue centers on the pattern of bank stock returns and their impact on the stock market indices. Because of high volatility in banking stock returns and stock market indices, investors are in a dilemma whether their investment will be safe or not. Even though situations have stabilized, still there is an imprecision among the investors about the performance of the sectoral indices. Hence, an attempt is made to study about the relationship between the sectoral indices and stock market indices (SENSEX & NIFTY) with special reference to BANKEX.

OBJECTIVES
1. To examine the correlation between S&P Bankex, CNX Bankex, SENSEX and NIFTY.
2. To investigate the impact of S&P Bankex on SENSEX and CNX Bankex on NIFTY
3. To analyze whether the Bankex of NSE and BSE, SENSEX and NIFTY are stationary.

METHODOLOGY
SOURCE AND COLLECTION OF DATA
The study has used mainly secondary data. Information relating to the values of BANKEX and stock market indices have been obtained from www.bseindia.com, www.nseindia.com and money control.
PERIOD OF THE STUDY
The present study is an attempt to test the relationship and impact of BANKEX on stock market indices during the period from 1st January 2006 to 31st December 2015.
TOOLS USED FOR ANALYSIS
- Person's correlation
- Regression
- Augmented Dickey Fuller (ADF) Unit Root test.
- Pair-Wise Granger Causality Test

LITERATURE REVIEW

Dr. R. Radhika (2015) analyzed "BSE and Sectoral Indices: A Comparative Study". This paper examines the performance of sectoral indices such as BSE IT, BSE FMCG, BSE Oil and Gas, BSE BANKEX, BSE Metal, BSE Realty in comparison with SENSEX. The study has incorporated the last financial year and studied the correlation coefficients to establish the relationship between selected sectoral indices and SENSEX. The Study declares that there is a high range of positive correlation between the selected indices and SENSEX. It suggests that the investors can follow the leading index for their investment in various sectors.

Ramkumar Rajesh (2012) conducted a study on "Market efficiency in Sectoral Indices: A study with special reference to Bombay Stock Exchange in India". This paper proposes to test the sectoral indices of BSE and to examine the market efficiency using the run test and auto correlation test. The study found that the return of BSE Automobile Index, BSE Bankex, BSE Capital goods Index, BSE Health Care Index, BSE Metal Index, BSE PSU Index and BSE Realty Index were significant at 5% level during 1st January 2005 to 31st December 2010.

ANALYSIS

PERSON'S CORRELATION

H_0: **There is no significant relationship between S&P BANKEX and S&P SENSEX.**

TABLE 1: MOVEMENT OF CNX BANKEX AND CNX NIFTY

Correlations			
Variables	Particulars	S&P Bankex	Sensex
S&P Bankex	Pearson Correlation	1	.967**
	Sig. (2-tailed)		.000
	N	10	10
Sensex	Pearson Correlation	.967**	1
	Sig. (2-tailed)	.000	
	N	10	10

**. Correlation is significant at the 0.01 level (2-tailed).

The table no.1 exhibits the movement of CNX BANKEX and CNX NIFTY to identify the relationship among both the indices. The Pearson's correlation results reveal that there exists a positive relationship (0.967) between CNX BANKEX and CNX NIFTY. The significant value (0.00) is less than 0.01. Hence null hypothesis (H_0) is rejected. It confirms that the share price movement in CNX BANKEX has a significant relationship with CNX NIFTY.

H_0: **There is no significant relationship between CNX BANKEX and CNX NIFTY.**

TABLE 2: MOVEMENTS OF S&P BANKEX AND S&P SENSEX

Correlations			
Variables	Particulars	CNX Bankex	NIFTY
CNX Bankex	Pearson Correlation	1	.970**
	Sig. (2-tailed)		.000
	N	10	10
NIFTY	Pearson Correlation	.970**	1
	Sig. (2-tailed)	.000	
	N	10	10
**. Correlation is significant at the 0.01 level (2-tailed).			

The table no. 2 exhibits the movement of S&P BANKEX and S&P SENSEX to identify the relationship between both the indices. The Pearson's correlation results reveal that there exists a positive relationship (0.970) between S&P BANKEX and S&P SENSEX. The significant value (.000) is less than 0.01. Hence the null hypothesis (H_0) is rejected. It confirms that the share price movements in S&P BANKEX have significant relationship with S&P SENSEX.

Regression Analysis

H_0: **There is no significant cause and effect relationship between CNX Bankex and NIFTY.**

TABLE 3: CAUSE AND EFFECT RELATIONSHIP BETWEEN CNX BANKEX AND NIFTY

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.970[a]	.941	.933	424.832

a. Predictors: (Constant), CNX Bankex
b. Dependent Variable: NIFTY

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.296E7	1	2.296E7	127.231	.000[a]
	Residual	1443856.573	8	180482.072		
	Total	2.441E7	9			

a. Predictors: (Constant), CNX Bankex
b. Dependent Variable: NIFTY

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	1769.207	377.309		4.689	.002
	CNX Bankex	.364	.032	.970	11.280	.000
a. Dependent Variable: NIFTY						

The impact of CNX Bankex affecting NIFTY has been captured statistically by the Regression model. The r value is (.970). This shows that predictors have 97% influence on the output. CNX Bankex (b=0.364), this value indicates that as the CNX Bankex increases by 1 unit the average NIFTY value increases by 0.364 units. The p- value, 0.000 is less than 0.01 at 1% level of significance. Hence the null hypothesis (H_0) is rejected. It is inferred that the variance in CNX Bankex contributes to the change in NIFTY.

H_0: There is no significant cause and effect relationship between S&P BANKEX and SENSEX.

TABLE 4: CAUSE AND EFFECT RELATIONSHIP BETWEEN S&P BANKEX AND SENSEX

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.967[a]	.936	.928	1.4502385E3

a. Predictors: (Constant), S&P Bankex
b. Dependent Variable: SENSEX

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.443E8	1	2.443E8	116.152	.000[a]
	Residual	1.683E7	8	2103191.702		
	Total	2.611E8	9			
a. Predictors: (Constant), S&P Bankex						
b. Dependent Variable: SENSEX						

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	6253.495	1280.324		4.884	.001
	S&P Bankex	1.033	.096	.967	10.777	.000
a. Dependent Variable: SENSEX						

The impact of S&P Bankex affecting SENSEX has been captured statistically by the Regression model. The r value is (.967). This shows that predictors have 96.7% influence on the output. S&P Bankex (b=1.033), this value indicates that as the S&P Bankex increases by 1 unit the average SENSEX value increases by 1.033 units. The p- value, 0.000 is less than 0.01 at 1% level of significance. Hence the null hypothesis (H_0) is rejected. It is inferred that the variance in S&P Bankex contributes to the change in SENSEX.

STATISTICAL DESCRIPTION OF VARIABLES
The statistical description of variables which are used in this study is represented in Table no.3. It indicates Mean, Standard deviation, Skewness and Kurtosis of variables used in this study.

TABLE 5: STATISTICAL DESCRIPTION OF VARIABLES

INDICES	MEAN	STD. DEVIATION	SKEWNESS	KURTOSIS
S&P BANKEX	0.218976514	0.486502079	-0.279541858	-1.585143815
S&P SENSEX	0.142295985	0.391925765	-0.062105061	0.350116212
CNX BANKEX	0.218065004	0.455850412	-0.263948481	-1.698260417
CNX NIFTY	0.14871215	0.370779551	-0.187581129	-0.095284983

As table no.5 shows, S&P BANKEX has the highest mean amongst variables with the value of 0.218976514 and S&P SENSEX has the lowest mean amongst variables with the value of 0.142295985. S&P BANKEX also has the highest standard deviation amongst variables with the value of 0.486502079 and CNX NIFTY has the lowest standard deviation amongst variables with the value of 0.370779551.
The table no.5 exhibits the values of S&P BANKEX, S&P SENSEX, CNX BANKEX and CNX NIFTY are negative and ranges between 0 and -0.3, which represents that the distributions are negatively skewed and the frequency curves are negatively skewed with a long tail towards left.
The table no.5 shows the negative kurtosis and the coefficient of Kurtosis are less than 3 and the curves are said to be flat, as their frequencies are less concentrated around the mean. The flatness of frequency curve is described as Platykurtic.

Augumented Dickey Fuller (ADF) Unit Root test.
H_0: The series are non-stationary. The unit root exists

TABLE 6: UNIT ROOT TEST RESULTS AT LEVEL WITH CONSTANT

2007-2016	VARIABLE	No. of. Observations	ADF Test Statistics	Critical Value @ 5%	p- Value	H_0 Accept/ Reject
Level	CNXBankex	2454	-2.756983	-3.411	0.2137	Accept
Level	NIFTY	2465	-2.563946	-3.411	0.2972	Accept
Level	S&PBankex	2454	-2.511894	-3.411	0.3223	Accept
Level	SENSEX	2465	-2.463014	-3.411	0.3467	Accept

It is clear from the Table that calculated value of the test statistics |t| is less than its critical value (-3.411) in all the selected Indices and all the probability values are greater than 0.05. Therefore, the null hypothesis is accepted, which means that for the series CNXBankex, NIFTY, S&P Bankex and SENSEX, unit root exists, and they are non-stationary at its levels.

Pair-Wise Granger Causality Tests
H_0 : There is no causal relationship between selected Indices.

TABLE 7: PAIR-WISE GRANGER CAUSALITY TEST

Null Hypothesis	F Stat	P-Value	Hypothesis Accept/Reject	Causality
NIFTY does not Granger Cause S&P Bankex	2.76185	0.0634	Accepted	No Causality
S&PBankex does not Granger Cause NIFTY	2.79457	0.0613	Accepted	
SENSEX does not Granger cause S&P Bankex	2.45628	0.0860	Accepted	Unidirectional
S&PBankex does not Granger cause SENSEX	3.40215	0.0335	Rejected	
CNXbankex does not Granger cause NIFTY	434.297	2E-162	Rejected	Unidirectional
NIFTY does not Granger cause CNX Bankex	1.04324	0.3525	Accepted	
CNXbankex does not Granger cause SENSEX	427.968	3E-160	Rejected	Unidirectional
SENSEX does not Granger cause CNX Bankex	1.00070	0.3678	Accepted	
CNXbankex does not Granger cause S&PBankex	1.88834	0.1515	Accepted	Unidirectional
S&PBankex does not Granger cause CNXbankex	4.51825	0.0110	Rejected	

The results of pair-wise Granger causality test between selected Indices are presented in the table no.7. It has been found that there exists Unidirectional Causality (Granger Cause) between S&PBankex and SENSEX, CNXbankex and NIFTY, CNXbankex and SENSEX, S&PBankex and CNXbankex. It is concluded that there is causal relationship between the selected indices except NIFTY with S&P Bankex.

CONCLUSION

The study infers that sectoral indices have significant influence on each other. The Grangers causality test signifies that there exists unidirectional causality between the selected sectoral indices. It is clear from the ADF test statistics that each time series data is integrated. The factors studied are of immense use for investors to take appropriate decision by considering not only global economic and political environment but also the sectoral indices to mitigate investment risks in their investment portfolio.

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