Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Prelims and Mains focus: about various indices and how they perform during fluctuations in the market

News: Tracking strong gains in the global markets, Indian benchmark indices rose significantly on Friday with the benchmark Sensex closing above the 41,000 mark for the first time since November 28. The broader Nifty also managed to close above the psychological 12,000 mark.

What made the indices jump?

The news report on a possible trade deal between the U.S. and China and exit polls showing a comfortable win for Boris Johnson in the U.K. elections triggered gap-up start in the Nifty.

Reports suggested U.S. and China have arrived at a consensus on the first phase of their trade talks.

Other Asian indices

The effect was clearly visible across markets with Hang Seng gaining nearly 700 points while Nikkei was up almost 600 points. The benchmarks of most Asian markets ended with strong gains on Friday.

What is Nifty and Sensex?

In order to understand what is nifty and sensex, you need to understand the Indian stock exchanges first. Now, let’s discuss the two major stock exchanges in India i.e the ‘Bombay stock exchange’ and the ‘National stock exchange’ along with their indexes.

Bombay Stock Exchange (BSE)

Bombay stock exchange is an Indian stock exchange located at Dalal Street, Mumbai, Maharashtra.

It was established in 1875 and is Asia’s oldest stock exchange.

It is the world’s fastest stock exchange, with a median trade speed of 6 microseconds.

The BSE is the world’s 10th largest stock exchange with an overall market capitalization of $2.29 Trillion as of April 2018.

More than 5500 companies are publicly listed on the BSE.

What is an Index? Since there are thousands of company listed on a stock exchange, hence it’s really hard to track every single stock to evaluate the market performance at a time.
Therefore, a smaller sample is taken which is the representative of the whole market. This small sample is called Index and it helps in the measurement of the value of a section of the stock market. The index is computed from the prices of selected stocks.

SENSEX:

Sensex, also called BSE 30, is the market index consisting of 30 well-established and financially sound companies listed on Bombay Stock Exchange (BSE).

30 companies are selected on the basis of the free-float market capitalization.

These are different companies from the different sectors representing a sample of large, liquid and representative companies.

The base year of Sensex is 1978-79 and the base value is 100.

It is an indicator of market movement.

If the Sensex goes down, this tells you that the stock price of most of the major stocks on the BSE has gone down. If Sensex goes up, it means that most of the major stocks in BSE went up during the given period.

For example, suppose the Sensex is 26,000 today. If Sensex drops to 25,950 tomorrow, it means that the majority of the 30 companies financial condition is not good i.e. their share price is falling.

National Stock Exchange (NSE):

The National Stock Exchange (NSE) is the leading stock exchange of India, located in Mumbai, Maharashtra, India. It was started to end the monopoly of the Bombay stock exchange in the Indian market.

NSE was established in 1992 as the first demutualized electronic exchange in the country.

It was the first exchange in the country to provide a modern, fully automated screen-based electronic trading system which offered the easy trading facility to the investors spread across the length and breadth of the country.

NSE has a total market capitalization of more than US$ 2.27 trillion, making it the world’s 11th-largest stock exchange as of April 2018.

NSE’s index, the NIFTY 50, is used extensively by investors in India and around the world as a barometer of the Indian capital markets.

NIFTY:
Nifty, also called NIFTY 50, is the market index consisting of 50 well-established and financially sound companies listed on National Stock Exchange of India (NSE).

The base year is taken as 1995 and the base value is set to 1000.

Nifty is calculated using 50 large stocks which are actively traded on the NSE.

The 50 companies are selected on the basis of the free float market capitalization.

Here, the 50 top stocks are selected from different 24 sectors.

Nifty is owned and managed by India Index Services and Products (IISL)

Since inception in 1995, Nifty has given a return of 11.13% CAGR (till April 30, 2018).

NOTE: The Sensex and Nifty are both indicators of market movement. If the Sensex or Nifty go up, it means that most of the stocks in India went up during the given period. With respect to NIFTY and NSE, we can say that:

If Nifty goes up, this means that the stock price of most of the major stocks on NSE has gone up.

On the other hand, if nifty goes down, this tells you that the stock price of most of the major stocks on NSE has gone down.

When Sensex/Nifty increases, it shows the economic growth of the country. For example, during the Indian recession of 2008-09, the Sensex fell over 12000 points (-60%).

Importance of Market Index:

The market indexes are the barometer for the market behavior. It gives a general idea about whether most of the stocks have gone up or gone down.

Often, Market Index is used as a benchmark portfolio performance.

It is used as a reflector of investor’s sentiments.

Market indexes are used for sorting and comparison of the various companies.

Indices act as an underlying for Index Funds, Index Futures, and Options.

They are used in passive fund management by Index funds.

The index can give a comparison of returns on investments in stock markets as opposed to asset classes such as gold or debt.