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AN EMPIRICAL STUDY ON IMPACT OF SPOT PRICES ON THE FUTURES PRICES OF BANK NIFTY NSE INDEX

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ABSTRACT

Derivatives products have gained a significant place in the Indian context due to its core implications. This Paper is an endeavour to empirically study the causal interaction and the impact of Spot prices on the Futures prices of Bank Nifty NSE Index. The study holds the Futures Markets in three dimensions i.e. Near Month, Next Month and Far Month Futures Contracts. With the application of required Econometrics technique such as Co-integration Approach and Granger Causality Test, the results has shown that, there exist a Co-integrating long run association between all the three Contracts and Short run interaction between Next and Far Month Contracts. Further with the employment of OLS Model it has found that in all three Contracts Spot prices have an impact on the Futures Markets.

KEYWORDS: *Index Spot Market, Index Futures Market, Co-integration Approach, OLS Estimate Analysis.*

Introduction

Derivatives Markets is the financial market for various types of Derivatives. A Derivative is a financial instrument which derived its value from the other form of Securities or a basket of Securities. It offers various types of risk protection and allows investors to adopt innovative investment strategies. Derivatives are becoming popular and deserved a significant role in today's financial and trade markets.

In the Indian context the benefit of Derivatives trading has urged to re-open the previously banned Derivatives trading in the post reforms periods. The Index Futures Trading in NSE and BSE is the first step which is initiated in the year 2000. Derivatives trading are the latest origin in India and it is considered to be the mirror look for Countries economy. Since it has gained an extreme position in Financial world, the study has been conducted by selecting a leading NSE Index i.e. Nifty Bank, to see and investigate the interaction between the Spot and Futures trading of this Index. The result of the study will support to understand a lead-relationship between the Spot and Futures Markets and this will be the significant contribution to the various users specially Derivatives Traders.This Paper with an inclusion of Introduction has been shared into Five Sections. Section-II deals with existing Literature Review on the similar study, Section-III has shown the Methodological background, Section-IV has pictured out the Analytical result and Section-V has highlighted the Findings and Conclusions of the Study.

Theoretical Background of Futures

In the Futures contracts recognized exchange act as an intermediary and contract executor between the buyer and the seller. Some of the salient features of futures contracts in relation of trading through clearing house of exchange are; no default risk, timely delivery and payment in transaction etc. clearing house is a trade settlement agency which settle the daily trade of the investors. The clearing house by arranging an activity of mark to market protects the investors from default risk.

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