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## AN EXAMINATION OF INFLUENCE OF SELECTED MACROECONOMIC VARIABLES ON INDIAN STOCK MARKET

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### ABSTRACT

*The main purpose of this study is to examine the influence of US Dollar, Pound, Japanese Yen, Euro, Gold Price and Crude Oil on BSE Index and NSE Index. Furthermore, the study is also exploring the relationship between selected macroeconomic variable on BSE and NSE index. The researcher collected secondary data from NSE, BSE websites and in.investing.com. The researcher confined the study only with regard to US Dollar, Pound, Japanese Yen, Euro, Gold Price and Crude Oil. This study identified that there is a significant influence on US Dollar, Pound, Japanese Yen, Euro, Gold Price and Crude Oil on BSE Sensex. Furthermore, the study is also identified that there is a significant influence on all selected macroeconomic except Euro on NSE Index. Furthermore, the study found that there is a significant relationship among US Dollar, Pound, Japanese Yen, Euro, Gold Price and Crude Oil on BSE and NSE. This study finding would help the policy maker in formulation of suitable macroeconomic policies*

### KEYWORDS

Japanese yen, euro, gold price, Pound, US dollar.

### INTRODUCTION

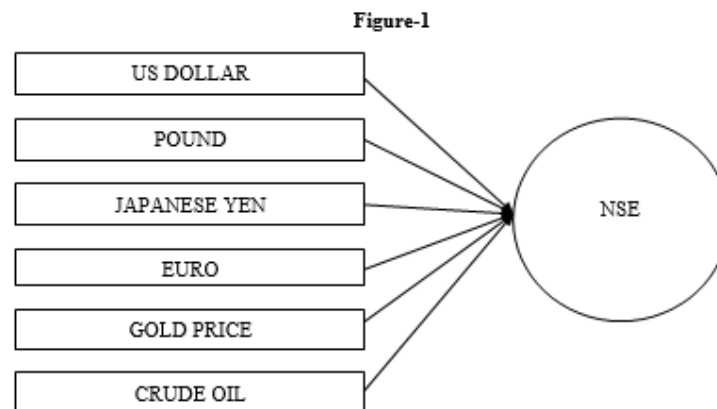
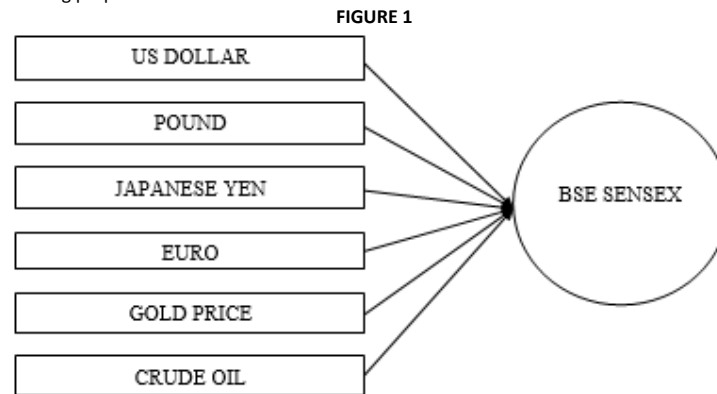
The main aim of this study is to examine the relationship between macroeconomic variables of stock market returns in Indian context. There are several number macroeconomic variables (crude oil, gold, euro, dollar, yen, pound) influencing the stock market. The price of stock market is influenced by several multi macro environment factors. There is a large number of evidence that macro-economic variables influence the stock market. Numerous studies have been conducted with regard to macro-economic variables and stock market. Brown and Otsuki (1990) examined the effects of short-term interest rates, money supply, exchange rates, crude oil prices, and industrial production. Bagliano (1997) finds strong evidence of a long run relationship between stock prices and inflation. The claim that macroeconomic variables affect stock market behaviour is a well-established theory in the financial economics literature. However, in the past two decades several researchers made an attempt to study the macroeconomic effects on stock market. In line of this several studies have been conducted for eg Fama (1981) and Chen (1991) for the US market, Hamao (1988) on Japanese market and Poon and Taylor (1992) on the UK market. The outline of the paper is as follows.

Section1 provides Introduction and overviews about influence of macroeconomic variable on stock market return. Section 2 highlights the research methodology aspects. Section 3 highlights Data Analysis and conclusion.

Chen et al. (1986) investigated a set of macroeconomic variables as systematic influence on stock market returns by modelling equity return as a function of macro variables and non-equity assets returns for US. The study revealed that the macroeconomic variables such as industrial production anticipated and unanticipated inflation, yield spread between the long and short term government bond were significantly explained the stock returns. The study significantly influenced that the economic state variables systematically affect the stock return via their effect on future dividends and discount rates, Mukherjee and Naka (1995) examined the relationship between the Japanese Stock Market and exchange rate, inflation rate, money supply, real economic activity, long-term government bond rate, and call money rate. The study found that a co integrating relation indeed existed and that stock prices contributed to this relation, Mookerjee and Yu (1997) investigated the relationship between macroeconomic variables such as narrow money supply, broad money supply, exchange rates and foreign exchange reserves using monthly data from October 1984 to April 1993. The study found that money supply and foreign exchange reserves significantly influences stock prices, Raj Kumar and Bhartendu Singh (1998) investigated the influence of trading volume, rate of exchange and the rate of gold standard were highly significant on Sensex. The study found that rate of exchange and rate of gold standard on Sensex were found to be highly significant but the individual effect of trading volume was not found significant, Agarwalla and Tuteja (2008) made an attempt to study the relationship between share price index and economic growth for India, Gay (2008) examined the association among stock prices and macro economic variables in India, China, Brazil and Russia. The study revealed insignificant results which postulate inefficiency in market, Baranidharan, S. and Vanitha, S. (2015), examined the dynamic effects of selected macroeconomic variables on CNX banks returns. The study results found that there exists a short term a short term shock on CNX banks returns from macroeconomic variables, Baranidharan S. and Vanitha S. (2014), found that exchange rate, foreign institutional investors, foreign exchange reserve and inflation recorded long run relationship and causal relationship with BSE Sensex returns, Vanita Tripathi and Ritika Seth, (2014), explored the relationship between macroeconomic factors and stock market indicators. The study highlighted that unilateral relationship of stock market and real economy, Sahu et al (2012) established that there is a long term co-movements among the crude oil prices and the Indian stock markets, the study conducted by Kapusuzoglu (2011) and Hosseini et al. (2011) found that oil price shock influence stock market return both long and short run. Similarly, Chittedi (2012) examined the long run relationship between oil prices and stock prices for India. The study found that change in oil prices does not impact on stock prices. In line with previous studies Toraman et al. (2011), Muritala et al. (2012) and Sharma and Khanna (2012) also found that there exists a significant long term, Mishra and Harminder (2012) examined the non linear relationship among exchange rate, interest rate, Industrial production, Foreign Institution Investors and Inflation with stock market return, Patel (2012) made an attempt to study the effect of macroeconomic determinants on the performance of the Indian stock market. This study revealed that a long run equilibrium relationship between stock market indices and all macroeconomic variables exists.

**PROPOSED RESEARCH MODEL**

This study is approached with the following proposed model:

**OBJECTIVES OF THE STUDY**

1. To study the relationship between selected macroeconomic variable on BSE Sensex.
2. To study the impact of selected macroeconomics variables on BSE Sensex in India.
3. To study the relationship between selected macroeconomic variable on NSE
4. To study the impact of selected macroeconomics variables on NSE in India.

**RESEARCH METHODOLOGY****SCOPE OF STUDY**

The scope of study is confined only to the selected macroeconomic variables which influencing BSE Sensex and NSE Sensex.

**DATA AND METHODOLOGY**

The daily stock price of BSE index and NSE has been collected from the official websites of Bombay Stock Exchange and National Stock Exchange Furthermore; researchers collected the economic variables related data from the following sources.

**TABLE NO. 1: VARIABLES AND DATA SOURCES**

Sr. No.	VARIABLES	SYMBOL	DATA SOURCES
1	Bombay Stock Exchange	<b>BSE</b>	www.bseindia.com
2	National Stock Exchange	<b>NSE</b>	www.nseindia.com
3	US Dollar	<b>USD</b>	in.investing.com
4	Pounds	<b>PD</b>	in.investing.com
5	Japanese Yen	<b>JPY</b>	in.investing.com
6	Euro	<b>EUR</b>	in.investing.com
7	Gold price	<b>GP</b>	in.investing.com
8	Crude oil	<b>CO</b>	in.investing.com

The daily data of selected economic indicators were collected from the period of January-2005 to December-2016. Furthermore, the researchers selected the following macroeconomic variables, namely US Dollar, Pounds, Japanese yen, Euro, Gold, and Crude oil.

**PROPOSED HYPOTHESIS**

- H<sub>01</sub> There will be no significant influence on USD on BSE Sensex.  
H<sub>02</sub> There will be no significant influence on POUND on BSE Sensex.  
H<sub>03</sub> There will be no significant influence on Japanese Yen on BSE Sensex.  
H<sub>04</sub> There will be no significant influence on EURO on BSE Sensex.  
H<sub>05</sub> There will be no significant influence on Gold Price on BSE Sensex.  
H<sub>06</sub> There will be no significant influence on Crude Oil on BSE Sensex.  
H<sub>07</sub> There will be no significant influence on USD on NSE.  
H<sub>08</sub> There will be no significant influence on POUND on NSE.  
H<sub>09</sub> There will be no significant influence on Japanese Yen on NSE.  
H<sub>10</sub> There will be no significant influence on EURO on NSE.  
H<sub>11</sub> There will be no significant influence on Gold Price on NSE.  
H<sub>12</sub> There will be no significant influence on Crude Oil on NSE.

TABLE 2: DESCRIPTIVE STATISTICS OF SELECTED MACROECONOMIC VARIABLES

Descriptive	USD	PD	Japanese Yen	ER	GP	CO	BSE	NSE
Mean	51.62301	84.48209	0.515367	66.49480	58190.66	75.79036	17924.25	5387.853
Median	48.13000	82.78300	0.531000	66.41300	62473.85	75.19000	17671.86	5302.950
Maximum	68.80500	106.8370	0.718500	91.78250	97581.61	145.2900	29937.27	9109.150
Minimum	39.07500	65.21600	0.325800	51.89200	17952.73	26.21000	6093.660	1903.100
Std. Dev.	8.871702	9.745978	0.102592	8.696120	24319.98	22.73755	6072.549	1852.878
Skewness	0.503253	0.384480	-0.157090	0.347106	-0.218738	0.123540	0.052144	0.120945
Kurtosis	1.818831	2.139277	1.930566	2.326592	1.551674	2.308539	2.275611	2.243116

**Notes:** USD= US Dollar, PD=Pound, JPY= Japanese Yen, EUR=Euro, GP=gold price (USD), CO=crude oil (USD), BSE =Bombay Stock Exchange, NSE =National Stock Exchange.

Table No -2 Shows descriptive statistics of selected macroeconomic variables. From table No-2 shows that mean, standard deviation of the selected macroeconomic variables, BSE Sensex data and NSE. Highest mean is noticed in case 58190.66 for Gold Price and the least one are 0.515367 for Japanese Yen. Highest standard deviation is identified in case of Gold Price 24319.98 the lowest standard deviation identified in case of Japanese Yen 0.102592.

#### UNIT ROOT TEST

Unit root tests are used to determine the stationarity of time series. We employed two unit root tests:

- (1) ADF (**A**ugmented **D**ickey-**F**uller) and
- (2) PP (**P**hillips-**P**erron).

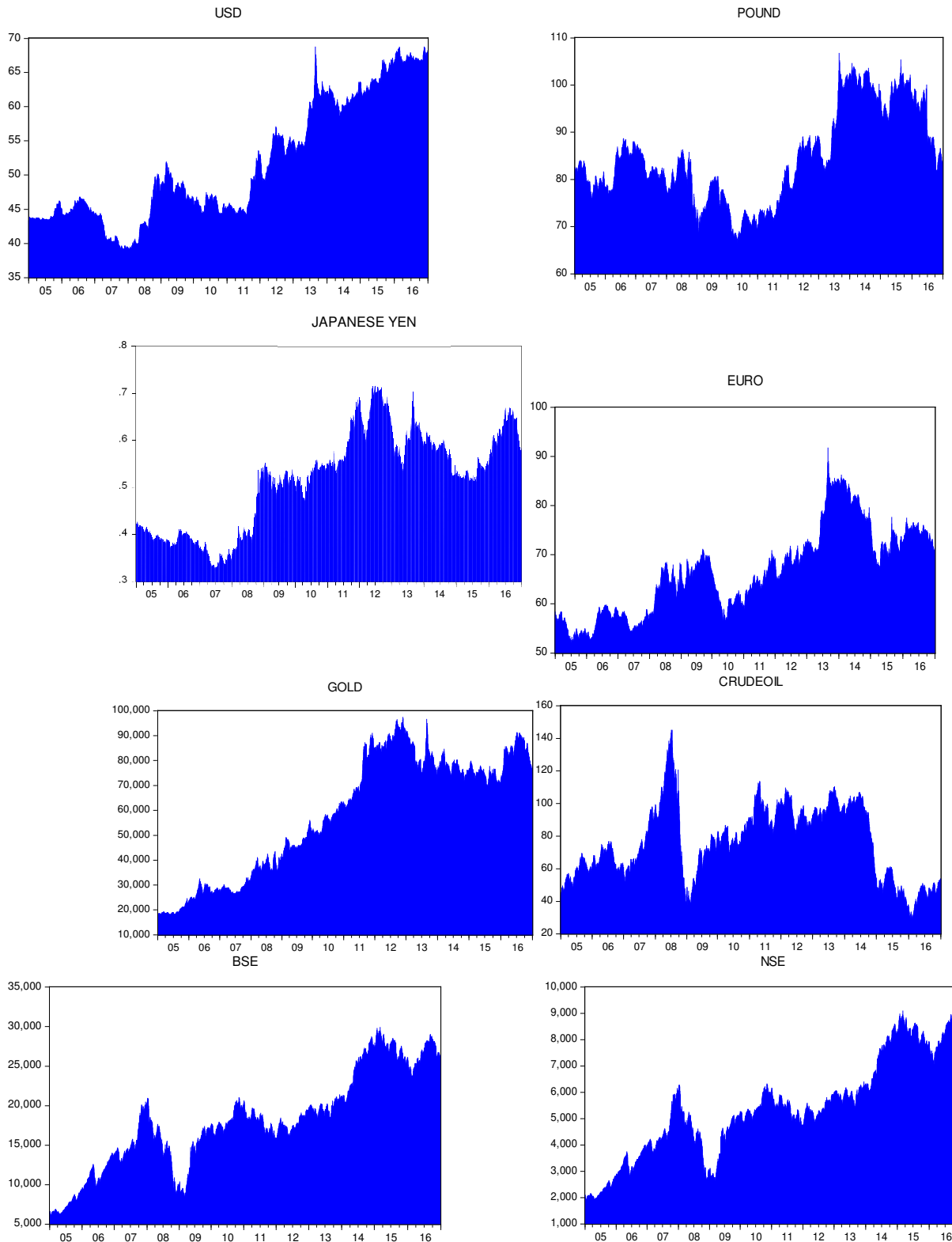
TABLE NO. 3: SHOWS UNIT ROOT TEST METHODS

No	Period	Variables Name	Test Name		t statistic	value@%	value@5%	value@10%
1	January 2005 to December 2016	USD	ADF	I(1 <sup>ST</sup> D)	-40.5680	-3.432414	-2.862338	-2.567239
				T&I(1 <sup>ST</sup> D)	-40.58252	-3.961207	-3.411356	-3.127525
				NONE	-40.51238	-2.565760	-1.940933	-1.616626
			PP	I(1 <sup>ST</sup> D)	-52.99551	-3.432414	-2.862337	-2.567239
				T&I(1 <sup>ST</sup> D)	-53.00078	-3.961206	-3.411356	-3.127534
				NONE	-52.97684	-2.565759	-1.940933	-1.616626
2	January 2005 to December 2016	PD	ADF	I(1 <sup>ST</sup> D)	-54.81012	-3.432414	-2.862337	-2.567239
				T&I(1 <sup>ST</sup> D)	-54.80127	-3.961206	-3.411356	-3.127524
				NONE	-54.81951	-2.565759	-1.940933	-1.616626
			PP	I(1 <sup>ST</sup> D)	-54.81081	-3.432414	-2.862337	-2.567239
				T&I(1 <sup>ST</sup> D)	-54.80203	-3.961206	-3.411356	-3.127524
				NONE	-54.82021	-2.565759	-1.940933	-1.616626
3	January 2005 to December 2016	Japanese Yen	ADF	I(1 <sup>ST</sup> D)	-40.46302	-3.432414	-2.862338	-2.567239
				T&I(1 <sup>ST</sup> D)	-40.45707	-3.961207	-3.411356	-3.127525
				NONE	-40.46122	-2.565760	-1.940933	-1.616626
			PP	I(1 <sup>ST</sup> D)	-54.79427	-3.432414	-2.862337	-2.567239
				T&I(1 <sup>ST</sup> D)	-54.78557	-3.961206	-3.411356	-3.127524
				NONE	-54.76499	-2.565759	-1.940933	-1.616626
4	January 2005 to December 2016	EUR	ADF	I(1 <sup>ST</sup> D)	-56.50934	-3.432414	-2.862337	-2.567239
				T&I(1 <sup>ST</sup> D)	-56.50088	-3.961206	-3.411356	-3.127524
				NONE	-56.51339	-2.565759	-1.940933	-1.616626
			PP	I(1 <sup>ST</sup> D)	-56.62529	-3.432414	-2.862337	-2.567239
				T&I(1 <sup>ST</sup> D)	-56.61684	-3.961206	-3.411356	-3.127524
				NONE	-56.62852	-2.565759	-1.940933	-1.616626
5	January 2005 to December 2016	GP	ADF	I(1 <sup>ST</sup> D)	-40.63642	-3.432414	-2.862338	-2.567239
				T&I(1 <sup>ST</sup> D)	-40.64645	-3.961207	-3.411356	-3.127525
				NONE	-40.59414	-2.565760	-1.940933	-1.616626
			PP	I(1 <sup>ST</sup> D)	-54.35538	-3.432414	-2.862337	-2.567239
				T&I(1 <sup>ST</sup> D)	-54.36270	-3.961206	-3.411356	-3.127524
				NONE	-54.31738	-2.565759	-1.940933	-1.616626
6	January 2005 to December 2016	CO	ADF	I(1 <sup>ST</sup> D)	-56.25511	-3.432414	-2.862337	-2.567239
				T&I(1 <sup>ST</sup> D)	-56.26691	-3.961206	-3.411356	-3.127524
				NONE	-56.26458	-2.565759	-1.940933	-1.616626
			PP	I(1 <sup>ST</sup> D)	-56.23046	-3.432414	-2.862337	-2.567239
				T&I(1 <sup>ST</sup> D)	-56.24684	-3.961206	-3.411356	-3.127524
				NONE	-56.23979	-2.565759	-1.940933	-1.616626
7	January 2005 to December 2016	BSE	ADF	I(1 <sup>ST</sup> D)	-56.08842	-3.432414	-2.862337	-2.567239
				T&I(1 <sup>ST</sup> D)	-56.08124	-3.961206	-3.411356	-3.127524
				NONE	-56.05478	-2.565759	-1.940933	-1.616626
			PP	I(1 <sup>ST</sup> D)	-56.07383	-3.432414	-2.862337	-2.567239
				T&I(1 <sup>ST</sup> D)	-56.06683	-3.961206	-3.411356	-3.127524
				NONE	-56.05041	-2.565759	-1.940933	-1.616626
8	January 2005 to December 2016	NSE	ADF	I(1 <sup>ST</sup> D)	-53.56144	-3.432414	-2.862337	-2.567239
				T&I(1 <sup>ST</sup> D)	-53.55319	-3.961206	-3.411356	-3.127524
				NONE	-53.52914	-2.565759	-1.940933	-1.616626
			PP	I(1 <sup>ST</sup> D)	-53.57757	-3.432414	-2.862337	-2.567239
				T&I(1 <sup>ST</sup> D)	-53.56916	-3.961206	-3.411356	-3.127524
				NONE	-53.53864	-2.565759	-1.940933	-1.616626

**Note:** ADF= Augmented Dickey-Fuller, PP= Phillips-Perron, I (1st D) =Intercept (1st Difference), T and I (1st D) =Trend and Intercept (1st Difference). The overall macroeconomic variables from the period JANUARY-2005 to DECEMBER-2016 results are shown in table no 3. From the table no 3 the study found that there is no unit root in the data.

The selected macroeconomic variables data have been expited in following graphs.

FIG. 2 to 9



**Note:** USD= US Dollar, PD= Pound, JPY= Japanese Yen, EUR=Euro, GP=gold price (USD), CO=crude oil (USD), BSE =Bombay Stock Exchange, NSE= National Stock Exchange.

TABLE NO. 4: INTER CORRELATIONS AMONG SELECTED MACRO ECONOMIC VARIABLES AND BSE SENSEX

CORRELATIONS							
	USD	POUND	JAPANESE YEN	EURO	GOLD	CRUDEOIL	BSE
USD	1	.763**	.691**	.729**	.761**	.268**	.767**
POUND		1	.297**	.718**	.439**	.074**	.581**
Japanese Yen			1	.743**	.730**	.139**	.539**
EURO				1	.796**	.189**	.691**
GOLD					1	.190**	.751**
CRUDE OIL						1	.018
BSE							1

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

A Pearson's correlation analysis was carried out in this part of research study to examine the bivariate relationships among the main variable and to check the presence of multicollinearity problem. The correlation matrix in table indicated correlation coefficient between 6 independent variables such as US Dollar, Pound, Euro, Japanese Yen, Gold price, Crude oil and dependent variables such as Bombay Stock Exchange and National Stock Exchange which are measured using multiple scales in this research study. As can be seen in table, the correlation coefficients for the variables under investigation were relatively high ranging from 0.190 to 0.930. There was a significant positive relationship between US Dollar, Pound, Euro, Japanese Yen, Gold price, Crude oil and Bombay Stock Exchange. It was followed by USD( $r=0.763, p<0.01$ ); POUND( $r=0.297, p<0.01$ ); JPY( $r=0.743, p<0.01$ ); EURO( $r=0.796, p<0.01$ ); GOLD( $r=0.190, p<0.01$ ); CRUDEOIL( $r=0.18, p<0.01$ )

TABLE NO. 5: INTER CORRELATIONS AMONG SELECTED MACRO ECONOMIC VARIABLES AND NSE

CORRELATIONS							
Variables	USD	POUND	JAPANESE YEN	EURO	GOLD	CRUDEOIL	NSE
USD	1	.763**	.691**	.729**	.761**	.268**	.778**
POUND		1	.297**	.718**	.439**	.074**	.575**
Japanese Yen			1	.743**	.730**	.139**	.552**
EURO				1	.796**	.189**	.690**
GOLD					1	.190**	.758**
CRUDE OIL						1	.034
NSE							1

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

A Pearson's correlation analysis was carried out in this part of research study to examine the bivariate relationships among the main variable and to check the presence of multicollinearity problem. The correlation matrix in table indicated correlation coefficient between 6 independent variables such as US Dollar, Pound, Euro, Japanese Yen, Gold price, Crude oil and dependent variables such as Bombay Stock Exchange and National Stock Exchange which are measured using multiple scales in this research study. As can be seen in table, the correlation coefficients for the variables under investigation were relatively high ranging from 0.190 to 0.930. There was a significant positive relationship between US Dollar, Pound, Euro, Japanese Yen, Gold price, Crude oil and National Stock Exchange. It was followed by USD ( $r=0.763, p<0.01$ ); POUND( $r=0.297, p<0.01$ ); JPY( $r=0.743, p<0.01$ ); EURO( $r=0.796, p<0.01$ ); GOLD( $r=0.190, p<0.01$ ); CRUDEOIL( $r=-.034, p<0.01$ )

TABLE 6: INFLUENCE OF SELECTED MACRO ECONOMIC VARIABLES ON BSE SENSEX

Dependent Variable: BSE				
Method: Least Squares				
Date: 02/24/17 Time: 13:35				
Sample: 1/03/2005 12/30/2016				
Included observations: 2903				
Variables	Coefficient	Std. Error	t-Statistic	Prob.
USD	487.6299	24.81132	19.65352	0.0000
POUND	37.14736	11.37959	-3.264383	0.0011
JAPANESE YEN	47766.81	1154.072	-41.38982	0.0000
EURO	64.90377	17.58011	3.691887	0.0002
GOLD	0.229389	0.005023	45.66496	0.0000
CRUDE OIL	36.38162	4.268694	8.522892	0.0000
R-squared	0.786086	Mean dependent var		17924.25
Adjusted R-squared	0.785717	S.D. dependent var		6072.549
S.E. of regression	2811.026	Akaike info criterion		18.72255
Sum squared resid	2.29E+10	Schwarz criterion		18.73490
Log likelihood	-27169.78	Hannan-Quinn criter.		18.72700
Durbin-Watson stat	0.014574			

In this study, regression result is found as per the objectives. First and second regression analysis result consider USD, POUND, Japanese Yen, EURO, GOLD, CRUDE OIL as independent variables. NSE and BSE as dependent variable, respectively. As can be seen in tables, Japanese Yen has highest positive impact on BSE ( $\beta=47766.81, t=-41.38982, p<0.01$ ), USD has positive impact on BSE ( $\beta=487.6299, t=19.65352, p<0.01$ ), EURO has a positive impact on BSE ( $\beta=64.90377, t=3.691887, p<0.01$ ) POUND has positive impact on BSE ( $\beta=37.14736, t=-3.264383, p<0.01$ ) CRUDEOIL has positive impact on BSE ( $\beta=36.38162, t=8.522892, p<0.01$ )

TABLE 7: INFLUENCE OF SELECTED MACRO ECONOMIC VARIABLES ON NSE

Dependent Variable: NSE					
Method: Least Squares					
Date: 02/20/17 Time: 12:43					
Sample: 1/03/2005 12/30/2016					
Included observations: 2903					
Variables	Coefficient	Std. Error	t-Statistic	Prob.	
USD	161.0140	7.437739	21.64825	0.0000	
POUND	16.52982	3.411283	-4.845631	0.0000	
JAPANESE YEN	14116.70	345.9583	-40.80462	0.0000	
EURO	13.56252	5.270023	2.573521	0.0101	
GOLD	0.067984	0.001506	45.14675	0.0000	
CRUDE OIL	11.39983	1.279635	8.908654	0.0000	
R-squared	0.793524	Mean dependent var			5387.853
Adjusted R-squared	0.793168	S.D. dependent var			1852.878
S.E. of regression	842.6667	Akaike info criterion			16.31308
Sum squared resid	2.06E+09	Schwarz criterion			16.32543
Log likelihood	-23672.44	Hannan-Quinn criter.			16.31753
Durbin-Watson stat	0.014410				

In this study, regression result is found as per the objectives. First and second regression analysis result consider USD, POUND, Japanese Yen, EURO, GOLD, CRUDE OIL as independent variables. NSE and BSE as dependent variable, respectively. As can be seen in tables, Japanese Yen has highest positive impact on BSE ( $\beta=47766.81$ ,  $t=-41.38982$ ,  $p<0.01$ ), USD has positive impact on BSE ( $\beta=487.6299$ ,  $t=19.65352$ ,  $p<0.01$ ), EURO has a positive impact on BSE ( $\beta=64.90377$ ,  $t=3.691887$ ,  $p<0.01$ ) POUND has positive impact on BSE ( $\beta=37.14736$ ,  $t=-3.264383$ ,  $p<0.01$ ) CRUDEOIL has positive impact on BSE ( $\beta=36.38162$ ,  $t=8.522892$ ,  $p<0.01$ )

TABLE NO. 8: TESTING OF HYPOTHESIS (BSE SENSEX AND NSE)

Hypothesis	$\beta$ Coefficient	Probability	Result
H <sub>01</sub> There will be no significant influence on USD on BSE Sensex.	487.6299	0.0000	Rejected
H <sub>02</sub> There will be no significant influence on POUND on BSE sensex.	37.14736	0.0011	Rejected
H <sub>03</sub> There will be no significant influence on Japanese Yen on BSE sensex.	47766.81	0.0000	Rejected
H <sub>04</sub> There will be no significant influence on EURO on BSE Sensex.	64.90377	0.0002	Rejected
H <sub>05</sub> There will be no significant influence on Gold Price on BSE sensex.	0.229389	0.0000	Rejected
H <sub>06</sub> There will be no significant influence on Crude Oil on BSE sensex.	36.38162	0.0000	Rejected
H <sub>07</sub> There will be no significant influence on USD on NSE.	161.0140	0.0000	Rejected
H <sub>08</sub> There will be no significant influence on POUND on NSE.	16.52982	0.0000	Rejected
H <sub>09</sub> There will be no significant influence on Japanese Yen on NSE.	14116.70	0.0000	Rejected
H <sub>10</sub> There will be no significant influence on EURO on NSE.	13.56252	0.0101	Accepted
H <sub>11</sub> There will be no significant influence on Gold Price on NSE.	0.067984	0.0000	Rejected
H <sub>12</sub> There will be no significant influence on Crude Oil on NSE.	11.39983	0.0000	Rejected

## CONCLUSION

The purpose of this study is to examine the influence of selected macroeconomic variables and its impact on Indian stock market. This study considers only the following macroeconomic variables like US Dollar, Pound, Japanese Yen, Euro, Gold Price and Crude Oil. This study found that there is significant influence on all macroeconomic variables and BSE Index. In case of NSE Index except Euro all macroeconomic variables have influence on NSE Index. Furthermore, this study is also proved that there is a significant relationship among selected macroeconomic variables on BSE, NSE Index. This study considers only the selected macroeconomic variables. In future, several macroeconomic variables can be considered for further studies.

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