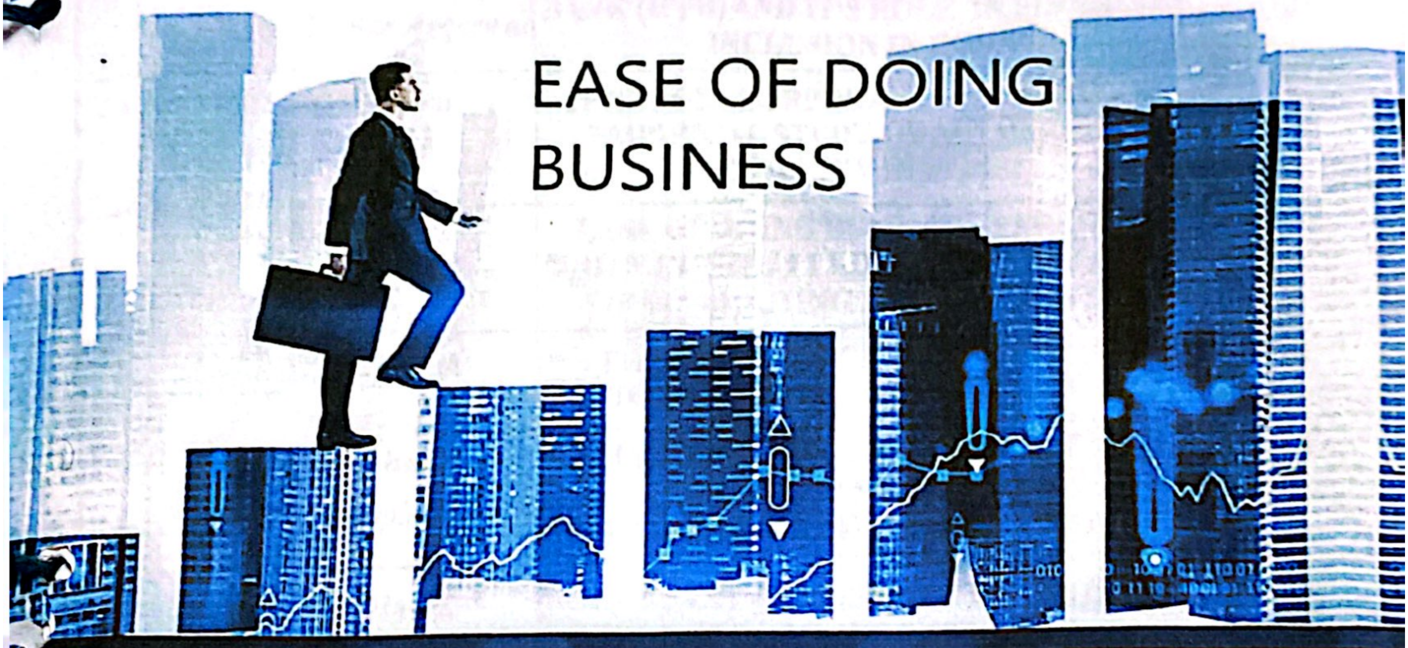
Ease of Doing Business: A Passage for 'Aatmanirbhar Bharat' And Inclusive Growth



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EXAMINATION OF EASE OF RISK HEDGING BETWEEN NIFTY AND BULLION INDEX

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ABSTRACT

In the past decade, the commodity market has emerged as a new asset class in the portfolios of Indian investors, and investors have tried to add the commodities to their portfolios to hedge against other asset classes. This paper studies the relationship between the returns of the bullion index of MCX and nifty returns. EGARCH is deployed to examine the interdependence of these two segments of the market. The relationship was tested with the Bullion index as a dependent variable, and the results show that there is volatility clustering and persistence of volatility. Positive shocks have more impact than negative shocks. The relationship was again tested when Nifty was the dependent variable. Again, volatility clustering and volatility persistence were proved, but negative news has more impactthan positive news. DCC GARCH was applied to find out the spillover effect. The combined DCC Alpha and Beta values were less than 1. DCC alpha was not significant but DCC beta was significant, which indicates a long-term spillover effect between the bullion market and equity market. The bullion market can be used to hedge the risk of the equity market. Bullion can be included in the portfolio to hedge the risk of the equity market.

KEYWORDS *Volatility, Bullion, NIFTY, Equity*

INTRODUCTION

The derivative commodity exchanges started in India in 2003. Since then, the commodity market has witnessed exceptional growth. Investors in the commodity market consider commodities as a separateasset class to be added to the portfolio. Portfolio managers and investors include gold and energy commodities along with equity to gain risk-adjusted returns. Investors and portfolio managers consider bullion as a safe investment and switch their portfolios to bullion whenever some negative event happens in the economy. (Baur and Lucey, 2010; Jain and Biswal, 2016) and this could be the reason for the rise in the gold price during the COVID period. Gold is a safe heaven in investment. It can act as a financial system stabiliser by reducing the losses caused by negative market shocks (Baurand McDermott, 2010). The price fluctuation between the bullion market and equity market during the pre and post covid period might have changed the dynamics between these two market segment which can result into a change in behaviors of investors and portfolio managers. India is a major importer of gold, and gold and silver price fluctuations can have a significant impact on the currency rate and equity market also. Indians have a tradition of buying gold and silver on auspicious occasions like the marriage of a daughter, Dhan Teras, and Akshaya Tritya. Post liberalization, the Indian equity market has had a significant contribution from foreign portfolio investment. Whenever Indian markets' returns are positive, the flow of foreign investment increases, which strengthens the Indian currency and vice versa is witnessed when the market is down. Large imports of gold hurt the Indian currency and economy. So it is very important to study the dynamic behaviors of the bullion market and equity market for not

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