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IMPACT OF CURRENCY FLUCTUATION ON STOCK MARKET INDICES

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ABSTRACT
Macroeconomic fundamentals and stock market volatility do play an important role in determining and forecasting the future position of an economy as a whole. Currency fluctuations are a key financial variable that affect decisions made by foreign exchange investors, exporters, importers, bankers, businesses, economic institutions and policymakers in the developed as well as developing countries.The current research is focused on evaluating the impact of currency fluctuation on stock market indices in Indian context. Four major international currencies viz. US Dollar, British Pound, Euro and Japanese Yen are considered for the purpose of the study whereas S&P BSE Sensex, S&P BSE 100, S&P BSE 200 and S&P BSE 500 have been considered as representatives of stock market in India. The study considers data for the period January 2008 to December 2017. The study concludes that there is a significant impact of fluctuation in US Dollar and Japanese Yen on S&P BSE Sensex and S&P BSE 100 whereas there is no significant impact of fluctuation in Pound Sterling and Euro on S&P BSE Sensex and S&P BSE 100. Also a significant impact of fluctuation in US Dollar, Euro and Japanese Yen on S&P BSE 200 and S&P BSE 500 is observed whereas there is no significant impact of fluctuation in Pound Sterling on S&P BSE 200 and S&P BSE 500
Keywords: *exchange rate, interest rate, stock market*

I. INTRODUCTION

Globalization and financial sector reforms in India have ushered in a sea change in the financial architecture of the economy.Since the inception of the financial sector reforms in the beginning of 1990's, the implementation of various reform measures have brought in a dramatic change in the functioning of the financial sector of the economy. Macroeconomic fundamentals and stock market volatility do play an important role in determining and forecasting the future position of an economy as a whole. Many factors, such as enterprise performance, dividends, stock prices of other countries, gross domestic product, exchange rates, interest rates, current account, money supply, employment, their information etc. have an impact on daily stock prices. Currency fluctuations are a key financial variable that affect decisions made by foreign exchange investors, exporters, importers, bankers, businesses, economic institutions and policymakers in the developed as well as developing countries. The issue of inter temporal relation between stock returns and currency fluctuations has recently preoccupied the minds of economists, for theoretical and empirical reasons, since they both play important roles in influencing the development of a country's economy. In addition, the relationship between stock returns and foreign exchange rates can be utilized to predict the future trends for each other by investors.

II. LITERATURE REVIEW

Amalendu Bhunia and Sanjib Pakira (2014) made an attempt to study the affiliation between the financial variables of gold prices, exchange rates and Sensex for the period of between 1991 to 2013. Unit root test, Johansen Cointegration and Granger Causality test were used for the purpose of analysing the data. The findings of the study depict that Sensex is influenced by gold prices and exchange rates in the long run. The research also illustrates that there is a bidirectional causal connection present between gold prices and exchange rates for the period of study.

Rohit Singh Tomar and Harendra Singh (2016) attempted to analyse the impact of fluctuations in crude oil prices, gold prices and exchange rates on the stock market indices in the context of BRICS nations using time series data for the period of January 2003 to December 2013. Unit root test, Johansens co-integration test and Granger Causality test were used to examine the interrelationship between the variables.The research revealed that each of the BRICS nations has four co-integration vectors, which indicate that there exist long term stable equilibrium relationship among the national stock index, crude oil prices, gold prices and exchange rates.

Rakesh D, J.K. Raju and Basavangowda K.G. (2016) discussed the impact of currency fluctuations on the Indian stock market and the global economy. The research made an attempt to identify exchange rate sensitive factors in the Indian stock market and also tried to understand the correlation between stock prices and exchange rates.The study concluded that Dollar prices have significant impact on the Indian stock markets since the coefficient value of Dollar prices are more than the coefficients of other currencies.

III. OBJECTIVES

1. To analyse the movement in stock market indices due to currency fluctuation.
2. To examine the impact of currency fluctuation on stock market indices.

IV. RESEARCH METHODOLOGY

The present study is focused on evaluating the impact of currency fluctuation on stock market indices in Indian context.Four major international currencies viz. US Dollar, British Pound, Euro and Japanese Yen are considered for the purpose of the study whereas S&P BSE Sensex, S&P BSE 100, S&P BSE 200 and S&P BSE 500 have been considered as representatives of stock market in India. The study is based entirely on secondary data for the period commencing January 2008 to December 2017. SPSS software has been used to analyse the data for the purpose of the current study.

V. HYPOTHESIS

1. **Impact of currency fluctuation on S&P BSE Sensex**