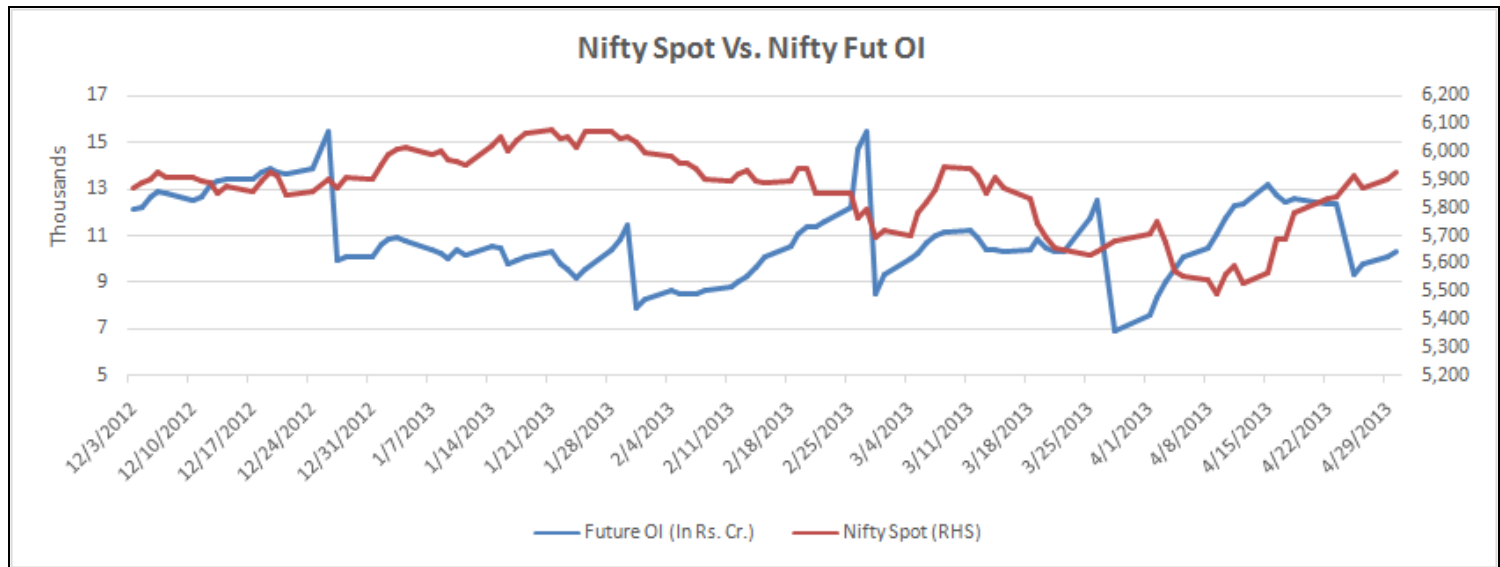


Pre Budget Derivative Outlook

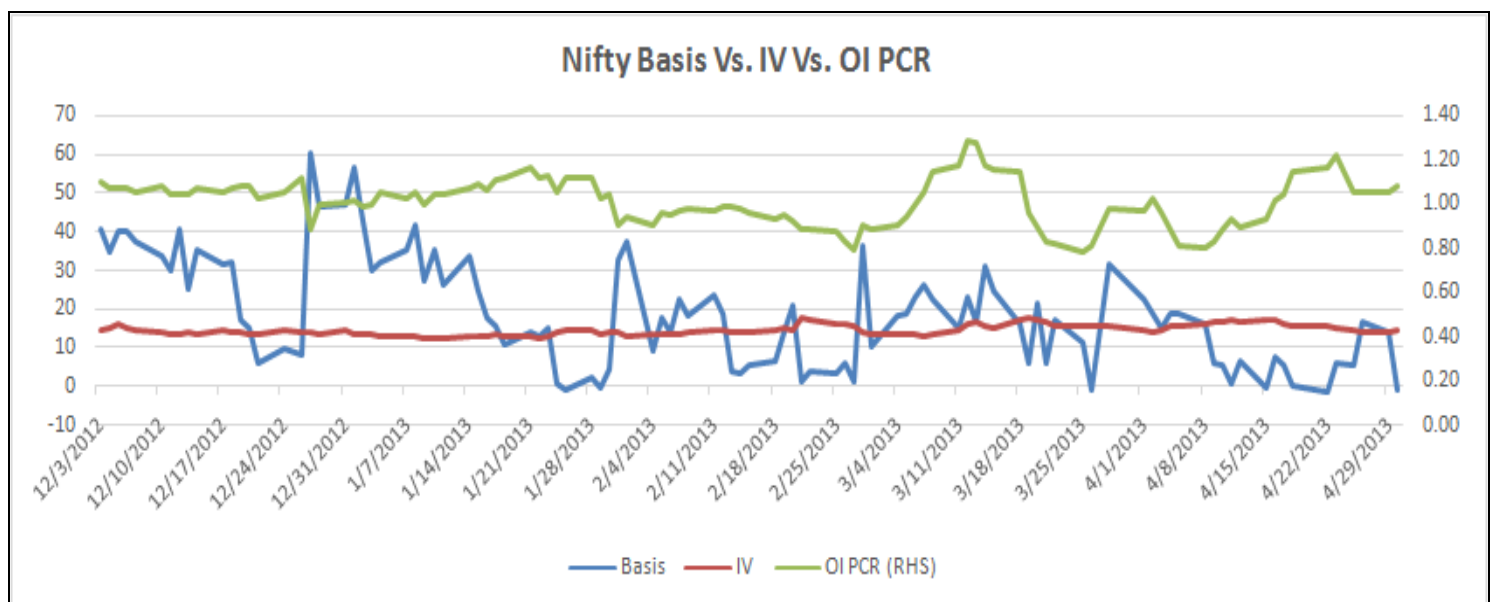
This note attempts to study the behavior of derivative indicators during the pre and post budget periods of the last few years and attempts to make a forecast for the market given that the 2018 Budget is due to be announced on 01 Feb 2018.

2013 Budget announced on 28 Feb 2013

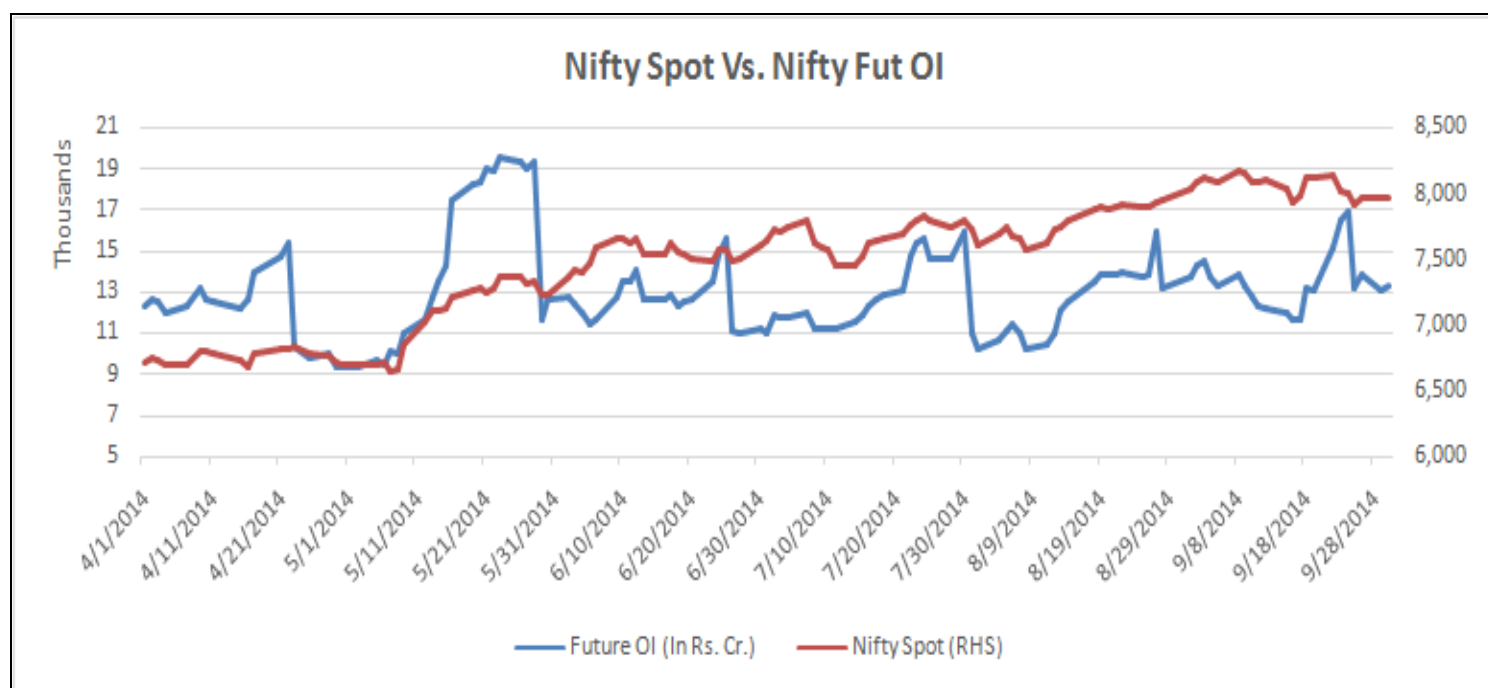


During the last few weeks prior to the release of the 2013 Budget on 28 Feb 2013, the Nifty Fut OI gradually rose and peaked on the day prior to the release of the budget. During the same period, the Nifty was in decline mode. Once the Budget was released, the OI crashed and markets continued to drift lower for a few more days.

The OI PCR and basis were declining in the month of Feb on the back of declining markets and rose once the budget was released and markets started trending higher.

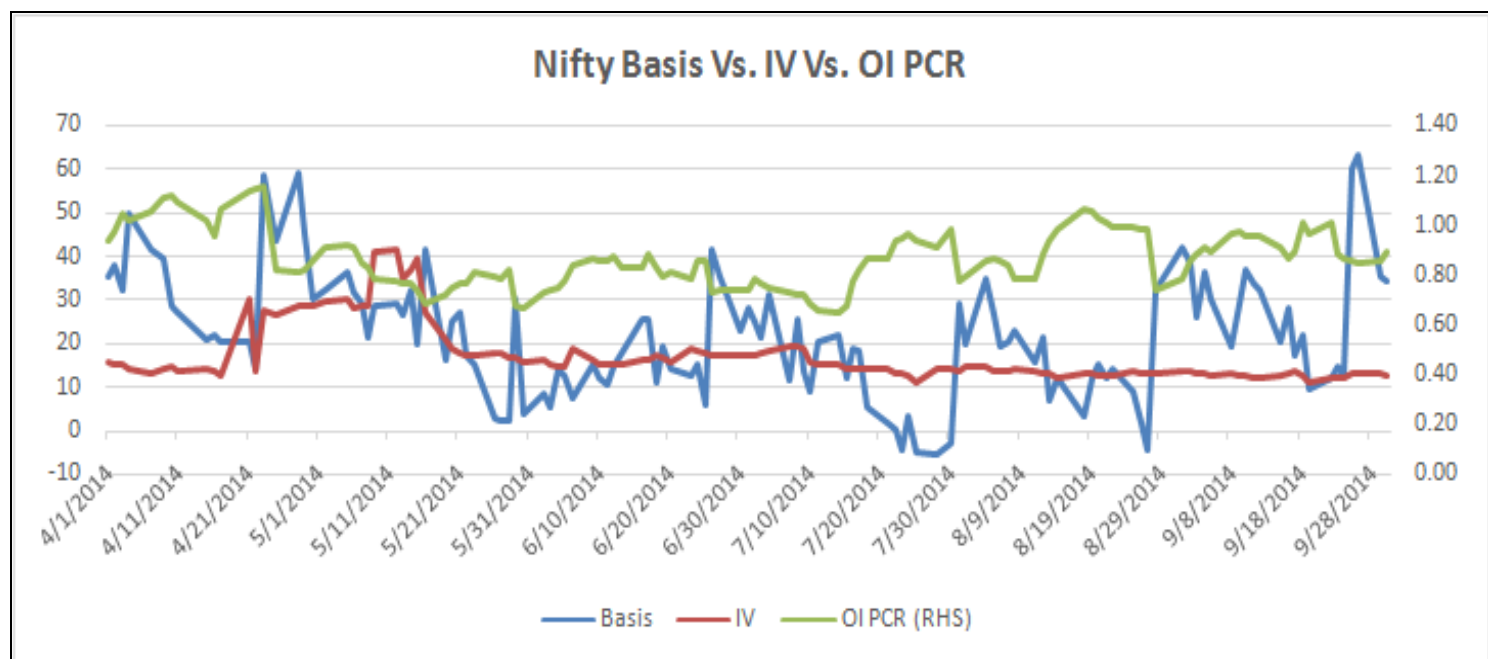


2014 Budget announced on 10 July 2014

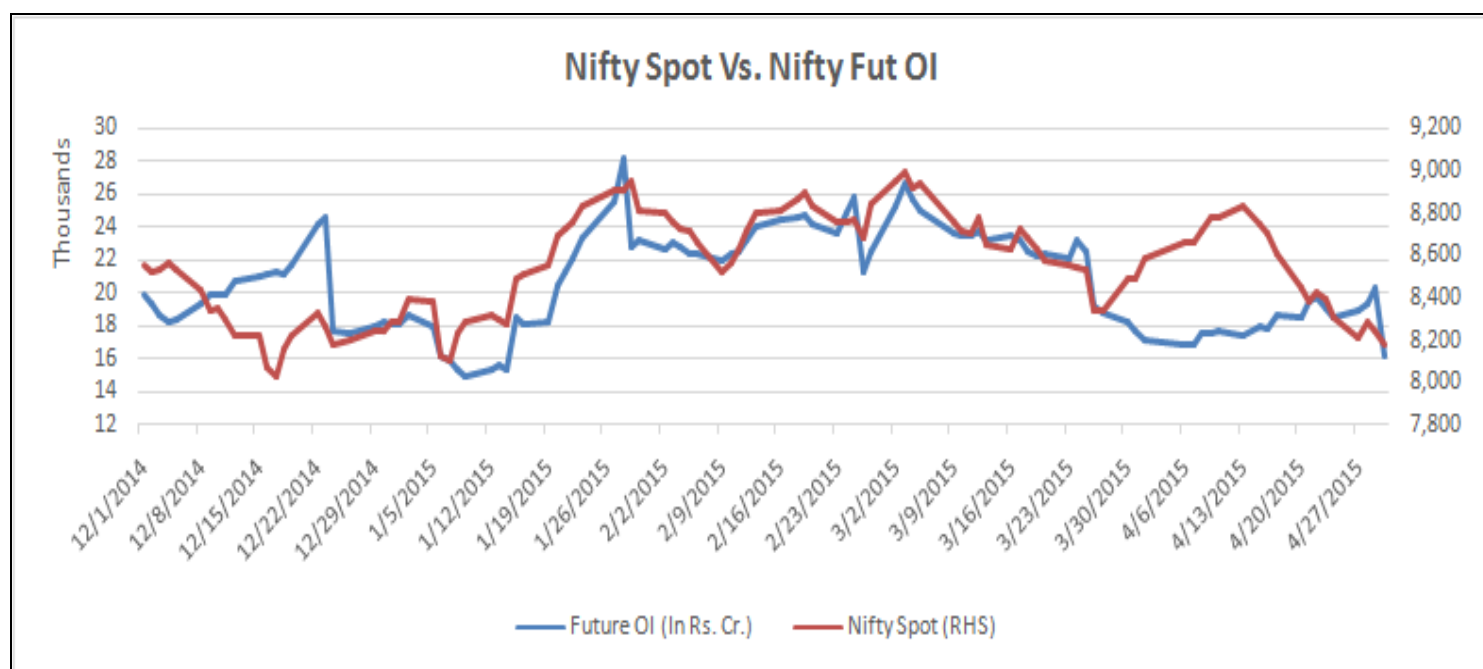


During the last few weeks prior to the release of the 2014 Budget on 10 July 2014, the Nifty Fut OI gradually declined and was flattish around Budget time indicating that the Budget event did not create any major market anticipation. The Nifty too was not very volatile during this budget period and was gradually rising.

The OI PCR and basis were declining in the month of July on the back of declining OI and rose once the budget was released, though at different times.

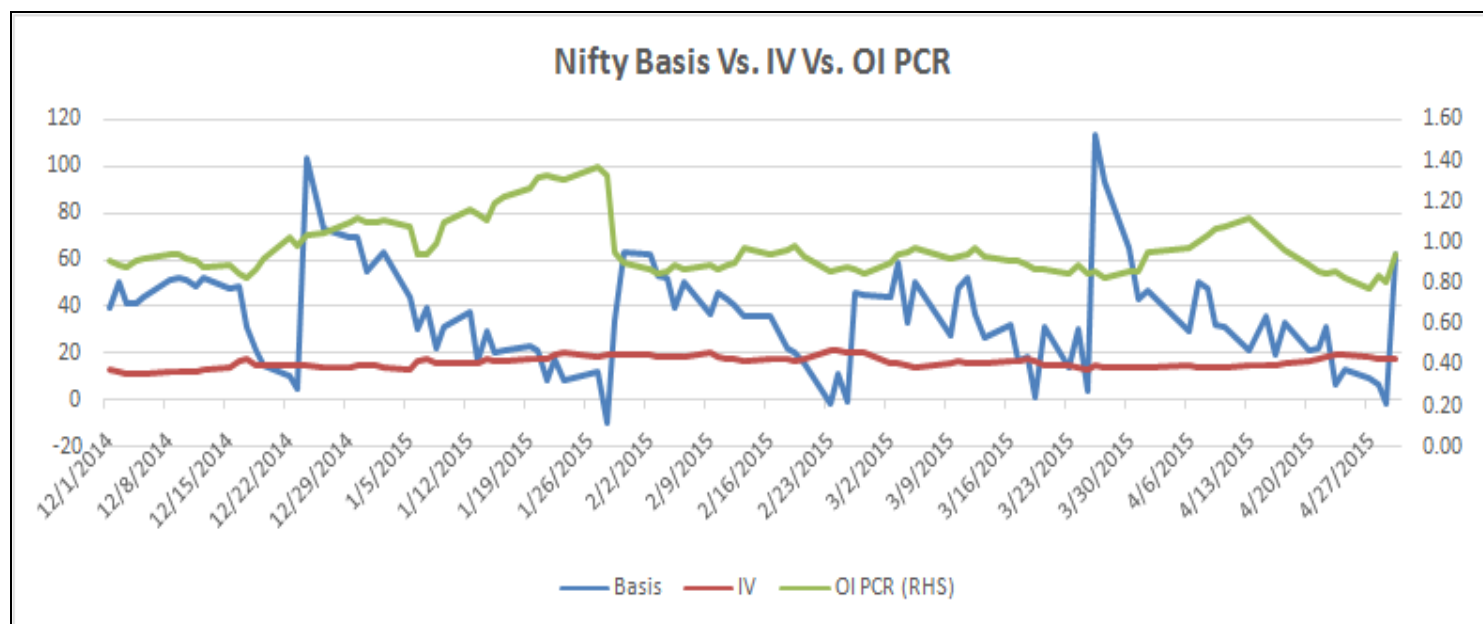


2015 Budget announced on 28 Feb 2015

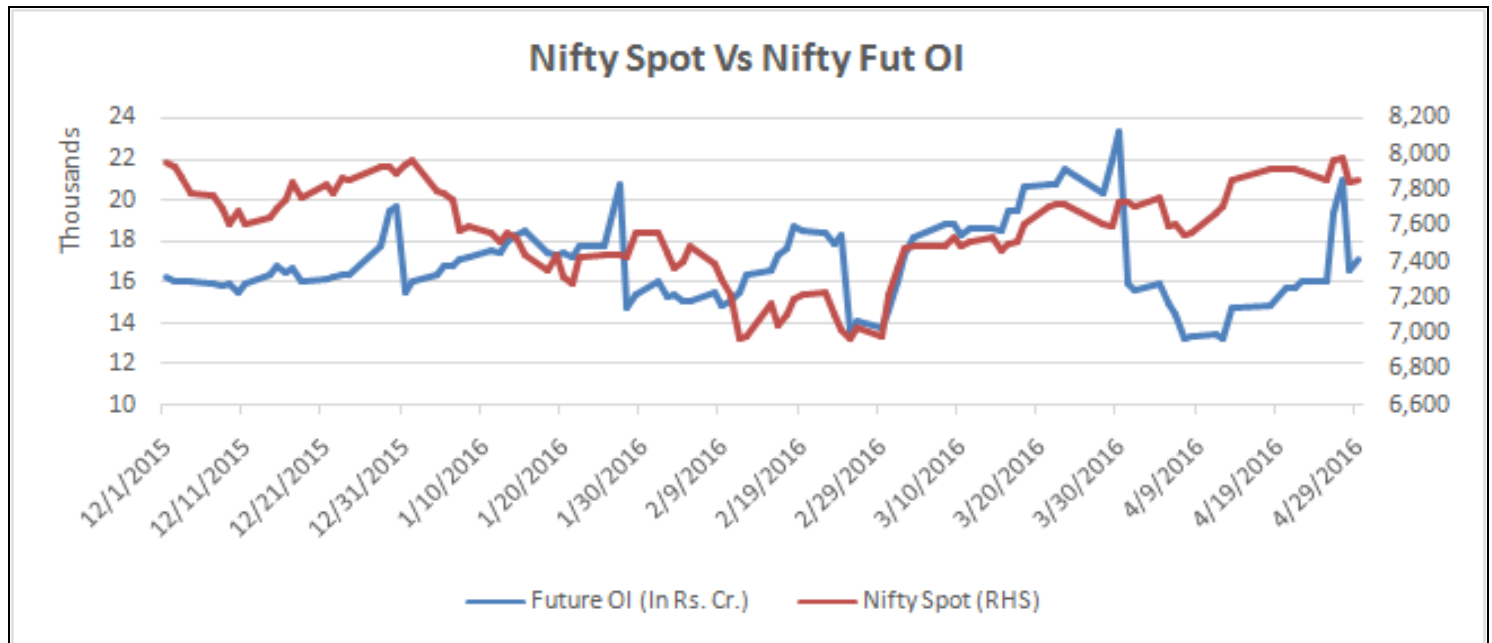


During the last few weeks prior to the release of the 2015 Budget on 28 Feb 2015, the Nifty Fut OI gradually rose and peaked on 25th Feb 2015 just a few days prior to the release of the budget. The OI again picked up and started rising after the Budget was released, though it started declining a few weeks later on the back of a declining Nifty.

During the same period, the Nifty was trading in a volatile range and mirroring the movements of the OI, indicating that a majority of the positions were on the long side. The OI PCR and basis were declining in the month of Feb on the back of declining markets and rose once the budget was released and markets started trending higher.

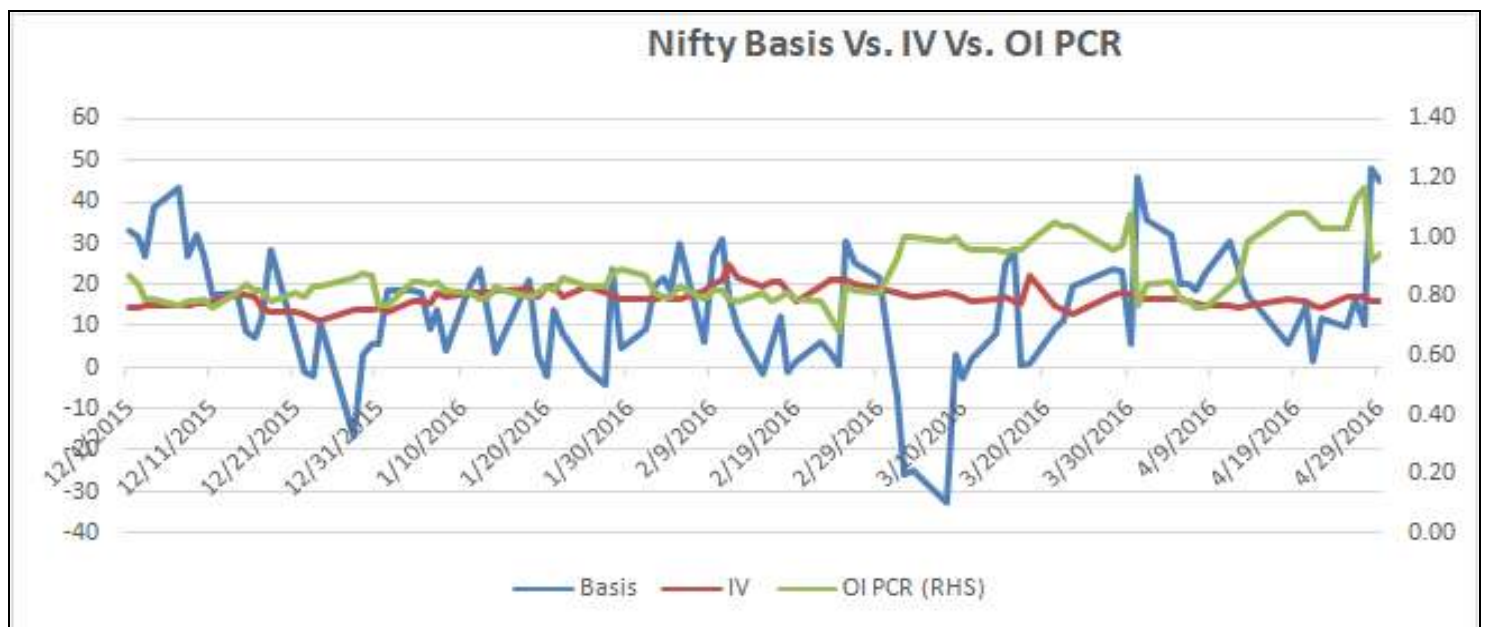


2016 Budget announced on 29 Feb 2016

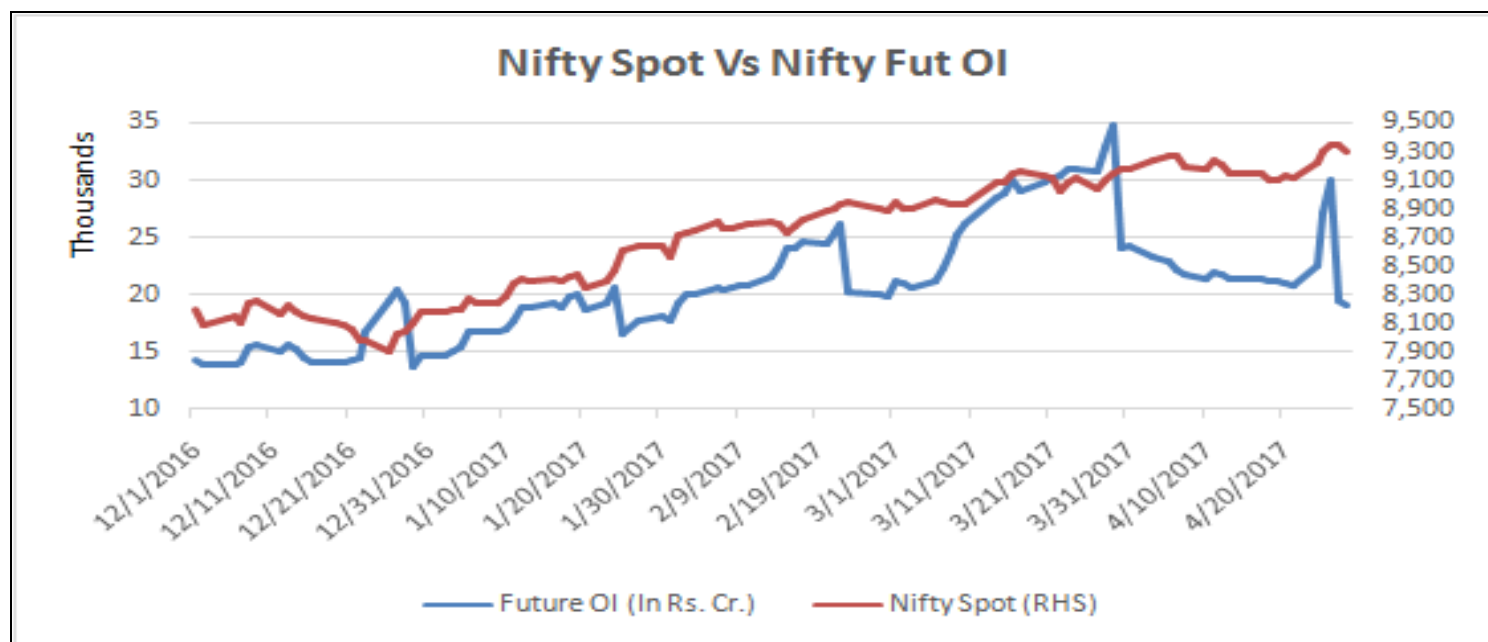


In the above chart, we can observe that OI was gradually rising for the last few weeks before the Budget indicating that traders were building positions ahead of the Budget to be announced on 29th Feb 2016. This trend is similar to that seen in the last few years (Except 2014, when the Budget was expected to be a non-event). The rally seen in the Nifty just prior to the Budget suggests that traders were building long positions.

The OI PCR, Basis and IV however were all in decline mode for the last few weeks indicating a negative bias. In the past, we have observed that these derivative indicators tend to mirror the movements in the Nifty rather than be impacted by the Budget event.

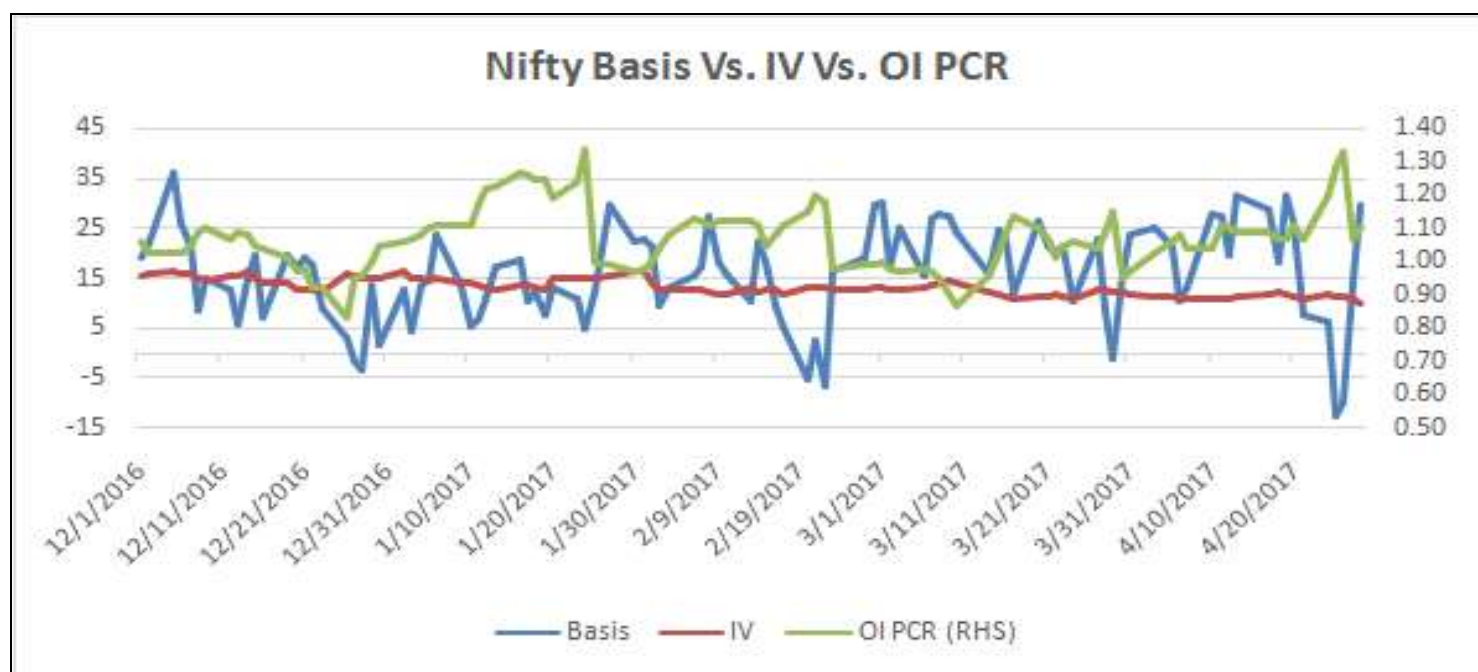


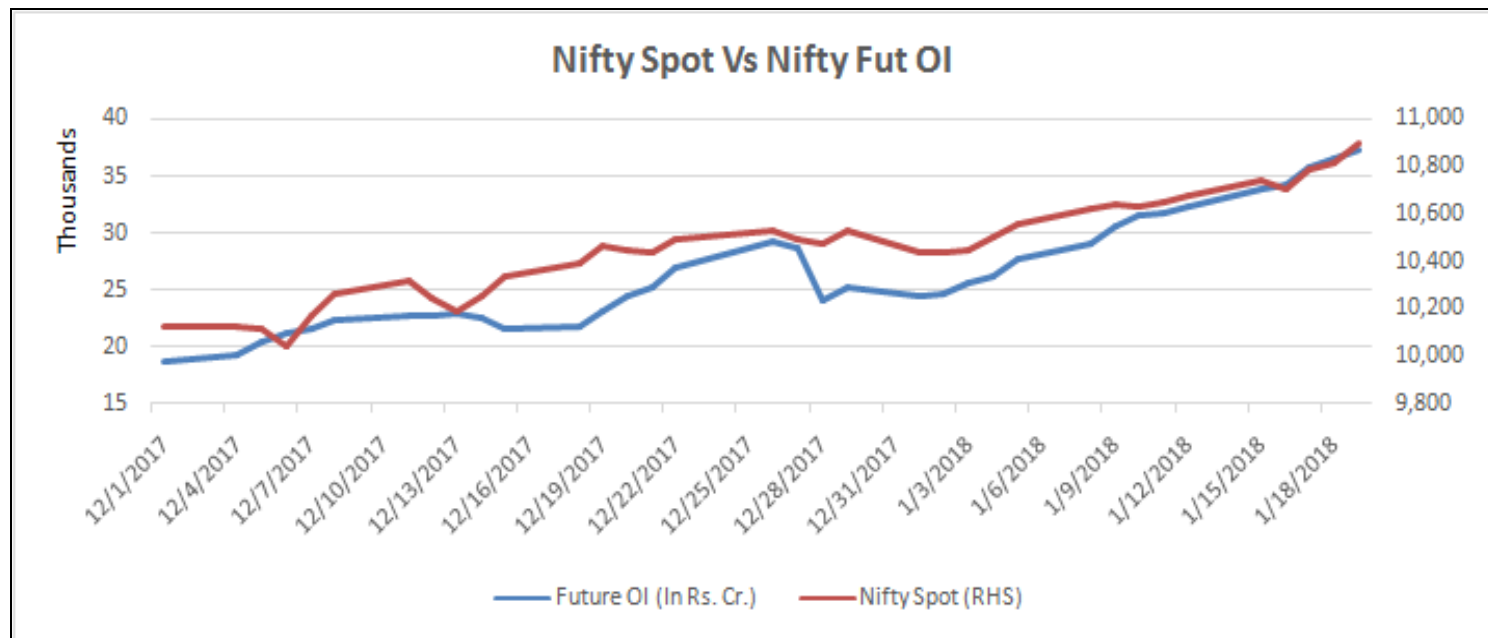
2017 Budget announced on 01 Feb 2017



In the above chart, we can observe that OI is gradually rising for the last few weeks before the Budget indicating that traders were building positions ahead of the Budget announced on 01st Feb 2017. The rally in the Nifty suggests that traders were building long positions.

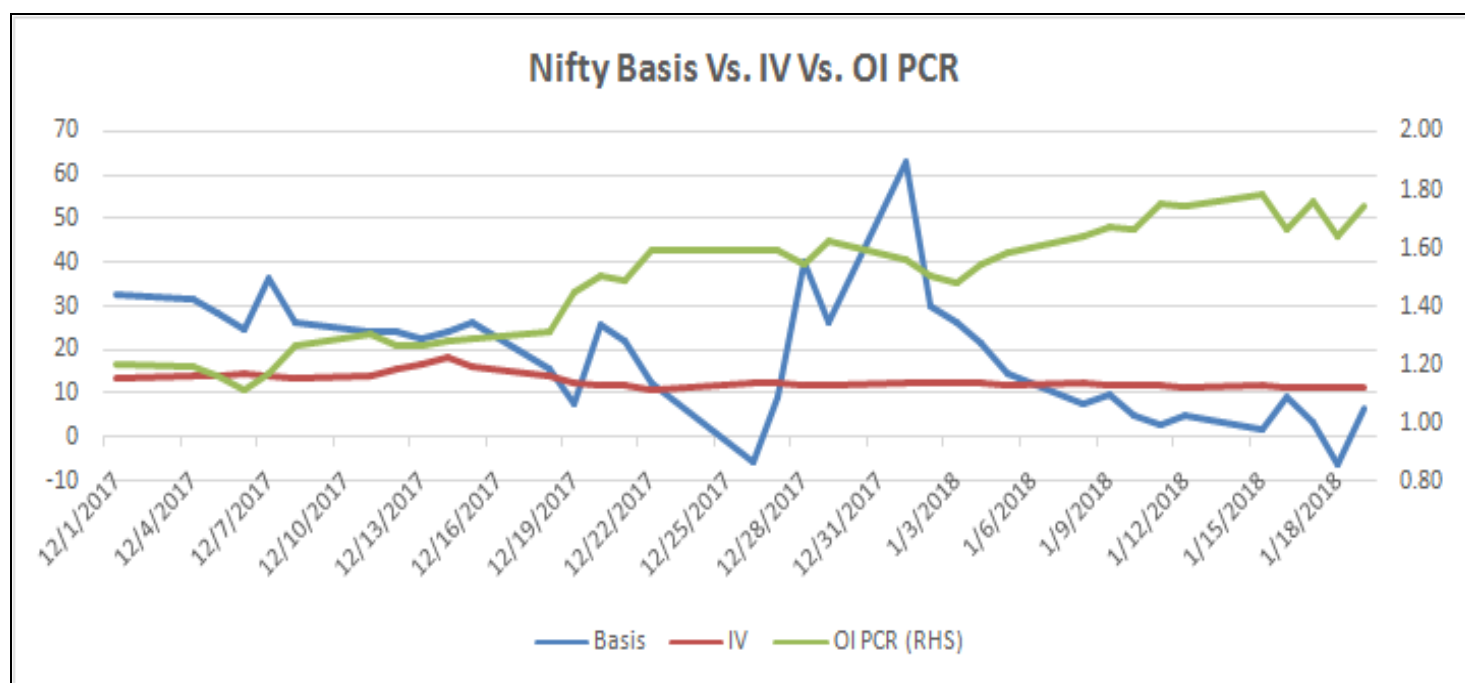
The OI PCR, Basis and IV were all in rising mode for the last few weeks prior to the Budget announcement, indicating a positive bias. The OI PCR declined sharply post the Budget, but once again picked up as the markets continued to rally.



2018 Budget to be announced on 01 Feb 2018


In the above chart, we can observe that OI is gradually rising for the last few weeks indicating that traders are building positions ahead of the Budget to be announced on 01st Feb 2018. This trend is similar to that seen in the last few years (Except 2014, when the Budget was expected to be a non-event). The recent rally in the Nifty suggests that traders are building long positions.

The OI PCR too is in rising mode and the Basis has started rising recently indicating a positive bias. In the past, we have observed that these derivative indicators tend to mirror the movements in the Nifty rather than be impacted by the Budget event.



Conclusion

Nifty Fut OI tends to build up prior to the Budget and declines once the event is out of the way. Further build up in OI or decline in OI then depends more on how the Nifty moves and reacts to the various factors affecting it.

Given that the derivative indicators like the Basis, OI PCR and IV tend to mirror the movements in the Nifty rather than be impacted by the Budget event, **the recent rise in these indicator values point to some more strength in the markets pre and post Budget. However as the markets have not fallen before the Budget, the extent of post event rise may not be large.**

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