

COVID-19's Impact on Indian Derivatives Market

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Abstract

Corona virus outbreak has a huge influence on global markets. Initially, the epidemic shut down the corporate sector and the economy. As a result of the increasing uncertainty and the virus's rapid propagation, traders' initial investments have become insecure. Because of world market's devastation, the Indian financial market responded violently to the outbreak as well. Impact of COVID-19 on MCX commodity futures, especially gold; and Nifty50 financial derivatives traded on the NSE is analysed in present study. It also analyzes, how Gold and Nifty50 spot and future prices are affected by COVID-19 during three time zones i.e., pre-pandemic; pandemic; and post-pandemic, using MCX gold and Nifty50 spot and future price series. Using the Johansen cointegration test and the EGARCH model of volatility spillover, the study examines the efficiency of gold and stock derivative markets through price discovery and volatility transmission.

JEL Code : C01; F00; G00; G01

Keywords : Covid-19; Derivatives; Stock Market; Price Discovery; Volatility; Spillover; Pandemic; India

I. Introduction

THE SARS-COV-2 VIRUS' discovery in Wuhan, China, during December 2019, caused the COVID-19 pandemic. This enormous corona virus outbreak has changed dynamics in unanticipated ways and resulted in a significant worldwide economic dilemma as well as a global health emergency. To combat the pandemic, many countries have implemented severe quarantine rules, effectively halting their economic activity. Global economic activity is greatly hampered by the restrictions, if not outright prohibitions, on international travel. Most importantly, fear has driven people and companies to change their normal buying habits, which has disrupted the market. The

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- iv. It may be investigated how open interest and futures trading volume affect spot market volatility.
- v. The study may be conducted by using high-frequency intra-day data to study price discovery and volatility spillover.

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