SEBI's Pragmatic Actions

Why in News?

The Securities and Exchange Board of India (SEBI) has taken several measures to reduce volatility across markets.

What is SEBI?

- SEBI is a statutory regulatory body established under the SEBI Act, 1992.
- It monitors and regulates the Indian capital and securities market.
- It will protect the interests of the investors formulating regulations and guidelines to be adhered to.

What are its recent measures?

- The regulator has raised margins for stocks, and lowered the market-wide position limit for stock futures to curb speculation.
- It has also set a limit of Rs 500 crore on index derivatives positions taken by mutual funds, financial institutions, and proprietary traders.
- It has imposed penalties at up to 10 times the prescribed minimum for non-compliance.
- These measures are broadly in line with actions taken by many overseas market regulators, which are all struggling to cope with the pandemic.

What would be the investors' attitude?

- While tighter controls might lead to less wild price fluctuations, the trend is likely to remain bearish.
- Even strong supportive action by the Federal Reserve and the European Central Bank has not reversed poor investor sentiment.
- Until the threat of the pandemic recedes, investors would avoid risk.
- They will seek the safety of hard currency instruments like US government bonds.
- This "risk-off" attitude has hit every emerging market hard.
- In March 2020, the Nifty has already dropped by over 21% in 3 weeks, which was caused due to the heavy selling by foreign investors.
- Consequently, the rupee has fallen to historic lows, breaching the Rs 75 barrier versus the US dollar.

How will the world be affected?

- There are uncertainties about how long the lockdown will last, and the full extent of the damage it will cause, both in terms of deaths and economic losses.
- COVID-19 is likely to have triggered a global recession.
- Right now, the world economy is struggling to contain a supply shock caused by lockdowns and cessations of normal economic activity.
- But it will soon become a demand issue as more and more people suffer income losses.

How will India be affected?

- Even before coronavirus surfaced, the Indian markets were perceived as overvalued, given the slower growth over the past seven quarters.
- The first six months of 2020 could be worse.
- Growth may slide further and the corporate results will be dismal.
- While sectors such as aviation, tourism, transport, etc., will be hit particularly hard, there will be losses and slowdowns across the board.

What are the few positives to the current sell-off?

- Investors may find value in beaten-down stocks and a weaker rupee could help improve India's competitiveness.
- Another positive is low energy prices, which help the trade balance and assist in containing the fiscal deficit.

What is the conclusion?

- The bottom line is the markets hate uncertainty and the pandemic is causing huge amounts of it.
- Until there is clarity on the pandemic front, and a promise that the disease can be contained, investors will continue their flight to safety.
- While SEBI's actions are pragmatic, at best, they will reduce volatility.
- But, the investors will wait for good news on the coronavirus front before they start buying emerging-market stocks again.

Source: Business Standard