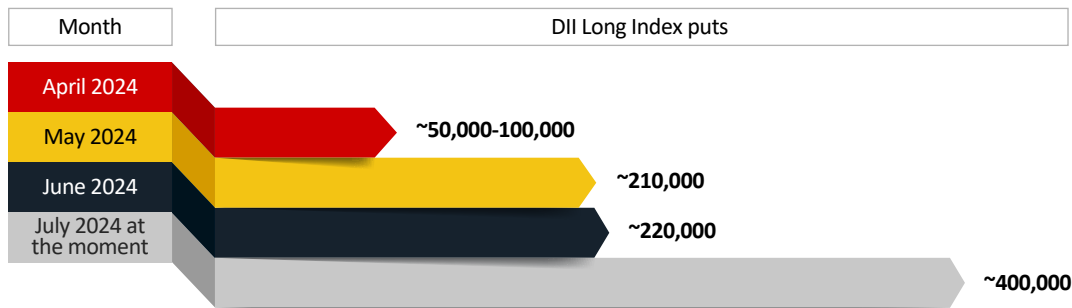


# Volatility at the shores and on the horizon

Since the beginning of 2024, Indian stock markets have witnessed a steady rise with a corresponding increase in investor participation. While event-based pullbacks have checkered market trajectory, overall, a positive sentiment continues to persist. However, in the midst of this buoyancy, it is important to evaluate important market indicators in an attempt to better understand the strength of the ongoing trend.

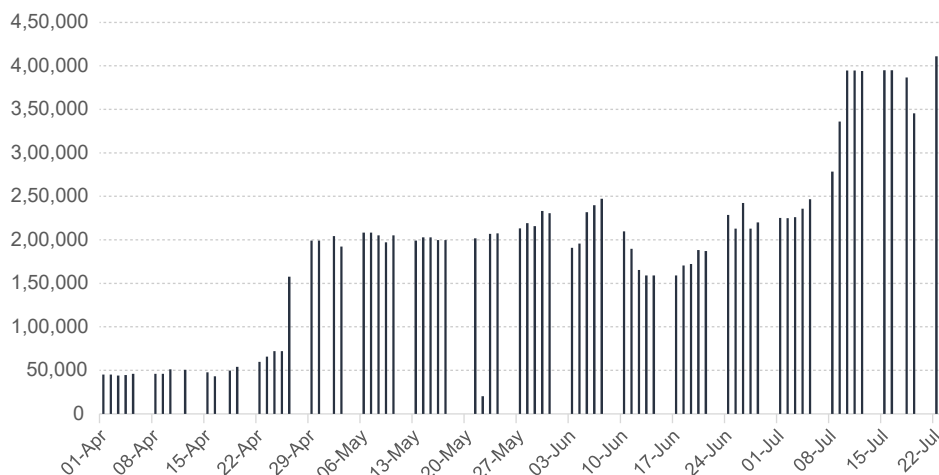
## Open Interest in Index Puts increasing

An interesting shift is being observed in DII positioning. Since April 2024, DIIs have been increasing their long Put exposure (as measured by Open Interest or OI) on the index and have significantly increased their long put position in the month of July 2024.



Traditionally, DIIs have been hedgers. Hence, a sharp increase in DII hedges indicates that they are positioning themselves for enhanced volatility.

Put Open Interest



## What does a historical analysis tell us?

The data shows that when DIIs have significantly increased their Put long positions, the month of the increase and the month following the increase, see a jump in volatility.

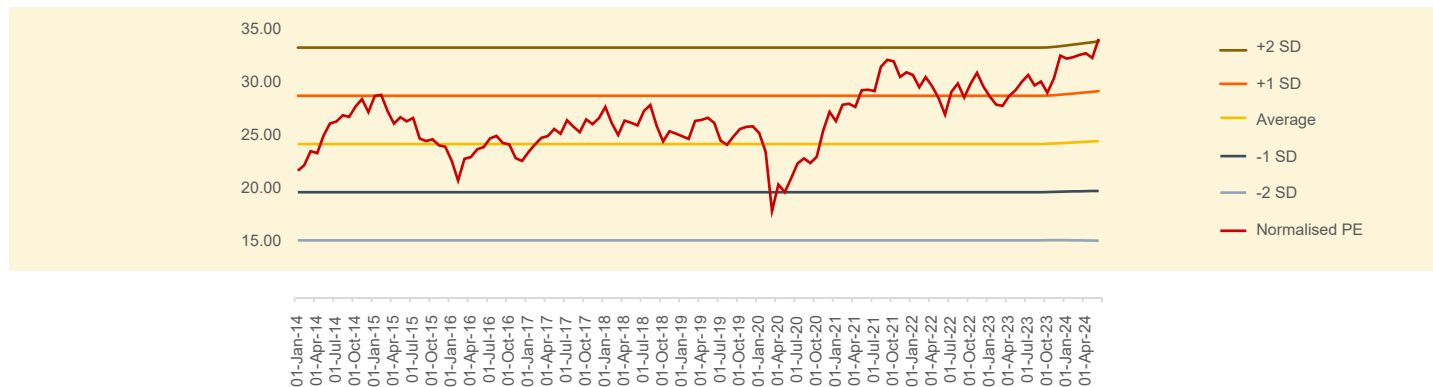
Trigger/Event in focus	Event period	Average DII Put Open Interest		Change in DIIs average Put Open interest	Nifty 50 Volatility (Annualised Standard Deviation of Nifty 50 daily returns)			Event date used	Nifty 50 in relation to its Normalised PE
		Month prior to the event	Month of the event		Month prior to the event	Month of the event	Month following the event		
Reserve Bank of India meeting where markets were expecting a rate cut	Jun-12	25,950	1,35,511	422.19%	15.19%	16.00%	15.72%	18-Jun-12	Average to -1SD
Rupee depreciation following taper tantrum and new RBI governor appointment	Sep-13	15,115	46,445	207.29%	26.88%	29.38%	14.45%	05-Sep-13	Average to -1SD
First Union Budget 2015 of the BJP government	Jan-15	15,814	60,063	279.80%	17.38%	12.78%	15.91%	28-Feb-15	+1SD to Average
Uri terrorist attack	Sep-16	12,217	33,411	173.48%	10.45%	12.71%	11.86%	18-Sep-16	+1SD to Average
Rising Interest rates in US and US-China trade tensions	Oct-18	1,00,079	1,26,831	26.73%	12.80%	22.67%	11.06%	30-Sep-18	+1SD to Average
Covid lockdowns	Feb-20	69,661	78,270	12.36%	11.21%	20.42%	74.85%	25-Mar-20	Average to -1SD
Build up to Lok Sabha election results 2024 (Taken May as the results were announced on 4 <sup>th</sup> June)	May-24	67,833	2,09,117	208.28%	8.91%	10.54%	28.53%	04-Jun-24	+2SD to +1SD
Full Union Budget 2024	Jul-24	24,142	24,480	1.40%	0.00%				Above +2SD

Notes: 1. Annualised Volatility formula: Std Deviation of daily returns \* Square root of 250

2. Contract sizes have changed over time and so has the value of Nifty contracts, therefore open interest levels in different years are not comparable.

Correspondingly, from a valuation perspective, the Nifty is currently trading at elevated levels with the P/E currently at 33.93, +2SD above its historical average.

### Trend in Nifty PE



## What does this mean in the backdrop of the current market landscape?

**We can expect higher volatility in the near term considering that DIIs are well hedged given their position in Nifty puts and the index itself is currently trading at +2SD.**

Multi-Act Trade and Investments Pvt. Ltd  
The Ruby Tower, 10th floor, Dadar (W), Mumbai- 400028

+91-22-61408989  
www.multi-act.com

**Statutory Details:** Multi-Act Trade and Investments Private Limited ("MATI") (SEBI Registered Investment Adviser – Registration No. INA000008589)

**Disclaimer:** This article and the views expressed therein has been made solely for information and educational purpose only. MATI or the employee does not solicit any course of action based on the information provided by it and the reader is advised to exercise independent judgment and act upon the same based on its/his/her sole discretion based on their own investigations and risk-reward preferences. The information in the article is meant for general reading and understanding purpose and is not meant to serve as a professional guide. The article is prepared on the basis of publicly available information, internally developed data and from sources believed to be reliable. This article and its contents are property of MATI, and no part of it or its subject matter may be reproduced, redistributed, passed on, or the contents otherwise divulged, directly or indirectly, to any other person (excluding the relevant person's professional advisers) or published in whole or in part for any purpose without the prior written consent of MATI. If this article has been received in error, it must be returned immediately to MATI. MATI, its associates or any of their respective directors, employees, affiliates, or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such views and consequently are not liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way for decisions taken based on this article.