

Initial Hype Over, USE now Low on Volumes

MUMBAI: After the initial hype, which saw a record turnover of Rs 45,486 crore on the opening day, volumes in the newest stock exchange in the country, the United Stock Exchange have crashed to Rs 3,294.60 crore, exactly one month after trading commenced.

Dealers say this is only the natural course of trade for a new stock exchange. "An initial euphoria was bound to be there due to the presence of the banks who could have invited new market players to come and trade on the exchange. So a turnover of around Rs 8,000-10,000 crore would have been a natural number, but Rs 3,294 crore is indeed lesser than normal," said a senior official with IDBI Bank. He also said it was a Catch-22 situation — lower volumes deter new players or dealers to the exchange, as dealers would not like to trade on an illiquid bourse.

Though volumes on the exchange had been tapering off gradually, they started losing their lead in the market after mid-October, when their total traded volumes fell to Rs 9,322.27 crore (as on October 11), after which the gap in the slice of the market share belonging to USE in total traded turn over volumes on all the exchanges has been widening against that of the other two exchanges, NSE and MCX-SX (currency commodity).

While volumes have shrunk across the three exchanges, the fall in volumes of USE has been steeper than that of the others in the past one month.

According to the data compiled from websites of all the three exchanges, the total turnover of the National Stock Exchange on September 20 stood at Rs 21,035.19 crore while that of MCX-SX stood at Rs 20,869.83 crore. On October 20, the turnover in currency futures on NSE and MCX-SX stood at Rs 15,355.42 crore and Rs 16,149.40 crore, respectively.

A senior official of a south-based private bank said: "We were operating on USE. But we eventually switched back to NSE, because the volumes were very low and not feasible." He also said the initial numbers could have been artificially inflated, helped by banks that had a stake in the exchange. One of the major reasons being cited by dealers is expectations that banks would participate aggressively which, so far hasn't happened.

Analysts say the exchange has not been able to attract new retail traders, which in the normal course, will take sometime. MCX-SX, in its initial year, had volumes below a thousand crores on days. According to Alex Mathew, reach head of Geojit BNP Paribas Financial Services, "It's a new exchange and they have to find new investors. It will take time for volumes to come. They have to increase the product awareness." He, however, refused to speculate on reasons for the dip in volumes.

Market experts say lower volumes in currency futures could be attributed to the structural gaps that need to be addressed as that could directly impact the volumes. Mecklai Financial senior V-P Girish Iyer said: "It is too premature to pass a judgment on any exchange. If some of the bottlenecks in the system are addressed, there is enough room for all three exchanges to prosper."

For example, there are several SMEs for whom, engaging in currency futures doesn't make any sense, because, it is cash settled and they have to still go to banks to buy and sell dollars Rs So practically, they are not hedging their risk to what they see on the screen, unlike a forward contract."

<http://economictimes.indiatimes.com/markets/analysis/Initial-hype-over-USE-now-low-on-volumes/articleshow/6790512.cms>