Inside of recent stock market crash

The weakness in the stock market had started in the last ten days of August itself, when the Sensex lost 324 points on 20 August and 242 points on 21 August. But the 5.94% fall in the Sensex on Manic Monday of 24th August, 2015 has raised a big question in the minds of investors: was this merely a correction in the bull market or the beginning of a bear phase?

Here are 10 things to know about the current Indian stock market downfall:

- The rupee is mirroring trends in other emerging market currencies. Most currencies have been falling since China's surprise decision to devalue the yuan two weeks ago, in an apparent attempt to aid its exports. This has triggered fears of

similar moves by other countries that may prefer to lower their currency's value, lest their exports are edged out by cheaper Chinese goods in a shaky world market where shipment orders are shrinking.

- The more than 1000-point fall in the benchmark 30-share BSE Sensex on 24th August, 2015 was caused by a widespread sell-off in Chinese bourses. The Shanghai share index tumbled 7.7% to five-month low. Investors and foreign fund houses appear to have interpreted this as a "danger-ahead" kind of a signal.

- The persistent plunge in Chinese equities could be signs that the world's second largest economy is more vulnerable than what was earlier believed. The result: foreign investors are moving funds quickly out of China and other emerging markets such as India to safer locations closer home to cut losses.

- A volatile and falling stock market could also upset the Indian government's plans to sell shares in state-owned companies. The government had listed to sell 5% stake in oil marketing and refining major Indian Oil Corporation (IOC) for Monday, which was expected to fetch about Rs 9,500 crore. A choppy market isn't the ideal situation for meeting an ambitious Rs 69,000 crore disinvestment target for Rs 2015-16.

- After a period of relative stability, the rupee is now flirting with 67 to a dollar, losing nearly Rs 3 to a dollar in about 10 days. If you are an exporter, a weaker rupee would mean your earnings in rupee terms will go up. But slowdown in EU, India's biggest export markets, may force orders to dry out.

- If the rupee continues to fall, expect your household expenses to rise. For instance, imported items such as Kiwi Fruits, Washington Apples, imported chocolates, liquor, cheese and even the cover price of some widely read foreign publications may rise because of higher landed cost.

- A weaker rupee implies you end up paying more to buy dollars to pay for your education fees. Likewise, if you were planning to an overseas vacation, you better set aside more money. A weaker rupee implies you end up paying more to buy dollars to pay for your air tickets, hotel tariffs, shopping and other expenses.

- Also, depreciating rupee will make many other imported goods costlier. So, expect computers, imported mobile phones and gold to become costlier. A falling rupee will also negate the gains from plunging crude oil prices, limiting the oil companies' ability to cut retail petrol and diesel prices.

- To prop up the rupee, India should be able to bring in more dollars into local equity and debt markets. For this, it should remain attractive enough for investors as they global funds chase islands with better returns. This could prompt the RBI to keep interest rates high, despite low inflation, to maintain India's attractiveness as market that offers high returns.

- High interest rates could help bring in dollars, or probably aid in slowing down the flight of dollars. This could partially help in arresting the rupee's slide. The flip side, however, is that it could mean that loan rates for households and companies will also remain high.

Most of the market experts feel that the bull market is intact and investors should not get worried by the volatility. "This is a bull market correction and not starting of a bear market," says Krishna Kumar, CIO, Sundaram Mutual Fund. Others don't see a significant downside from the current levels. "Since the market has already corrected significantly, the downside is limited," contends A. Balasubrahmanian, CEO, Birla Sunlife Mutual Fund.

Though most experts agree that Indian equities will generate good returns in the long term, some of them expect things to get worse before they get better. "We are negative in the short term and expect a further drop of about 5%. 7,400 on Nifty will be a better level to get in," says Jaspreet Singh Arora, Senior VP, Systematix Shares & Stocks. So, it will be a while before the markets are able to cross their previous highs. "The upside to the market in the next six months is severely limited, so there is no hurry to buy," says Anand Tandon, market expert.

August 2015 turned out to be quite volatile for the equity markets globally, and September is unlikely to bring any positive surprise. The major events that investors across the globe will be watching are the outcome of the of the US Federal Reserve meet, which is due on Sep 16-17, and monetary policy review by the Reserve Bank of India (RBI) on September 29. These two events will likely keep markets volatile.

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