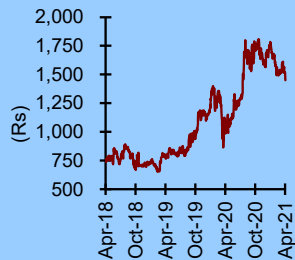


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Indian Exchanges

Sector Update

MCX (BUY)



INDIA

Exchanges

Are margin norms hurting commodities more than equities?

As upfront margin requirement got hiked to 50% from 1st Mar'21, there has been mixed impact on equities and commodities. While intraday cash volumes have been hit to some extent, derivatives seem to be broadly unaffected. Discount brokers (e.g. Angel Broking) have indicated some volume shift from cash to derivatives due to the margin impact. However, the biggest impact is in commodities with MCX ADTV declining 24% in Mar'21 over Feb'21. ADTV declined by Rs90bn composed of Rs63bn due to change in volumes and Rs27bn due to change in prices. Higher upfront margin requirement will necessitate varied degrees of upfront cash depending on the underlying value, as a result of which one can expect the trades to move from high margin requirement segments (in absolute terms) to lower margin requirement (or ticket-size) items.

- ▶ **Cash volumes have remained steady...** Average NSE cash ADTV between Sep'20 and Feb'21 was Rs652bn, which includes the sharp surge seen in Jan'21 (Rs725bn) and Feb'21 (Rs825bn). NSE cash ADTV for Mar'21 / Apr'21-TD stood at Rs666bn / Rs653bn indicating that the impact of increased margin regulation on cash volumes has been marginal. Further, within the cash segment, retail ADTV has increased from Rs284bn in Dec'20 to Rs354bn in Feb'21, and retail mix in total cash turnover has remained steady (Mar'21 data awaited). NSE intraday cash ADTV has remained steady at ~Rs600bn (intraday cash ADTV is based on the value of shares traded).
- ▶ **...while equity derivatives continue to witness strong growth...** NSE's derivative segment has witnessed robust growth between Dec'20 and Mar'21 driven by robust growth in options. Derivatives ADTV has risen from Rs30.6trn in Dec'20 to Rs44.4trn in Mar'21 and Rs45.4trn in Apr'21-TD. Though the retail mix in overall derivatives has been declining, retail derivatives ADTV has increased from Rs8.9trn in Dec'20 to Rs11.7trn in Feb'21.
- ▶ **...and commodity derivatives have been hit:** MCX reported a drop in its overall ADTV to Rs278bn from Rs296bn / Rs318bn / Rs368bn in Dec'20 / Jan'21 / Feb'21 / Mar'21 respectively. Mar'21 ADTV declined by Rs90bn led by sharp drop in volumes (by Rs63bn) and declining commodity prices (by Rs27bn). Apr'21-TD ADTV is also marginally lower at Rs273bn.

▶ **Higher upfront margin requirement will necessitate varied degrees of upfront cash depending on the underlying value:** Based on margin requirements, if a trader intends to trade into cash segment / stock futures / index futures / commodity futures, the average margin requirement stands Rs0.16mn-Rs0.25mn for an underlying value of Rs0.8mn-1mn, which on an average is 20-35% of the underlying. High-value items like gold has higher absolute margin (Rs0.35mn for an underlying value of Rs4.6mn, which is 7.5% of the underlying). In some cases, volumes may get shifted to other low-ticket items. For instance, in the case of MCX crude futures, where higher margin requirement led to fall in volumes, the overall ADTV didn't get much impacted as natural gas and bullion saw sharp increase in volumes. Hence how the trade volumes react to different margins of various products remains to be seen. Also, discount broker Angel Broking indicated that there has been some shift from cash to derivatives due to the margin impact.

- ▶ **Impact of peak margin regulation:** Phase-2 of 50% of the upfront margin regulation got implemented w.e.f. 1st Mar'21. Based on NSE data for Mar'21 and Apr'21-TD, we see moderation in volumes when we compare them with the Feb'21 levels. However, we believe that Feb'21 being an eventful month for markets (NIFTY up 5%), Mar'21 volumes were expected to moderate. But when we compare the same to Dec'20 levels (when phase-1 got implemented), volumes have moved higher. However, we remain in wait and watch mode to see how volumes pan out once phases-3&4 of 75% and 100% become applicable from Jun'21 and Sep'21 respectively.

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Margin picture

Table 1: Margin requirement – stock futures

	TCS	Jubilant foods
Stock futures		
Lot size	300	250
CMP	3315	2,869
Value of underlying (Rs)	9,94,500	7,17,200
Span	1,74,399	4,50,802
Exposure margin	34,943	60,164
Total Margin (Rs)	2,09,342	5,10,966
Margin requirement %	21%	71%

Source: Zerodha margin calculator

Table 2: Margin requirement – Index futures

	Nifty	Bank Nifty
Index futures		
Lot size	50	25
CMP	14873	32,783
Value of underlying	7,43,650	8,19,575
Span	1,41,367	1,48,952
Exposure margin	22,407	16,472
Total Margin	1,63,774	1,65,424
Margin required	22%	20%

Source: Zerodha margin calculator

Table 3: Margin requirement – commodity futures

	Gold	Silver	Crude
Commodity futures			
Lot size (gms for bullion and bbl for crude)	1000	30,000	100
CMP (per gram / per bbl for crude)	4664	67	4450
Value of underlying	46,64,000	20,16,000	4,45,000
Span	2,78,200	2,02,800	89200
Exposure margin	58,300	25,569	5581
Total Margin	3,36,500	2,28,369	94,781
Margin required	7.2%	11%	21%

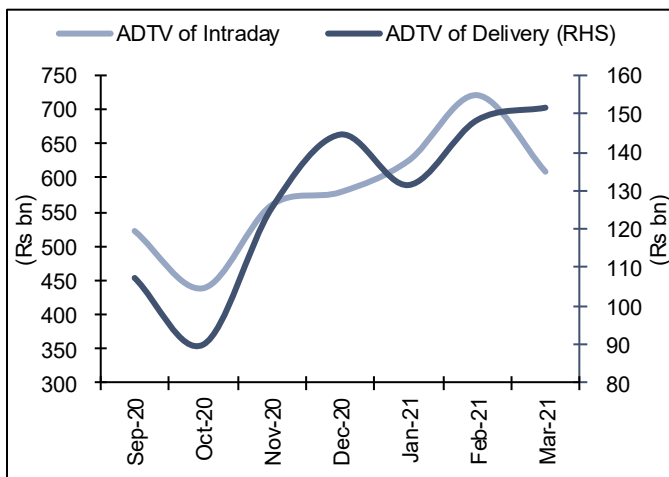
Source: Zerodha margin calculator

Table 4: Margin requirement – cash segment

	TCS	Jubilant Foodworks
Equity cash		
Value of trade	1,00,000	1,00,000
Margin required	11%	20%
Total Margin (Rs)	11,000	20,000
Leverage	9x	5x

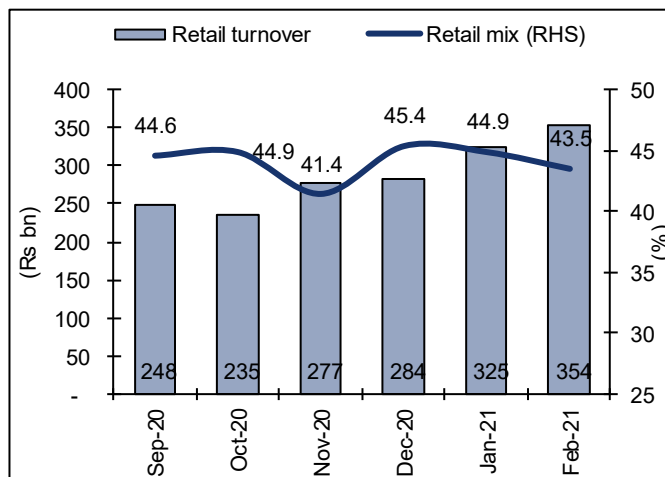
Source: Zerodha margin calculator

Chart 1: NSE cash delivery ADTV has improved, and though intraday ADTV has moderated from Feb'21 highs, it remains largely above its average levels



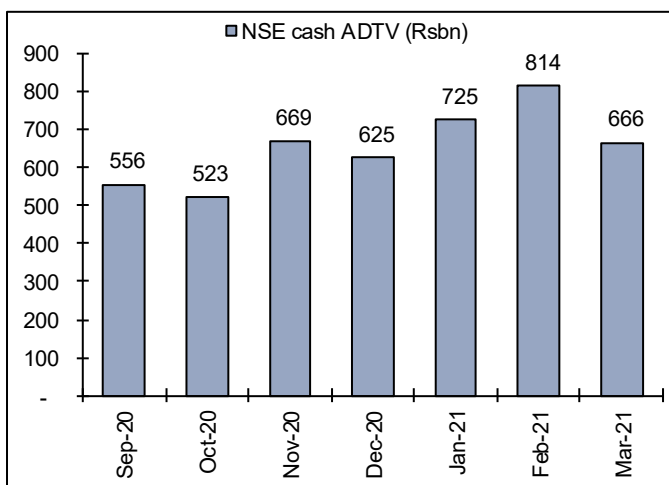
Source: NSE India, I-Sec research
 Note: ADTV is calculated based on total value of shares traded.

Chart 2: Retail ADTV has improved and retail mix in cash volumes has remained steady.



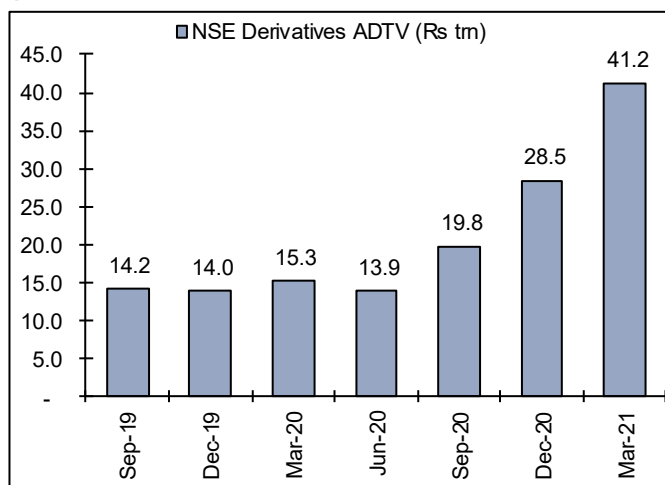
Source: NSE India, I-Sec research

Chart 3: Overall cash ADTV

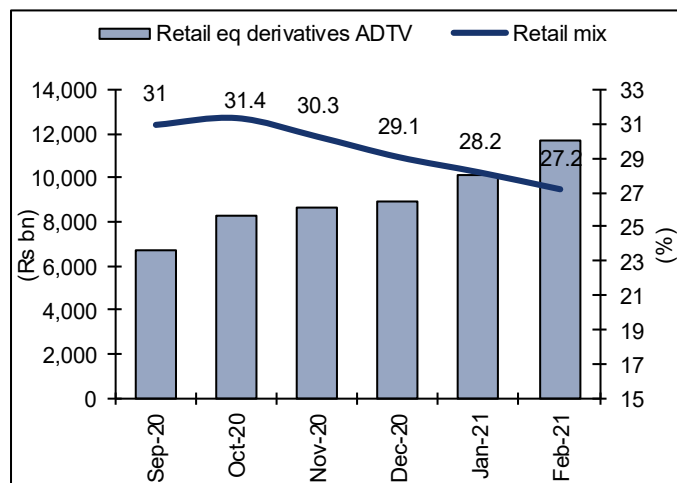


Source: NSE India, I-Sec research

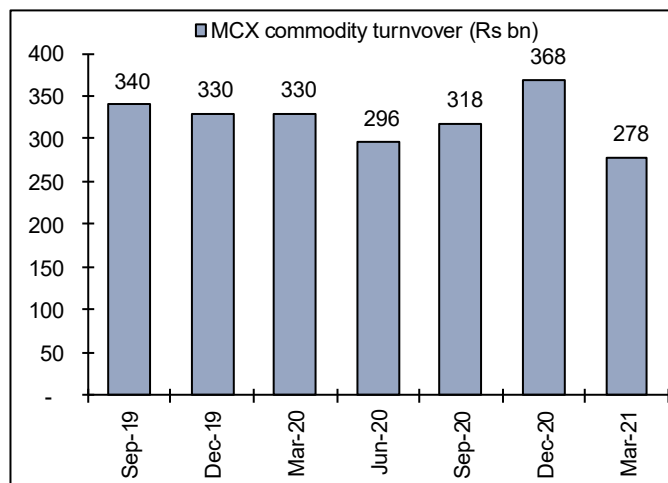
Chart 4: NSE derivatives have witnessed a strong growth



Source: NSE India, I-Sec research

Chart 5: Retail derivatives ADTV has continued its uptrend while retail mix has seen decline

Source: NSE India, I-Sec research

Chart 6: MCX commodity futures witnessed a decline in Mar'21

Source: MCX India, I-Sec research

Table 5: MCX commodity breakup

	ADTV (Rs bn)		% Change in volumes	% Change in price	Abs change in ADTV (Rs bn)	Change due to qty (Rs bn)	Change due to Price (Rs bn)
	Feb-21	Mar-21					
Gold	75	62	-17%	-1.8%	(13.6)	(12.4)	(1.2)
Silver	99	61	-7%	-33.9%	(38.0)	(7.0)	(31.0)
Crude Oil	37	50	17%	15.9%	13.1	6.2	6.9
Natural Gas	67	38	-40%	-5.1%	(28.7)	(26.6)	(2.0)
Copper	38	29	-29%	5.3%	(9.6)	(11.0)	1.5
Aluminium	2	3	48%	6.5%	1	1	0
Lead	3	3	-21%	-2.0%	(1)	(1)	(0)
Nickel	27	17	-32%	-8.6%	(10)	(9)	(2)
Zinc	13	10	-27%	2.2%	(3)	(4)	0
All commodities	368	278			(90)	(63)	(27)

Source: Company data, I-Sec research

Peak margin regulation timelines

- Phase 1: 25% of the upfront margin to be available before the trade is being executed from 1st Dec'20 to 28th Feb'21.
- Phase 2: 50% of the upfront margin to be available before the trade is being executed from 1st Mar'21 to 31st May'21.
- Phase 3: 75% of the upfront margin to be available before the trade is being executed from 1st Jun'21 to 31st Aug'21.
- Phase 4: 100% of the upfront margin to be available before the trade is being executed from 1st Sep'21.

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