

Business Markets

Indian shares dive as polls show Modi's mandate weakening

The rupee dropped as low as 83.5175 against the dollar, its weakest since May 15

Reuters

June 04, 2024



[Indian stocks](#) tanked the most in more than four years on Tuesday, as vote counting suggested Prime Minister Narendra Modi's Bharatiya Janata Party (BJP)-led alliance is unlikely to win the overwhelming majority [predicted by exit polls](#).

Modi's National Democratic Alliance (NDA) looked set to secure a majority in early vote counting in the general election, but the opposition alliance (INDIA) led by Rahul Gandhi's centrist Congress party was also doing better than expected.

[The BJP](#) was short of a majority of its own, according to TV channels, with the overall NDA alliance numbers well short of the landslide forecast in exit polls.

The Nifty index dropped as much as 8.5 per cent to 21,281.45 points, while the BSE index fell to a low of 70,234.43 points, down 8.15 per cent on the day. That was the biggest fall since March 2020 and pulled stocks sharply away from record highs struck a day earlier.

By 7.50am GMT, both markets had recovered slightly to trade down 5.5 per cent on the day.



"The biggest disappointment for the market is the fact that [the] BJP does not have a majority," said Dipan Mehta, founder director at Elixir Equities.

"I don't need to say more, but that opens up a Pandora's box because all the other players, whether they are NDA or INDIA, they are all quite volatile. So the biggest concern in the market is the fact that BJP did not get the majority on its own."

Exit polls over the weekend had projected a big win for Modi's NDA, catapulting markets to all-time highs on Monday as investors were buoyed by expectations of sustained economic growth.

Benchmark indexes had more than tripled in value since Modi became prime minister in May 2014, as of Monday's close.

However, on Tuesday, shares of government-owned banks, infrastructure and capital goods firms that gained sharply on Monday saw the largest falls.

"We will see the pull back as a buying opportunity," said Gary Tan, portfolio manager at Allspring Global Investments.

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"Regardless of the final election count, the India economy will continue to benefit from longer-term tailwinds of favourable population demographics and the ongoing geopolitical tensions between China and US."

The lack of clarity on the margin of victory for the NDA saw intraday volatility on the share index rise to its highest level in 26 months.

"The current volatility is due to fresh short positions being built-up," Aniket Nerkar, founder, AlphaStrat, a firm specialising in trading and investment strategies of derivatives.

A drop in volumes in recent weeks and selling by high-frequency traders is also accelerating the drop, he said.

The rupee dropped as low as 83.5175 against the dollar, its weakest since May 15 versus its previous close of 83.1425. The benchmark 10-year bond yield rose as much 12 basis points to 7.06 per cent.

"The only thing that a lower number than 300 [seats] for NDA will do is compel a rethink for the main party on policy approach so far, and could mean policies to address K-shaped recovery and hence positive for consumption sector," said Garima Kapoor, economist at Elara Capital.

Foreigners, who poured a net \$20.7 billion into Indian equities last year but had pulled back ahead of the election, are widely expected to turn buyers if the Modi alliance secures a decisive mandate.

They bought shares worth a net 68.51 billion rupees (\$824.4 million) on Monday, while domestic institutional investors purchased 19.14 billion rupees in stocks, based on provisional exchange data.

Investors expect the Modi government to continue focusing on turning the country into a manufacturing hub – a project that has courted foreign companies including Apple and Tesla to set up production as they diversify beyond China.

"India is all about infrastructure," said Steve Lawrence, chief investment officer at Balfour Capital, who manages €350 million (\$381.61 million) across different funds.

"It's all about infrastructure investments; roads and electricity. With the type of technology that they have, you could see a tremendous amount of growth."

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