International Journal for Multidisciplinary Research (IJFMR)

E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Holistic Analysis of Liquidity for 'Nifty 50' due to Reciprocal Tariff Imposition

Dr. Alka Awasthi[1], Anshu Kumar Sinha[2]

[1]Professor & Director, Technocrats Institute of Technology – MBA
[2]Research Scholar – Technocrats Institute of Technology – MBA

Abstract

Trade is carried out in a capital market by putting in one's money. Information needed to carry out the buying and selling of the financial instruments like stocks, bonds, currencies etc. in a capital market is provided by the market itself. The capital market is being run as the financial transactions take place between the suppliers of funds and the users of funds i.e. buyers and sellers of financial instruments. The capital market is composed of purchase and sell for stocks, bonds and currency. In a Capital markets the financial transactions can occur at a higher or comparatively lower prices. As the average prices of transactions for company's stocks in a stock market goes down, the liquidity is expected to get exhausted from the market, resulting in the decline of different stock markets indices. The other various reasons which lead to lowering down of stock market indices include high interest rates, trade deficit, declining '$', inflation concerns. Hence, recently as the United States increased the tariffs on the different country's imported goods to boost the consumption of native products and also to reduce its trade deficit, may lead to a restructure of the global supply chain for the different industries as they feel the impact. As the different stock markets across the globe sense the changes in global business alignment, it creates skepticism in the minds of investors whether to change their existing portfolios or to sustain with them. As the reciprocal tariff plan gets imposed on India as well (final decisions by 9th July 2025); we study the liquidity status of Nifty 50 as over $9 trillion gets wiped from the global market in 48 hours. We rely on liquidity model for our study. We have developed our research methods based on the research gap identified via 'Exploratory Research' by going through different 'Research Papers', 'Articles', 'Native & Global News' published online mostly. Additionally, we have relied on 'Secondary Data' published online from different financial websites, news channels etc. The research study concludes that as the new tariff gets imposed on other countries across the globe, Nifty 50 feels the splash but yet stable.

Keywords: Trade Deficit, Reciprocal Tariffs, Inflation, Market Indices, Liquidity Model

Introduction:

On the global market, India has come up as one of the strongest emerging economies; expected to surpass Japan in 2025 with the nominal GDP (Gross Domestic Product) of $4.34 billion with the heavy demand for its electronics, automobile, steel & pharma products. As India progresses to become Viksit

Bharat by the year 2047, eyeing zero poverty and works on transforming its manpower to [1]100% skilled labour; the Indian economy matures on the global circuit. Another key driver in the country's growth has been Private Final Consumption Expenditure (PFCE) which measures household spending. The growth of PFCE in 'FY2024-25' has been anticipated to be 7.6% up by 5.6% from the previous fiscal year 'FY2023-24'. As the investors settle in the Indian stock markets with foreign institutional investors holding [2]$800 billion in Indian equities stock market; the global economy stood steady but uneven in different regions across the globe including the United States which continues to encounter stiff competition with the imported products and a large trade deficit. In order to compete with the prices of imported products, United States recently made changes in its trade policy called 'reciprocal tariffs' applicable for all its Asian business partner countries. The new tariff scheme actually has put United States local investors into dilemma as they face price hike on their daily business products. The supply chain also took a punch as it needs to be re-established for the different industries as many dometic investors want to rely on tariff avoidance rather than economic fundamentals. At this juncture many retail and corporate investors may want to redefine their portfolios in the stock market which see stock market indices behaving unusual. As per the new tariff plan imposed on imported goods from different countries across the globe; the minimum tariff levied by the United States is [3]10% i.e. for Singapore and the maximum tariff laid has been 54% i.e. for China. For India, the earlier tariff rate was 5 - 10%; however, it is expected to be recented up to [4]26%. The final decisions for India has been kept on hold till 9th July 2025. As the new tariff scheme expected to be imposed for India becomes the buzzword and gets implemented for the other Asian countries like China; we verify the impact of the high tariff on different Indian industrial sectors. As the new tariff plan gets imposed on India as well by 9th July, sectors like 'Electronics & Technology', 'Metal which includes Aluminium & Steel', 'Textile & Apparel' and 'Gems & Jewellery' are expected to be hit the most. However, Indian stock markets suffered as well as they opened on 7th April realising that that the new tariff is in place already. Nifty fell by [5]3.24% and the Sensex dropped by 2.95%. as well. Hence, as the global economical uncertainties lead to potential slowdown; we study its impact on nifty 50 liquidity status using the liquidity model.

Literature Review:

In this research paper the researchers [6]Priyanka Naik & Team studies the relevant scholarly works carried on the different principles in the sphere of stock market liquidity after the financial crisis of 2008. The factors consider to carry out the liquidity study include returns expected and risk involved out of the liquidity present in stock market, actors which determine stock market liquidity and measurement of stock market liquidity. The data has been collected between the period 2009 till 2020. The researcher concludes that liquidity of a stock is mainly vested upon trading quantity, execution time, transaction cost, and price impact**.**

---

[1] 13th February 2025, The Hindu

[2] 10th February 2025, The Economic Times

[3] 7th April 2025, Business Desk - The Times of India

[4] 4th April 2025, The Hindu

[5] 7th April 2025, The Economic Times

[6] https://journals.sagepub.com/doi/full/10.1177/2158244020985529

In this research paper the researchers [7]Anil Bangic & team evaluates the market risk in conjunction with the liquidity. There are two types of liquidity risk; exogeneous & endogenous. The researchers study the liquidity risk problem via exogeneous liquidity risk. The exogeneous liquidity risk is calculated by the researchers, relying on considering 99% mid price return on the underlying and 99% spread. Exogeneous liquidity risk is calculated using the bid - ask spread. Also, the researchers conclude that the market risk cannot be calculated without considering the exogeneous liquidity risk as securities from emerging market can result in underestimation of overall market risk**.**

In this research paper, the researchers [8]Viral V. Acharya & Team verifies the importance of liquidity in the market. The liquidity actually helps in the smooth transaction between a buyer and a seller. Markets also help in providing platforms for investments to savers, provides capital privilege to entrepreneurs and jobs to job seekers. The researchers study the asset pricing, investment management, corporate finance, banking, financial crises, macroeconomics, monetary policy, fiscal policy, and other economic areas as a result of market liquidity risk. The researcher concludes that the markets are flawless. The liquidity can affect the portfolio decision of an investor, taking decision on of capital structure by corporates. Hence, keeping liquidity risk at low can keep the market (investment and sell) balanced.

Research Gap:

As the new tariff plan is being imposed on different countries (on China it has already been imposed), if not on India immediately; the settled global supply chain for the different industries and sectors are expected to be re-validated. As the supply chain gets re-validated and shapes up to become a standard, the market investors across the globe remain jumbled i.e. whether to sustain with their existing portfolio or to make changes. As the investors across the globe are not certain about maintaining their portfolio; the indices remain volatile. As the indices across the globe vary, the 'Nifty & Sensex' remains to be examined whether the investors both foreign institutional investors (FII) & domestic institutional investors (DII) continue to pour in the liquidity into the Indian stock markets or retract as in case of other 'U.S, European & Asian' markets.

Research Problem:

Liquidity in a stock market is important for its smooth and efficient working. The investors get worse prices for their investment when the market is suffering with lower liquid. Lower liquid in the market pushes the failing of orders. Also, today's financial system is global and interconnected. Any crisis in one end of the globe can affect the other end i.e. the 'contagion effect'. As a result, if there is shortage of liquidity i.e. volatility in some of the benchmark indices like ‘Standard and Poor's 500’ (S&P 500), ‘[9]Nikkei 225’, ‘France 40 Index’ (FR40) etc. we need to check the ripple effect of these indices on 'Nifty 50 and BSE Sensex 30'. Hence, we verify the liquidity status of 'Nifty 50' after the new tariff scheme has been imposed by the 'Unites States' (U.S) on many of the countries.

---

[7] https://www.sas.upenn.edu/~fdiebold/papers/paper25/bds.pdf

[8] https://research-api.cbs.dk/ws/portalfiles/portal/60082345/lasse_heje_pedersen_et_al_economics_with_market_acceptedversion.pdf

[9] Reuters News Agency, 7th April, 2025

Objectives:

i. To study the liquidity status of 'Nifty 50' in National Stock Exchange (NSE) after the new tariff scheme was imposed on 2nd April 2025

ii. To study the factors driving the potential price of gold in India

Research Methodology:

We have identified the research gap after going through the different research papers, articles, national and international publications via exploratory research. The research forges the attention that the liquidity in the market is an important attribute for a stable 'Index'. If the liquidity is withdrawn in excess from the market by the investors, the indices are expected to lose points. We have then relied on secondary data gathered from NSE websites to carry out the descriptive research.

Model Specification:

As the global stock market took a turnaround after the imposition of reciprocal tariff on 2nd April (evening in India); we study its impact on the Indian stock market (Nifty 50) as well. We implement the liquidity model on 'Nifty 50' to identify the status of liquidity in the market. The liquidity model basically presents data about the liquidity in the market based on the attributes like "volume of shares traded" and the "day's turnover". More the turnover and the volume of shares traded; the market is liquid i.e. the shares of a stock are being bought and sold with ease and efficiently.

This global skepticism (whether the market has enough liquid) leads investors to be ready on back-up plan of availing cash i.e. 'Gold'. If the market is sluggish in providing an instant cash, investors rely on selling Gold to cover up their cash need.

Data Description:

Nifty 50 acts as a benchmark for financial instruments being traded in Indian stock markets. Nifty actually tracks the performance of top 50 large cap companies from [10]thirteen different sectors. The overall health of the stock market is based on the amount of liquidity afloat which is measured in terms of value & volume of shares traded. This provides the investors in estimating the market trend and designing their investment portfolios.

Table 1: [11]Data Tabulation of Nifty 50:

Date	Nifty Closed Points	No. of Shares Traded	Turnover in ₹ Crores
03-Apr-2025	23,250.10	28,31,96,379	23,501.33
04-Apr-2025	22,904.45	46,67,76,198	33,761.96
07-Apr-2025	22,161.60	64,71,07,618	49,172.14
08-Apr-2025	22,535.85	46,82,50,807	37,226.82
09-Apr-2025	22,399.15	38,38,22,618	28,996.55
11-Apr-2025	22,828.55	40,21,62,001	33,683.60
15-Apr-2025	23,328.55	38,83,21,931	34,216.17

[10] NSE India Website.

[11] https://www.nseindia.com/reports-indices-historical-index-data

Figure 1: Data of Nifty 50 Presented Using Power BI

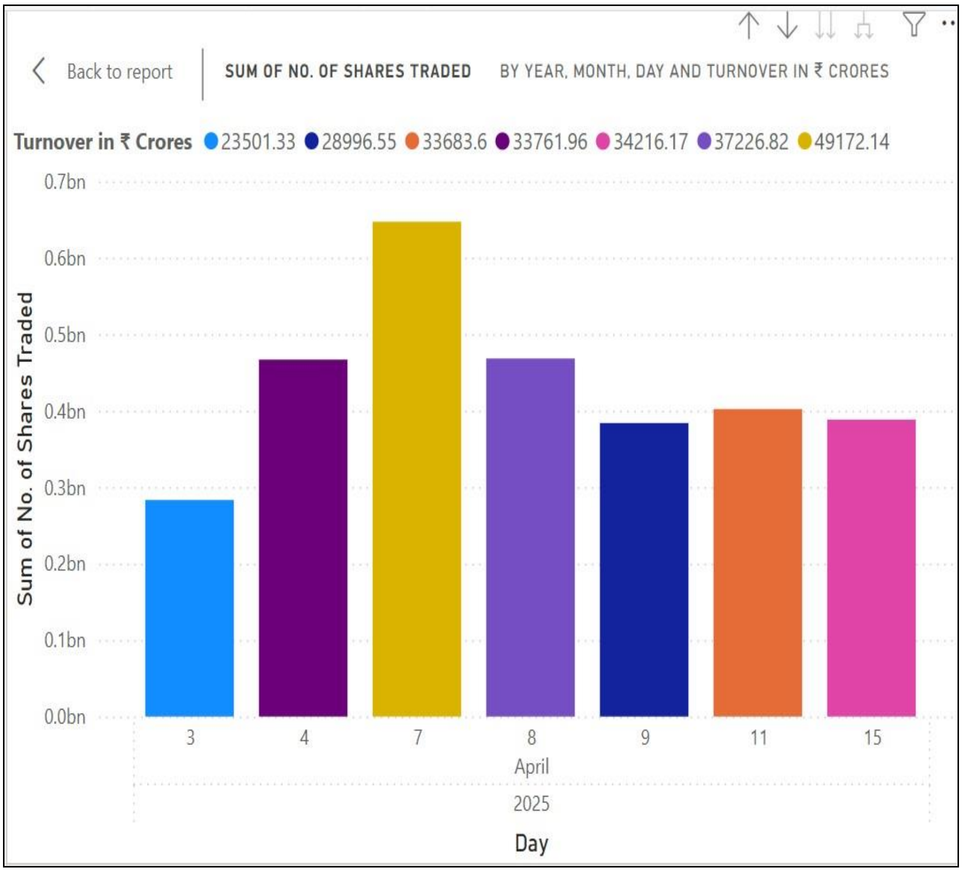


Figure 2: Data of Nifty 50 Presented By Line Graph Using Power BI

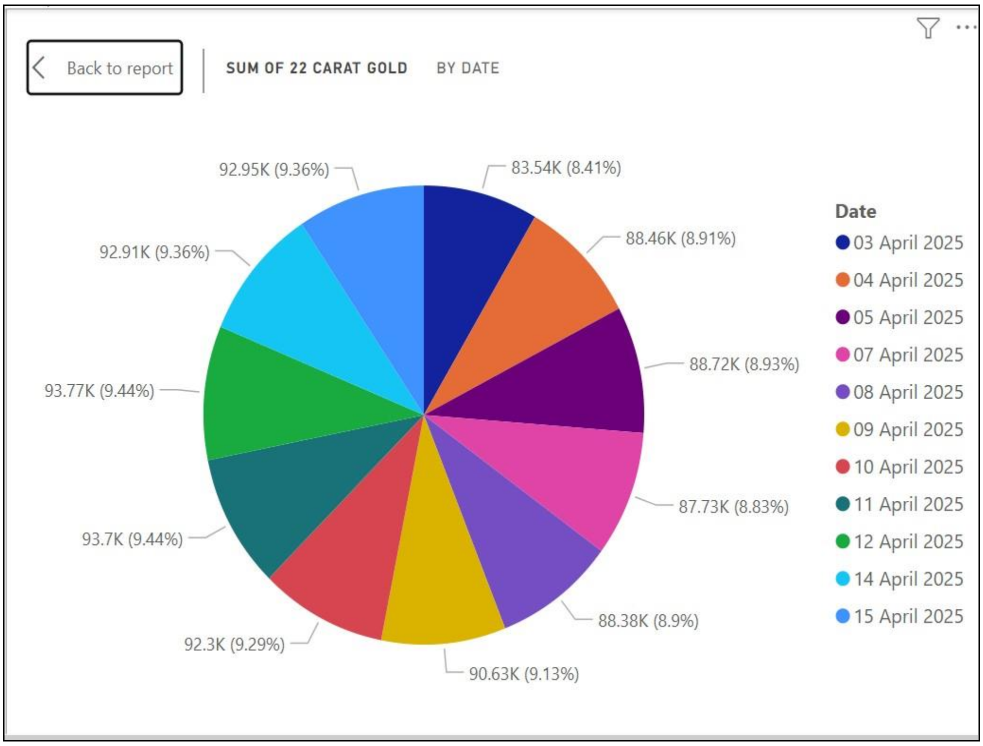
Table 2: [12]Data Tabulation of Gold Value:

Date	Value of 22 Carat Gold	Value of 24 Carat Gold

[12] https://www.nseindia.com/historical-spot-price

03-Apr-2025	83,544	91,205
04-Apr-2025	88,458.43	96,500.10
05-Apr-2025	88,719.13	96,784.50
07-Apr-2025	87,727.29	95,702.50
08-Apr-2025	88,379.04	96,413.50
09-Apr-2025	90,626.34	98,865.10
10-Apr-2025	92,304.03	1,00,695.30
11-Apr-2025	93,702.95	1,02,221.40
12-Apr-2025	93,771.98	1,02,296.70
14-Apr-2025	92,912.33	1,01,358.90
15-Apr-2025	92,954.86	1,01,405,30

Figure 3: Data of 22 Carat Gold Presented by Pie Chart Using Power BI:



Data Analysis:

- As the reciprocal tariff was announced on 2nd April, the Nifty 50 witnessed a bearish market. The index lost [13]345.65 points.
- As there was major selling in the global market, nifty 50 also witnessed the selling the stocks of large cap companies.
- As the implementation of reciprocal tariff plan sustained into the fifth day; the volatility index and the nervousness in the global market also continued. This was apparent in Indian stock markets as well, with the sell off, of equities worth ₹ [14]13,730 Crore.

[13] https://www.thehindubusinessline.com/markets/share-market-nifty-sensex-highlights-4-april-2025/article69411137.ece

- The tariff levied by U.S on Indian imported gold & Gems was hiked from 5% to 26%. This anticipated a steep rise in gold & gems jewellery in the U.S
- Also, gold is considered as a luxury item in U.S; however, it may be an investment plan in India.
- Anticipating a steep price hike of gold in U.S due to hike in tariff, the demand of Indian gold fell.
- As the demand went down, so were their prices.
- As the reciprocal tariff has presently been put on hold since 9th April 2025, for 90 days, the Nifty 50 Index and gold prices have been in recovering mode and have stood stable.

Empirical Findings:

The global stock market turned bearish after 2nd April 2025 and the investors (including in India) were in dilemma whether to rebuild or sustain with their existing portfolios, as there could have been shortage of liquidity due to the high selling of stocks (including large cap stocks) by the investors in the Indian stock market as well. It was apparent with Nifty 50 losing points.

Investors rely on Gold as their backup financial assets for covering-up deficiency of liquidity in the market. After the imposition of reciprocal tariff; gold prices have gone down by more than 4%. The institutional investors may be relying on availing liquidity by selling off gold to raise cash or cover-up margin because of the losses bearded in other assets classes suffering steep losses. As, the market seems to be in the mid of confusion; investors may would be interested in making changes in their settled portfolios. Hence, the gold market also saw a slight dip but the data clearly ratify that the prices have recovered well.

Conclusion:

As the U.S presently puts the reciprocal tariff plan on hold (not applicable for China only); the volatility index has reduced. This provides the investors a stable and less stressful market environment**.** However, with the increase in tariff on India, other Asian countries; the Indian products can still identify an edge over other competitive countries and European Union (EU). Tariff levied on the products imported from 'EU' is 20% slightly lesser than India which is expected to be 26%. However, India's lower labour rate and production cost could fill in this tariff gap and India can make new opportunities for themselves. Also, in electronic products, India can make new market over its competitive countries like Vietnam, Taiwan and China which have been levied higher tariff rates.

Hence, the imposition of reciprocal tariff can prove to be a help in disguise and Indian stock market Index (Nifty 50) can continue gaining points, with gold prices remaining stable and earning foreign exchange.

Scope for Future Research:

In this research paper, we have studied the impact on the liquidity in the stock markets because of the plans of imposition of reciprocal tariff. As the full & final shape of reciprocal tariff across the globe is implemented in quarter's time; we can study the impact on the country's currency as well.

[14] https://www.livemint.com/market/stock-market-news/sensex-crashes-4-000-points-nifty-plunges-below-21-800-5-crucial-factors-behind-bloodbath-in-indian-stock-market-11743995637364.html

References:

1. Bharati V. Pathak. Sixth Edition. Indian Financial System, Markets, Institutions and Services
2. Eugster Johannes, Jaumotte Florence, MacDonald Margaux, and Piazza Roberto (2022) The Effect of Tariffs in Global Value Chains Volume 2022 Issue 040
3. Francis Williams (2025) Tariffs: A Double Edged Sword: History, Impact, and the Future of Protectionism in the U.S. Economy
4. Frederic S. Miskhin, Stanley G. Eakins. Eighth Edition. Financial Markets and Institutions
5. Mark Levinson. Fifth Edition. Guide to Financial Markets