

PSU-bank bears mauled in short-squeeze

Sharp rise prompts margin calls; FPIs' long trade on private banks too comes unstuck

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Bear traders in India's equity markets were battered on Wednesday as the CNX Bank Nifty index of the National Stock Exchange (NSE) and PSU bank stocks witnessed one of their biggest short squeezes in years. A massive covering of short positions was seen from foreign portfolio investors (FPIs), mainly hedge and index funds, market experts said.

A stunning swing in sentiment in respect of PSU banks following the government announcement on Tuesday of a ₹2.11-lakh crore bank recapitalisation package sent the share prices of SBI, PNB, Canara Bank, Bank of Baroda and Union Bank, among others, up by 25-50 per cent in a single trading session. Brokers said there had not been such an upmove in PSU banks shares in years. The Bank Nifty index rose 3.36 per cent and

the PSU Bank index 29.63 per cent.

The BSE Sensex rose 435 points, or 1.33 per cent, to close at 33,042. The NSE Nifty rose 87 points, or 0.86 per cent, to close at 10,295.

Options sellers trapped

"Options sellers and those who sold Bank Nifty index were trapped," said Deven Choksey, promoter, KR Choksey Investment Managers. "The rise triggered huge margin calls."

A short squeeze occurs when a heavily short-sold stock moves up sharply, triggering panic-buying in the futures and options segment. It adds to the upward pressure on stocks. Simply put, short-sellers were squeezed out of their positions on Wednesday.

A margin call is triggered when a trader's collateral as a percentage of the total market value of the security in the derivative segment falls below a cer-



tain percentage requirement. Wednesday's unanticipated rise could see such a margin shortfall. Margin calls may put pressure on trading in the coming days, brokers said.

"Wednesday's short-squeeze on the back of a news event was the result of the pair trade theme that FPIs have played for over a couple of years," said Rajesh Baheti, MD, Crosseas Capital.

"For several quarters, FPIs were long private banks and NBFCs and short PSU bank; this trade

came unstuck on Wednesday."

"There was massive unwinding of long positions in private banks and NBFCs and short positions in PSU banks," said Sudip Bandyopadhyay, MD, Inditrade Capital. "FPIs have been carrying this trade for years."

PSU banks' dismal state of credit growth and deteriorating asset base had made them a favourite short for FPIs and large domestic traders. To balance it, most went long on Bank Nifty, private sector banks and NBFCs,

where earnings growth was visible. This explains the sharp fall in the share prices of top private banks, including HDFC, Kotak, IndusInd and YES Bank and even NBFCs like Bajaj Finance, Bharat Financial, Edelweiss, Chola Finance and L&T Housing Finance.

The share prices of private banks and NBFCs fell 5-15 per cent. Axis Bank and ICICI Bank, which rose around 5 per cent, were the exceptions as most traders were short on them and covered their position.