Modeling the relationship between the Price of an Indian Exchange Traded Fund(ETF) vs NAV

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Abstract

The objective of this paper is to study the efficiency of the Indian ETF market by extending the Engle and Sarkar model to the local context. One year daily data of a sample of 11 Indian ETFs was collected, for studying the Price NAV relationship. An extension of this model was applied to the sample data due to stationarity constraints and the Vector Error Correction Model was used to determine the Lead-Lag relationship. For Bank ETFs the NAV followed the price, whereas the converse relationship was observed for Equity ETF's. In the case of Gold ETF's there was no significant relationship observed between the ETF price and its NAV. A further more detailed study is recommended before we accept or reject the Engle Sarkar model in the Indian context.

Key Words: ETF, NAV, Creation, Redemption, Tax, Model