FIIs Trading in Index Futures and its Impact on Movement in Nifty 50

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Abstract

This paper focuses on how the trading activity in Index Futures by the FPIs/FIIs affects the behaviour of Nifty 50 Index and test the significant relationship. The impact assessment is made for 575 Trading Sessions in which FPIs/FIIs buying and selling in Index Futures are more than ₹500 crore per trading session out of 1432 Trading Sessions in 71 Trading Months in 6 years (2012 to 2017). The study with the help of Regression Analysis, Karl-Pearsons’ Correlation Coefficient and Hypothesis Testing through Chi-Square Test, Trend Analysis and Percentage Analysis reveals that FPIs/FIIs buying and selling in Index Futures with high volumes (more than ₹ 500 crore in a day for the particular month) affect the direction of the Nifty 50 index in the One Year, Two Years’ and Six Year Time Frame while there is significant relationship between FPIs/FIIs Trading in Index Futures and Movement in Nifty 50 Index in One Year and Two Years’ Time Frame only.

I. Introduction

DERIVATIVES IN INDIAN Stock Market have played an important role in the development of equity market in recent years. As per the SEBI discussion paper on growth and development of equity derivative market in India, Compound Annual Growth Rate (CAGR) of turnover in Equity Derivatives for the period of 2004-05 to 2016-2017 (35.10%) is more than CAGR of turnover in Cash Market (11.39%). As per SEBI Circulars No. SMD/DC/CIR-11/02 dated 12th February, 2002, Foreign Institutional Investors permitted to trade in Exchange Traded Index Futures Contracts on Derivative Segment of BSE and F&O Segment of NSE and at present Foreign Portfolio Investors (FPIs)/Foreign Institutions Investors (FIIs) have contributed

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