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Impact of Foreign Institutional Investors in Commodity Market

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Abstract— Investment is a basic things and necessary for each and every person. The investment is differing from one person to another person because it's based on our salaries. This investment is a part of amount from the saving, the purpose of investment is getting more money through investment. Most of them want to more gain without risk but the real factors are based on risk. If you wants to get a more money in short period then should be face the high risk. If risk is low then return also low in the place of stock market. In primary stage the shares only to participant in the stock market but still the different kinds of commodity also participant in online market. Those who are want to buy the good then easy to buy and sell through online markets. Now a day the above 45 products are traded through online. Most of them are foreigners', they are interest to invest the money in India. India is largest lands and also having the lot of natural goods is available. The one more important factor is returning the money within the stipulated time/period. These are the reason to present the paper above the title of "Impact of Foreign Institutional Investors in Commodity Market".

Keywords— *Investors, Functions, Commodity Market, FDI, Economic Growth.*

1. Introduction

Institutional investors are organizations which pool, large sums of money and invest those sums in securities, real property and other investment assets. They can also include operating companies which decide to invest their profits to some degree in these types of assets.

Investors include banks, insurance companies, retirement or pension funds, hedge funds, investment advisors and mutual funds. Their role in the economy is to act as highly specialized investors on behalf of others. For instance, an ordinary person will have a pension from his employer. The employer gives that person's pension contribution to a fund. The fund will buy shares in a company, or some other financial product. Funds are useful because they will hold a broad portfolio of investments in many companies. This spreads risk, so if one company fails, it will be only a small part of the whole fund's investment.

An institutional investor can have some influence in the management of corporations because it will be entitled to exercise the voting rights in a company. Thus, it can actively engage in corporate governance. Furthermore, because institutional investors have the freedom to buy and sell shares, they can play a large part in which companies stay solvent, and which go under. Influencing the conduct of listed companies, and providing them with capital are all part of the job of investment management.

2. Importance of Investment

2.1 Risk

Investing in stocks is a risky business. There are some risks you have some control over and others that you can only guard against. Thoughtful investment selections that meet your goals and risk profile keep individual stock and bond risks at an acceptable level.

2.2 Return

The return is based on risk. If you take lots of risk the more gain and if you have low risk then only get minimum rupees. All of them want to invest the money for get the short period. These are the reason for investing in stock markets.

2.3 Safety

It's another important function in the market place. Without safety do not able to investing the money. Hence the SEBI has regulated the rules and regulation for the purpose of safety measurement.

2.4 Liquidity

The last one thing is liquidity, which is converted to money and also exchanges the money in the place of the stock market.

3. Investment and Gambling

Investment has also to be distinguished from gambling. Typical examples of gambling are horse races, card games, lotteries, etc., Gambling consist in taking high risks not only for high returns, but also for the thrill and excitement. Gambling is unplanned and nonscientific, without knowledge of the nature of the risk involved. It is surrounded by uncertainty and is based on tips and rumors. In gambling artificial and unnecessary risks are created for increasing the returns.

Investment is an attempt to carefully plan, evaluate and allocate funds to various investment outlets which offer safety of principal and moderate and continuous return over a long period of time. Gambling is quite the opposite of investment.

4. Types of Investors

4.1 Individual Investor

An individual investor means those who are purchase small amounts of securities in the stock market.Its individual investors (including trusts on behalf of individuals, and umbrella companies formed by two or more to pool investment funds). Collectors of art, antiques, and other things of value and angel investors (individuals and groups) Sweat equity investor and so on. It is also called retail investor or small investor.

4.2 Institutional Investor

The opposite direction of individual investors are Venture capital funds, which serve as investment collectives on behalf of individuals, companies, pension plans, insurance reserves, or other funds. This business makes investments, either directly or via a captive fund.

It involved mutual funds, hedge funds, and other funds, ownership of which may or may not be publicly traded (these funds typically pool money raised from their own-subscribers to invest in securities). Hence the investors might also be classified according to their styles. In this respect, an important distinctive investor psychology trait is risk attitude

5. Function Of FII

The investor is a person who allocates capital with the expectation of a financial return. The types of investments include: equity, debt securities, real estate, currency, and commodity, derivatives such as put and call options, and so on. This definition makes no distinction between those in the primary and secondary markets. That is, someone who provides a business with capital and someone who buys a stock are both investors. An investor who owns a stock is known as a shareholder.

6. Commodity Market

There are numerous ways to invest in commodities. An investor can purchase stock in corporations whose business relies on commodity prices, or purchase mutual funds, index funds or Exchange-Traded Funds (ETFs) that have a focus on commodities-related companies. The most direct way of investing in commodities is by buying into a futures contract. The investors' purposes, there are currently about 50 major commodity markets worldwide that facilitate investment, trade in nearly 100 primary commodities.

- ❖ Soft commodities / Agricultural commodity
- ❖ Hard commodity / Non- Agricultural commodity

Commodities are split into two types such as hard and soft commodities. Hard commodities are typically natural resources that must be mined or extracted like gold, rubber and oil so on. The second one soft commodities which are agricultural products like livestock corn, wheat, coffee, sugar, soybeans and pork so on.

Any goods produced in bulk that have a universal value around the world could be seen as a commodity. For trading purposes, goods in any one market are regarded as equivalent, so quality does not have an impact on price. Most commodities are tradedhas traditionally involved natural resources, such as energy, metals and agricultural products. However, some exchanges also now have markets for plastics and hi-tech materials. In addition to that the basic thing of commodities such as given below

7. Foreign Direct Investment in India

A Foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country. It is distinguished from Portfolio Foreign Investment, a passive investment in the securities of another country such as public stocks and bonds, by the element of "control". According to the Financial Times, "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control.

Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by then finance minister Manmohan Singh. As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current times. India disallowed overseas corporate bodies (OCB) to invest in India. India imposes cap on equity holding by foreign investors in various sectors, current FDI in aviation and insurance sectors is limited to a maximum of 49 percent. Starting from a baseline of less than $1 billion in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43 percent from the first half of the last year.

Table 1: Buying and selling behaviors of FII in market

Year	Gross Purchases(Cr)	Gross Sales(Cr)	Net Investment (Cr)
2000	74791.50	68421.60	1532.60
2001	51761.20	38651.00	2806.40
2002	46479.10	42849.80	749.50
2003	94412.00	63953.50	6627.60
2004	185672.00	146707.00	8669.80
2005	286021.00	238841.00	10706.30
2006	475625.00	439084.00	8107.00
2007	814878.00	743392.00	17655.80
2008	721607.00	774594.00	-11974.30
2009	624240.00	540815.00	17458.10
2010	766283.20	633017.00	29361.80
2011	611056.60	613771.00	-357.83
2012	669184.40	540824.00	128361.00

Sources: www.sebi.gov.in (Amount indicates in cross)

Above the table shows that gross purchases are 46479.10 in the year of 2002. The highest values are 814878.00 in the years of 2007. The gross purchases are fluctuation in each and every year. The lowest values of gross sales are 38651.00 in the year of 2001. The highest values are 774594.00 in the year of 2008 because that the time affect the financial crises. The lowest net investment are -11974.30 cross because this years faced the financial crises then no body come and investing the money in the same year.

Table 2: Performance of FII at FDI in India

Years	Equity	Debt	Net Investment
2001-2002	8,072.20 (92.12)	690.40 (7.87)	8,762.60 (100)
2002-2003	2,527.20 (93.97)	162.10 (6.02)	2,689.30 (100)
2003-2004	39,959.70 (87.32)	5,805.00 (12.68)	45,764.70 (100)
2004-2005	44,122.70 (96.17)	1,758.60 (3.83)	45,881.30 (100)
2005-2006	41,446.70 (84.93)	7,333.80 (15.02)	48,800.50 (100)
2006-2007	25,235.70 (81.83)	5,604.70 (18.17)	30,840.40 (100)
2007-2008	53,403.80 (80.70)	12,775.30 (19.30)	66,179.10 (100)
2008-2009	45811.00 (96.02)	1,895.20 (3.97)	47,706.20 (100)
2009-2010	1,10,220.60 (77.26)	32,437.70 (22.73)	1,42,658.30 (100)
2010-2011	1,10,120.80 (75.20)	36,317.30 (24.80)	1,46,438.10 (100)
2011-2012	43,737.60 (46.67)	49,987.90 (53.33)	93,725.50 (100)
2012-2013	59,322.00 (81.03)	13,887.00 (18.96)	73,209.00 (100)
Total	5,83,980.00 (76.37)	1,68,655.00 (23.62)	7,52,655.00 (100)

Source: Secondary data (www.sebi.gov.in) (Amount indicates in cross)

Table 2 displays that, equity; debt and net investment are investing the money. FII are wants to investing the money in different place like MCX, NCDEX and so on. In the year 2008 - 2009 the lowest price of 41,446.70 cross. The highest levels of price are 1,10,220.60 and 1,10,120.80 cross in the year of 2009 -2011 in the equity markets. The next place is participant in the debt market. The last one thing is net investors in 2002-03 has been participate in lowest price 2,689.30 cross. Finally 2009 - 2011 were participate in high level out of 6,51,784.00. Except 2008 another year was step by step improvement in the followed years. The financial crisis has been affect in the year of 2008. That is the reason to create fear about the stock market then FII are not interest to investing the money. Become a future this opinion change and investing the money in the year of 2009 - 2011.

8. Conclusion

This paper covers the results and evidence related to the impact of foreign institutional investment on the return of the underlying stock market. It's provides the result related to the impact of foreign institutional investment on the volatility of the underlying stock market. The tables and summaries are easy to understand the impact of foreign institutional investment on the trading volume and market capitalization of the Indian stock market. The most of FII are interesting for the reasons of availability of all kinds of sources, but not having the sufficient of technology in India. These are reasons to increase FII and also automatically develop the economy in India.

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