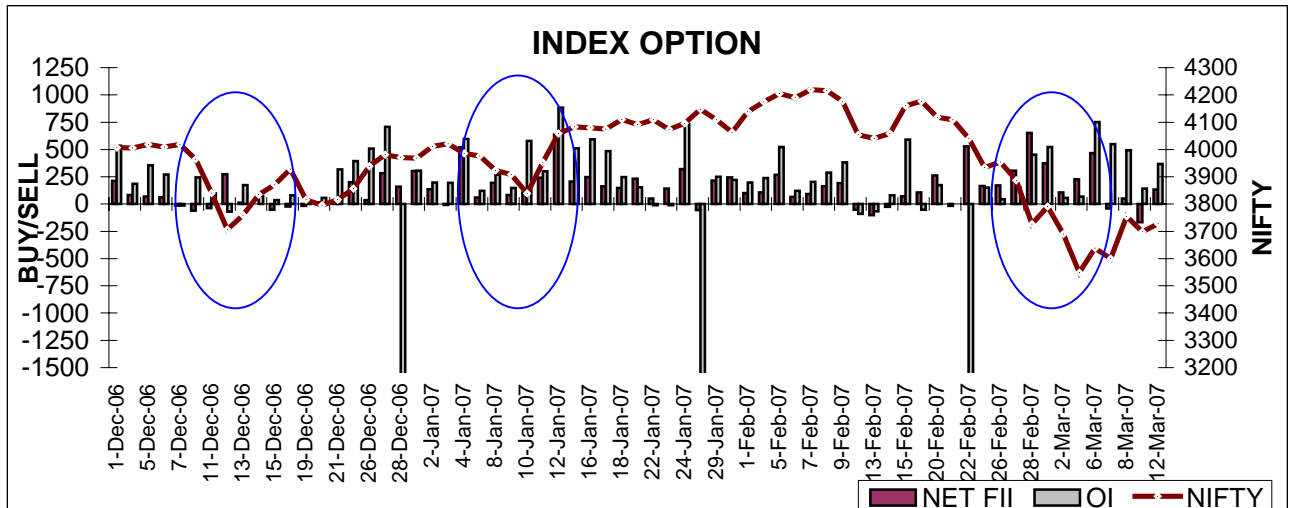


The FII participation in equity market is considered to be one of important driving factor for the emerging market & growth oriented economy. This participation has increase phenomenally from last couple of months in India. Here is the attempt to understand the effect of FII activity in context of Indian Stock Market directional drift.

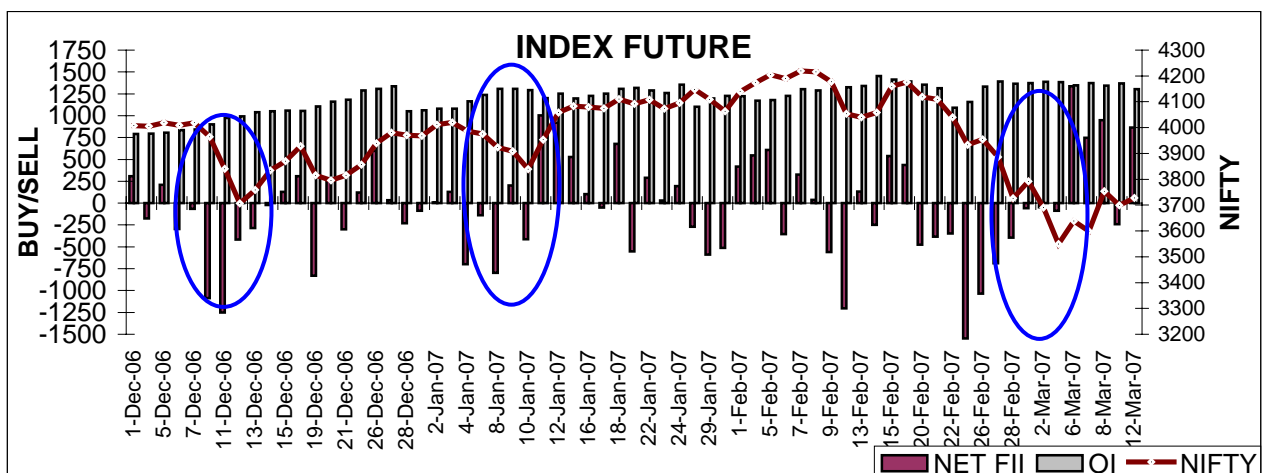


\* FII OI fig is in 100 Million.  
 \* FII net buy/sell is in crores.

Chart (A)

➔ A close look at this chart clearly indicates that whenever there is strong buy in Index option by FII, market has fallen. It may reflect the probable buying on the put option by the FII to hedge their positions to safeguard their losses against any fall.

➔ The circles in the above chart shows that, since Dec'06, there are three incidences when heavy buying was seen in index options and at the same time market has witnessed a sharp fall. This can also be supported by the fact that during that duration FII's were net sellers in Index future. The Chart (B) shows this trend very clearly.



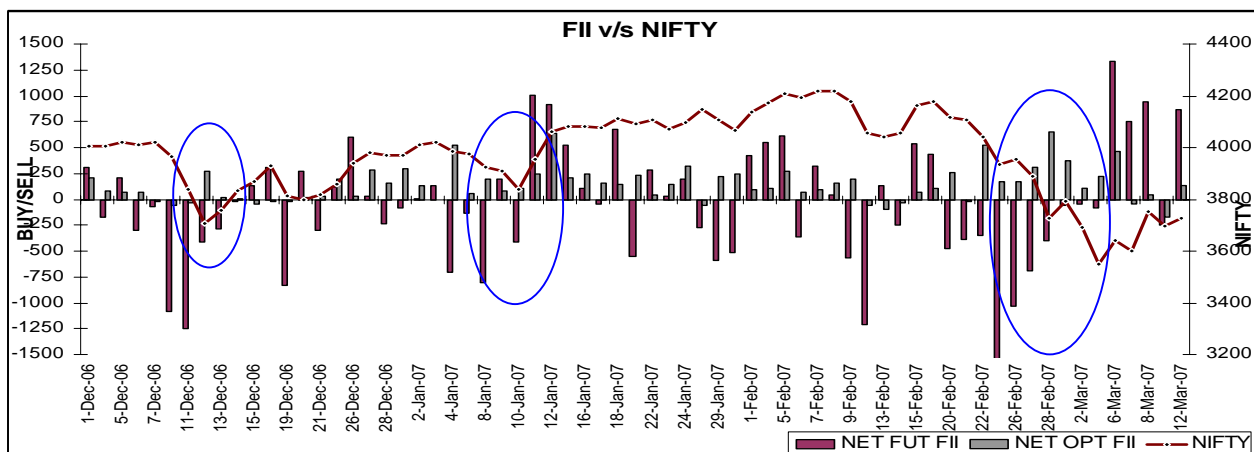
\* FII OI fig is in 100 Million.  
 \* FII net buy/sell is in crores.

Chart (B)

➔ Nifty has drifted towards downside, whenever there is heavy net selling by FII in Nifty future backed by comparable open interest built up on the short side.

➔ Clubbing the both as per the chart (C), FII activity in Index option & Index future, helps to understand the Nifty's behavior.

➔ Whenever there is a heavy buying in Index option coupled with the strong selling in Index future (backed by built up in open interest), Nifty has always shown a downward move that is clearly visible in graph.



\* FII OI fig is in 100 Million.  
\* FII net buy/sell is in crores.

Chart (C)

DATE	IDX FUT BUY/SELL	NET CHANGE IN IDX FUT OI	IDX OPT BUY/SELL	NET CHANGE IN IDX OPT OI	NIFTY'S MOVEMENT
12/02 to 15/02	-782.76	1070.99	-107.80	514.69	106.60
19/02 to 23/02	-2316.99	-2563.2	1049.27	-3061.86	(242.70)
26/02 to 02/03	-2226.01	2297.43	1607.85	1231.24	(263.65)
05/03 to 09/03	2705.76	-188.87	533.10	2002.81	149.87

\*Figures are in crores.

➔ As mentioned in above table ,FII were the net seller of around Rs 2,226.01 cr in Index future & net buyer of around Rs 1,607.85 cr in Index option for week 26-Feb-07 to 02-Mar-07,& market has fallen around 263.65 points from 3953.95 to 3690.30 during the same week.So from the above data we can see that whenever FII's are bearish on Indian market they hedge themselves properly by buying Index options and then only they go short on Nifty by selling Futures.

**For queries & suggestions email to:**  
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