SEBI Proposal May Allow FPIs to Trade in Gold, Silver and Base Metals

September 23, 2025 • vajiramandravi.com

FPI Commodity Trading Latest News

- SEBI is reviewing a proposal to let **foreign portfolio investors (FPIs)** trade in non-cash settled, non-agricultural commodity derivatives.
- If approved, FPIs could invest in gold, silver, zinc, and other base metals, expanding investor participation and deepening India's commodity market.

Commodity Derivatives: An Overview

- Commodity derivatives are financial contracts linked to physical commodities like oil, gold, or wheat.
- They help participants manage price risks or profit from market movements.

How They Work

- **Underlying Asset:** Value is derived from commodities such as farm produce, energy, or metals.

- **Financial Contracts:** Parties agree on future transactions at fixed prices and quantities.
- **Price Fluctuation:** Contract value changes with commodity price movements.

Purpose and Use

- **Hedging:** Producers and consumers secure prices to avoid losses from volatility.
- **Speculation:** Traders invest to profit from expected price changes.

Key Types of Contracts

- **Futures:** Binding contracts to buy/sell at a fixed price on a future date.
- **Options:** Provide the right, not obligation, to transact at a set price within a period.

Underlying Commodities

- **Agricultural:** Wheat, corn, cotton, coffee.
- **Energy:** Crude oil, natural gas.
- **Metals:** Gold, silver, copper, aluminum.

SEBI’s Proposal: FPI Entry into Commodity Derivatives

- **SEBI** is reviewing a proposal to allow foreign portfolio investors (FPIs) to trade in non-cash settled, non-agricultural commodity derivatives, including metals.
- While a committee is already working on strengthening the agricultural commodities segment, a separate group will be set up to develop the non-agricultural space.
- The move follows SEBI’s recent approval of a single automatic window for foreign investors, even as FPIs have offloaded over ₹60,000 crore in equities since July 2025.

Current Commodity Trading Rules for Foreign Investors

- In India, commodities traded on exchanges are divided into **hard commodities** (metals and energy) and **soft commodities** (agricultural and processed products).
- Presently, foreign investors are allowed to trade only in **cash-settled non-agricultural contracts**, such as natural gas, crude oil, and index-based futures and options.
- However, they are **barred from trading in ferrous metals, base metals, and precious metals** under current regulations.

Expanded Trading Access for FPIs

- With the proposed regulatory changes, FPIs will be allowed to trade in **physically settled non-agricultural commodities** such as gold, silver, zinc, and lead.
- This expansion, covering base and ferrous metals along with precious metals, will give FPIs access to markets where India is a significant global player.

- Experts suggest this move will enhance capital efficiency and provide investors with broader opportunities, especially in commodities like gold and silver.

Why SEBI Wants FPIs in Non-Cash Commodities

- Allowing FPIs in non-cash, non-agricultural commodities aims to **deepen India’s commodity markets and improve price discovery**.
- With their financial strength and research capabilities, FPIs can boost **liquidity**, especially in longer-duration contracts where trading is currently weak.
- This would help industrial users hedge more effectively and reduce costs from monthly rollovers.
- Greater participation could also encourage Indian corporates to hedge domestically instead of relying on international exchanges.
- SEBI’s push reflects the need for stronger, more liquid markets amid global geopolitical uncertainties.

Source: IE | BS
