

MONEY MARKETS
AND
TRADING ON NEGOTIABLE INSTRUMENTS

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1.0 INTRODUCTION

The tight liquidity position resulting from the current economic recession are faced by the Private Sectors as well the Public Sectors. These sectors are represented by individuals, companies, corporations, financial institutions, Banks, Statutory Bodies and other Government Agencies.

Despite their tight liquidity position, surplus funds are still available for local investment eventhough with a slow investment pace in the current economy.

The alternatives means of investment include investing in the stock exchange market or placement on deposit with Commercial and Merchant Banks, Financial Institutions and Discount Houses.

Eventhough the stock market is undergoing a corrective phase in the early part of the year but due to many uncertain factors that are effecting these markets today, the prices of shares fluctuate daily. This, in return, will affect the investors' confidence in investing on shares since it will not help to maximise returns on investments.

Deposits may be placed with a wide range of institutions such as Discount Houses, Commerical Bank, Licensed Financed Companies, Non Financial Institutions and Merchant Banks which offer different ranges of interests.

The interest rates and share prices in the above mentioned market will be influenced by the current economy, political stability, supply and demand of Malaysian and foreign currency and Central Bank requirements and regulations.

Therefore, one of the best alternatives for investing surplus fund in the current economic situation is through holding liquid assets where cash can be available at any time without taking any risk on the interest rates fluctuations.

Liquid asset can be held in the form of Negotiable Instruments in the Money Market. Negotiable Instruments also termed as Money Market instruments are useful for maintaining liquidity and at the same time providing a return on investment.

Negotiable Instruments is an instrument of which the rights it embodies are capable of being transferred by delivery, either with or without endorsement according to whether the instrument is in favour of order or bearer, and an instrument thus transferred is said to be negotiated.¹

The known types of Negotiable Instrument on the current market are promissory notes, bankers' drafts, travellers' cheques, bearer bonds, postal and money orders and bills of exchange.

The Negotiable Instruments in Money Market are different in

¹ James Milnes Holden, The Law and Practice of Banking, Pitman Publishing Ltd. 1977 p. 121