



**PRICE DISCOVERY IN MALAYSIAN STOCK
INDEX FUTURES AND CASH MARKETS
OVER A PERIOD (1995-2006)**

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ABSTRACT

Many studies have been undertaken on stock index futures and its underlying cash index. Stock index futures provide a very useful trading or risk management tool to a stock portfolio holders. Hence, the aim of this study is to analyze the causal relationship between Malaysian stock index futures and cash markets by employing Granger Causality test. The data used in this study were the daily closing price for both stock index and stock index futures in Malaysia. The data which cover the period from 15 December 1995 to 30 June 2006 were divided into three sub periods in view of variation in activity largely due to the Asian financial crisis. This segmented period is to look at the behaviour of the futures price in relation to the spot price during these three different economic conditions.

The result shows during the learning period FKLI Granger cause KLCI, meaning that FKLI lead the KLCI. During the high volatility period FKLI Granger cause KLCI, meaning that FKLI lead the KLCI. Meanwhile during the stable period found that there is bi-directional feedback relationship between the KLCI and FKLI, meaning that the series are causing one and another in both directions.