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# Pricing efficiency of the 3-month KLIBOR futures contracts: an empirical analysis

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announcement effect showed the spot market to be more responsive and faster in reaction than the futures market. The magnitude of reaction to rate cuts appears to be different at different interest rate levels.

## Acknowledgement

The authors gratefully acknowledge Todi Kurniawan for his assistance.

## Notes

<sup>1</sup> Futures Industry Association; [www.futuresindustry.org](http://www.futuresindustry.org)

<sup>2</sup> See Cornell ([1981](#)).

<sup>3</sup> Malaysian Government Securities (MGS) future contracts of 3, 5 and 10 years maturity were introduced in 2003.

<sup>4</sup> Taufiq et al. ([2006](#)), 17th AFA Conference Proceedings.

5 Poskitt et al. (2010) show that the contract is not a perfect hedge for the futures contract. The expected path of the futures contract is not the same as the market price of the contract.



7 For Real Estate, the selling of securities in order to earn a profit in the short run involves short selling in order to earn a



profit in excess of all transaction cost. Elton et al. ([1984](#)) argued that unlike closing prices, high-frequency data could capture profit from intraday trades. Since simultaneous transactions could not occur at the same time, intraday prices enable to provide a realistic assumption at what price the trade is taken place. Thus, they found the market is not perfectly efficient for pure arbitrage strategy.

<sup>8</sup> The rate cuts undertaken by the Fed following the September 11 attacks helped to narrow the otherwise negative spreads.

<sup>9</sup> The announcement of 3 September 1998 which was made during trading hours (3.00 p.m.), this was necessitated by the capital controls imposed the prior day.

<sup>10</sup> Capital controls were in place, but exporters were delaying remitting funds back home in order to take advantage of higher rates in US.

<sup>11</sup> The three increases were in the OPR rate.

<sup>12</sup> Note that in [Fig. 3](#), overpricing is shown as plots below the zero mispricing line whereas underpricing would have plots above the line.

<sup>13</sup> Cash and carry would be to reduce the 3-month KLIBOR futures and long the 6-month KLIBOR spot. A reserve cash and carry would be the opposite.

<sup>14</sup> The 3-month KLIBOR futures contracts were suspended during the imposition of capital controls. The lifting of the moratorium on capital controls led to the lifting of the suspension.

<sup>15</sup> Since

<sup>16</sup> The event was the lifting of capital controls which came during the period of the moratorium on capital controls.

<sup>17</sup> Ch

<sup>18</sup> See Ta

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