

Intraday Lead-Lag Relationship between Index Futures and Stock Index Markets: Evidence from Malaysia

ABSTRACT

This paper investigates the lead-lag relationship between the stock index futures (known as FKLI) and its underlying index, the Kuala Lumpur Composite Index (KLCI) in the emerging Malaysian market. Using 15-second interval data, cross-correlation, and the partial adjustment model, we find a bi-directional asymmetric lead-lag relationship and that the KLCI's lead over FKLI is much stronger. The evidence also suggests that the KLCI returns over-react to information, more so once thin trading effects are considered. Overall, the evidences suggest that traders prefer to exploit stock specific information in the underlying market despite the advantages of trading the index futures.