INTEGRATION ANALYSIS OF THE MALAYSIAN STOCK MARKET

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ABSTRACT
(BAHASA MALAYSIA)

Kajian ini menggunakan teknik *cointegration* dan *causality* dalam mengkaji perhubungan jangka pendek dan panjang di antara lima sector utama yang disenaraikan di Papan Utama pasaran saham di Malaysia serta perhubungan di antara pasaran saham di Malaysia dengan pasaran saham dari negara yang menjadi rakan-rakan perdagangan utama. Kajian ini juga mengkaji perubahan kadar pergantungan di antara sektor-sektor dalam pasaran saham domestik dan juga di antara pasaran saham di Malaysia dengan pasaran saham dari negara yang menjadi rakan-rakan perdagangan utama selepas krisis kewangan pada tahun 1997.

Keputusan kajian mendapati bahawa integrasi di antara sektor-sektor di dalam pasaran saham domestik adalah lebih ketara berbanding dengan integrasi di antara pasaran saham di Malaysia dengan pasaran saham dari negara yang menjadi rakan-rakan perdagangan utama. Kajian juga menunjukan bahawa pasaran saham di Malaysia tidak banyak dipengaruhi oleh pergerakan harga dalam pasaran saham daripada rakan-rakan dagangan utama dan juga dapat kembali kepada kedudukan *equilibrium* dalam masa yang singkat. Selain itu, pasaran saham di Malaysia juga dapat memberikan peluang kepada pelabur antarabangsa untuk mempelbagaikan pelaburan dalam mengurangkan risiko pelaburan.

Di samping itu, pelabur-pelabur di Malaysia juga boleh menggunakan pergerakan harga dalam sektor hartanah dalam meramal pergerakan harga di dalam sektor-sektor lain dalam pasaran saham di Malaysia. Kesan globalisasi dan juga peningkatan dalam pelaburan ekuiti dari satu negara ke negara yang lain didapati akan meningkatkan kadar integrasi di antara pasaran saham di negara tersebut. Oleh itu, pelabur-pelabur saham perlu mengambil kira faktor ini dalam mempelbagaikan pelaburan ekuiti meraka dari satu negara ke negara yang lain.

Keputusan ujian *variance decomposition* mencadangkan bahawa tiada kesan *contagion* di antara sektor-sektor di Malaysia mahupun di antara Malaysia dengan pasaran saham dari negara yang menjadi rakan-rakan perdagangan utama sebelum dan selepas krisis kewangan.

ABSTRACT
(ENGLISH)

This study employs the cointegration and causality techniques in examining the integration as well as the short-term and long-term dynamic causal linkages between the five major sectors' price indices listed in the main board of the Malaysian stock market and integration relationship among the stock market of Malaysia major trading partners. This study is also aims to investigate the contagion and interdependent relationship between the five major sectors' price indices in Malaysia and also between major trading partners before and after the financial crisis in July 1997.

The results in this study show that the integration relationship between the sectors in Malaysia is more pronounce than between the Malaysian stock market and its major trading partners. The results also suggest that the Malaysian stock market is robust to the influence of the price movement of its major trading partners and the speed adjustment processes in both sectors and stock markets is relatively fast. In addition, the Malaysian stock market provides better opportunity for diversification for the international investors in diversifying their overall risk.

Besides that, investors in the Malaysian stock market can used the price movement in the properties sector in predicting the price movement in other sectors in the Malaysian stock market since the properties sector is found to be a good predictor of other sectors' prices in the Malaysian stock market. The impact of globalisation and the increase in the equity investment by one country to another is shown to increase the lead lag relationship between the stock markets. Thus, the investors should take into the consideration of the equity investment of one country to another before diversifying their investment.

The results of variance decomposition suggest that there are no contagion effect between the major sectors in Malaysia and between the Malaysian stock market and its major trading partners before and after the financial crisis in July 1997 as the degree of cointegration and the number of stock markets being cointegrated decrease after the financial crisis.

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CHAPTER 1
INTRODUCTION

1.1 INTRODUCTION

The aim of this study is to analyse the integration relationship between the five major sectors' price indices in Malaysian Stock Market and also the integration between Malaysian Stock Market and its major trading partners, namely the Philippines, Indonesia, Thailand, Hong Kong, Japan, China and the United States of America in order to determine the contagion effect due to the 1997 currency crisis. Vector Autoregression (VAR) models will be used in analysing the cointegration relationship between the sectors' stock prices in the Malaysian stock market as well as between Malaysian stock market and its major trading partners from the year 1994 to 2002.

Section 1.2 deals with the research statement in this study, while Section 1.3 discusses the objectives of the study. This is then followed by a discussion of the model employed in the study in Section 1.4. The justification for this study is presented in Section 1.5. An overview of the Malaysian stock market, which includes a brief account on the recent developments, will be discussed in Section 1.6. Next, the history of the stock markets for Malaysia major trading partners is presented in Section 1.7. This is followed by the discussion of the role of capital markets in Malaysia in term of funds raising in Section 1.8. Section 1.9 highlights the percentage of equity investment in and from Malaysia with the respective major trading partners. Finally, the organisational structure of the thesis is presented in Section 1.10.

The contents of the thesis is for internal user only

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