THE DETERMINANTS OF MALAYSIAN STOCK MARKET PERFORMANCE

NUR SOFINA BINTI JOHAN SHAHAIN

MASTER OF SCIENCE (FINANCE)
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Othman Yeop Abdullah
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The Determinants of Malaysian Stock Market Performance

Abstract

Stock market performance has always become the center of attention for market analysts and investors. Due to its significant role, the performance of the stock market is always associated with the economic condition of a country. This study intends to examine the impact of commodity prices in influencing the behaviour of the stock market index specifically by focusing on the palm oil prices. Since Malaysia is one of the major producers of palm oil, the behaviour of the palm oil price is expected to influence the Malaysian stock market index. In pursuing the objective, we have adopted the bounds test approach to analyze the existence of cointegration relationship among the underlying variables of the Malaysian stock market index, interest rate, exchange rate and the price of palm oil. Using monthly data for the period of 1997M12 to 2012M9, results of an ARDL test indicates that all variables employed are significant in influencing the Malaysian stock market index in the long run as well as in the short run.

Keywords: stock market index, bounds test, cointegration, palm oil price, Malaysia

FAKTOR-FAKTOR YANG MEMPENGARUHI PRESTASI PASARAN SAHAM MALAYSIA

Abstrak

Prestasi pasaran saham telah menjadi tumpuan dan fokus oleh pelabur dan penganalisis pasaran saham. Prestasi pasaran saham sering dikaitkan dengan pelbagai faktor seperti situasi ekonomi sesebuah negara. Kajian ini bertujuan menganalisa kesan perubahan harga barang komoditi terhadap corak prestasi pasaran saham dengan memfokuskan kepada harga minyak. Memandangkan Malaysia merupakan pengeluar terbesar minyak, adalah dijangkakan bahawa perubahan harga minyak akan memberi kesan kepada prestasi pasaran saham. Untuk mencapai objektif kajian ini, pendekatan ARDL digunakan untuk menganalisa kewujudan hubungan diantara antara faktor-faktor pasaran saham Malaysia seperti tukaran mata wang,kadar faedah, dan harga minyak. Berdasarkan pendekatan ARDL, dengan menggunakan data bulan Disember 1997 sehingga bulan September 2012, faktor-faktor yang dinyatakan ternyata memberi kesan kepada prestasi pasaran saham Malaysia.

Kata kunci : Indeks saham, pendekatan ARDL, kointegrasi, harga minyak Malaysia.

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I hope this would lead to more positive values in myself to become a better individual in the future.

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CHAPTER 1

INTRODUCTION

1.0 Introduction

Stock market index has generally being used to measure the performance of an economy. The rise in the stock market index has always been associated with the booming of the market and vice versa. Since the index measures the performance of stock prices, fluctuations in the existing stocks' prices are indeed being reflected in the stock market index. Nevertheless, the fluctuation in the index is found to be affected not just by the prices of the existing selected stocks, but also by some other macroeconomic variables and commodity prices which have potential influence on the stock prices. Most studies have been employing oil price as a proxy for commodity price as one of their potential determinants of the stock market performance (Valadkhani, Chancharat & Havie, 2009). Nevertheless, since countries have been producing different major commodities, these commodities may exert important influence on the stock market of the particular country.

The intention of this study is to examine the potential effect of the palm oil industry on the Malaysian stock market. The palm oil industry is considered to be one of the major sub-sectors of agricultural industry for Malaysia. Currently, Malaysia is accounted for 39 percent of world palm oil production and 44 percent of world exports[1]. The significance of the palm oil industry can be observed from its contribution to the exports and the establishment of derivative instruments on the underlying asset of palm oil, for instance the Crude Palm Oil Futures which is traded on the Bursa Malaysia.

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[1]Information available at http://www.mpoc.org.my as of 22 September 2013

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