INFLUENCE OF MACROECONOMIC FACTORS ON MALAYSIAN STOCK RETURNS

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UNIVERSITI UTARA MALAYSIA

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Katakunci: bekalan wang; inflasi; harga minyak; kadar pertukaran mata wang; indeks pengeluaran industri; FBM KLCI; FBM EMAS Indeks
ABSTRACT

This paper studies macroeconomic factors that influence stock market in Malaysia. Macroeconomic factors used in this study are money supply, inflation, oil price, exchange rate and industrial production index. Meanwhile, Malaysian stock market returns studied are FTSE Bursa Malaysia KLCI (FBM KLCI) and FTSE Bursa Malaysia EMAS Index (FBM EMAS Index). The findings showed only three macroeconomic variables are significantly influenced FBM KLCI while the rest two are not significant. Meanwhile, for FBM EMAS Index, all macroeconomic variables are not significantly influenced except for money supply. However, both stock returns show the same relationship which is only inflation has positive influences while the rest four variables are negatively influence. Lastly, the financial crisis 2008 indicates that there is no significant impact on this study.

Keywords: money supply; inflation; oil price; exchange rate; industrial production index; FBM KLCI; FBM EMAS Index.
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<tr>
<td>ABT</td>
<td>Arbitrage Pricing Theory</td>
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<tr>
<td>ADF</td>
<td>Augmented Dickey-Fuller</td>
</tr>
<tr>
<td>CPAM</td>
<td>Capital Asset Pricing Model</td>
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<td>CPI</td>
<td>Consumer Price Index</td>
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<tr>
<td>D2LEMAS</td>
<td>Second Differenced FBM EMAS Index</td>
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<tr>
<td>D2LIP</td>
<td>Second Differenced Industrial Production Index</td>
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<td>DFC</td>
<td>Dummy Financial Crisis</td>
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<td>DLEXR</td>
<td>First Differenced Exchange Rate</td>
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<td>EXR</td>
<td>Exchange Rate</td>
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<td>FBM EMAS</td>
<td>FTSE Bursa Malaysia Emas Index</td>
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<td>FBM KLCI</td>
<td>FTSE Bursa Malaysia Kuala Lumpur Composite Index</td>
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<td>FTSE Bursa Malaysia Small Cap Index</td>
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<td>INF</td>
<td>Inflation</td>
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<td>Industrial Production Index</td>
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<td>KLSI</td>
<td>Kuala Lumpur Syariah Index</td>
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<td>MFT</td>
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<td>Money Supply</td>
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<td>MYR</td>
<td>Malaysia Ringgit</td>
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<td>OP</td>
<td>Oil Price</td>
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<td>RHBII</td>
<td>Rashid Hussain Berhad Islamic Index</td>
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<td>SEE</td>
<td>Shanghai Stock Exchange Index</td>
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<tr>
<td>VIF</td>
<td>Variance Of Inflation Factors</td>
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CHAPTER 1
INTRODUCTION

1.0 Introduction
This study is conducted to examine the relationship between two of the Malaysian stock market returns and five macroeconomic factors. The Malaysian equity markets involved in this study are FTSE Bursa Malaysia KLCI (FBM KLCI) and FTSE Bursa Malaysia EMAS Index (FBM EMAS Index). Meanwhile, the five macroeconomic factors involved are money supply, inflation, exchange rate, oil price and industrial production index. This chapter provides background study, impact of financial crisis 2008, problem statements, research questions and objective, significance of study and study organization.

1.1 Background Study
In recent decades, equity market became a central issue in Malaysia as it is one of the important factors to represent economic activities. Ibrahim and Yusoff (2001) argued that interaction between macroeconomic and stock price is one of the focus that financial economists, policy makers and investors attempted to understand. They also mention that Malaysia’s stock price seem to be driven more by the changes in domestic factor.

FTSE Group has partnered with Bursa Malaysia to create the definitive family of indices for the Malaysian market - the FTSE Bursa Malaysia Index Series. The FTSE Bursa Malaysia Index Series is designed to represent the performance of companies, providing investors with a comprehensive and complementary set of indices, which
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