THE EFFECT OF MACROECONOMIC VARIABLES TOWARDS MALAYSIA STOCK MARKET PRICE

AHMAD SUFIAN BIN ABDULLAH

MASTER OF SCIENCE FINANCE
UNIVERSITI UTARA MALAYSIA
2017

THE EFFECT OF MACROECONOMIC VARIABLES TOWARDS MALAYSIA STOCK MARKET PRICE

AHMAD SUFIAN BIN ABDULLAH

**THESIS SUBMITTED TO
SCHOOL OF ECONOMIC, FINANCE AND BANKING,
UNIVERSITI UTARA MALAYSIA,
IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE
MASTER OF SCIENCES (FINANCE)**

**Pusat Pengajian Ekonomi,
Kewangan dan Perbankan**

SCHOOL OF ECONOMICS, FINANCE, AND BANKING

Universiti Utara Malaysia

PERAKUAN KERJA KERTAS PENYELIDIKAN
(Certification of Research Paper)

Saya, mengaku bertandatangan, memperakukan bahawa
(I, the undersigned, certified that)
AHMAD SUFIAN BIN ABDULLAH (820221)

Calon untuk Ijazah Sarjana
(Candidate for the degree of)
MASTER OF SCIENCE (FINANCE)

telah mengemukakan kertas penyelidikan yang bertajuk
(has presented his/her research paper of the following title)

THE EFFECT OF MACROECONOMIC VARIABLES TOWARDS MALAYSIA STOCK MARKET PRICE

Seperti yang tercatat di muka surat tajuk dan kulit kertas penyelidikan
(as it appears on the title page and front cover of the research paper)

Bahawa kertas penyelidikan tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan.
(that the research paper acceptable in the form and content and that a satisfactory knowledge of the field is covered by the dissertation).

Nama Penyelia   :   **Dr. Norzalina Ahmad**
(Name of Supervisor)

Tandatangan   :
(Signature)

Tarikh   :   **15 Jun 2017**
(Date)

Permission to Use

In presenting this dissertation/ project paper in partial fulfilment of the requirements for a Post Graduate degree from Universiti Utara Malaysia (UUM), I agree that the library of this university may make it freely available for inception. I further agree that copying of this dissertation/ project paper in any manner is permitted, in whole or in part, for scholarly purpose may be granted by my supervisor(s) or in their absence, by the Dean of School of Economic, Finance and Banking where I did my dissertation/ project paper. Any activities related to this dissertation/ project paper in whole or in part, for financial gain shall not be allowed without my written consent. It is also understood that due recognition shall be given to me and to the UUM in any scholarly use which may be made of any material in my dissertation/ project paper. Requests for permission to copy or to make other use of materials in this thesis, in whole or in part should be addressed to:
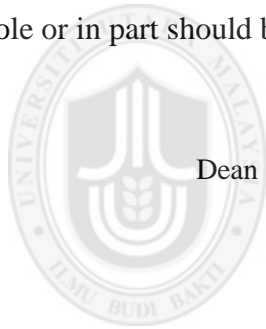
Dean of School of Economic, Finance and Banking,

Universiti Utara Malaysia

06010 Sintok

Kedah Darul Aman

Abstract

The purpose of the study is to find the macroeconomic variables factors that can affect the Malaysia stock market price. This study used the time series data for the variables including stock market price (KLCI), inflation rate, exchange rate, money supply (M2) and unemployment rate. By using the multiple regressions analysis model the finding shows all macroeconomic variables are significantly influenced Malaysia stock market price (KLCI) including unemployment rate. Besides the macroeconomics factor like money supply, exchange rate and inflation rate, unemployment rate as a new variable been tested to know the impact towards stock market price. However based on the results from the regression analysis shows only money supply (M2) has the positive influences towards Malaysia stock market price.

Keywords : money supply (M2); inflation rate; exchange rate; unemployment rate;
FBM KLCI.

Abstrak

Kajian ini bertujuan untuk mengkaji faktor-faktor makroekonomi yang boleh memberi kesan kepada harga pasaran saham di Malaysia. Kajian ini menggunakan data siri masa untuk pembolehubah termasuk harga pasaran saham (KLCI), kadar inflasi, kadar pertukaran matawang, bekalan wang (M2) dan kadar pengangguran. Dengan menggunakan model regresi linear berganda menunjukkan semua pembolehubah makroekonomi mempengaruhi harga pasaran saham Malaysia (KLCI) termasuk kadar pengangguran. Selain faktor makroekonomi seperti bekalan wang, kadar pertukaran dan kadar inflasi, kadar pengangguran sebagai pembolehubah baru telah diuji untuk mengetahui kesan terhadap harga pasaran saham. Walau bagaimanapun berdasarkan keputusan daripada analisis regresi menunjukkan hanya bekalan wang (M2) mempunyai pengaruh positif terhadap harga pasaran saham Malaysia.

Katakunci : Bekalan wang (M2); kadar inflasi; kadar pertukaran matawang; kadar
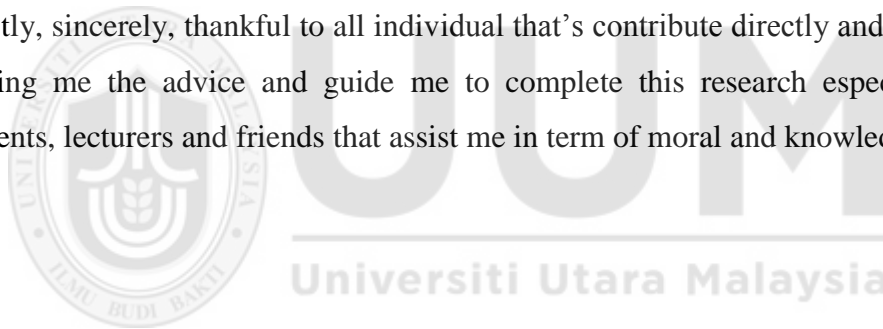   pengangguran; FBM KLCI
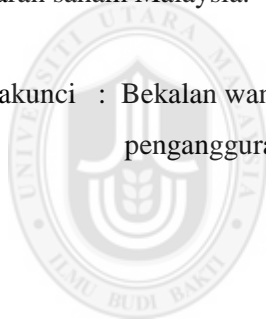
Acknowledgement

First of all, I am grateful to The Almighty Allah S.W.T for gives me the strength and good health on finishing the study. Without bless from The Almighty my research might be not finish properly. I am also thankful to Allah S.W.T in keeping my determination towards the research while I wanting to give up.

I acknowledge, with gratitude, my supervisor to Dr. Norzalina Binti Ahmad for her extra effort in keeping me in line towards the research objective and findings. Advices and encouragement from her had made the pleasure way on finishing the best research.

Lastly, sincerely, thankful to all individual that's contribute directly and indirectly in giving me the advice and guide me to complete this research especially to my parents, lecturers and friends that assist me in term of moral and knowledge support.
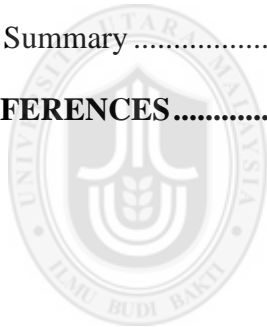
Table of Contents

List of Tables

List of Figures

List of Appendices

List of Abbreviations

KLCI = Kuala Lumpur Composite Index

M2 = Money Supply

US = United States

INF = Inflation

EXR = Exchange rate

RM = Ringgit Malaysia

USD = United States Dollar

UNEMP = Unemployment rate

CHAPTER ONE
INTRODUCTION

1.1 Introduction

Chapter one for this research include the background of study, problem statement, research questions, research objectives and also the significance of study. All of sub chapter in this segment give the initial perspectives of this research. This study is conducted to examine the impact of exchange rate, inflation rate, money supply and unemployment rate towards the stock market price in Malaysia. Malaysian stock market price that being measured in this study from FTSE Bursa Malaysia KLCI (FBM KLCI).

1.2 Background Study

Stock markets plays important role to the economy especially in the businesses with access to capital and investors with the chance or opportunities for capital gains. According to the research by Levina and Zervos (1996) shows the stock market contributes significantly to the economic growth. Since the stock market prices are subject to increase and decrease, it becomes necessary to know the factors influencing the stock prices.

Khan and Yousuf (2013) mentioned many reasons to be an interest to know the factors that influence the stock price. First is the investor's perspective to help them to forecast stock price accurately in the case of making the decisions regarding their maximum gains in stock portfolio. Secondly is for businesses, which use the stock price as the indicator to show the financial image of companies to make them easier

The contents of the thesis is for internal user only

REFERENCES

Adam, A. M., & Tweneboah, G. (2008). *Macroeconomic Factors and Stock Market Movement: Evidence from Ghana* (No. 11256). University Library of Munich, Germany.

Barakat, M. R., Elgazzar, S. H., & Hanafy, K. M. (2015). Impact of Macroeconomic Variables on Stock Markets: Evidence from Emerging Markets. *International Journal of Economics and Finance*, *8*(1), 195.

Bernanke, B. S., & Blinder, A. S. (1992). The federal funds rate and the channels of monetary transmission. *The American Economic Review*, 901-921.

Bernanke, B. S., & Kuttner, K. N. (2005). What explains the stock market's reaction to Federal Reserve policy?. *The Journal of finance*, *60*(3), 1221-1257.

Zhu, B. (2012). The effects of macroeconomic factors on stock return of energy sector in Shanghai stock market. *International Journal of Scientific and Research Publications*, *2*(11), 1-4.

Boyd, J. H., Hu, J., & Jagannathan, R. (2005). The stock market's reaction to unemployment news: Why bad news is usually good for stocks. *The Journal of Finance*, *60*(2), 649-672.

Chao, L. K. (2016). Impacts of macroeconomic factors on the performance of stock market in Malaysia (Doctoral dissertation, Universiti Tunku Abdul Rahman).

Chen, S. S. (2009). Predicting the bear stock market: Macroeconomic variables as leading indicators. *Journal of Banking & Finance*, *33*(2), 211-223.

Cheung, Y. W., & Lai, K. S. (1999). Macroeconomic determinants of long-term stock market comovements among major EMS countries. *Applied Financial Economics*, *9*(1), 73-85.

Chia, R. C. J., & Lim, S. Y. (2015). Malaysian stock price and macroeconomic variables: Autoregressive Distributed Lag (ARDL) Bounds Test. *Kajian Malaysia: Journal of Malaysian Studies*, *33*.

Craine, R., & Martin, V. L. (2003). Monetary policy shocks and security market responses. *The Journal of finance*, *60*(3), 1221-1257.

Fama, E. F. (1981). Stock returns, real activity, inflation, and money. *The American Economic Review*, *71*(4), 545-565.

Forson, J. A., & Janrattanagul, J. (2014). Selected macroeconomic variables and stock market movements: Empirical evidence from Thailand. *Contemporary Economic*, *8*(2), 157-174.

Brunie, C. H., Hamburger, M. J., & Kochin, L. A. (1972). Money and stock prices: the channels of influence. *The journal of Finance*, *27*(2), 231-249.

Hardouvelis, G. A. (1988). The predictive power of the term structure during recent monetary regimes. *The Journal of Finance*, *43*(2), 339-356.

Hsing, Y. Budden, M. C., & Phillips, A. S. (2012). Macroeconomic determinants of the stock market index for a major Latin American country and policy implications. *Business and Economic Research*, *2*(1), 1-10.

Humpe, A., & Macmillan, P. (2009). Can macroeconomic variables explain long-term stock market movements? A comparison of the US and Japan. *Applied Financial Economics*, *19*(2), 111-119.

Ibrahim, M. H., & Aziz, H. (2003). Macroeconomic variables and the Malaysian equity market: A view through rolling subsamples. *Journal of economic studies*, *30*(1), 6-27.

Ibrahim, M. H., & Yusoff, S. W. (2001). Macroeconomic variables, exchange rate and stock price: A Malaysian perspective. *International Journal of Economics, Management and Accounting*, *9*(2), 142-163.

Ismail, R., Pervaz, A., Ahmed, A., & Iqbal, R. (2016). Macroeconomic Factors and the Pakistani Equity Market: A Relationship Analysis. *International Journal of Innovation and Applied Studies*, *15*(1), 122.

Issahaku, H., Ustarz, Y., & Domanban, P. B. (2013). Macroeconomic Variables and Stock Market Returns in Ghana: Any Causal Link?. *Asian economic and financial review*, *3*(8), 1044.

Kassim, S. H., Abd. Majid, M. S., & Hamid, Z. (2011). The 2007 global financial crisis and the Malaysian stock market: a sectoral analysis. *Afro-Asian Journal of Finance and Accounting*, *2*(3), 185-209.

Khan, A. (2014). How does stock prices respond to various macroeconomic factors? A case study of Pakistan. *Journal of Management Info*, *4*(1), 75-95.

Khan, M. M., & Yousuf, A. S. (2013). Macroeconomic forces and stock prices: Evidence from the Bangladesh stock market. *Journal of Economics and International Finance*, *6*(2), 38.

Blume, M. R., Kraft, J., & Kraft, A. (1977). Determinants of common stock prices: a time series analysis. *The journal of finance*, *32*(2), 417-425.

Lee, J., & Wong, A. (2009). Impact on Financial Liberalization on Stock Market Liquidity: Experience in China. *Hong Kong Monetary Authority*, *3*, 1-22.

Levine, R., & Zervos, S. (1996). Stock market development and long-run growth. *World Bank Economic Review*, *10*(2), 323-39.

Liang, C. C., Lin, J. B., & Hsu, H. C. (2013). Reexamining the relationships between stock prices and exchange rates in ASEAN-5 using panel Granger causality approach. *Economic Modelling*, *32*, 560-563.

Liew, V. K. S., & Rowland, R. (2016). The effect of Malaysia general election on stock market returns. *SpringerPlus*, *5*(1), 1975.

Maysami, R. C., Lee, C. H., & Hamzah, M. A. (2005). Relationship between macroeconomic variables and stock market indices: cointegration evidence from stock exchange of Singapore's all-S sector indices. *Jurnal pengurusan*, *24*, 47-77.

Maysami, R. C., & Koh, T. S. (2000). A vector error correction model of the Singapore stock market. *International Review of Economics & Finance*, *9*(1), 79-96.

Mookerjee, R., & Yu, Q. (1997). Macroeconomic variables and stock prices in a small open economy: The case of Singapore. *Pacific-Basin Finance Journal*, *5*(3), 377-388.

71

Nieh, C. C., & Lee, C. F. (2002). Dynamic relationship between stock prices and exchange rates for G-7 countries. *The Quarterly Review of Economics and Finance*, *41*(4), 477-490.

Ouma, W. N., & Muriu, P. (2014). The impact of macroeconomic variables on stock market returns in Kenya. *International Journal of Business and Commerce*, *3*(11), 1-31.

Pinjaman, S. B., & Aralas, S. B. (2015). The Dynamic Stock Returns Volatility and Macroeconomic Factors in Malaysia: A Sectoral Study. *South East Asia Journal of Contemporary Business, Economics and Law*, *8*(3), 33-40.

Rahman, A. A., Sidek, N. Z. M., & Tafri, F. H. (2009). Macroeconomic determinants of Malaysian stock market. *African Journal of Business Management*, *3*(3), 95.

Rjoub, H., Türsoy, T., & Günsel, N. (2009). The effects of macroeconomic factors on stock returns: Istanbul Stock Market. *Studies in Economics and Finance*, *26*(1), 36-45.

Taamouti, A., & Gonzalo, J. (2017). *The Reaction of Stock Market Returns to Unemployment* (No. 24120). Universidad Carlos III de Madrid. Departamento de Economía.

Talla, J. T. (2013). Impact of macroeconomic variables on the stock market prices of the Stockholm stock exchange (OMXS30). *Jonkoping International Business School*: Sweden. (Master of Science Thesis).

Tsagkanos, A., & Siriopoulos, C. (2013). A long-run relationship between stock price index and exchange rate: A structural nonparametric cointegrating regression approach. *Journal of International Financial Markets, Institutions and Money*, *25*, 106-118.

Uwubanmwen, A., & Eghosa, I. L. (2015). Inflation Rate and Stock Returns: Evidence from the Nigerian Stock Market. *International Journal of Business and Social Science*, *6*(11), 155-167.

Appendix A

Descriptive Analysis

Statistics

		UNEMP	MONEYSUP	EXCHA	INFLA	KLCI
N	Valid	72	72	72	72	72
	Missing	0	0	0	0	0
Mean		3.322222222	5.827835092	3.561747222	2.451388889	-.001258333
Median		3.300000000	5.855362782	3.650750000	2.100000000	-.000850000
Mode		3.0000000	5.4508155[a]	3.8000000	1.0000000[a]	.0019000[a]
Std. Deviation		.3525449616	.2493812877	.3331890404	1.646506593	.0751694513
Variance		.124	.062	.111	2.711	.006
Minimum		2.7000000	5.4508155	2.9555000	-2.4000000	-.3199000
Maximum		4.5000000	6.1964965	4.5450000	8.5000000	.3084000

a. Multiple modes exist. The smallest value is shown

73

Appendix B

Regression Analysis

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.949[a]	.900	.895	.0575902199

a. Predictors: (Constant), INFLA, MONEYSUP, UNEMP, EXCHA

b. Dependent Variable: KLCI

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.011	4	.503	151.552	.000[b]
	Residual	.222	67	.003		
	Total	2.233	71			

a. Dependent Variable: KLCI

b. Predictors: (Constant), INFLA, MONEYSUP, UNEMP, EXCHA

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.222	.337		.658	.513		
	UNEMP	-.068	.021	-.135	-3.249	.002	.863	1.159
	MONEYSUP	.562	.041	.790	13.845	.000	.456	2.194
	EXCHA	-.059	.030	-.112	-2.009	.049	.482	2.075
	INFLA	-.019	.004	-.175	-4.504	.000	.989	1.011

a. Dependent Variable: KLCI

Appendix C

Regression Analysis (Dummy Variable)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.951[a]	.905	.896	.0571852960

a. Predictors: (Constant), crisis2, crisis1, UNEMP, INFLA, EXCHA, MONEYSUP

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.020	6	.337	102.962	.000[b]
	Residual	.213	65	.003		
	Total	2.233	71			

a. Dependent Variable: KLCI

b. Predictors: (Constant), crisis2, crisis1, UNEMP, INFLA, EXCHA, MONEYSUP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.197	.355		.556	.580		
	UNEMP	-.061	.022	-.121	-2.789	.007	.780	1.281
	MONEYSUP	.564	.044	.793	12.698	.000	.376	2.660
	EXCHA	-.061	.029	-.115	-2.082	.041	.479	2.088
	INFLA	-.017	.005	-.155	-3.659	.001	.815	1.227
	crisis1	-.014	.028	-.025	-.513	.609	.603	1.660
	crisis2	-.038	.023	-.068	-1.667	.100	.882	1.134

a. Dependent Variable: KLCI