



ANALYSING PRICE DISCOVERY FUNCTION OF
CRUDE PALM OIL FUTURES (FCPO)

NOR HIDAYANI BINTI MOHD. SOBRI
2014591785

BACHELOR OF BUSINESS BUSINESS ADMINISTRATION
WITH HONOURS (FINANCE)
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
SABAH

JANUARY 2017

ACKNOWLEDGEMENT

First and foremost, I owe this work to the Almighty God, who has made it possible for me to complete this research. Without the blessings from God, this research might not be completed within the assigned time.

This research project paper has took few months to complete and took a lot of contribution from many party in making this research complete in time. The first person I would like to send my deepest gratitude is Madam Sarmila Binti Udin, as my practical and project paper advisor for spending her golden time in giving me advises and guidance throughout this semester from beginning until the end. All her comments, advises, opinions and suggestion helped me a lot in the process of completing in research paper.

I would also like to give my biggest gratitude to Mr. Hamdan Bin Husin (Director of Bank Simpanan Nasional Sabah), Mr. Rali Bin Wi (Head of Bank Operation), Mrs. Wahidah Hj. Rahman Megbool (Head of Staff Department), Mrs. Noraziah K. Hamid (Head of Payment Service Unit), Mrs Judy D. Satiwang (Head of Business Support Unit), Mrs. Hasdalilah Hasni (Head of Account and Investigation Unit), Joseph Nurias (Head of Human Resources and Administration Unit), Ms. Siti Aisah Arbi (Head of SME Business Loan Unit), and all the staffs of Bank Simpanan Nasional (BSN) for the encouragement, cooperation and support during my practical training in the company starting from 1st August 2016 until 2nd December 2016.

A special gratitude deepest from my heart goes to my family members also, especially my parents for their instrumental support, encouragement and advises throughout completing this thesis paper.

Last but not least, I would like to give deepest appreciation to my coursemates and classmates in helping me in many aspects, in giving me additional guidance, information needed and endless supports. A million thanks also from me to people whose name is not mentioned above. Without each and everyone support frequently, it may have been difficult to complete this paper in time.

TABLE OF CONTENTS

	PAGE
CHAPTER 1: INTRODUCTION	
1.1 Background of Study	1-2
1.1.1 The purposes of Derivatives Market	2-5
1.1.2 History of Derivatives market	5
1.2 Problem Statement	6-8
1.3 Research Objectives	8
1.4 Significant of Study	8-9
1.5 Scope of Study	9
1.6 Limitations of Study	10
1.7 Definition of Terms	10
CHAPTER 2: LITERATURE REVIEW	
2.0 Introduction	12
2.1 Theory Related to Study	
2.1.1 Price Discovery Theory	12-14
2.2 The Relationship between Futures Price and Spot Price	14
2.2.1 Futures Price leads Spot Price	15
2.2.2 Spot Price leads Futures Price	16
2.2.3 Bilateral Causality of Futures & Spot Price	17-18
2.3 Theoretical Framework	18

CHAPTER 3:	DATA AND METHODOLOGY	
	3.1 Introduction	19
	3.2 Research Design	19
	3.3 Sampling Design	19-20
	3.4 Data Processing	20-21
	3.5 Measurement of Variable	
	3.5.1 Independent Variable	21
	3.5.2 Dependent Variable	21
	3.6 Empirical Analysis Framework	22
	3.7 Data Estimation Procedures	
	3.7.1 Time Series Analysis	22-23
	3.7.2 Descriptive Analysis	23-24
	3.7.3 Unit Root Test	24
	3.7.4 Johansen Co-integration Test	25
	3.7.5 Granger Causality Test	26
	3.8 Data Analysis and Hypotheses Testing	27
	3.9 Research Methodology Flow Chart	28
	3.10 Summary of Chapter	29
CHAPTER 4:	RESULTS AND ANALYSIS	30-36
	4.1 Introduction	30
	4.2 Descriptive Statistics	31
	4.3 Unit Root Test	32-33
	4.4 Johansen Cointegration Test	33
	4.5 Granger Causality Test	33-34

ABSTRACT

The purpose of this research is to study the relationship of long run between future crude palm oil towards spot crude palm oil. Second is to investigate the relationship of bilateral causality between future crude palm oil and spot crude palm oil. The investigation has been performed using time series for overall derivatives market performance. The independent variables will be price discovery function and bilateral causality relationship. The dependent will be future crude palm oil (FCPO) and spot crude palm oil (CPO). The test conducted are descriptive test, to see the normality of data, secondly unit root test, to see the stationery of the data. As to check for the long run relationship of both variables, the johansen co-integration test is used. Meanwhile, granger causality test used to check the bicausal relationship between both FCPO and CPO. The results indicates that there are existence of long run relationship between independent and dependent variables. Second result indicates that there is bicausal relationship between both FCPO and CPO.

Keywords: price discovery, bilateral causality, crude palm oil, futures crude palm oil