

**RELATIONSHIP BETWEEN MACROECONOMIC VARIABLES AND MALAYSIA
AVAILABLE SHARIAH INDICES**



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5.2 Enhanced Executive Summary

This paper aims to study the relationship between some selected macroeconomic variables and Malaysia Shariah Indices. In our study, we used the Vector Error Correction (VEC) framework by initially looking at the long run and short run relationship between Malaysia available Shariah indices (i.e. KLSI, FTSE Bursa Malaysia EMAS Shariah Index and FTSE Bursa Malaysia Hijrah Shariah Index) and the macroeconomic variables via the Johansen cointegration technique. Monthly data during the twenty two-year period between 1990 and December 2011 has been collected from DataStream and tested. The findings successfully establish the existence of relationship between the variables.

5.3 Introduction

5.3.1 Background of the Study

As the relationship between macroeconomic variables and equity market has a major concern in financial economic theory and discusses, many efforts have been done to understand well of the behavior. We can see that the growing linkages between macroeconomic variables and the movement of stock prices for the developed countries have well been documented in the past literature (see Fama, 1981; Mukherjee and Naka, 1995; Mookerjee and Yu, 1997; Naseh and Strauss 2000; Maysami and Koh, 2000; Sadorsky, 2001; Kandir, 2008; Aljafari, Salameh and Habbash 2011). For studies in the developing countries, a few studies have highlighted the linkages between macroeconomic variable and stock movement such as Kwon, Shin and Bacon (1997)- Korean, (Hsing 2010)-Czech Republic, Ibrahim (2011)-Thailand, Seyed Mehdi, Zamri and Yew Wah (2011) -China and India, and others. However, in the Malaysian context, Ibrahim (1999, 2000, 2002), Ibrahim and Wan Yusof (2001), Ibrahim and Aziz (2003), and Rasiah (2010) investigate the dynamic interactions between stock market and economic activities by conjecturing that the stock market leads the movement of macroeconomic variables. In contrast, our study aims to examine the determinants of the Shariah equity market behavior in Malaysia instead of the predictive role of the stock market itself. Studying the interaction of macroeconomic variables and the Malaysian Shariah Index is our primary interest because of three reasons; i) Investment in equities are acceptable investments for all Islamic and non-Muslim investors; ii) Malaysia pursues a trade-led approach to stimulate its economy; and ii.) Since Malaysia has more control on its capital and does not adopt a freely exchange rate system.

Malaysia's stock exchange, Bursa Malaysia, which was established in 1973 (formerly known as the Kuala Lumpur Stock Exchange - "KLSE") created its first Shariah index in 1999 called the KLSE Shariah Index (KLSI). These days, Bursa Malaysia has two Islamic indices, namely the FTSE Bursa Malaysia EMAS Shariah Index and, FTSE Bursa Malaysia Hijrah Shariah Index which were developed in 2007. FTSE Bursa Malaysia Emas Shariah Index is an index which was designed for investor to have a broad benchmark for Shariah compliance investment. This index comprises the elements that are