ANALYSING THE PRICE DISCOVERY FUNCTION OF CRUDE PALM OIL FUTURES (FCPO) BEFORE AND AFTER SHARI'AH COMPLIANCE AND GLOBAL FINANCIAL CRISIS

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ABSTRACT

This study examines the price discovery functions of crude palm oil futures (FCPO) before and after the implementation of shari'ah and during the global financial crisis. Daily settlement prices of FCPO and daily closing prices of CPO is used as the data and the period of data is taken form 18th April 2007 until 31st December 2011. This period will then be divided into two, and another period will be done for the global financial crisis. To test for stationery test, Augmented Dicker Fuller (ADF) test will be used. Then, the cointegration of relationship will be analyze by Johansen Cointegration Test. Based on the Johansen Cointegration test, it is found out that there is a long-run relationship between CPO and FCPO market. After that, Granger Causality test is being applied. Based on the test, on period I and during global financial crisis, there is a bilateral causality between the CPO and FCPO. This indicates that both of the market plays a role in price discovery process. However, in period II, it is found out that only FCPO that Granger Cause CPO. Which means that, in period II, FCPO leads the CPO prices.

Keywords: Price discovery, shari'ah compliance, global financial crisis, crude palm oil futures, crude palm oil, Augmented Dicker Fuller, Johansen Cointegration, Granger causality

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