A DYNAMIC CAUSALITY OF OIL PRICES AND ECONOMIC INDICATORS ON STOCK RETURNS

MOHD AMIRUL SHAHRIL BIN LUDI
2013439408

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

JUNE 2015

TABLE OF CONTENT

ABSTRACT

This study examined the relationship between oil prices and the stock market prices (KLCI) in Malaysia and considered exchange rate and interest rate as the additional determinants. Monthly data of oil prices, interest rates, exchange rates between MYR and USD as well as stock market indices were modeled into a multiple regression model.Granger causality test wasutilized to test whether there was any causal linkage between stock prices and macroeconomic variables. Six hypotheses were developed to test the relationship between the macroeconomic variables and the performance of the KLCI stock market. The data stretching from 1994 until 2012 were collected from Bloomberg Database. The data were analyzed by using the Multiple Linear Regression test, Johansen Cointegration Test and Granger-causality test to accommodate the research objectives. The objectives of this paper are (i) To examine the causal relationship between the macro-economic variables towards the stock market price. (ii) To determine whether the oil price, inflation and exchange rate can affect the stock market price. (iii) To evaluate whether the oil price, exchange rate and inflation can explain the movement of stock market price.The general findings suggest that, there are evidences of bilateral relationship between share prices with two important independent variables namely inflation and exchange rate.

Keywords: Granger Causality, Multiple Regression Model, KLCI Stock Prices, crude oil price, inflation rate, exchange rate

ACKNOWLEDGEMENT

Bismillahhirahmannirrahim,

Alhamdulillah, Praise to Allah S.W.T for his blessing and chance to go through all this hard work. First of all, I would like to express my greatest gratitude to both of my beloved parents who give me an entire love and incessant support in doing this task. Thank you so much to my father, Mr Ludi Porindi and my mother Sitiamah Binti Sahat.

Albert Einstein has quotes that "It is the supreme art of the teacher to awaken joy in creative expression and knowledge". A very huge gratitude to my principal supervisor Associate Professor Dr Imbarine Bujang, who always motivate, support and guide me in completing this project. Also to my second examiner Puan Rapheedah Musneh, who has provides an approaching contribution towards the improvement and quality of the research.

A wonderful contribution and support from my fellow friends also has contributed to this research work done. I would like show my sincere thank you to Ahmad Fauze, Subadron, Nurizzat, Ebdazief, Farouk, Mursidi, Zaim, and Alif.

Last but not least, thank you very much to those people who are not mentioned and directly involve in this research works. Finally, I would like to inform that this research work has been published at the League of Finance Journal, UiTM Sabah. Vol 1, No 8, 2015 pg 80-92.

Thank you .