UNIVERSITI TEKNOLOGI MARA

THE CONSEQUENCE OF VOLATILITY IN COMMODITY TRADING PRICES TOWARDS PERFORMANCE OF MALAYSIAN STOCK MARKET (KLCI)

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THE CONSEQUENCE OF VOLATILITY IN COMMODITY TRADING PRICES TOWARDS PERFORMANCE OF MALAYSIAN STOCK MARKET (KLCI)

ABSTRACT

Commodity prices and stock markets around the world are becoming more intertwined because of globalization. The stock market's performance was thought to be influenced by global commodity prices. For market analysts and investors, the performance of a stock market has always been the focus of their attention. Due to its importance in a country's economy, the stock market's success is always linked to the country's economic situation. As a result, the purpose of this research is to investigate the role of commodity prices in determining the behaviour of the stock market index, specifically the price of palm oil, crude oil, and gold. The impacts of commodities prices on the KLCI stock market performance are investigated in this article. To achieve the goal, this study used the boundaries test to determine whether there is a significant relationship between the underlying variables of the palm oil price, crude oil price, and gold price on the KLCI index. Different assumptions are utilized in performing the test for the data, which uses monthly data from 2004 to 2021, with a result of 216 sample sizes. By using Ordinary Least Squares (OLS) and multiple regression, this static panel data technique was used to examine the significant effect between the variables. The result from this study shows that all the independent variables, which are crude oil price, palm oil price and gold price are all significant towards the dependent variable, the Malaysian Stock Market performance (KLCI).

Key Words: Commodity prices, KLCI Index, Palm Oil, Crude Oil, Gold

CHAPTER 1
RESEARCH OVERVIEW

1.0 INTRODUCTION

This chapter will go through the backdrop of the research that was done. In addition, this chapter shall clearly express issue statements, research objectives, research questions, the research study's hypothesis, and the study's importance.

1.1 COMMODITY MARKET

A commodity market is a place where you may buy, sell, and exchange various commodities. Commodity markets are similar to stock markets in that you may buy and sell commodities rather than stocks. Approximately 100 main commodities are traded on throughout 50 commodity exchanges around the globe, allowing investors to diversify their portfolios. There are many different types of commodities on the market, including hard and soft commodities. Hard commodities are natural resources that must be extracted, such as oil, gold and rubber. Agricultural commodities, on the other hand, include coffee, wheat, corn soybeans, sugar, and other soft commodities. In addition, the commodities market is separated into two segments: over-the-counter (OTC) and exchange-traded markets. The commodities are generally mentioned on the over-the-counter market, and trading is done on the basis of delivery. In this market, both the sellers and buyers have their own brokers to help them negotiate prices on their behalf. There are nearly solely derivative markets on exchange-traded marketplaces, in which everything is standardized and buyers may purchase contracts for a proportion of the value of the contract.

There are, however, a few other commodities investment choices available to investors. Most investors choose to invest in firms whose primary emphasis is commodity pricing. An exchange-based platform benefits from an effective price setting process as the market's engagement rises. Additionally, investors may purchase mutual funds, index funds, and exchange traded funds (ETFs) that concentrate largely on commodities-related companies as an alternative to investing in commodities. Purchasing a futures contract, on the other hand, is the easiest and most convenient