UNIVERSITI TEKNOLOGI MARA

EMPIRICAL ANALYSIS ON MACROECONOMIC VARIABLES AND OIL PRICE IN MALAYSIA

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ABSTRACT

The oil and gas industry as a whole are prominent in the Malaysian economy, having fully contributed one -fifth of its GDP over the past decade. By itself, the Malaysian gas industry produced and sold local market gas worth more than RM10 billion in 2017. Like any commodity, stock or bond, supply and demand laws cause oil prices to fluctuate. When supply exceeds demand, prices fall; the inverse is also true, when demand exceeds supply. While supply and demand influence oil prices, it is oil futures that set oil prices. Due to these circumstances, the purpose of this study is to investigate the factors influencing oil price fluctuations and their relationship with macroeconomic variables from 1990 to 2019, each year. Using the Ordinary Least Square (OLS) method, the topics studied will be examined. Data from Malaysian oil prices are used as dependent variables while four (4) other variables, namely, foreign direct investment (FDI), gross domestic product (GDP) inflation rate, and interest rates are used as independent variables. Findings from this study indicate that real interest rates have a significant relationship with crude oil prices

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CHAPTER 1
INTRODUCTION

1.1 Introduction

In December 2018, Malaysia's crude oil production was reported at 650,890 Barrels/Day Barrels/Day decreased in December 2019, Malaysia's crude oil production was reported at 608,734 Barrels/Day. Malaysia is one of the major oil and gas producers in the Asia-Pacific region with an estimated daily production in 2018 of over 1.7 million barrels of oil equivalent. Malaysia's gas industry provides many benefits to the country. This industry contributes to the overall socio-economic well-being of Malaysia through job creation, supporting the domestic economy as well as increasing government revenue through the payment of taxes and royalties. with the gas forming about three-quarters of the mixture. With gas making up about three-quarters of the mix, more than 5 billion barrels of oil equivalents found in more than 400 fields are projected to be the world's living commercial reserves. Malaysia ranks 23rd largest natural gas reserves and 30th largest crude oil reserves making it one of the largest crude oil exporters in the world. (CIA, 2016).

In addition, as the second largest oil producer in Southeast Asia after Indonesia, Malaysia has not escaped the influence of oil prices. Since the Malaysian government decided to use the Electronic Pricing Mechanism to control domestic prices, crude oil prices have increased lately, and this development has taken place over the past 30 years. Rising world oil prices and the depreciation of the Malaysian dollar both led to a spike in Malaysian oil prices. Most oil -producing countries have abolished oil demand subsidies and successfully used managed float systems after December 2014

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