UNIVERSITI TEKNOLOGI MARA

THE DETERMINANTS OF SPOT GOLD PRICE IN MALAYSIA

DK BALQIS BADRINA BINTI AK JOHARI @ PG JOHARI
2020988513

Thesis submitted in fulfillment

of the requirements for the

Bachelor of Business Administration (Hons.)
Investment Management

Faculty of Business and Management

February 2022

ABSTRACT

The purpose of this study is to investigate the link between selected Malaysian macroeconomic variables and the spot gold price. For this research, the macroeconomic factors include exchange rate, inflation rate, and crude palm oil price. The data used in this study took time series data on a quarterly basis period from 1991 to 2020 (30 years). Multiple Linear Regression (MLR) will be used in this research to evaluate macroeconomic factors influencing the spot gold price in Malaysia, as well as Correlation Coefficients to analyse the connection between these variables, and all data will be analysed using EViews 12. The findings for this study show that macroeconomic factors are significantly impacted to spot gold price which there is the existence of a positive correlation between the variables of exchange rate and crude palm oil price with spot gold price. On the other hand, the study also discovered a negative correlation between the inflation rate towards spot gold price. As a result, investors can make better investment judgments since they can refer the involvement of the spot gold price and macroeconomic factors that have been selected for this study.

Keywords: Spot gold price; Exchange Rate, Inflation Rate: Crude Palm Oil Price; Multiple Linear Regression

ACKNOWLEDGEMENT

Firstly, I am thankful to Allah S.W.T, the Almighty Creator, with the overflow of grace as well as the blessings of time, life, energy bestowed on me I was finally able to complete the thesis report successfully on time.

After that, I would like to express my gratitude to my Final Year Project (FYP) lecturer for the course code INV667, Madam Yuslizawati binti Mohd Yusoff for providing guidance for this course which opened the way for me to complete my FYP as one of the requirements needed to complete my bachelor's degree.

In the meantime, I would also like to dedicate my appreciation to my supervisor, Sir Mohd Hakimi bin Harman for the opportunity, guidance and assistance regardless of time given in solving problems encountered during the study. Not to forget, Madam Farhana binti Mazlan as my second examiner for the feedback and comments toward my study of this research.

I would also like to extend my infinite gratitude to my parents and siblings for supporting me endlessly. They have given me all the infinite facilities and encouragement so that I am able to complete this project.

Finally, I want to express my appreciation to those who were directly or indirectly involved in the process of completing this report. I have learned a lot during the process, and it has given me a meaningful opportunity.

I end my appreciation with a word of special thanks.

TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION

1.1 Introduction

This chapter will be explained and began by the background of the study and will continue to the problem that arise from previous research. The main article that has been referred for this study is titled The Determinants of Gold Prices in Malaysia, written by Siti Nurulhuda Ibrahim, Nurul Izzat Kamaruddin and Rahayu Hasan in 2014.

As for the introduction, gold can be divided into many sorts or components, which each of it serves its own characteristics, value, and unit such as gold futures, spot gold, gold jewellery, bullion gold, gold coin, gold bars and gold ore. Although the price is varies depending on the trading premises traded, the price of gold is constantly impacted by worldwide supply and demand for gold.

1.2 Background of Study

Gold may be described as an extremely valuable means of exchange that has been associated with riches and success. This liquidity asset was already used for thousands of years until fiat money was substituted as the world's monetary system. It is also an excellent investment medium for both short and long-term. Unlike other commodities, gold is a durable metal that is easy to carry and is widely recognised and verified all over the world since it may be diluted or sold at any time (Worthington & Pahlavani, 2006).

As aforementioned, the supply and demand basis are one of factors influence the spot gold prices either to rise or to go down. Folger (2021) stated that when the price of gold falls, investors would purchase gold for future savings because they think gold will rise when the U.S. economy rebounds. The investor thinks that the price of gold is greatly impacted by the United States, and if the nation goes through an economic downturn, investors will purchase gold.

According to Wang (2013), one of the tools of gold is it may be used as an inflation hedge since its value is greater than keeping equities or currencies. This