UNIVERSITI TEKNOLOGI MARA

HOW COMMODITY MARKET EFFECTS STOCK MARKET PERFORMANCE?

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ABSTRACT

The purpose of this study is to investigate the relationship between commodity market and stock market performance in Malaysia. There are many factors that have an impact on stock market performance. Factors that need to be based on this research include the price movement of crude oil, price movement of crude palm oil, currency exchange, and monetary policy. As a consequence, it can have various fundamental consequences. It is therefore very necessary for any economy to determine the reasons for these ties of stock market performance. The previous survey in Malaysian case study produces mixed results. This research is therefore expected to update existing evidence using the latest data and provide more insight into the relationship between commodity market and stock market performance in Malaysia. This study been using WTI crude oil price as proxy for price movement of crude oil, Malaysia crude palm oil price as proxy for price movement of crude palm oil, exchange rate as proxy for currency exchange, and interest rates as proxy for monetary policy as opposed to FBMKLCI (a proxy for stock market performance). In this analysis, a multiple regression model been used to evaluate the relationship between independent variables and the dependent variable. One country has been chosen as a sample of this research over a span of five years. This is in line with previous research. In line with this development, it was proposed that price of commodity has effect to stimulate the stock market performance.

Keywords: Commodity, Multiple Regression Model, Stock Market, Crude Oil, Crude Palm Oil

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INTRODUCTION

1.1 INTRODUCTION

Commodity is a term used in trade to describe a basic product that can be interchanged with other products of the same kind. Commodities, whether raw or partially processed, are frequently the most important exports of emerging countries, and the revenues generated by them have a significant impact on their economies and quality of life. Commodities are frequently used as raw materials in the production of other goods or service. The quality of a given product can vary slightly from producer to producer, but it is generally consistent. Commodities must also meet defined minimum requirements, also known as a basis grade, when they are exchanged on an exchange. They tend to change quickly from one year to the next. The basic principle is that there is no difference between a product produced by one producer and a commodity produced by another. Commodities are typically sold and purchased through futures contracts on exchanges that standardise the amount and minimum quality of the commodity being traded. Grains, gold, beef, oil, natural gas, and wheat are some traditional examples of commodities.

Commodity price movements, combined with globalisation of the world economy and rising commodity market liberalisation, have resulted in significant changes that have a significant impact on the developing world's weaker economies. Commodity price volatility has an adverse effect on economic growth, financial resources, and distribution of income, and may result in increased poverty rather than poverty alleviation. For instance, Africa's commodities account for more than 90% of many countries' export earnings.

Commodity prices have dropped in relation to manufactured goods and services, and this trend is expected to continue. There is not much space for rising market volume enough to compensate for this. As a result, most countries' long-term development strategy must be to shift away from commodity production and toward manufacturing or service production. This is not something that can be accomplished immediately, and the difficulty of adapting to low and declining commodity prices had been exacerbated by the removal of official commodity