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THE RELATIONSHIP BETWEEN MACROECONOMIC VARIABLES WITH THE MOVEMENT
OF FTSE BURSA MALAYSIA SHARIAH EMAS INDEX PRICE

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ABSTRACT

This paper will provide evidence of relationship between macroeconomic variables with the price movement of FTSE Bursa Malaysia Shariah EMAS Index. The selected macroeconomic variables used in this study are interest rate, inflation rates and industrial production index. The development of shariah stock market in Malaysia is the main influence to indicate this study. Islamic stock market is one of the important indicators to the Malaysian economic during this century.

Keywords: FTSE Bursa Malaysia Shariah EMAS Index

CHAPTER 1

INTRODUCTION

1.0 Introduction

1.1 Background of Study

Malaysia is on their earlier development of Islamic finance, where to carry out all their activities based on Shariah compliant principles. The Islamic banking system which forms the backbone of the Islamic financial system plays an important role in mobilizing deposits and providing financing to facilitate growth. According to Tan Sri Dato' Dr. Zeti Akhtar Aziz, in her speech at the Islamic Finance Conference titled "Islamic Finance in Southern Asia: Local Practices, Global Impact"; "Enhancing Interlinkages and Opportunities – The Role of Islamic Finance", she emphasized that Islamic Finance is now among the fastest growing financial segments in the international financial system with an estimated average annual growth between 15 to 20 percent, supported with a growing diversity in the range of products and services offered.

Besides the remarkable growth of Islamic finance, the creation of benchmark indices such as the Dow Jones Islamic Market Indexes, the Financial Times Stock Exchange Global Islamic Index Series and the listing of Islamic financial instruments on international exchanges.

Islamic stock market is one of the important components in the whole Malaysian stock market. It plays the same role with another stock market which contributes to the development of country economies. Nowadays, Islamic stock market is functional as a

complementary to the Islamic banking system towards the development and expansion of Islamic banking in Malaysia and helps towards countries development. In Malaysia, Islamic stock market includes financial institutions and other institutions that provide securities and bonds.

The development of Islamic stock market in Malaysia contributes to the establishment of Kuala Lumpur Shariah Index (KLSI) on 17 April 1999. Later, this Shariah Index is known as FTSE Bursa Malaysia EMAS Shariah Index. This index is function as benchmarks to the investors in shariah qualification investment. Islamic Investment Market Units was establishing to ensure the development of Islamic investment market. In effort to consolidate the Islamic financial system internationally, Bursa Malaysia Second Board was launch which known as FTSE Bursa Malaysia Hijrah Shariah Index.

Present studies shown that there are the growing linkages between macroeconomic variables and the movement of stock prices for the developed countries over the last several years. The Malaysian stock market is of special interest as its unique features may trigger a different pattern of stock price movement either from the developed or other emerging economies. The factors affecting the price of stock can be viewed from micro or macroeconomic prospective. Many such studies are looking into the factors such as exchange rate, money supply, gross domestic products, interest rate, reserves and industrial production indexes.

1.2 Statement of Problem

FTSE Bursa Malaysia EMAS Shariah Index is main reference to the Islamic investors and fund managers. This index is responsible as one of a benchmark to the