THE RELATIONSHIP BETWEEN CURRENCY AND STOCK PRICE IN FOUR ASIAN CURRENCIES

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MELAKA

OCTOBER 2010

DECLARATION OF ORIGINAL WORK

BACHELOR OF BUSINESS ADMINSTRATION
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MELAKA

"DECLARATION OF ORIGINAL WORK"

I, NOOR IZZATUL LIANA BINTI MOHAMED (IC NUMBER: 870619-06-5510)

Hereby declared that:

- This work has not previously been accepted in substance for any degree, locally or overseas, and is not being currently submitted for this degree or any other degrees.
- This project paper is the result of my independent work and investigation, except otherwise stated.
- All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature: ______________________ ____________________

LETTER OF SUBMISSION

21TH OCTOBER 2010

The Head of Program
Bachelor of Business Management (Hons) Finance
Faculty of Business Management
Universiti Teknologi MARA
Kampus Bandaraya Melaka
75300 Melaka

Dear Madam,

<u>SUBMISSION OF PROJECT PAPER</u>

Attached is the project paper title **"**THE RELATIONSHIP BETWEEN CURRENCY ANDSTOCK PRICE IN FOUR ASIAN CURRENCIES" to fulfill the requirement as needed by the Faculty of Business Management, University Teknologi MARA.

Thank you,

Yours sincerely,

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1.1 BACKGROUND OF STUDY

As the currency effect on the stock market, it is finds that currency depreciation leads to a decline in the stock prices in the short run. This is explaining that there is negative relationship between exchange rates and stock prices.

Exchange rate depreciation suggests higher inflation in the future, which makes investors worried about the future performance of companies. Moreover, depreciation of the currency has great impacts to the investors but the impact may vary due to the different level of economic development. As a result, the stock prices drop. This hypothesis supported by data from UK markets.

Stock prices and exchange rates play an important role in influencing the development of economic of a country. The relationships between stock prices and exchange rates have frequently been utilized in forecasting the future trends for each other by fundamentalist investors. In an open economy, the exchange rates play an important role in the movements of the stock price especially for internationally investment.

Before economic crisis, Malaysian economy has been growing at an average of 8.5% per year for more than a decade. Accompanying this growing was a rapid acceleration of stock prices. According to the Azman- Saini et al (2006), an excessive amount of short term capital had led to an overheated stock market and asset prices which lead to the weakness of financial system. The following down of Thai (BATH) in 1997 had triggered a wave of currencies depreciation in the region. In the second half of 1997, the ringgit depreciated by 33.6% against dollar and reached the historic low of MYR 4.88 per dollar on January 7, 1998. In order to stabilize the ringgit, selective capital control were introduced on the September 1, 1998 which witnessed the ringgit was pegged at MYR 3.80 per dollar.

Following the sharp depreciation of the Thai baht on July 1997, the ringgit began to experience waves of speculative pressure. By the end of August 1998, a year later the ringgit had depreciated by 40% against the United States dollar relative to its level at the end of June 1997. The equity market was also affected. The Kuala Lumpur Stock Exchange Composite Index fell by 79.3% from a high of 1271.57 points in February 1997 to a low of 262.70 points on September 1, 1998. The effects then rippled through the banking and corporate sector.

In my study, I was focus only to the Asia country on the major currency to find the different impact. Thus, my sample countries are Malaysia (MYR), Singapore (SGD), Thailand (BHT) and Indonesia (IDR). In this research, I will only focus on the impact of currency based on the data collected after financial crisis. The data collected are from year 1999 to 2009.