



**DERIVATIVES MARKET: THE REACTION CAUSE BY TRADING
ACTIVITIES AND CURRENCY MOVEMENT TOWARDS THE
PRICE OF CRUDE PALM OIL**

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ABSTRACT

This paper examines the relationship between derivatives market trading activities (Trading volume and Open interest) and currency movement towards the price of commodities in Malaysia; Crude Palm Oil. Last year alone, Bursa Malaysia earned a significant 2 percent growth worth RM148.01 millions in derivatives as at December 2015. Apart from there, 11 million of Futures Crude Palm Oil (FCPO) contracts were traded. Secondary data were obtained from Bursa Malaysia Derivatives, Bank Negara Malaysia and Malaysia Palm Oil Berhad. Based on the findings, we found that there is a strong positive correlation with open interest while negative correlation exist with MYR exchange rate with price of CPO.

CHAPTER 1

Introduction

This chapter provides readers with an overview of the whole research interest. The chapter begins with a discussion of the background of the study and some motivating issues justifying the purpose of this research. Based on these justifications, three research objectives are identified in answer to the research questions. Finally, the chapter ends with the significant of the studies.

1.1 Background of the Study

Within the scope of finance, financial system acts as a medium to transfer funds from a surplus entities to those who has a shortage of funds. In simpler form it is a place that gather traders or market participants and to facilitate trading of financial instruments; be it in primary market or capital market.

In the era of globalisation, it is no longer practical to exchange actual commodities i.e. the physical delivery of Crude Palm Oil (CPO) for trading purposes that take places everyday. Instead, agreements are made in order to exchange these commodities for cash or other assets within a specified maturity. The value of the underlying asset change so does the value of the derivatives. Derivatives market is a market that trade financial instruments that the value derived from the underlying asset as such commodities, foreign exchange and common stock. The derivatives market is widely used for the purpose of managing risk, that enable participant to learn about price discovery. Bacha & Merican (2003), said that the financial derivatives has seize a phenomenal grow over recent the years. Nevertheless, derivatives market is consider to be a modernistic type of trading, but it has become preferred trading among investors due to profitability and ability to serve as a protector towards fluctuations of price.

1.2 Derivatives Market In Malaysia

Ever since the financial crisis 1997 the development of derivatives market in Malaysia has captured a significant positive growth. Chong K S (2012), believed that the growing phase can be proven through the performance of the market itself. Mitting (2012), also agrees with the statement