UNIVERSITI TEKNOLOGI MARA

EXCHANGE RATE EXPOSURE REFINEMENT APPROACH ON LARGE NON-FINANCIAL FIRM'S SHARE RETURN IN SELECTED ASIAN COUNTRIES

JARATIN BIN LILY

Thesis submitted in fulfillment
of the requirements for the degree of
Doctor of Philosophy
(Business Management)

Faculty of Business Management

September 2018

ABSTRACT

The purpose of this study was to investigate the stylised exchange rate exposure among large non-financial firms on the selected Asian economies (Indonesia, Malaysia, Philippines, Thailand, Bangladesh, Pakistan, Sri Lanka and Vietnam). Other than relationship assumptions (symmetric, asymmetric and time varying), this study provided an insight how market thinness affects the efficiency of exchange rate exposure model. This study applied different types of methods namely the Autoregressive Distributed Lag (ARDL), the Nonlinear Autoregressive Distributed Lag (NARDL) and a time-varying coefficient approach with GARCH (1,1) specification. Additionally, the Dimson-Fowler-Rorke (DFR) method was applied to correct bias Ordinary Least Squares (OLS) market betas. The findings mainly support the exchange rate exposure theory indicating that exchange rate is one of important factors in decision-making policy. Even though, symmetric relationship assumption is still valid, examining the exposure from different approaches such as asymmetric and time varying is important to explain or weaken the exchange rate exposure puzzle. In addition, refinement in existing exchange rate exposure model at a certain extent has improved the efficiency of the existing exposure model. Furthermore, sample countries especially in Indonesia, Vietnam and Malaysia remained supported by an asymmetric exchange rate exposure with a positive exchange rate shocks (a weaker home currency) having a stronger effect on share returns, as compared to a negative exchange rate shocks (a stronger home currency). Furthermore, both symmetric and asymmetric analysis showed that a majority of the exposed firms had negative coefficients implying net-importers especially in emerging market. The results also supported the argument of multiple exchange rate movement exposure. Furthermore, there was evidence that some firms across sample countries tended to have bias market OLS betas. The alternative beta estimator (via the DFR's method) had appeared to reduce the bias OLS market betas, especially in the frontier market. Even though there were no significant result changes between the unadjusted and adjusted exchange rate exposure models except for symmetric approach, diagnostic tests revealed that the adjusted model tended to be more stable. Moreover, the results also showed evidence that the exchange rate exposure is time varying for most sampled countries, where the size and direction of the exposure coefficient also change over time. In addition, there is a significant number of exposed firms during the Global Financial Crisis (GFC) periods (2008-2010) implying the importance of macroeconomic shocks on exchange rate exposure among firms. Given the overall results, the study results provide evidence consistent with the good market theory indicating that exchange rate is one of important factors in decision-making policy. In addition, market characteristics such as thin trading at the certain extent affect the efficiency of the exchange rate exposure model suggesting that adjustment is needed especially in the segmented market in order to capture the true value of firm exchange rate exposure. Looking ahead, these moderate findings in selected Asian countries coupled with broadly supportive evidence specific to each market, should help policymakers, firms and investors to understand stylised exchange rate exposures in preparation for kick-starting the much-needed mitigation strategies. Morever, researchers may develop or modify the exchange rate exposure models to suit various global markets in order to capture the stylised effects of exchange rate movements on share returns.

ACKNOWLEDGEMENT

Firstly, I wish to thank God for giving me the opportunity to embark on my PhD study and for completing this long and challenging journey.

I would like to express my deep and sincere gratitude to my main supervisor, Associate Prof. Dr. Imbarine Bujang for giving me the opportunity to do research and providing invaluable guidance throughout my research. His enthusiasm, vision, honesty and motivation have deeply motivated me. He has taught me the how to carry out the research and present the research works as clearly as possible. It was a great privilege and honour to work and study under his guidance. I would also like to thank him for his friendship, understanding, and great sense of humour. My thanks also goes to Dr. Aziz Karia, my second supervisor, who has supported me throughout my thesis with his patience, knowledge and valuable comments.

My appreciation also goes to the Ministry of Higher Education (MoHE) Malaysia and Universiti Malaysia Sabah for giving me opportunity to further my PhD study and provide financial assistance. This work would not have been possible without the financial support from them.

I would like to say thanks to my friends and research colleagues, Prof. Dr. Rasid Mail, Associate Prof. Dullah Mulok, Dr. Rosilee Asid, Dr. Sidah Idris and Dr. Nelson Lajuni for their constant encouragement. I express my special thanks to Dr. Mori Kogid for his genuine support and guidance throughout this research work, and help me in my time series models.

In my daily work, I have been blessed with a friendly and cheerful group of fellow students. Dr. Aziz Lai and Dr. Debbra Toria have given me inspiration and motivation. They are young but they have an abundant of energy and knowledge that have motivated people around them. Ahmad Fauze kept us entertained with his huge collection of funny tales and stories. Diana Baharuddin, Nurul Nazurah Atu and Nurziya Muzzawer for their precious time in our study time.

Nobody has been more important to me in the pursuit of this research than the members of my family. I am very much thankful to my loving and supporting wife, Winnie Kinsui, for her love, understanding, prayers and continuing support until I completed this research work. I also express my thanks to my sisters, brothers, sister in laws and brother in laws for their support and valuable prayers. My thanks also extend to Admond Kinsui for helping me to organise the tables and figures in my thesis. This thesis is also dedicated to the loving memory of my very dear late father and mother for the vision and determination to educate me. May God bless both of you.

Finally, my thanks go to all the people who have supported me to complete the research work directly or indirectly.

TABLE OF CONTENT