



UNIVERSITI TEKNOLOGI MARA

**THE INFLUENCE OF MACROECONOMIC VARIABLES
ON MALAYSIA ISLAMIC STOCK MARKET**

AHMAD SYAZWAN BIN AHMAD TAMIZI

2020974661

Bachelor of Business Administration (Hons) Investment Management

Faculty of Business and Management

FEBRUARY 2022

ABSTRACT

This research aims to investigate the relationship of macroeconomic variables on Malaysia Islamic Stock Market by examining consumer price index, industrial product index, money supply, exchange rate, Islamic Interbank Rate as the independent variables whether its influence toward and FTSE Bursa Malaysia Emas Shariah Index as the dependent variable or not. The study is conducted for a period from January 2010 until January 2021 (133 observations) on monthly basis. Secondary data are used in this study which is the data is collected from the website of Thomson Reuters Eikon and Bank Negara Malaysia. Time-series data are used, and Descriptive Analysis, Correlation Analysis and Multiple Regression Analysis are conducted for this research. The finding of this study showed that industrial production index has positive significant impact towards the FTSE Bursa Malaysia Emas Shariah Index. Meanwhile, money supply, exchange rate and Islamic interbank rate have the opposite result which is insignificant impact to the FTSE Bursa Malaysia Emas Shariah Index. As for consumer price index must be omitted from the model because it has high correlation toward another independent variable.

ACKNOWLEDGEMENT

First and foremost, I want to thank Allah SWT for providing me with the opportunity and strength to complete my final year project in this one whole semester.

Overall, I'd want to express my gratitude to my advisor, Sir Kamal Fahrulrazy Rahim, my coordinator, Madam Yuslizawati, and my second examiner, Sir Wan Mohd Farid Wan Zakaria, for allowing me to study and participate in this final year project paper.

I appreciate all your help and advice in completing this report. Next, I'd want to express my gratitude to all my classmates and friends who have offered their assistance in order to increase the quality of my work. This work will be impossible to do without their assistance.

TABLE OF CONTENTS

AUTHOR'S DECLARATION	2
ABSTRACT	3
ACKNOWLEDGEMENT	4
TABLE OF CONTENTS	5
LIST OF TABLES	7
LIST OF ABBREVIATIONS	8
CHAPTER ONE	9
INTRODUCTION.....	9
1.1 Introduction	9
1.2 Background of the Study.....	11
1.3 Problem Statement	14
1.4 Research Questions	15
1.5 Research Objectives	15
1.6 Significance of the Study	16
1.7 Scope of the Study.....	16
1.8 Limitations of the Study.....	17
1.9 Definition of Key Terms	18
CHAPTER TWO	20
LITERATURE VIEW	20
2.1 Introduction	20
2.2 Literature Review on Macroeconomic Variables and Stock Price	20
2.3 Literature Review on Consumer Price Index	21
2.4 Literature Review on Industrial Production Index	21
2.5 Literature Review on Exchange Rate.....	22
2.7 Literature Review on Islamic Interbank Rate	23
2.8 Theoretical / Research Framework	24
2.9 Summary	25
CHAPTER THREE	26
RESEARCH METHODOLOGY	26
3.1 Introduction	26
3.2 Sampling.....	26

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This level of instability produces anxiety for many parties since economic conditions have an impact on stock market prices. Academic and practitioner research has focused on the interactions between stock market and macroeconomic issues (Kwon & Shin, 1999). Not just for industry players, but also for macroeconomic policymakers, understanding these inter-relationships between stock market and macroeconomic factors is critical. The health of an economy, as well as the depth of its capital markets, are critical for the creation of a strong real sector in the system and the development of any country (Vežzagic, M., 2013).

In recent decades, Islamic finance has garnered a lot of worldwide attention, and it has drawn a lot of capital from both Muslim and non-Muslim investors. Islamic finance is controlled by Sharia law, which prohibits interest (riba), excessive risk-taking (gharar), and gambling (maysir), while promoting risk-sharing, asset-backed financial transactions, and ethical investing. One aspect of Islamic finance that has received a lot of interest is the establishment of Islamic equities indexes to measure the performance of Sharia-compliant firms.

Economists, politicians, and the investment community have been curious about the variables that impact stock market behaviour and macroeconomic issues for a long time. Not just for business participants, but also for economic policymakers, recognising these interrelationships between the stock market and macroeconomic concerns is critical. The state of an economy, as well as the depth of its capital markets, are both crucial for the growth of a strong real sector in the system and any country's success.

There has been a lot of study on the link between the stock index and various macroeconomic indicators, both in established and emerging nations (Maysami & Sims, 2002, 2001a, 2001b; Singh, Mehta, & Varsha, 2011; Samadi, Bayani, & Ghalandari, 2012). Malaysia's economy is shifting from a middle-income to a high-income country,