CHAPTER I

INTRODUCTION

1.1 Background of The Research

Many studies about relation between macroeconomic indicators and the stock market performance have been done found that macroeconomic and fiscal environment is one of the building blocks which determine the success or otherwise of securities market (Paddy, 1992). Coleman and Tetey (2008) examined the effect of macroeconomic variables on Ghana Stock Exchange. Their results suggested that macroeconomic indicators should be considered for investors in developing economies. But there is still limited research on how macroeconomic indicators affectting stock market in developing economies especially emerging markets. This motivates researcher to examine the degree to which those conclusion is applicable to Indonesia and Malaysia as emerging markets.

As an emerging market, Indonesia and Malaysia are sought by investors for the prospect of high returns, as they often experience faster economic growth. Indonesia often struggles to compete with the likes of India and China for investor interest. But even as sentiment towards emerging markets remains wary, the standout performance of Jakarta's stock market and a new confidence in the government of Southeast Asia's largest economy is attracting attention (www.next.ft.com). As stated in factsheet financing Malaysia, in 2013 Malaysia gained recognition as an advanced emerging market, with leading positions in regional bonds and global islamic capital market. It has one of the largest unit trust industries in ASEAN, the third largest bond market in Asia as a percentage of GDP and the largest sukuk market in the world.

The good economic performance of Indonesia and Malaysia as emerging market, makes the relation between economic condition and stock market condition very interesting to be discussed. The direct effect of money on stock prices sometimes referred to as the liquidity effect. As an increase or decrease in the money supply influences economic activity, it will eventually impact corporate earnings, dividends, and returns to investors (Hirt and Block, 2006). When the GDP increase, the demand of money will be increase because of the power of transaction increase. When the price level is increase, the rate of inflation will getting higher, this makes interest rate tend to increase. So these three macroeconomic indicators are relates each other.

Based on that understanding, macroeconomic indicators that used in this research study are gross domestic product growth rate, inflation rate, and interest rate. As stated by Coleman and Tettey (2008), generally, the barometers for measuring the performance of the economy include real GDP growth rate, rate of inflation and interest rate. The rate of inflation and interest rate can be singled out to affect stock market activity as they impinge directly on the state of corporate activity in the country. The stock market performnace will be assesed from market liquidity, market capitalization, and stock return. Therefore, in this research, an understanding of macroeconomic indicators and stock market performance indicators may be useful for investors and investment managers.

To represent the Indonesia stock market this research study uses Jakarta composite index (JKSE) and FTSE Bursa Malaysia KLCI index (KLSE) as representation of Malaysia stock market. JKSE is a modified capitalization-weighted index of all stocks listed on the regular board of the Indonesia Stock Exchange (www.bloomberg.com) that is why the researcher choose JKSE as the index which can represent the Indonesia stock market clearly. Besides that the election of KLSE as the choosen index is based on the reason that FTSE Bursa Malaysia KLCI Index comprises of the largest 30 companies by full market capitalization on Bursa Malaysia's Main Board (www.bloomberg.com) .

So based on that explanation, this research study will examine the impact of macroeconomic indicators which are gross domestic product growth rate, inflation rate, and interest rate on stock market performance that assesed from market return, market liquidity, and market capitalization in Indonesia and Malaysia.

1.2 Problem Statement

Based on the explanation of the background of the research study, the main problem of this study is "What is the impact of macroeconomy indicators to the stock market performance? The case of Indonesia and Malaysia"

1.3 Scope of The Study

a. This study is focused on emerging stock market performance which are Indonesia stock market and Malaysia stock market.

b. The data that used in this research study comprises monthly from January 2006 until December 2015. However, the existence of the data depends on the availability.

c. The macroeconomic indicators that will be used are growth of Gross Domestic Product (%), Inflation rate (%), and Interest rate (%) from both countries which are Indonesia and Malaysia.

d. The stock market performance indicators that will be used in this research are market liquidity (shares traded), market capitalization (in IDR and MYR), and market return (%) from both stock market index which are Indonesia (JKSE) and Malaysia (KLSE).

e. The money supply that use in this research is M2, that includes cash, savings deposit, money market mutual funds, and other time deposits.

f. Indonesia stock market index represented by Jakarta Composite Index (JKSE) as the index and Malaysia stock market index represented by FTSE Bursa Malaysia KLCI index (KLSE) as the index.

1.4 Objective of The Research

The objective of this research is to analyze the impact of the macroeconomic indicators including gross domestic product growth rate, inflation rate, and interest rate on the stock market performance. The case of Indonesia and Malaysia stock market.

1.5 Benefits of The Research

The researcher hopes this research will be able to bring benefits toward :

a. The researcher : this research could give better understanding and information about how macroeconomy indicators give impact to emerging stock market performance, esspecially Indonesia and Malaysia stock market.

b. Academic contribution : this research could give additional information about macroeconomy indicators and its impact to emerging stock market performance, in case of Indonesia and Malaysia stock market.

c. The readers : this research can help readers who want to know about the impact of macroeconomy indicators on emerging stock market performance.

1.6 Originality of The Writing

This research followed the previous researches tat have been done before by other researchers in other country's stock markets. All of the writing, the research data, data analysis, and conclusion in this research study was collected, analyzed, and explored by the researcher, except for the written sources which were used as the refferences in this research study.

1.7 Writing Structure

This research is divided into 5 chapters, which are :

Chapter I : Introduction

This chapter consists of the background of the research study, problem statement, scope of the study. Research objectives, benefits of the research, originality of the writing, and writing structure.

Chapter II : Theorotical Background

This chapter describes the theoritical background relevant to this research. It is divided into three parts; they are the review of the literature, review on the related study, and the hypothesis. The review of the literature discusses the theory employed in the research study to analyze the problem. The review on related studies provides some results from research studies on the same area of concern by other researchers. The hypothesis of this research is the last part of this chapter.

Chapter III : Methodology

This chapter describes the research design and it consists of sample, research data, data gathering and data source, and research variables and method of analysis.

Chapter IV : Data Analysis

This chapter describes the analysis of the collected data and interpretation of data. It is divided into two parts, which are image of the research data and analysis

Chapter V : Conclusion and Suggestions

The last chapter of this study consists of the conclusion, managerial implication, limitation of the research, and suggestion for the next research.