

**A STUDY ON THE DYNAMIC RELATIONS BETWEEN MACROECONOMIC  
VARIABLES AND STOCK MARKET PERFORMANCE**

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Dear Associate Professor,

**FINAL RESEARCH REPORT "A STUDY ON THE DYNAMIC RELATIONS BETWEEN  
MACROECONOMIC VARIABLES AND STOCK MARKET PERFORMANCE".**

With reference to the above, enclosed is a copy of the Final Research Report entitled "**A Study on The Dynamic Relations Between Macroeconomic Variables And Stock Market Performance**" done by a group of researchers from UiTM Sarawak Branch.

Thank you.

Yours sincerely



**HUZAIMI HUSSAIN**

**Leader  
Research Project**

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## **ABSTRACT**

The purpose of this study is to investigate the dynamic relationship between stock market performance and macroeconomic variables in Malaysia. The Kuala Lumpur Composite Index (KLCI) is used to proxy for the stock market performance and macroeconomic variables employed are three-month treasury bills rate, inflation rate, and economic growth as measured by gross domestic product. This study utilizes cointegration and causal relationship approach to accomplish the research objectives. The findings from this study exhibit that there are long run cointegration relationship between stock market performance and macroeconomic indicators. Moreover, results of further analysis generally show that all the indicators have substantial impacts on KLCI with the most immediate impact coming from treasury bills rate. In addition it is shown via the variance decomposition procedure that treasury bills rate is highly exogenous. The major policy implication of this study is that market performance can be monitored by Central Bank through treasury bills rate.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 ECONOMIC VARIABLES AND STOCK MARKET PERFORMANCE**

The Malaysian Stock Market had been experiencing heavy losses since the devaluation of the Thai currency in 1997 and it was signaling the currency crisis in the Asian region. However, Malaysian Government led by Dr. Mahathir Mohamad has bounced back by taking a bold step in fighting the speculation against Ringgit. The establishment of the National Economic Action Council (MTEN) and the imposition of selective exchange controls and pegging of Ringgit brought back the confidence in financial markets particularly the equity market. With this unilateral policy, the Malaysian economy has recovered and officially out of recession. It was also due to the strong economy rebound in the third quarter of 1999 and ever since has shown a more positive growth.

The current economic indicators show an encouraging future for the equity investment to grow in Malaysia. This is due to economic recovery with stable and low interest, high liquidity in the economy, profit gained by corporate sector and reforms implemented by the government to reinforce the banking system.