SUMMARY

Rahel Arrahma. The Impact of Major Stock Market and Foreign Currency with The Volatility in ASEAN 5 Foreign Exchange Market. Supervised by NOER AZAM ACHSANI and TRIAS ANDATI.

Trading world transactions in the era of globalization is closely linked to foreign exchange trading. Worldwide investment activities conducted on an international scale such as foreign direct investment (FDI), and portfolio investment in capital market and money market transactions always involve foreign exchange trading. Additionally, integration and interdependence in the financial markets are now increasing. It is also possible that the mechanism of transmission of information in case of change in one market which then impact on other markets.

This study used Vector Autoregressive and ARCH/GARCH model. The purpose of this study is three parts. First to investigate volatility transmission of stock price and exchange rate. Second to estimate the impact of major external stock and foreign currency on five foreign exchange market in ASEAN. Third, this study is to predict potential spillovers from major external stock and major foreign currency on five foreign exchange market in ASEAN. The data come from three major stock markets (the US SP500, London FTSE, Hongkong Hangseng) and four major foreign currency (the euro, poundsterling, Japanese yen, and Hongkong dollar), and five foreign exchange market in ASEAN.

Furthermore, this study provides evidence there are linkages between developing country equity and ASEAN 5 foreign exchange markets. In addition, the results of the analysis Impulses Response Function showing the response given by ASEAN 5 foreign exchange market to shocks major stock markets and currencies in the world is relatively small. It is also evident with FEVD analysis showing that the influence of ASEAN 5 forex market itself is greater than the effect of other variables. Then the results of the analysis of ARCH / GARCH shows the volatility spillover during the study period in the foreign exchange markets ASEAN 5 countries. Some sources that cause spillover in the forex market ASEAN 5 countries, the biggest source of volatility spillover is given by the Hong Kong dollar.

Managerial implications that can be done, the first is to study the impact and volatility spillover, investors who play in the forex market can determine early warning system that is used to anticipate whether and when a country affected by the crisis (financial shock) or economic instability. Second, the company can hedge foreign currency liabilities in the future, with the currency futures contracts. Third, the main source of volatility spillover ASEAN foreign exchange market is the Hong Kong dollar, it can perform long and short position to see the movement of the Hong Kong dollar.

Keywords : ARCH/GARCH, exchange rate, major stock indexes, VAR, volatility spillover