SUMMARY

AMRAN ADRI. Analysis of Volatility Transmision From Global Foreign Exchange Market to Indonesian Rupiah Exchange Rate. Supervised by NOER AZAM ACHSANI and D.S. PRIYARSONO

Globalization, rapid development of information and communication technology create possibility for government, companies, and investors to use any foreign exchange. As a result, the shock in foreign exchange market in particular country could affect other country`s exchange rate

Indonesian rupiah (IDR) is very vulnerable by external shock . The impact of crisis of USA in 2007-2009 to IDR could be evidence. On 11 November 2008, IDR depreciated by 16.88%. Only 17 days later, on 28 november 2008, IDR depreciated -the second biggest depreciation in Asia Pasific- by 25%. At that time, IDR depreciated from 9300/USD to 12000/USD.

The aims of this study are to analyze the foreign exchange rate interdependence and volatility spillover. This research is divided into two sections. First, investigating the existence foreign exchange market volatility and Indonesian rupiah exchange rate. The observed global foreign exchange market are USD/SDR, EUR/USD, GBP/USD, JPY/USD, AUD/USD, CHF/USD, SGD/USD, HKD/USD, KRW/USD and IDR/USD. Second, analysis of transmission volatility with observing the speed response as well as the variance decomposition from those foreign exchange markets to Indonesian rupiah exchange rate to USD (IDR/USD). This study combines Exponential Generalize Autoregressive Conditional Heteroscedasticity (EGARCH) and Vector Auto Regressive (VAR) to analyze the relationship between global foreign exchange market volatility to Indonesian rupiah exchange rate.

Result of the first section shows the existence of negative volatility in all global exchange rate and shows IDR/USD has lower volatility than other foreign exchange rate. In second section, impulse response analysis shows that volatility of AUD/USD has the largest and most persistence effect on the IDR/USD, with the SGD/USD having the second largest effect. Meanwhile, variance decomposition analysis shows that the variances of IDR/USD are mostly composed by themselves. Therefore, AUD/USD and SGD/USD can be used for early warning system for IDR/USD

According IRF and FEVD, the government can anticipate big impact of global crisis by export and import diversification and by monitor portfolio investments, especially from Australia and Singapore. As the result, AUD/USD and SGD/USD can be used as early warning system for IDR/USD.

Keyword: EGARCH, Exchange Rate, Globalization, Volatility Transmission,VAR.