

SUMMARY

TOMMY ANDIKA. The Macroeconomic Surprise Effects on LQ45 Stock Return Volatility. Supervised by IDQAN FAHMI and TRIAS ANDATI.

The macroeconomic news announcement is one of the interesting topic because it can affect the asset prices in financial markets. The asset price in financial market will adjust to the information obtained. These adjustments can be over or under of expectation caused by investors' buying and selling decisions on information received to maximize their profit. The surprise from the announcement of macroeconomic news makes investor quickly adjust the previously expectation with the actual news that has been released, causing high volatility in asset returns. Volatility describe the level of risk on the financial market. High volatility represents a high risk, whereas low volatility represents a low risk.

The globalization makes investors not only observe the domestic macroeconomic news announcement, but also need to observe the economic fluctuation and extraordinary event that occur in other countries, especially in developed countries. Several previous studies have shown that financial market return in Indonesia fluctuate not only because of the surprise of the domestic macroeconomic news announcement, but also surprise from developed countries, especially the United States (US). Therefore, in this study the macroeconomic news surprise analyzed consisted of domestic macroeconomic news (Bank Indonesia benchmark interest rates, consumer price index, trade balance, and gross domestic product) and U.S. macroeconomic news. (consumer price index, producer price index, ISM manufacturing, and unemployment).

The research object will be focused on stock that actively traded and have a large market capitalization that is classified as LQ45 stocks. LQ45 stocks are chosen because they meet the criteria for good liquidity, large market capitalization, high trading frequency and good prospect for growth and for financial condition. The total stocks studied were 25 stocks chosen because they were consistently in the LQ45 index during the study period. The purpose of this study was to analyze the positive (negative) surprise effect of the announcement of U.S. and domestic macroeconomic news to the LQ45 stocks return volatility. So investor can find out which stocks are very volatile and risky and how to make an investment strategy.

The analysis show that negative surprise from the Bank Indonesia benchmark interest rate, positive surprise from Indonesia's trade balance, positive surprise from Consumer Price Index US, and positive surprise from ISM Manufacturing US have a significant effect in reducing volatility return and making most LQ45 stocks return more stable and less risky. While if observed in each stock, there are various directions of influence but generally still follow the movement of the index. Investor must know their respective risk profile and make investment strategy according to their risk profile. The risk averse investor can invest to PT Astra International Tbk (ASII), PT Lippo Karawaci Tbk (LPKR) and PT AKR Corporindo Tbk (AKRA) which have low volatility during the release of surprise macroeconomic, while the investor who are more willing to take risk can invest to PT Astra Agro Lestari Tbk (AALI), PT Vale Indonesia Tbk (INCO), and

PT. Media Nusantara Citra Tbk (MNCN) which respond to many surprises of macroeconomic news or can also implement active trading strategy that utilize the volatility momentum when released the macroeconomic news to make a profit at the right time.

Keywords: GARCH, LQ45 stocks, macroeconomic surprise, volatility of return

