

## **Chapter 5: Conclusion and Recommendations**

### **5.1 Summary and Conclusion**

This study analysed the relationship between stock price and the currency exchange rate of Ringgit Malaysia against US Dollar before pegging and after depegging of Ringgit Malaysia. It was found that stock price had strong correlation with currency exchange rate even though the coefficient of correlation was lower after depegging of Ringgit Malaysia. It was also found that both the stock price and currency exchange series were not stationary for both periods, and the causality relationship and cointegration between the two variables had waned after depegging of Ringgit Malaysia. With various statistics shown in previous results discussion section, the implementation of capital control, though already been lifted, could still have residual impact on the stock market and it appears to be an unfavourable one.

Export-oriented countries always monitor the currency exchange movement closely to make sure they stay competitive as exporters, as explained by good market approach. Even though Malaysia has export driven economy, the results reveal that portfolio balance approach is more appropriate to be used to explain the relationship between stock price and currency exchange rate, rather than good market approach as the stock market and strength of Ringgit Malaysia is positively correlated. Therefore, strengthening of Ringgit Malaysia is not as negative as most export oriented countries fear of if we see the equity market as a whole rather than from certain individual company point of view. The Malaysia Central Bank Governor Tan Sri Zeti Akhtar Aziz expressed support for stronger Ringgit and

remarked “So as long the strength of the ringgit reflects the strength of the underlying economy, that is a positive development” and the former Prime Minister Tun Abdullah Ahmad Badawi commented “Malaysia wanted a stronger currency and exporters would be able to cope with a slow and steady appreciation” when the Ringgit was at the strongest level since depegging of Ringgit Malaysia.<sup>26</sup>

Malaysia banned offshore trading of the ringgit in year 1998 and pegged the currency to the dollar as regional currencies collapsed during the Asian financial crisis. The offshore trading ban is the last remnant of those controls. The Malaysia Central Bank Governor stated in October 2003<sup>27</sup> that “Malaysia will consider removing this non-internationalization of its currency when we have a very developed and vibrant foreign exchange market” as to make the economy more attractive to foreign investors. She added that “easing the restrictions on the offshore Ringgit trading will help Malaysia develop its domestic foreign-currency market by increasing the volume of transaction.”

As both the currency exchange rate and stock price have significant impact on the economy, sound understanding of the relationship is imperative especially serving as guidelines for decision makings by the government that will benefit the economy of the country.

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<sup>26</sup> Source: Reuters’ news article “Malaysia’s c.bank chief warms to stronger Ringgit” dated 21 March 2007. <http://www.reuters.com/article/idUSL2149467320070321>

<sup>27</sup> Source: The Star article “Offshore ringgit trading ban may be lifted” dated 24 October 2007. <http://biz.thestar.com.my/news/story.asp?file=/2007/10/24/business/19253362&sec=business>

## **5.2 Limitations of the Study**

This study was carried out to establish the relationship between stock price and currency exchange rate. However, both the variables are influenced by many other factors which were not included in this study. These factors include as economy growth, size of economy, trade size, degree of development, exchange rate regime, interest rate, political stability, financial openness and liberalization, size and maturity of financial markets, inflation rate, contagion effect from world markets, psychology and behavior of participants in the markets etc.

## **5.3 Suggestions for Future Research**

A more comprehensive study taking into consideration of more variables affecting market could be performed to have clearer picture of the relationship between stock price and currency exchange with other variables.

Besides, as the movements of stock price and Ringgit went through different phases and financial events, a study between the relationship could be carried out for various periods according to phases and periods during certain financial events such as the period where the Ringgit was quite stable against the US dollar before Asian Financial Crisis, during economy recession in mid eighties, during Asian Financial crisis, during commodities bubble between year 2006 and 2007, during global financial crisis in year 2008 etc to understand how the behavior of the relationship in different phases and financial events

A study could also be carried out after the Ringgit is fully liberalized in future to compare the relationship before pegging, after depegging and after full liberalization of Ringgit Malaysia.