ABSTRACT

USD-IDR exchange rate changes and Indonesia Stock Index continued to fluctuate and tend to weaken in May 20, 2013 to November 20, 2015. The fall of the exchange rate is influenced by several factors such as, the imbalances from balance of trade, the strengthening of the currency in the developed countries, and many foreign investors withdraw its shares from Indonesia stock exchanges (JCI). JCI will reflect Indonesian economy. The volatility of the exchange rate and JCI will be examined to determine whether there is contagion effect (spillover) among changes in foreign exchange markets and capital markets.

The objective of this research was to determine the existence of volatility spillover between the foreign exchange market and the capital market and also the direction of the volatility spillover between the foreign exchange market with the capital market, which each market is represented by the change in exchange rate USD-IDR and JCI.

Data were collected from reference rate JISDOR USD-IDR that was obtained from the Bank Indonesia official website and the JCI obtained from the Indonesian Stock Exchange official website. To answer the question of this study, authors used time series data to be analyzed by several methods, which is the unit root test with Augmented Dickey-Fuller, EGARCH, and Granger causality test. All this analysis methods is calculated using statistical software EViews 8.

The result showed that data rate of USD-IDR is not stationary in levels and stationary in first difference by changing the exchange rate changes daily data into the return rate data. Data JCI also not stationary in levels and stationary in first difference by changing daily data changes into the return JCI data. But, exchange rate and JCI data still have heteroskedastisity problem so it can be analyzed by EGARCH. Results of the EGARCH analysis showed that there is volatility spillover between the foreign exchange market and capital market. Then, Granger causality test shows that there is one way volatility spillover from capital market to foreign exchange market. So, only volatile on the capital markets led to volatile in the foreign exchange market. However, volatile in the foreign exchange market does not cause volatile in the capital markets.

This research can be a source of information to investors. That JCI could be used to predict the movement of the exchange rate at the foreign exchange market and the information can help to take action to reduce the risk of transactions in the foreign exchange market if the stock market is volatile.

Keywords : Capital Market; Foreign Exchange Market; Volatility Spillover; EGARCH