

ABSTRACT

Since CAFTA (China-ASEAN Free Trade Area) was established, the relationship of bilateral and multilateral between countries that include in CAFTA has a strong relationship in some section and one of the section is economic section and especially for Stock Market of the countries. It cause interdependencies between CAFTA's member like China, Singapore, Malaysia, and Indonesia. A strong interdependencies between China, Singapore, Malaysia, and Indonesia cause the probability of spillover may happen. The Crisis in China with devaluation of Yuan and the reduction rapidly of stock price indices can make spillover. And also for high volatility of stock markets between each countries has high possibility cause spillover because of the crisis that happened. Negative Shock from the crisis that happened can cause the assymetric effect on the movement of the volatility stock market in China, Singapore, Malaysia, and Indonesia.

The purpose of this research is to examine the relationship of volatility spillover in China's stock market, Singapore's stock market, Malaysia's stock market, and Indonesia's stock market. So, this study will detect how high the countries can influence one of another countries.

Data were collected from the daily closed price from each country's indices those are SHCOMP (China), STI (Singapore), KLSE (Malaysia), and IHSG (Indonesia). The data were collected from Financial Times's website. To answer the problem of the research, author used time series data that will be analyze with some of method. The method are Unit Root Test with Augmented Dickey-Fuller, Johansen Cointegration Test, Granger Causality and EGARCH. All method were calculated with EViews software.

The result showed that the closed stock price of China, Singapore, Malaysia and Indonesia are not stationary in levels and stationary in first difference by changing daily closed price into the return of stock price. The result also showed there is cointegration on China, Singapore, Malaysia and Indonesia. It means there is long run relationship between China, Singapore, Malaysia and Indonesia. The result of Granger Causality test that there are two direction causality relationship between China and Singapore, China and Indonesia, Singapore and Malaysia, and Malaysia with Indonesia. And the one direction causality relationship found in Indonesia to Singapore. But, in China and Malaysia there is no causality relationship. It means the short run relationship not always influencing between the countries. The data of stock price from four countries have heteroscedasticity so this research can be analyze with EGARCH. The result from EGARCH analysis showed that there is two direction of volatility spillover between China, Singapore, Malaysia, and Indonesia. From that result, The Author can conclude that the shock that happen in one of country can influence the other country of China, Singapore, Malaysia and Indonesia. And the shock that happen can be influence between one countries to another countries.

This research can be resource of information for investor as a consideration to make invesment decision in China, Singapore, Malaysia, and Indonesia.

Keywords: CAFTA, Stock Market, Volatility Spillover, Causality, EGARCH.