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DETERMINANTS OF THE STOCK MARKET PRICE DURING THE COVID-19 PANDEMIC: CASE STUDY ON THE JAKARTA COMPOSITE INDEX (JCI)

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Abstract

The purpose of this study is to determine the impact of the currency (USD against IDR), gold price, and inflation on the share price of the Jakarta Composite Index (JCI) during the Covid-19. According to the ministry of health of Indonesia, the covid-19 outbreak came to Indonesia in March, yet in April, the health ministry reported the case of covid-19 amount 1,677. During the Coronavirus, the stock price is one of the firsts affected by the Covid-19, causing it to drop. The period of this study is one year by using the daily data from 3 March 2021 to 21 June 2021. The data observations are collected from sources, namely investing.com, as well as research economic. The data observations are processed using the SPSS v.23 software using the multiple linear regression model and the classic assumption test. The findings of the study showed that the currency has a negatively impact and significance on the JCI, then the gold has a positive and insignificance relationship on the JCI, while the inflation has a negatively and insignificance effect on the JCI. The results of this study give advantages for the investors, academics, and companies to consider in determining investment strategy, especially for those related to future studies pertaining to the share price during the pandemic.

Keywords : ***currency, gold price, inflation, stock price, Covid-19.***

Abstrak

Tujuan dari penelitian ini adalah untuk mengetahui pengaruh nilai tukar mata uang (USD terhadap IDR), harga emas, dan inflasi terhadap harga saham Indeks Harga Saham Gabungan (IHSG) pada masa Covid-19. Menurut Kementerian Kesehatan Indonesia, wabah Covid-19 masuk ke Indonesia pada bulan Maret, namun pada bulan April Kementerian Kesehatan melaporkan kasus Covid-19 sebanyak 1.677 kasus. Di masa virus Corona, harga saham menjadi salah satu yang pertama terkena dampak Covid-19 sehingga menyebabkan anjlok. Periode penelitian ini adalah satu tahun dengan menggunakan data harian mulai 3 Maret 2021 hingga 21 Juni 2021. Data observasi dikumpulkan dari sumber yaitu Investment.com, serta riset ekonomi. Data observasi diolah menggunakan software SPSS v.23 dengan menggunakan model regresi linier berganda dan uji asumsi klasik. Temuan penelitian menunjukkan bahwa mata uang mempunyai pengaruh negatif dan signifikan terhadap IHSG, kemudian emas mempunyai hubungan positif dan tidak signifikan terhadap IHSG, sedangkan inflasi mempunyai pengaruh negatif dan tidak signifikan terhadap IHSG. Hasil penelitian ini memberikan manfaat bagi para investor, akademisi, dan perusahaan untuk menjadi bahan pertimbangan dalam

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menentukan strategi investasi, terutama yang berkaitan dengan penelitian masa depan terkait harga saham di masa pandemi.

Kata Kunci : mata uang, harga emas, inflasi, harga saham, Covid-19.

Introduction

The World Health Organizational (WHO) confirmed the first appearance of the covid-19 at Wuhan, China, in 2019, which is the WHO had established worldwide to warn this pandemic or virus. One of the countries that applied the lockdown is Indonesia and close tourists entering to Indonesia. In Southeast Asia countries are the first countries to have been impacted by the Covid-19 is Vietnam. Moreover, Vietnam has faced a global financial crisis in 2020 that is extremely poor (Anh & Gan, 2020).

Meanwhile, the Central Statistics Agency (BPS) recorded that during the third quarter, Indonesia's economic growth in the third quarter of 2020 decreased to negative (-5.32%). Previously in the first quarter of 2020, economic growth was revealed since Indonesia's economic growth reached 2.97% (Wuryandani, 2020). The decline of the economic growth was affected by the Covid-19 Pandemic can be influencing the stock price (Amri & Subardjo, 2020). The stock market is the first time affected rather than other aspects from the covid-19 that cause the stock price fall (Topcu & Gulal, 2020). The fall of stock prices due to shareholder concerns will cause the company's operations and lead to business failure.

The gold price is one of the selects the investors to hedging the value of investments. Which one the gold has higher demand and also have the price that consistent likely no other mineral price, which are other investors will easy to drop price and have an important play in society and can be using in financial world (Naliniprava Tripathy &Amit Tripathy, 2016). Megaravalli and Sampagnaro (2018) states that the gold has a safety invests for economics, when the economies will drop or experience adversity and economic disaster when a country have high inflation and the currency rate will depreciates, yet the gold price will not fall. Morema and Bonga-Bonga (2020) that stated that the gold can be providing an opportunity to hedge of the risk of invests stock market especially on develop economies. Because the investors will be considering the risk of stock market and what shares to buy or should be buying, because basically the investors will avoid the higher risk. several the holder companies will be considering the aspect of macroeconomics such as inflation, interest rate, currency rate and money supply to assess the value of share (Sokpo et al., 2017). The inflation is very useful for the investors to predict movement of the share price and make a policy decision (Nurasyikin et al., 2017).

In the end of year in 2020, the Indonesia had experienced an increase significant the covid-19 cases by reaching were 7903 with total cases by 74.3198. It is very highest and nearly 1 million cases of infected the covid-19 outbreak. The highest cases of covid-19 were in January 2021 which reached 14.518 per day with total of cases is 1.123.105. It is the highest cases so far and causing the economy extremely to drop.

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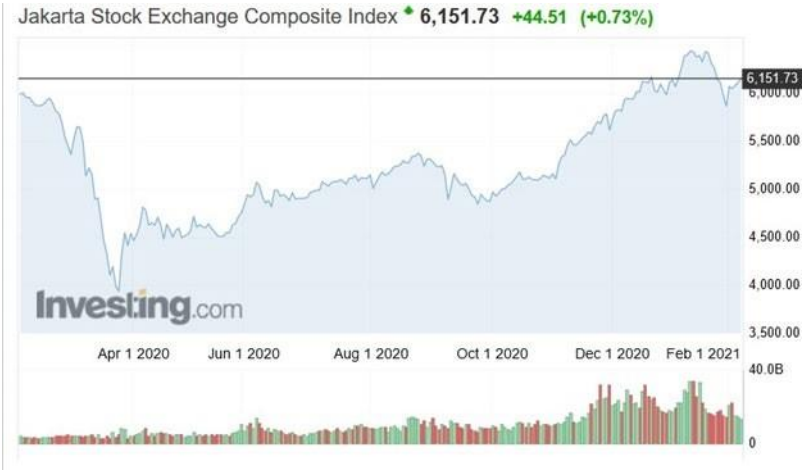

Figure 1.3 The Jakarta Composite Index graph
Source: Investing.com

According to economists, Jetlag on the stock price of JKSE, a lot of the investors are still afraid of the covid-19 outbreak, so that reaches amount -4,90%.

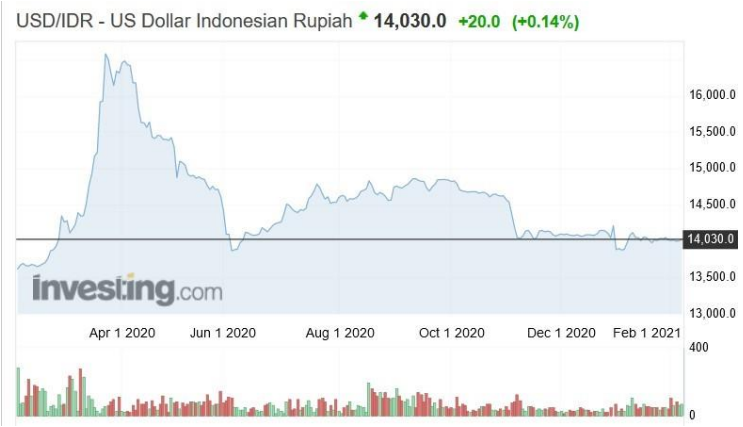

Figure: Currency rate USD/IDR graph
Source: Investing.com

This study focuses on the US dollar against the Rupiah/IDR, and the US dollar is the Currency global trade. Based on the currency rate in figure 1.4 above, it seems that there is an increase in the currency rate of the US dollar against the IDR, which in early March, there is an increase in the dollar against the IDR with $1 = IDR 14.265. The increase of the dollar against the IDR caused by the coronavirus has been entered in Indonesia. Action from by the foreign investors that selling their shares on the stock market so that causing the US dollar to be stronger against the rupiah (IDR).

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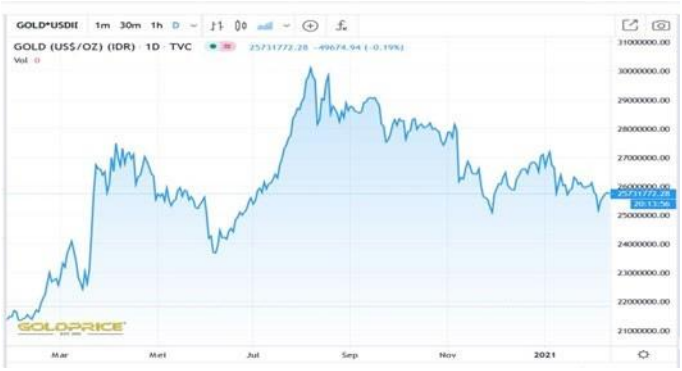


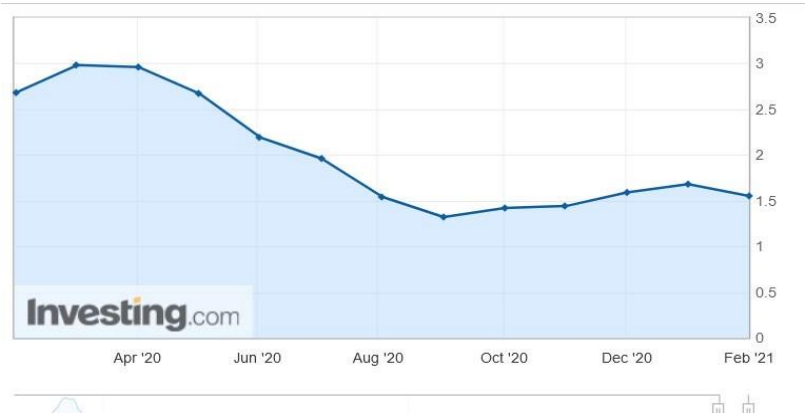
Figure: Gold Price graph
Source: Goldprice.com

It seems that the gold price has the highest price on 6 august 2020 of IDR 30,113,391.21/Oz. In early March, the gold price of Indonesia had increased to 23,682,567.72, its increase due to the covid-19 virus had entered Indonesia, which caused many concerns for the investors and preferred to the Gold as hedging of invests. It is utilized by the investors to invest in gold due to the gold given safe assets.

Because the gold price had declined, then the investor invests in gold. Therefore, the stock market has declined to minus 3% in April due to cause by the gold price has good investment and lower risk. Reduction of the activities at the stock market causing some of the stock prices to have declined. The investors will avoid the investment risk and want a return or profit from the value of investments.

Meanwhile, in August, the gold price has extremely increased, which is caused by the increase of demand and supply at the market, so that the price of gold recorded with IDR 30,113,391.21/Oz. by increasing the price of gold, a

lot of investors in selling the gold in April, due to it wanted to get profit from the sale of gold.



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Inflation graph
Source: Researcheconomic.com

Indonesia's inflation rate has experienced an increase from time to time. The inflation rate of Indonesia has experienced a decrease in the inflation rate was farthest from 3 March 2020 to 19 March 2020. Its reduction is incredibly good for Indonesia's economic activities, so it can be concluded that Indonesia's economic growth is exceptionally good. Because Indonesia's economic growth is better than before, who can attract investors to invest in Indonesia? Because it provides good economic security, and the investors believe in Indonesia's economic growth because the Indonesian government can control the inflation rate. The lower-level inflation rate was occurred on 19 March 2020 by a percent of 0.05%.

However, the decline of the inflation rate did not take a long time, only a few moments. After that, Indonesia's inflation rate has increased extremely from time to time. In April, the highest-level inflation rate is 1.26%, which increased due to the increase in the product of daily price and the gold price (www.cnbindonesia.com).

Therefore, there is increasing in the inflation rate that causing the increase of all the products, and the situation economic of Indonesia cannot be predicted. Yet, according to the Bank of Indonesia, the increase of the inflation rate was due to the dynamic of the covid-19 spread, causing Indonesia's economic stability to be hampered. The Indonesian government must be making various policies so that the inflation rate can be suppressed.



Figure Inflation graph
Source: Investing.com

Meanwhile, it seems that the inflation rate of Indonesia was occurred up to down and down to up. One of the highest levels is April 2020. After that, the inflation rate has

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experienced a decrease until September, and it is increased by normal until the end of the year. In April, the highest-level inflation rate was 2,96%, while the lower level inflation rate in November was 1,32% (www.id.investing.com).

2. Theoretical review

2.1 Agency theory

The agency theory is used to analyse the imperfect alignment between one party and another party about information and objectives. The agency theory is a model that was explaining and analyse the relationship between one party (the principal) that decision-making management to achieve the goal of the company and try welfare for another party (the agent or shareholders) as well as it provides a way to solve these differences and design a management control system (Mayo, 2010).

The company is supposed to have a separation of ownership and management to manage the company. Because the individuals cannot manage the company is individually every time to the management of the firm (Pike, R., Neale, B., & Linsley, P., 2012). Thus, the parties have an agency problem: the managers will avoid the project risk to protect its jobs, while the owners desire to maximize the profit. Therefore, the owners are supposed to give the reward based on their performance and compensation plans to make the manager more enthusiastic in performing their duties and achieving the company's success (Mayo, H. B., 2010).

Mayo (2010) that to solve the agency problem can be using three mechanism ways namely, first, the owners would be giving the reward or compensation to the manager in the form of share price or stock option, so that the manager will effort to increase the value of the company or increase the share price. Second, the board of directors as the defender of top management in the company can force out the underperforming management teams. Third, outsiders as security analysts, creditors, and large institutional investors (mutual fund), monitor the firm closely.

2.2 Stock price

The share/stock is proof of the company's ownership and released by the company, and traded on the stock market (Robiyanto, 2018). The investors will purchase the share of the company after several considerations and analyses. The share price will increase when there is a higher demand for the company's share (Wong, 2017). The company's stock price can be influenced by the success of the management strategy, internal factors of the company and the external factors of the company (Tjandrasa & Sutjiati, 2016).

However, the worldwide had impacted a pandemic that awfully and able to affect all aspects. The Covid-19 outbreak had spread in the whole world can affect the movement of share price and make a worry the investor towards the company operations (Insaidoo et al., 2021). The Covid-19 outbreak is one of the large pandemics that could influence company operation and economic growth. If the Covid-19 cases increase, then the

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company's operation must be obstructed because people are afraid of catching the outbreak.

2.3 Currency rate

The currency rate is the price or value of foreign money that can be exchanged for another country's currency (Mayo, 2010). The investors will consider or be concerned about the difference of currency rate against its exchange. The currency rate has the form a value of the currency has exchange value to other country's currencies as well as having different an exchange value (Utama & Puryandani, 2020). Thus, the currency rate can be influencing the perceptions of investors within invest its capital of money. When the foreign exchange increases, then all the prices will increase as well as the value of local money will also decrease or decline. Especially, the company within making production by using materials from overseas, obviously the price of materials is high or increase. Thus, it can be causing higher production costs and add on other costs.

In this study, the currency rate using the Dollar against the Rupiah. The Dollar is a world currency in trade and ordinarily used in transactions between foreign investors and companies. The theoretical for understanding the relationship between the foreign currency and the stock price can be explained with two models, such as The first model is the flow-oriented model of currency rate states that the foreign exchange has linked to the country's currency transactions and The second model is the stock-oriented model of currency rate states that exist changes in the price at the stock market can be influencing changes in the foreign exchange market (Sikhosana & Aye, 2018).

2.4 Gold price

Gold is a metal that could be exchanged as a switch the money and already existed since before the money was found (Tjandrasa & Sutjiati, 2016). The gold has safe invest financial when economies are fall, the share price has a high risk and high inflations, due to the gold is difficult to fall, and it is also able to consider as financial assets and exchange of money (Faisal et al., 2018). The gold price can be determined by factors such as demand of investment, central bank reserves and value of the U.S dollar, and hedging wealth (Faisal et al., 2018).

According to Ingalhalli et al. (2016), investors prefer to invest in gold because it is considered a safe investment during times of risk in the market. When the market had experienced crisis and appearing worries of investors caused by pandemic and the stock market will drop as well as have a risk, especially at this moment the investors will prefer to safe asset into the gold (Morema & Bonga- Bonga, 2020).

2.5 Inflation

Inflation is one of the macroeconomic variables that affect the stock performance and its importance, which concern the investors when they invest. The inflation exists the decrease of purchasing power by the citizen on the goods and services which causing

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increase all the price (Sokpo et al., 2017). The country has a high inflation rate that will affect the economy, defined as the social cost of inflation (Sokpo et al., 2017). The inflation rate has direct and indirect impacts on the economic sectors such as currency, investments, unemployment, and the stock market (Tamunosiki, 2017). Thus, inflation can be causing the economic sectors to become uncontrol and could not be predicted by the investors and the economists.

2.6 Covid-19

The Covid-19 impacts all the economic aspects and already reacted to the financial market and economy in the rest of the world (Topcu & Gulal, 2020). The Covid-19 can be interrupting the product distributions as well as it will disturb the global supply and demand chains and causing the products to become rare items, decrease asset price, uncertainty for activities of multinational and local companies (Jelilov et al., 2020).

Consequently, there is the uncertainty of companies will be occurring worries of the investors on the company, so that can influence share price at the stock market due to decline demand or activities from investors in the stock market. Consequently, the activity of economic become decline and selling of product will decline as well as the profit that obtained by the company will be decreasing. The covid-19 outbreak already becomes health crisis has muted into the financial crisis in decades previous, by increasing the cases of Covid-19 reflect influence into the stock market had experienced a decline in liquidity and the companies that suffered losses due to a decline in sales (Smales, 2021).

3. Research Methodology

This study using a quantitative method and uses the SPSS V.23 software as a tool for processing data and analysed data by using Multiple Linear Regression. This study using the data in a numeric form taken from the data have provided. Therefore, this study uses a quantitative method which is the objective measurement of the data in the form of numeric or collecting data using in the form of a number.

3.1 Varaibles

3.1.1 Dependent variable

This study using one dependent variable, namely the stock price of the Jakarta Composite Index. According to Robiyanto (2018); Paulus Tahu (2018); and Utama & Puryandani (2020) states to measure the stock price, can be using the formula as the following:

$$\Delta JCI = \frac{JCI_t - JCI_{t-1}}{JCI_{t-1}} \times 100\%$$

Where:
ΔJCI = JCI
price in day t

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JCIt = JCI in
day t
JCIt-1 = JCI in day t-1

3.1.2 Dependent variable

3.1.2.1 Currency

According to Robiyanto (2018); Paulus Tahu (2018); and Utama & Puryandani (2020) states to calculate the changes in the currency rate can be using the formula as follow:

$$\Delta currency = \frac{\text{USD/IDR}_t - \text{USD/IDR}_{t-1}}{\text{USD/IDR}_{t-1}} \times 100\%$$

Where:
ΔCurrency = change of USD/IDR rate in day t
USD/IDRt = USD/IDR in day t
USD/IDRt-1 = USD/IDR in day t-1

3.1.2.2 Gold price

According to Robiyanto (2018); Paulus Tahu (2018); and Utama & Puryandani (2020) states to calculate the changes of the gold price that denominated in rupiah, can be using the formula as follow:

$$\Delta gold\ price = \frac{\text{gold}_t - \text{gold}_{t-1}}{\text{gold}_{t-1}} \times 100\%$$

ΔGold = change of Gold rate in day t
goldt = gold in day t
gold-1 = gold in day t-1

4. Discussion of the Result *1. Relationship between the Currency Rate and the Jakarta Composite Index*

Based on the hypothesis testing result, the independent variable of Currency using the Dollar (USD) against the Rupiah (IDR) stated that there is a negative difference between the currency and the Jakarta Composite Index during the covid-19 outbreak. The results are consistently similar to the study result conducted by (Gong & Dai, 2017), (Utama & Puryandani, 2020) and (Robiyanto, 2018) stated that the currency has a negatively significant on the stock price when the currency rate is increasing will effect to the movement of the stock price. Additionally, the finding also supported by (Robiyanto 2018) stated that the currency has a negatively significant impact on the stock price in Indonesia.

Furthermore, based on the existing theory that the investors are carious with up-down of the Currency rate, due to will affect the investment value and affect the stock return

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or dividend (Sikhosana & Aye, 2018). Statistically, this study showed that the currency rate negatively impacts the stock price during the covid-19 outbreak. It indicates that the investors are worried by rising or dropping the currency rate, especially during the covid-19 outbreak, in which all the economic sectors have been affected by the covid-19 outbreak as well as the investors are trusting the company that it can be giving their dividend. It is the result influencing the study period, which the period of study is short-term (only one year).

However, it is the finding of this result contrary with studied by Suriani et al. (2015), states that the Currency rate has no significant relationship with the share price as well as also at this study focus on during the covid-19 outbreak, automatically the period of study is short-term therefore the result of study pertaining the Currency rate has no relationship and impact on the stock price in short-term as stated by (Babu, 2017) and (Gay, Robert D & Nova, 2016).

Furthermore, the result of this study can be analysed that the currency has negatively impacted the JCI because mostly the investors are foreign. Therefore, the investors are worried about the rising or drop of the currency rate due to changing the US Dollar (USD) against the Rupiah (IDR) will be influencing its capital or invest to one of the companies as well the dividend and return obtained. In conclusion, the investors are worried about the rising or changing the Currency rate, especially during the covid-19 outbreak, and primarily the investors that invest are foreign.

2. Relationship between the Gold Price and the Jakarta Composite Index

The hypothesis testing of the gold discovered that there is a positive insignificant on the Jakarta Composite Index, or the gold price cannot influence the stock price movement. It is similar to the studies conducted by (Naliniprava Tripathy &Amit Tripathy, 2016) and (Faisal et al., 2018), stating that gold has no significant relationship to the short-term stock price. The goal of investors influences it. When the goal of investors is a shortterm investment, it is not worrying the increasing the gold price. It is the short term. It is hard to increase the price.

Therefore, gold cannot influence the share price, especially during the covid-19 outbreak (Topcu & Gulal, 2020). Furthermore, the study conducted by Sumer & Ozorhon (2020) found that the gold price has no significant relationship to the stock price. Also, according to Tursoy & Faisal (2017), the gold price has a negative impact on the stock price.

However, it results are different from the studies conducted by (Ali et al., 2020), (Jain & Biswal, 2016) as well as (Yunita&Robiyanto, 2018) that studied in Indonesia stated that gold could be influenced as well as has a significant relationship on the stock market. Hence, the previous studies use the period of study as a long time, automatically the result describes the investors who want to invest for the long- term.

Hence, existed a gap in the study results between the previous researchers regarding the relationship between the gold price and stock price. Here, the researcher can be

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concluded the finding of this study is described that the gold price will be influencing or not be influencing the stock price is dependent on the goal of investors as well as the gold price has a weakness in increasing the price of gold because the gold price is one of the types of long-term investment.

3. Relationship between the Inflation and the Jakarta Composite Index

Based on the hypothesis testing result, this study found that the independent variable of inflation has an insignificant negative impact on the Jakarta Composite Index during the covid-19 outbreak. It is similar to the study by (Yunita&Robiyanto, 2018) conducted in a case study same namely the Jakarta Composite Index (JCI) states that inflation there is an insignificant relationship on the share market in the Jakarta Exchange Composite index. Additionally, the study conducted by (Sokpo et al., 2017) has discovered that inflation has no significant impact on the stock price in Nigeria.

Furthermore, the finding of this study has contrary with the studies conducted by (Nurasyikin et al., 2017) that research about the impact of inflation on the stock price in Indonesia discovered that inflation has a most significant negative impact on the stock price, which influenced the perception investors with the performance companies. In addition, it is also similar to the studies conducted by (Antonakakis et al., 2017), (Raghutla et al., 2020), (Antonakakis et al., 2017), (Raghutla et al., 2020) and (Tamunosiki 2017) that states that the inflation has most remarkable negative significant to the stock price, which causes the movement of stock price to be drop.

Moreover, the result of previous studies was conducted by (Babu 2017), Sandeep Kumar et al. (2020) and (Megaravalli & Sampagnaro, 2018) discovered that inflation has a positive impact on the stock price in short-term, which the perception of investors that the inflation has an excellent opportunity for the company to expend it is the activity of companies. In addition, the Covid-19 cases can improve volatility and drive a positive relationship between the inflation rate and the stock market (Jelilov et al., 2020).

However, based on the finding of this study, during the covid-19 outbreak, inflation has no significant impact on the Jakarta Composite Index, with the period of study is short-term. However, the findings of the study conducted by (Smales 2021) and Zhang et al. (2020) state that the covid-19 outbreak also has a negative influence on the US stock return as well as the investors are worried about affecting the effect of the covid-19 outbreak.

In conclusion, based on the result of this study that the inflation has an insignificant negative effect or has no relationship impact on the Jakarta Composite Index during the covid-19 outbreak, it can be concluded that the investors do not mind by rising of the inflation when the investors will invest for a short-term investment. The currency will not become a reference to decision investing.

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5. Conclusion And Recommendation *1. Conclusion*

In conclusion, as aims this study to determinants the stock price during the covid- 19 outbreak with the case study of the Jakarta Composite Index (JCI) states that mostly the investors are from the foreign investor; therefore, it becomes a concern for the investors when a decision was investing with the rising or drop of the currency rate, due to will influencing the value of the transaction in the Indonesia Exchange Stock as well as the value of investments, especially for the investors to short-term investment and during the covid-19 outbreak. In addition, the rising of the gold price is not becoming a concern and consideration for making decisions of invest, due to the gold has a weakness to increase the price of gold. Furthermore, inflation has no relationship with the Jakarta Composite Index during the covid-19 outbreak due to the investors do not care about the movement of inflation as well as the inflation has no relationship to the stock price in short-term, especially during the covid-19 outbreak

2. *Limitation of the study and future*

The first limitation of this study is that the researcher only focuses on the price of the Jakarta Composite Index and does not take the price of the companies listed on the mainboard in the Indonesia Exchange Stock. Hence, future studies can use the companies' stock prices listed on the mainboard in the Indonesia Exchange Stock per each company. The second limitation of this study is that the research uses independent variables of the currency, gold price, and inflation. The currency rate has no relationship to the Jakarta Composite Index, and only 1.8% of all the independent variables can influence the JCI. In addition, many indicators could influence the stock price, such as ROA, ROE, government policies, leverage. Therefore, future studies will study with a similar topic or scope study same can add other independent variables to examine the impact on the stock price. The third limitation of this study is that the period of this study is only one year that uses the daily data. Hence, the further study extends the period of the study with comparison before the Pandemic and after Pandemic, so that the result of the study is more relevant and the researcher can be comparing the result of study after and before pandemic about the movement of the stock price. Furthermore, the researcher hopes future studies will deepen and develop this study to obtain more relevant results

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