

## **Analysis Of Inflation Rate, Currency Exchange Rate And Sharia Trade Volume Affecting The Share Price Index In Jakarta Islamic Index**

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**Abstract:** *The Jakarta Islamic Index (JII) is a stock index that reflects the most Islamic stocks listed on the Indonesian Syariah Stock Index (ISSI). JII is used as the main indicator that can describe the performance of selected sharia stocks listed on the Indonesia Stock Exchange (IDX) so that there are various kinds of factors that can influence their movements, one of which is external factors. This study is intended to examine whether the external factors represented by the inflation rate, rupiah exchange rate, and sharia stock trading volume significantly influence the Sharia Stock Price Index. This type of research is explanatory research with a quantitative approach. This study uses monthly time series data from January 2015 to December 2018 with a total sample of 30 companies. Analysis of the data in this study used the SPSS 22 program. The data analysis technique used in this study used multiple linear regression analysis. The results of this study indicate that partially the inflation rate has a significant negative effect on the Sharia Stock Price Index, the rupiah exchange rate has a significant negative effect on the Sharia Stock Price Index and the sharia stock trading volume has no significant effect and has a positive relationship to the Sharia Stock Price Index. Simultaneously, the inflation rate, rupiah exchange rate and sharia stock trading volume have a significant effect on the Sharia Stock Price Index in the Jakarta Islamic Index (JII).*

**Keywords:** *Inflation Rate, Rupiah Exchange Rate, Sharia Stock Trading Volume, JII Sharia Stock Price Index.*

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### **I. Introduction**

Currently, Islamic finance is experiencing rapid growth in the world. Based on Arif (2012), this development is due to investor considerations in investing that not only consider matters related to money but also social, moral or environmental considerations. One indicator of the growth of Islamic finance is the development of the number of issuers issuing Islamic securities in the Capital Market. In addition to conventional financial instruments, currently offered a number of capital market financial instruments that meet Islamic regulations (Islamic Financial Instruments). This is done to meet the needs of investors who want to invest based on these sharia principles.

The Sharia Capital Market in Indonesia began with the issuance of Sharia Mutual Funds by PT. Danareksa Investment Management on July 3, 1997. Furthermore, the Indonesia Stock Exchange (formerly the Jakarta Stock Exchange) in collaboration with PT. Danareksa Investment Management launched the Jakarta Islamic Index on July 3, 2000 which aims to guide investors who want to invest their funds in a sharia manner. With the presence of the index, investors have been provided with shares which can be used as a means of investing in accordance with sharia principles.

In several studies using non-fundamental factors, it was also found that there were several variables that had an effect on or did not affect stock prices, such as research from Mutakif (2012) which found that trading volume had a positive effect on stock prices. According to Mulyani (2016), inflation has a significant negative effect on the composite stock price index (CSPI). While Nurwani (2016) concluded that the rupiah exchange rate (exchange rate) had a positive and significant effect on the composite stock price index (CSPI). Based on the research above, it still shows the existence of a research gap regarding the influence of non-fundamental factors on the share price between the common stock (CSPI) and the price of sharia shares in the Jakarta Islamic Index (JII).

This research is a replication and merging of variables from several existing studies. From the description of the varied research results above, it is encouraged to conduct further research on the factors that influence the formation of sharia stock prices in the Jakarta Islamic Index (JII).

The difference of this research with previous research lies in the research object, research sample, research variables and the period used. The author is interested in conducting further research on the Islamic stock index as an object of research to analyze whether these factors also have an influence on sharia stock prices as well as on stocks in general. For this reason, the author would like to examine the "Analysis of inflation rates, currency exchange rates and trading volumes of sharia shares that affect the price index of sharia shares in the Jakarta Islamic Index (JII)".

This study aims to explain the effect of inflation rates, the exchange rate of the rupiah and the trading volume of shares partially or simultaneously on the Islamic stock price index.

## **Theoretical Framework**

### **Inflation Rate**

Inflation rate is a condition in which there is a tendency of rising prices of goods and services in general and takes place continuously due to the imbalance of the flow of goods and money in an economy.

Inflation can be divided into 2 types, namely:

1) The severity of inflation

Based on the severity, inflation is divided into 4, namely: Inflation crawling (under 5% a year), mild inflation (between 5% - 10% a year), moderate inflation (between 10% - 30% a year), severe inflation (between 30% - 100% a year, and hyperinflation (above 100% a year).

2) Source of inflation

Based on the source, inflation can be divided into 2, namely: Domestic inflation (sources of inflation from within the country) and Imported inflation (sources of inflation from abroad).

The indicator is often used to measure inflation rates based on international best practice, namely:

Changes in the Consumer Price Index (CPI) from time to time show the price movement of packages of goods and services consumed by the public.

The Wholesale Price Index (IHPB) of a commodity is the index of transaction prices that occur between the first large seller / trader and the next large buyer / trader in large quantities on the first market for a commodity.

Deflator of Gross Domestic Product (GDP) describes the measurement of the level of final goods prices and services produced within a country within a certain period.

### **Currency Exchange Rates**

Currency exchange rates are comparison of the value of a country's currency that is measured or expressed in another country's currency.

Currency rates are divided into 3 parts, namely

1) Buy rate, which is the rate used when a bank or money changer buys a foreign currency or if we are going to exchange our foreign currency for rupiah.

2) Selling rate, which is the exchange rate used if the bank or money changer sells foreign currency or if we will exchange rupiah for the foreign currency we need.

3) Middle rate, which is the exchange rate between the selling rate and the buying rate (the sum of the buying rate and selling rate divided by two).

Currency exchange rates are determined in 3 ways, namely:

1) Fixed Exchange Rate

The exchange rate is determined by both the gold standard fixed rate and the paper standard fixed rate.

2) Free Exchange Rate

The exchange rate is determined by the demand and supply of foreign exchange without government intervention.

3) Floating Exchange Rate Is Restrained

Exchange rate whose exchange rate is determined between foreign exchange demand and supply with government intervention within certain limits.

Some factors that affect changes in currency exchange rates, namely:

1) Foreign exchange requests and offers

2) Changes in the prices of exported goods

3) Inflation

4) Changes in government regulations

5) Economic development

6) Shifting people's tastes to imported goods

### **Sharia Trading Volume**

Stock trading volume is the number of shares traded daily (Manurung, 2004). The performance of a stock can be measured by its trading volume. Large stock trading volume indicates that the stock is actively traded. In

general, the trading volume of sharia shares is the number of shares of an issuer traded on the capital market every day at a price level agreed upon by the seller and buyer of shares in accordance with sharia principles.

According to Kurniawan (2008), sharia shares are shares issued by a company that has characteristics in accordance with Islamic sharia. Meanwhile, according to Arif (2012), Islamic stocks are securities that represent equity participation in a company. So it can be concluded that Islamic shares are capital participation letters issued by companies that have business characteristics that do not violate Islamic principles.

The Jakarta Islamic Index (JII) is a sharia stock index which was first launched on the Indonesian capital market on July 3, 2000. The JII constituency consists of only the 30 most liquid Islamic stocks listed on the IDX. Just like ISSI, a review of Islamic stocks which are JII constituents is conducted twice a year, in May and November, following the OJK's DES review schedule.

The liquidity criteria used in selecting 30 Sharia shares that constitute the JII constituents are as follows:

- 1) Sharia shares included in the constituents of the Indonesian Sharia Stock Index (ISSI) have been recorded for the past 6 months
- 2) 60 shares were chosen based on the highest average market capitalization in the last 1 year
- 3) Of the 60 shares, 30 shares were then chosen based on the average daily transaction value on the highest regular market
- 4) The remaining 30 shares are selected shares.

#### Relationship Between Variables

According to Ambarini (2015), inflation has a negative and significant effect on the short and long term. For investors, inflation is an early indication of an increase in interest rates as the central bank's monetary policy in controlling inflation. In addition, inflation also disrupts the function of the value of money and decreases the purchasing power (demand) of the people for goods and services, thereby reducing sales of domestic products which results in a decrease in corporate profits.

The USD / IDR Exchange Rate (ER) has a different relationship between the short run and the long run with the Shariah Stock Price Index. In the short term, the exchange rate has a significant negative effect. This is indicated during the study period, the weakening of the exchange rate is dominated by the response of foreign investors to the uncertainty of global economic issues. While in the long run the exchange rate has a significant positive effect. A weaker exchange rate in the long run can increase competition for domestic products abroad.

High trading volume is considered in line with price increases. This stock trading volume is information for investors in trading on the securities market. Where this information will be used by investors in making decisions to invest. The volume of stock trading represents the total number of transactions that occur within a specified period of time.

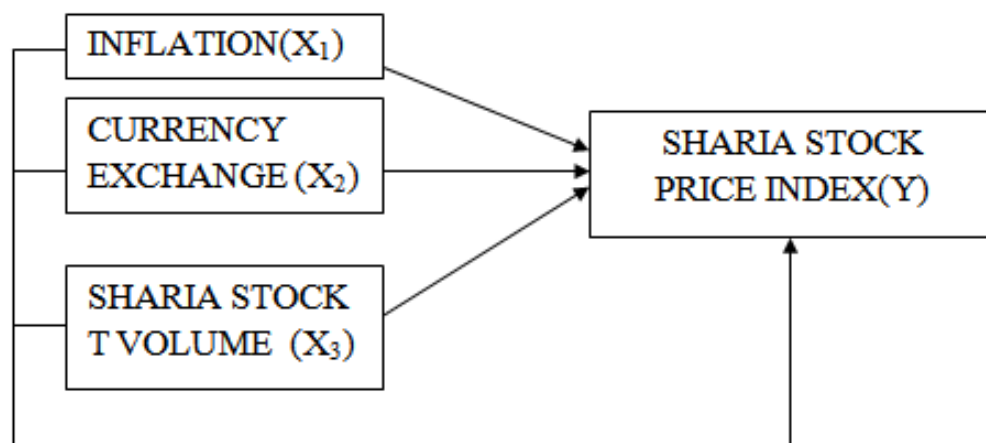
H1: There is an Inflation Rate influence on the Sharia Stock Price Index

H2: There is an effect of Currency Exchange Rates on the Sharia Stock Price Index

H3: There is an effect of stock trading volume on the Sharia Stock Price Index

H4: There is a simultaneous influence of inflation, exchange rates and volume on the Sharia Stock Price Index

Analysis Model



## II. Methodology

### Research Approach

This type of research is descriptive research. Descriptive research is research conducted by explaining the causal relationship between variables through hypothesis testing.

### Population dan Sample

The population in this study are companies that issue Islamic shares and are listed on the Indonesia Stock Exchange in the period 2015-2018, totaling 119 companies.

Company criteria which were taken as samples in this study are as follows:

- 1) Is a company that issues Islamic shares.
- 2) Registered on the IDX at least from 2015 to 2018 and consistently trading sharia shares.
- 3) Sharia shares included in the constituents of the Indonesian Sharia Stock Index (ISSI) have been recorded for the past 6 months
- 4) 60 shares were chosen based on the highest average market capitalization in the last 1 year
- 5) Of the 60 shares, 30 shares were then chosen based on the average daily transaction value on the highest regular market
- 6) The remaining 30 shares are selected shares.

Purposive Sampling for this research are 30 companies listed on the Indonesia Stock Exchange from 2015-2018 and have met the criteria for this research.

This study describes that: the independent variable here is inflation, the exchange rate of the rupiah and the trading volume of sharia shares. While the dependent variable is the Islamic stock price index.

Cara memperoleh data variabel yang digunakan dalam penelitian ini antara lain:

- 1) Inflation Rate (X1)

Using monthly inflation data from the period January 2015 to December 2018. This data was obtained from the BPS website.

- 2) Exchange Rate (X2)

Using the rupiah exchange rate data against the dollar from January 2015 to December 2018. This data was obtained from the BI website..

- 3) Sharia Stock Trading Volume (X3)

Using sharia stock trading volume data from January 2015 to December 2018. This data was obtained from the IDX website.

- 4) Sharia Stock Price Index (Y)

Using sharia stock price index data starting from January 2015 to December 2018. This data was obtained from the IDX website.

### Multiple Linear Regression Tes

Data processing methods using multiple regression analysis methods were tested using SPSS application version 22 and then interpreted. The multiple regression method is a statistical method to examine the causal relationship between the dependent variable and the independent variable. The variables used are formulated through the following equation.

$$Y' = a + b_1X_1 + b_2X_2 + b_3X_3$$

Y = Sharia Stock Price Index

a = Constanta

$b_1, b_2, b_3$  = Regression Coefficient

$X_1$  = Inflation Rate

$X_2$  = Currency Exchange Rate

$X_3$  = Sharia Stock Trading Volume

### III. Result

Variables Entered/Removed<sup>a</sup>

Model	Variables Entered	Variables Removed	Method
1	sharia trading trade volume, currency exchange rate, inflation rate <sup>b</sup>		.Enter

a. Dependent Variable: sharia stock price index

b. All requested variables entered.

Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.778 <sup>a</sup>	.605	.578	34,64910	.717

a. Predictors: (Constant), sharia trading trade volume, currency exchange rate, inflation rate

b. Dependent Variable: sharia stock price index

The output of the regression results can be explained that the regression model 1 gets an R of .778, meaning the correlation between inflation variables, exchange rates and trading volume of sharia shares to the sharia stock price index of 0.778. This shows that there is a close relationship because the value of R approaches 1. For R Square obtained 0.605, meaning that the percentage of the total effect of inflation, exchange rates and trading volume of shares on the Islamic stock price index is 60.5% while the remaining 39.5% is influenced by Other variables not included in this statistical calculation model. The results of this calculation explain that the Jakarta Islamic Index share price index is influenced by the independent variable partially by 60.5% while the remaining 39.5% is influenced by other variables. Adjusted R Square value of 0.578 explains that the independent variables (inflation, exchange rates and sharia stock trading volume) have an effect of 57.8% on the sharia stock price index in the Jakarta Islamic Index.

ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	80808,017	4	26936,006	22,436	.000 <sup>b</sup>
	Residual	52824,631	44	1200,560		
	Total	133632,649	48			

a. Dependent Variable sharia stock price index

b. Predictors: (Constant), sharia trading trade volume, currency exchange rate, inflation rate

From the above output, it is known that the calculated F value is 22,436 and the significance value is 0,000. So that  $F_{count} > F_{table}$  ( $22.436 > 2.816$ ) and significance  $< 0.05$  ( $0.000 < 0.05$ ) then  $H_0$  is rejected. So it can be concluded that inflation, exchange rates and trading volumes of sharia shares jointly affect the Islamic stock price index in the Jakarta Islamic Index.

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1629,493	138,352		11,778	.000		
	Inflation rate	-23,847	3,634	-.644	-6,562	.000	.932	1,072
	Exchange rate	-.062	.010	-.624	-6,359	.000	.934	1,071
	Sharia trading trade volume	5,881E-10	.000	.069	.732	.468	.998	1,002

a. Dependent Variable : sharia stock price index

From the regression test results obtained regression equation:  $Y = 1629,493 - 23,847 [\text{Inflation } r] - 0.062 [\text{C Exchange rate}] + 5.581 \text{ E-}10 [\text{Sharia Stock trading volume}]$

1. Testing the coefficient of the inflation variable (b1)

From the output, t can be calculated as -6,562 and significance value is 0,000. While t table obtained the value of 2.015. T value > t table (6.562 > 2.015) and significance < 0.05 (0.000 < 0.05) then Ho is rejected so it can be concluded that inflation partially has a negative effect on the Islamic stock price index.

#### 2. Testing the coefficient of the rupiah exchange rate variable (b2)

From the output, t can be calculated as -6,359 and the significance value is 0,000. While t table obtained the value of 2.015. T value > t table (6.359 > 2.015) and significance < 0.05 (0.000 < 0.05) then Ho is rejected so it can be concluded that the rupiah exchange rate partially has a negative effect on the sharia stock price index.

#### 3. Testing the coefficient of variable sharia stock trading volume (b3)

From the output, it can be t calculated as 0.732 and the significance value is 0.468. While t table obtained the value of 2.015. T value > t table (0.732 > 2.015) and significance > 0.05 (0.468 > 0.05) then Ho is accepted so it can be concluded that the sharia stock trading volume partially has no effect on the sharia stock price index.

### IV. Conclusion

After analyzing and discussing the results of research using multiple linear regression results regarding the effect of the Inflation Rate, Currency Exchange Rates and Trading Volume of Sharia Shares on Sharia stock price indexes in the Jakarta Islamic Index from January 2015 to December 2018, it can be concluded as follows :

- a) The results of the data analysis show that the inflation rate variable (X1) partially has a negative and significant effect on the Sharia Stock Price Index in the Jakarta Islamic Index. This can be seen from the value of t count > t table (6.562 > 2.015) and significance < 0.05 (0.000 < 0.05).
- b) The results of data analysis indicate that the currency exchange rate variable (X2) partially has a negative and significant effect on the Sharia Stock Price Index in the Jakarta Islamic Index. This can be seen from the value of t count > t table (6.359 > 2.015) and significance < 0.05 (0.000 < 0.05).
- c) The results of the data analysis indicate that the sharia stock trading volume variable (X3) partially has no significant effect on the Sharia Stock Price Index in the Jakarta Islamic Index. This can be seen from the value of t count > t table (0.732 > 2.015) and significance > 0.05 (0.468 > 0.05).
- d) Simultaneously, inflation rate, currency exchange rate and sharia stock trading volume have a significant effect on the Sharia Stock Price Index in the Jakarta Islamic Index.

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