MACROECONOMIC VARIABLES’ IMPACT TOWARDS JANUARY EFFECT IN INDONESIA

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Abstract

Objectives This research was conducted to identify the existence of January effect anomaly in Indonesian stock market. The study also examines the relationship between January effect and macroeconomic variables, which is represented by inflation rate, real GDP growth rate, and unemployment rate.

Method To detect the existence of January effect, this research will use power ratio, with a sample from the Jakarta Composite Index’s monthly closing prices spanned from 1985 to 2011. Moreover, this study also investigates the macroeconomic factors affecting January effect’s existence with a simple linear regression analysis and focusing on the regression coefficients. The macroeconomic variables data spanned from 1984 to 2010 unlike the index price, because macroeconomic news would affect the following year’s return. Annual year return and daily return variance is also included in the analysis to examine the anomaly’s size and relationship with volatility. The data is also evaluated using descriptive statistics.

Result The study found that power ratio, which represents January effect, is significantly above the value of 1, using t-test. Meanwhile, the macroeconomic variables do not have a significant relationship with power ratio. The insignificant result is also similar to the findings of past researches with similar method. However, annual year return and variance does have a significant relationship with the anomaly.

Conclusion January effect is in fact exists in the Indonesian stock market. However, macroeconomic variables do not affect January effect’s existence in Indonesia.

Key words January effect, Tax-loss Selling, Window-Dressing, Power Ratio, Macroeconomic Variables.