



The Impact of Market, Interest Rate and Exchange Rate Volatility on Commercial Banks' Stock Returns and Volatility : Evidence from ASEAN-5 Countries

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ABSTRACT

This paper employs GARCH-M to study the impact of market, interest rate and exchange rate return and volatility on commercial banks' stock returns and volatility in ASEAN-5 countries which are Indonesia, Malaysia, Philippines, Singapore and Thailand. AGARCH-M model was added in this study to capture asymmetry effect on the banks stock volatility while EGARCH-M model was also added to relax non-negativity condition of the two previous models. The results show that market risk is the most crucial determinant of bank stock returns generating process, while the effects of exchange rate existed only in Thailand with negative relationship. The majority of results of interest rate risk on banks' return is negative which is consistent with the literature findings. Regarding foreign exchange rate and interest rate volatility, the results mostly suggest that interest rate and exchange rate volatility are found to be an important determinant in the conditional banks stock return volatility. Meanwhile, asymmetric effects were found in some countries with a positive significance.

Keywords: market risk, interest rate risk, exchange rate risk, EGARCH, EGARCH in Mean