

The Effect of Inflation and Currency Exchange Rates on Stock Price of Cigarette Subsector on the Indonesia Stock Exchange

Arfianty^{1*}, Fatimah², Selfy Maulidya³

¹ Universitas Muhammadiyah Parepare, Parepare, Indonesia

² Universitas Muhammadiyah Parepare, Parepare, Indonesia

³ Universitas Muhammadiyah Parepare, Parepare, Indonesia

*Corresponding author. Email: arfiantyarfan@gmail.com

ABSTRACT

This research aims to determine the relationship between the level of inflation and the Rupiah exchange rate against the US Dollar to share prices partially and simultaneously in the cigarette sub-sector listed on the Indonesia Stock Exchange. This study uses a quantitative approach to data testing, descriptive analysis between variables and, verification analysis to test and determine the magnitude of the influence of the variable between inflation and currency exchange rates on HM Sampoerna TBK's cigarette sub-sector share prices on the Indonesia Stock Exchange for the 2017-2019 period. The research conclusion based on testing obtained for the significance value of inflation on stock prices is $0.434 > 0.05$, so it can be concluded that H1 is rejected, which means that there is no significant effect of inflation on stock prices. It was known that the significance value for currency exchange rates on stock prices is $0.000 < 0.05$. So it can be concluded that H2 is accepted, which means there is a significant influence between currency exchange rates on stock prices. The coefficient of determination (R^2) of the inflation and exchange rate variables can explain the share price of 75.3%.

Keywords: Currency Exchange Rates, Inflation, Share Prices.

1. INTRODUCTION

Investment is one of the means in increasing the ability to accumulate and maintain wealth. One investment option can be done through the capital market. Tandelilin [1] explained that a capital market is a meeting place for having excess funds with parties who need funds to trade in securities that generally have a lifespan of more than one year, such as stock.

The cigarette industry in Indonesia is one of the tobacco product industries that has an essential role in driving the national economy because it has comprehensive impacts, such as growing the related service industry, providing employment and employment. Besides, in a crisis economy that has hit Indonesia, the Tobacco Products Industry can still survive and not layoffs; even this industry can still contribute significantly to state revenues [2].

However, today's cigarette industry is faced with various problems, including another issue of the impact of smoking on health both at the global level sponsored by WHO, as stated in the Framework

Convention on Tobacco Control (FCTC) or the Framework Convention on Tobacco Control and at the national level control of tobacco products as stated in PP No. 19 of 2003 concerning Cigarette Security for Health [2].

Fluctuating stock prices are commonplace. Even the movement unexpected and can happen significantly. According to [3], who stated in his portfolio theory that the factors that influence demand for securities are: wealth, interest rates, exchange rates, and inflation rates, while the supply of securities has been influenced by the company's profitability, inflation expectations, and government activities. This condition causes the 3. reaction market and ultimately impacts on stock price movements. Inflation and the exchange rate were the impacts in the future.

Inflation increases the price of goods and services that has an overall effect and stock prices in the capital market. With inflation, a rise and fall in stock prices will happen—one of the causes of

inflation due to government policy indicators. Like the increase in excise rates, it can also affect stock prices. Excise is one of the sources of state revenue and contributes significantly to the State Revenue and Expenditure Budget (APBN), especially the Domestic Revenue sector. According to the Directorate General of Customs and Excise in 2015, it had been recorded that in 2015 Customs was booming collect state revenue from excise amounting to Rp144.6 trillion, of which 96% contributed from a cigarette excise tax that exceeds the target of the Revised State Budget (APBN-P) 2015.

Stock performance is often also an accurate reflection of the company's performance. This is when the stock price is relatively increasing, which means, at the same time, the performance. The company is also experiencing growth. On the other hand, stock performance is also better often appreciated by government policies that implement new regulations. If we look at it several times, this government policy is delivered directly by the public.

The world economy has entered the era of globalization, which has an impact on large against the movement of foreign capital that will enter the financial market developing countries such as Indonesia. Capital market sensitivity appears when the phenomenon of fluctuations in the domestic currency exchange rate. Wild exchange rate fluctuations will affect the performance of business entities in the capital market, which will impact stock price movements. The rupiah exchange rate also often fluctuates from time to time.

Based on these conditions, the researchers attempted to research whether or not the difference in the effect of inflation and exchange rates on industry stock prices cigarettes listed on the Indonesia Stock Exchange. Judging from several references, factors that affect securities are interest

rates, financial performance, exchange rates, money, and inflation rate. Researchers take two variables: Inflation with indicators government activities and foreign currency exchange rates, US dollar exchange rate against Rupiah.

2. METHODOLOGY

Data retrieval through websites, www.IDX.co.id, www.bi.go.id and www.bps.go.id. The time for implementing the research has been

carried out starting from December 2020 to February 2021.

The data analysis techniques used in this study are: 1) Quantitative approach method. This research uses the Multiple Linear Regression test technique, Classical Assumption Test, T-test-, F-test, and Coefficient of Determinant (R^2). 2) Quantitative descriptive analysis techniques, namely the method used to analyze the research results with descriptive variables. 3) Verificative analysis technique, namely, this research method aims to test and knowing the magnitude of the effect of the variable between inflation and currency exchange rates on the share price of HM Sampoerna TBK's cigarette subsector on the Indonesia Stock Exchange period 2017-2019.

3. RESULTS AND DISCUSSION

Table 1. Result in Multiple Regression Test Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std Error	Beta	t	Sig
(Constant)	24014,478	3428,823		7,004	,000
Inflation (X ₁)	-22689,320	27694,142	-,125	-,819	,434
Exchange rate (X ₂)	-1,412	0,249	-,863	-5,673	,000

$$Y = 24014,478 - 22689,320X_1 - 18,771X_2$$

3.1. The Effect of Inflation on Stock Prices

Inflation has an influence and relationship to Y (Stock Price) negative and insignificant. It has shown from the equation multiple linear regression data results, namely Stock Price = -22689,320X₁. It can be known that the inflation coefficient (X₁), which is -22689.320 with the results of the significance test (test of significance) for the coefficient shows the significant value of inflation which is 0.434 greater than the probability value of 0.05 or (0.434) > (0.05) which means the percentage of truth is more than 5% (0.05) so it is said to be insignificant.

The value of the X₁ (Inflation) coefficient of -22689.320 can be said where every 1 percent increase will result in a decrease in Share Price 7 of -22689.320 points. These results indicate that H₀ is accepted and H₁ has been rejected. Namely, inflation has a negative and insignificant effect on Share Prices in 2017-2019. Then, based on the value of significance of 0.434, which means more significant than the value of 0.05. This is not by the hypothesis that has been built, where inflation significantly affects the Share Price.

Therefore, the results of this study have been supported by the results of previous studies. This research is in line with the research results conducted by [4] and [5] stated that the inflation variable does not significantly affect stock prices. However, the results of this study are in contrast to studies conducted by [6] and [7], who stated that inflation has a significant effect on stock prices.

No significant effect of Inflation on Stock Prices can occur because during the research period, namely the 2017-2019 inflation that occurred is still within normal limits so that there is no significant change in the stock market and these results indicate that inflationary conditions cause investors do not want to speculate or tend to wait until inflation conditions are more stable so that the risk of loss experienced by investors is not big [8].

3.2. The Effect of Currency Exchange Rates on Stock Prices

Exchange Rates have an influence and relationship on Y (Price stocks) towards negative and significant. This is shown from the results of the equation if multiple linear regression data, namely Stock Price = $-1.412X_1$. It can be known that the inflation coefficient (X_1), which is -1.412 with the results of the test of significance (test of significance) for the coefficient shows the significant value of inflation, namely 0.000 is smaller than the probability value of 0.05 or $(0.000) < (0.05)$ which means the percentage of truth is not more than 5% (0.05), so it is said to be significant. The value of the X_2 coefficient (Exchange Rate) of -1.412 can be said where every 1 percent increase will result in a decrease in stock prices by $-1,412$ points.

These results indicate that the area H_2 is accepted, and H_0 is rejected namely, the Exchange Rate has a negative and significant effect on the Stock Price year 2017- 2019. These results indicate that any depreciation in the value of the Rupiah against the US Dollar, the stock price in the capital market will affect.

Therefore, the results of this study are supported by the results of previous studies, [4] and [9], who stated that the Rupiah exchange rate has a significant influence. However, the results of this study inversely proportional to the research conducted by [10], which states that currency exchange rates do not significantly affect the Share Price.

The significant effect of currency exchange rates on stock prices can occur because investors make these variables a consideration in buying and selling shares. If the Currency Exchange Rate Rupiah weakens, investors will consider not buying stocks because when the Rupiah exchange rate against the dollar strengthens, the stock price will decrease.

3.3. The Effect of Inflation and Currency Exchange Rates on Stock Prices

The results of multiple linear regression data processing show that X_1 Inflation and X_2 Currency Exchange Rates have a significant influence and relationship to Y Share Price. Simultaneous Significance Test Results (Test F) Inflation and Value Currency Exchange shows $F_{count} > F_{table}$, i.e., $17.740 > 3.29$. With a significance value of $0.001 < 0.05$, inflation and exchange rate Currency affect the Stock Price.

The Test of Determination of the Effect of Inflation and Currency Exchange Rates effect on the Share Price is 0.753 or equal to 75.3% . This shows that the percentage of the contribution of influence between independent variables Inflation and Currency Exchange rate of 75.3% while the remaining 24.7% is explained or influenced by other variables outside Inflation and Currency Exchange Rates.

By the initial hypothesis of the study said that inflation and Currency Exchange Rates simultaneously affect the Stock Price year 2017-2019. So that the area H_0 is rejected and H_3 is accepted, namely inflation and Currency Exchange Rates simultaneously affect the Stock Price in 2017-2019.

4. CONCLUSIONS

1. There is a significant effect of inflation on stock prices with a value of $0.434 > 0.05$; this shows that investors in considering the decision to invest in the stock market cannot use inflation as one of the benchmarks.
2. There is a significant effect between currency exchange rates and stock prices with a value of $0.000 < 0.05$; this shows that investors in considering the decision to invest in the stock market can make the exchange rate of the Rupiah against the US dollar as one of the benchmarks.
3. There is a significant effect between inflation and currency exchange rates on stock prices with a value of $0.001 < 0.005$.

AUTHORS' CONTRIBUTIONS

The author's contribution in this research is to provide input related to the research results obtained and assist in the preparation of scientific articles.

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