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Short-run Dynamics Between Foreign Currency and Jakarta Composite Index During Indonesian Presidential Election

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Short-run Dynamics Between Foreign Currency and Jakarta Composite Index During Indonesian Presidential Election

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This study investigates the dynamics of information flow between foreign currencies and the Jakarta Composite Index (JKSE) in the pre-, during and post-2014 Indonesian Presidential elections. Based on a systematic analytical framework, the study provides a clearer picture to link the foreign currencies of trade partners to Jakarta Stock Exchange. Using the VAR model with daily data from 2 January 2013 to 31 July 2015, our results show: First, JKSE appears to be endogenous during the pre-election period. The endogenous relationship implies that the EUR, HKD and CNY influence the benchmark index. Second, JKSE appears to be exogenous during the election year. The exogenous relationship implies information flow from JKSE to six foreign currencies. Third, during the post-election period, there is information flow from the Japanese Yen and Saudi Riyal to JKSE. In addition, there is information outflow from JKSE to three foreign currencies. This study concludes that the foreign currency market is subtly linked to JKSE. Our results imply a need to guard against capital flight during uncertainties as the foreign fund may exit the market. Deeper economic ties can be made with foreign trade partners willing to inject capital during economic recovery in the short run.

Introduction

Since 1955, Indonesia has enforced the president's appointment through the general election system every five years, including the one on 9 July 2014. During the election period, Indonesia's citizens who live scatter across 33 provinces and another country (which to be held in the embassy or at appointed places) used their rights to vote for their president. They used a paper that already shows the picture and column provided for selecting presidential candidates. Political parties appoint that candidate at the end of 2013. After the voting was done, the organization known as Kelompok Penyelenggara Pemumutan Suara (KPPS) collected and calculated the number of ballots.

Eventually, the election result was announced on 20 October 2014 by Komisi Pemilihan Umum (KPU). The KPU announced that Joko Widodo had been elected the President and Jusuf Kalla as Vice President. The announcement of the election result triggered the stock market movement and the foreign currency market. This observation shows a constant information flow between the investors, market makers, portfolio managers and even currency speculators. There is also a specific movement

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Figure 1. Daily Jakarta Composite Index. Closed Rate (Left) and Volume (Right)
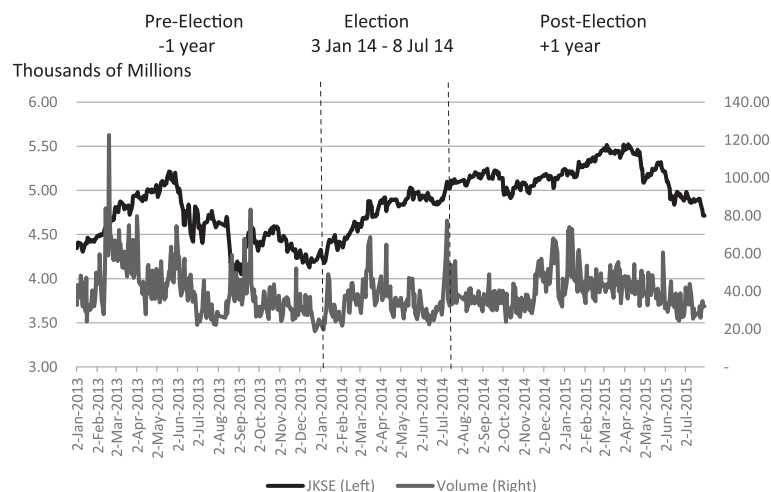
Pre-Election (Period 1) starts from 2 January 2013 until 31 December 2013. Election (Period 2) starts from 3 January 2014 until 8 July 2014. Post-Election (Period 3) starts from 10 July 2014 until 30 June 2015. Source: Jakarta Stock Exchange (www.tr4der.com, 2020).

Table 1. Jakarta Composite Index

	2009	2010	2011	2012	2013	2014	H1-2015
High	2,534.36	3,786.10	4,193.44	4,375.17	5,214.98	5,246.48	5,523.00
Low	1,256.11	2,475.57	3,269.45	3,654.58	3,967.84	4,175.81	4,838.00
Close	2,534.36	3,703.51	3,821.99	4,316.69	4,274.18	5,226.95	4,911.00
Active Stocks	388	409	436	457	482	499	503

Source: Research and Development Division Indonesia Stock Exchange, 2015

Table 2. Daily Foreign Exchange and Jakarta Composite Index (Billion Rupiah)

	Pre-Election (2 Jan 13 - 30 Dec 13)	Obs	Election (3 Jan 14 - 8 Jul 14)	Obs	Post-Election (10 Jul 14 - 30 Jun 15)	Obs
Comparison between Daily Foreign Exchange						
USD	12,331.00	2nd	11,753.00	2nd	13,399.00	2nd
AUD	10,906.77	3rd	11,033.72	3rd	10,271.67	3rd
EUR	16,953.89	1st	15,991.13	1st	14,997.50	1st
SGD	9,720.16	4th	9,431.83	4th	9,945.08	4th
SAR	3,288.00	5th	3,133.80	5th	3,572.59	5th
JPY	117.05	8th	115.47	8th	109.51	8th
HKD	1,590.17	7th	1,516.48	7th	1,728.48	7th
CNY	2,020.68	6th	1,907.15	6th	2,191.67	6th
JKSE	4,274.18		5,024.71		4,910.66	

US dollar (USD), Singapore Dollar (SGD), Hongkong Dollar (HKD), Saudi Riyal (SAR), Chinese Yuan (CNY), Australian Dollar (AUD), Euro (EUR), Japan Yen (JPY), and the Jakarta Stock Index (JKSE). Source: Jakarta Stock Exchange (www.tr4der.com, 2020).

of foreign funds in and out of the market, especially pre-and post-election. Hence, this study aims to unravel the short-run relationship between the participants of the foreign currency market and the Jakarta stock market during the period of pre-, during and post-2014 Presidential elections.

As shown in Figure 1, the Jakarta Composite Index (JKSE) movement from 2013 to 2015, The JKSE composite index showed a gradual increase from Jan 2013 to May 2013. After May 2013, it decreased and was followed by a downward trend in volume. However, starting from January 2014, the index started to rise in the election year, followed by daily volume trading transactions (see Figure 1). The upward trend of JKSE during the election year continued its momentum even after the election. It could be seen that the triumph of President Joko Widodo was positive news to the business community. The upward trend continued for more than nine months post-election until it reached a peak in April 2015 before starting the downward trend.

The IDX Annual Report 2014 stated that JKSE reached the highest point of 5,246 in 2014 (see Table 1). This index was ranked number

Figure 2. Daily Foreign Exchange and Jakarta Composite Index (Billion Rupiah)
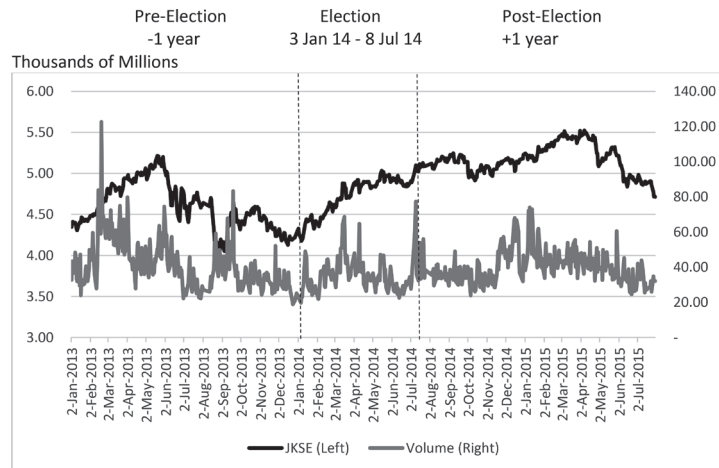
Pre-Election (Period 1) starts from 2 January 2013 until 31 December 2013. Election (Period 2) starts from 3 January 2014 until 8 July 2014. Post-Election (Period 3) Starts from 10 July 2014 until 30 June 2015. Source: Bank Indonesia, 2019

Figure 3. Frequency Trading Activities (measured by the number of trades) 2007 - 2015
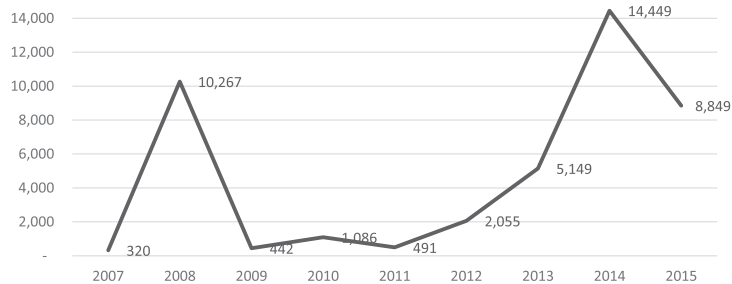
Source: Research and Development Division Indonesia Stock Exchange, 2015

four in the region after the Shanghai Stock Exchange (increased by 52.87%). The long-term growth from 2008 to 2014 had posted 282.05%, the second place in terms of growth in the region (Research and Development Division Indonesia Stock Exchange, 2015).

As shown in Figure 2, in the international money market, during the pre-election period, the Indonesian exchange rate against the US dollar (USD), Singapore Dollar (SGD), and Hongkong Dollar (HKD) showed an increasing trend. On the contrary, Saudi Riyal (SAR) and the Chinese Yuan (CNY) showed a decreasing trend, followed by the Australian Dollar (AUD). The AUD gradually increased until September 2014. Nevertheless, it decreased after that.

On the other hand, the Euro (EUR) showed a decreasing trend in December 2014 and January 2015. Japanese Yen (JPY) showed an increasing trend in September 2013 and returned to the previous position in December 2014 (see Figure 2). However, for the Statement of Financial Accounting Standards No. 10, Indonesia

only uses two currencies in the Financial Statements, namely IDR and USD.

The growth of the JKSE was triggered by the trading activities of local and foreign investors. The total trade frequency increased steeply from 2013 and peaked at 14,449 trades in 2014 during the presidential election year (see Figure 3). However, the trading frequency dropped to 8,849 trades in 2015 during the Post-election period. It is necessary to analyse the trading activities in the JKSE concerning different foreign currencies. What is the connection between JKSE and foreign currencies in Pre-, during, and Post-election in 2014? Is there any information flow between Foreign Currencies and the Jakarta Composite Index during this period of the Presidential election?

This paper is organized as follows. Section two contains a literature review that includes the theoretical framework for information flow. Section three discusses the data and methodology. Section four reports the results, and the last section concludes the study.

Literature Review

The movement of the stock market is always sensitive to any political event in any country. A study of the Presidential Election Cycle of US stock prices from January 1965 to December 2003 found that the stock prices drop in the first half until they reach a lower level in the second year. The stock prices will then rise until they reach a maximum level in the third or fourth year (Wong & McAleer, 2008, 2009). From their four decades of study, the presidential election strongly influenced the US Stock Market. The elected president is the one who has gained the majority of votes from the citizens. The US electoral system is very similar to the Indonesian presidential election. Hence, the election will influence the trading behaviour of investors.

In another study of the Malaysian general election, Liew & Rowland (2016) found that the stock market became more volatile during and after general elections and affected trading activities. Leow and Celis (2015) found that the political cycle exists based on Malaysia's general election seven times from February 1982 to April 2012 based on GARCH and other regression analyses.

Trading behaviour is associated with economic conditions. Some of the trading activities are affected by the global economy. Due to implementing the Quantitative Easing (QE) Policy in the US, the Japanese stock market trading activities had been affected by QE tapering. There was short selling by Foreign Retail Investors during QE tapering. Besides this, there was Information flow from Foreign Retail investors to Local Retail Investors. There were also short-selling activities by foreign institutional investors during the post-QE exit. This study found that foreign investors lead in information flow during the QE tapering and post-QE period. (Lau & Yip, 2019b).

However, in another study using daily data from Kuala Lumpur Composite Index (Lau & Yip, 2019a), there is information flow from Foreign Sales to Local Institutional Sales and short-selling by Foreign Investors during QE tapering. However, Foreign Sales are triggered by Sales from Retail and Institutional Investors in the first six months, Post-QE exit periods. Moreover, there are short-selling activities for Institutional Investors and Foreign in seven to twelve months of Post-QE exit.

A study from Indonesia demonstrates the impact of the Presidential election 2014 on the Indonesian Stock Exchange (Chandra, 2015). The sample data is from forty-five stocks with substantial market capitalization, high liquidity, and sound fundamentals, namely LQ45, from February 2014 to July 2014. The data in this study were split into four events (1) the Presidential election 9 July 2014, (2) the announcement of the election 22 July 2014, (3) constitutional court decision on 21 August 2014, and (4) the inauguration of the President & Vice President on 22 October 2014. After that, identify the abnormal return three days before and after the event. Furthermore, there is an abnormal return three days after the Presidential election and shorter after one day of inauguration. The positive information will give a positive abnormal return. However, there was no significant difference in trading volume in every event.

In a study based on the US Presidential election in 2016, Shaik (2017) found that the election influenced the Stock, FX and VIX's movement. The equity market is Nikkei 225, HSI, NIFTY50, FTSE100, DJIA, EuroStoxx50, S&PASX200, IPC, and Top 40 stock indices have abnormally response and also makes uncertain conditions. However, this condition creates an abnormal gain opportunity. Another result found that the Mexican peso decline against the USD. Conversely, the European and Australian currency has more benefits compared to the USD. Other empirical results identified that the VIX level of the equity market is in control in the post-election period.

As for the research gap, there has not been any work supporting the link between the Jakarta Stock Exchange and the Foreign Currency Market from the earlier paper reviewed. However, as the evidence suggested in Figure 3, JKSE reached the height of its trading record in the Presidential election year. Similar observations can be found in the higher foreign currencies during 2013-2014 (Figure 2). Hence,

Table 3. Daily Foreign Exchange and Jakarta Composite Index - Theoretical Framework

Hypotheses	Information Flow	Nature
H1	United States Dollar to Jakarta Composite Index	USD→JKSE
H2	Australian Dollar to Jakarta Composite Index	AUD→JKSE
H3	Euro to Jakarta Composite Index	EUR→JKSE
H4	Singapore Dollar to Jakarta Composite Index	SGD→JKSE
H5	Saudi Riyal to Jakarta Composite Index	SAR→JKSE
H6	Japanese Yen to Jakarta Composite Index	JPY→JKSE
H7	Hong Kong Dollar to Jakarta Composite Index	HKD→JKSE
H8	Chinese Yuan to Jakarta Composite Index	CNY→JKSE
H9	Jakarta Composite Index to United States Dollar	JKSE→USD
H10	Jakarta Composite Index to Australian Dollar	JKSE→AUD
H11	Jakarta Composite Index to Euro	JKSE→EUR
H12	Jakarta Composite Index to Singapore Dollar	JKSE→SGD
H13	Jakarta Composite Index to Saudi Riyal	JKSE→SAR
H14	Jakarta Composite Index to Japanese Yen	JKSE→JPY
H15	Jakarta Composite Index to Hong Kong Dollar	JKSE→HKD
H16	Jakarta Composite Index to Chinese Yuan	JKSE→CNY

this paper intends to bridge the gap in the literature by linking both the JKSE and foreign currencies in one study. In the next section, an analytical framework will be proposed.

Analytical Framework

This study proposes a framework to analyze this information flow between selling and buying foreign participants. For example, an Australian portfolio manager or foreign retail investor will sell Australian Dollar (AUD) and buy Indonesian Rupiah (IDR) to invest in the Jakarta Composite Index. In the process, the price of IDR to AUD will increase. At the same time, the purchase of stocks in JKSE will increase the index to a higher value.

In contrast, when the portfolio manager sells off the stock and converts back the investment back to AUD. The value of IDR to AUD and also JKSE will decrease. In other words, the price and returns of the foreign currencies and JKSE are proxies to the information flow between both the foreign currency market and Jakarta Stock Market. Based on the above discussion, Hypotheses H1 to H16 has been set in Table 3 to study the information flow from JKSE to the foreign exchange market and vice

versa.

H1 to H8 hypothesizes the one-way information flow from foreign currency to JKSE. On the other hand, H9 to H16 hypotheses the one-way information flow from JKSE to respective foreign currency.

Research Methods

Sample Period

This research uses daily data from a JKSE, follow by Indonesia currency with USD, AUD, SGD, SAR, CNY, HKD, and JPY from January 2013 until June 2015. The foreign currencies are selected from the trading partners of Indonesia. The list of variables is shown in Table 4.

To examine the Presidential election's effect on the relationship between foreign currencies and the Jakarta Composite Index, the sample period is further divided into three sub-periods, as shown in Figures 1 and 2 above. The first sub-period is the Pre-election year which started from 2 January 2013 to 31 December 2013. The second sub-period is the Election year, and It started from 3 January 2014 to 8 July 2014. Lastly, sub-period 3 is the Post-election year. It started from 10 July 2014 to 30 June 2015.

Table 4. List of Variables

Variables	Description	Unit Measure	Sources
USD	United States Dollar		
AUD	Australian Dollar		
EUR	Euro		
SGD	Singapore Dollar		
SAR	Saudi Riyal	One unit of Foreign currency in Indonesian Rupiah (IDR)	Bank Indonesia (Indonesia Central Bank)
JPY	Japanese Yen		
HKD	Hong Kong Dollar		
CNY	Chinese Yuan		
JKSE	Jakarta Composite Index		

Methodology

a) Compounded Percentage Return

Before estimated using the VAR model to understand whether lead-lag relationships for the returns of eight exchange rates and JKSE, it is necessary to construct compounded percentage returns. This method represents the aggregate effect of gains or losses of the series on an original amount over time.

b) Vector Autoregressive Model (VAR)

To examine the relationships between variables, the researcher will use the Vector Autoregressive Model (VAR) (Sims, 1980) as an alternative for the regression model, which has more than one dependent variable. All variables are considered endogenous variables.

The below equation shows how VAR estimates if current value depending on combinations of the previous k values both variables and error terms:

$$y_{1t} = \beta_{10} + \beta_{11} y_{1t-1} + ... + \beta_{1k} y_{1t-k} + \alpha_{11} y_{2t-1} + ... + \alpha_{1k} y_{2t-1} + \mu_{1t}$$

$$y_{2t} = \beta_{20} + \beta_{21} y_{1t-1} + ... + \beta_{2k} y_{2t-k} + \alpha_{21} y_{1t-1} + ... + \alpha_{2k} y_{1t-1} + \mu_{2t}$$

μ_{1t} is a white noise with $E\mu_{1t} = 0$, $(i = 1, 2)$

The optimal lag length for VAR is based on the Akaike Information Criterion (AIC).

$$AIC = n \sum \hat{u}_t^2 + 2(k+1)$$

μ_t is the residual that is used in the lag length selection.

c) Granger Causality (1969) Test

Before using the model, it is essential to identify the restricted and unrestricted models.

Those are on below the explanation of both of the models:

The unrestricted model:

$$\Delta y_{it} = a_0 + a_{i1}(\beta_{11} y_{1t-i} + \beta_{12} y_{2t-i} + \beta_{13} y_{3t-i})$$
$$+ a_{i2}(\beta_{21} y_{2t-i} + \beta_{22} y_{2t-i} + \beta_{23} y_{3t-i})$$
$$+ \Sigma_{j=1}^{p} a_{1j} \Delta y_{it-j} + \Sigma_{j=1}^{p} a_{2j} \Delta y_{2t-j} + \Sigma_{j=1}^{p} a_{3j} \Delta y_{3t-j} + \mu_{1t}$$

The restricted model:

$$\Delta y_{it} = a_0 + \Sigma_{j=1}^{p} a_{1j} \Delta y_{it-j} + \Sigma_{j=1}^{p} a_{3j} \Delta y_{3t-j} + \mu_{1t}$$

The Wald test shown below can be used to confirm Granger's causality between two variables, and if the result rejects H0, there is a causal relationship (Lau & Yip, 2019b). Below is the test statistic:

$$F = \frac{(RSS_R - RSS_u)/z}{RSS_u/(n-mp-1-r)}$$

Where, $H_0: a_{21} = a_{22} = ... = a_{2p} = 0$, $a_{11} = a_{12} = 0$

H_a: At least one of the restrictions is not valid.

Result and Discussion

Descriptive Statistics

As shown in Table 5, Euro has the highest standard deviation in all periods. The currency has a standard deviation of 1,386, 331 and 575 during the Pre-election, Election and Post-election periods.

Compounded Percentage Return

Based on the Foreign currencies (quoted in Indonesian Rupiah) in Table 4, this study constructs the compounded percentage returns from 'USD', 'AUD', 'EUR', 'SGD', 'SAR', 'JPY', 'HKD', 'CNY', and 'JKSE'. The new

Table 5. Daily Foreign Exchange and Jakarta Composite Index - Descriptive Statistics

Variable / Period	Mean (in billion IDR)	Std.Dev	Skewness	Kurtosis	Jarque-Bera		Obs
Pre-election: 2 January 2013 - 30 December 2013							
USD	10,497.19	870.56	0.693	1.854	32.869	(0.000)	244
AUD	10,144.92	573.77	-0.050	1.878	12.893	(0.001)	244
EUR	13,956.04	1,385.67	0.701	1.922	31.804	(0.000)	244
SGD	8,391.42	672.21	0.763	1.877	36.457	(0.000)	244
SAR	2,799.10	232.09	0.693	1.855	32.874	(0.000)	244
JPY	10,757.65	729.30	0.145	1.632	19.876	(0.000)	244
HKD	1,353.39	112.65	0.692	1.851	32.897	(0.000)	244
CNY	1,695.34	154.04	0.650	1.844	30.776	(0.000)	244
JKSE	4,593.14	287.57	0.232	2.218	8.408	(0.000)	244
Election: 3 January 2014 - 8 July 2014							
USD	11,796.65	306.66	0.258	1.754	9.389	(0.009)	124
AUD	10,799.96	275.11	0.222	2.592	1.879	(0.391)	124
EUR	16,166.47	330.94	0.326	2.086	6.511	(0.039)	124
SGD	9,361.20	228.87	-0.095	1.726	8.579	(0.014)	124
SAR	3,145.50	81.76	0.259	1.756	9.388	(0.009)	124
JPY	11,518.33	283.82	0.047	2.283	2.702	(0.259)	124
HKD	1,521.07	39.58	0.230	1.739	9.304	(0.010)	124
CNY	1,921.82	54.67	0.379	1.828	10.059	(0.007)	124
JKSE	4,725.15	222.48	-0.767	2.419	13.905	(0.001)	124
Post-election: 10 July 2014 - 30 June 2015							
USD	12,569.06	548.79	-0.105	1.729	16.585	(0.000)	240
AUD	10,449.04	337.81	0.153	1.915	12.720	(0.002)	240
EUR	15,006.79	574.66	-0.358	2.070	13.784	(0.000)	240
SGD	9,569.25	184.20	1.077	3.005	46.376	(0.000)	240
SAR	3,350.68	146.46	-0.090	1.725	16.585	(0.000)	240
JPY	10,940.49	325.39	0.173	2.494	3.768	(0.152)	240
HKD	1,621.08	70.66	-0.097	1.722	16.715	(0.000)	240
CNY	2,048.11	93.15	-0.119	1.755	16.054	(0.000)	240
JKSE	5,191.76	159.08	0.243	2.334	6.803	(0.033)	240

variables are 'RUSD', 'RAUD', 'REUR', 'RSGD', 'RSAR', 'RJPY', 'RHKD', 'RCNY', and 'RJKSE'.

Granger's Causality Test

All the return series are stationary in their level form. Hence, the unit root test is not necessary for the return series. The vector regression (VAR) model, as shown above, is estimated for three sub-periods. The Wald test is performed on VAR models' coefficients to check whether there was Granger causality between the foreign currencies and JKSE. The results are shown in Table 6.

Table 6 Panel A shows Granger's causality result for the Pre-election period. During Pre-Election, it can be observed that JKSE appears to be endogenous. The endogenous relationship implies that the EUR, HKD and CNY influence the benchmark index. In other words, there is

information flow from portfolio investment from the European region, China and Hong Kong to JKSE. The results are summarized in Figure 4.

Table 6 Panel B shows the result for the election year. The same results are depicted in Figure 5. It can be observed that JKSE appears to be exogenous. The exogenous relationship implies information flow from JKSE to six foreign currencies. In other words, the foreign portfolio managers took profit by selling off their holdings. The gains were repatriated back to their respective home countries. The finding is supported by the observation in Figure 3 and Table 1. JKSE reached the height of 5,246 in the Jakarta Composite Index with a peak of 14,449 trades in 2014 during the election year.

Table 6 Panel C shows the result for the Post-election year. There is a mixture of inflow and outflow of foreign investment. As shown in Figure 6, there is five information flow. Two

Figure 4. Information flow from Foreign Currencies to the Jakarta Stock Exchange in the Pre-election period
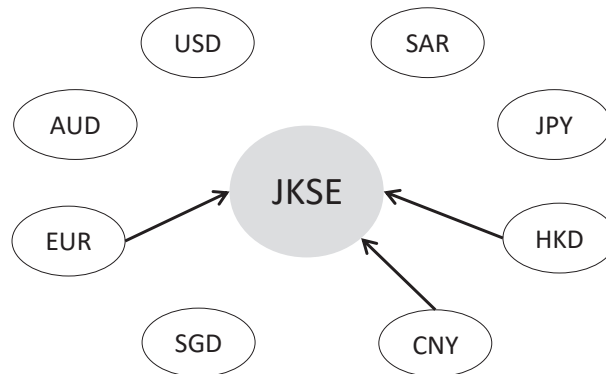
Source: Jakarta Stock Exchange (www.tr4der.com, 2020)

Figure 5. Information flow from Jakarta Stock Exchange to Foreign Currencies in the election year
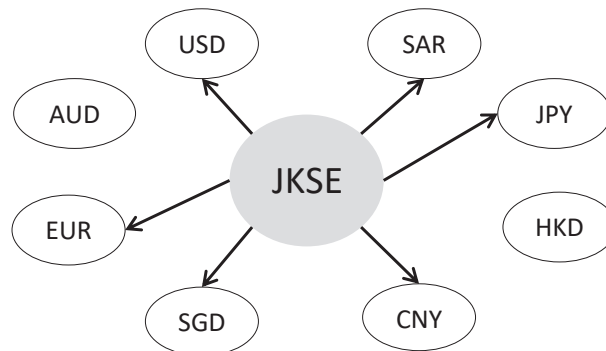
Source: Jakarta Stock Exchange (www.tr4der.com, 2020)

Figure 6. Information flow from Jakarta Stock Exchange to Foreign Currencies and vice versa in the Post-election period
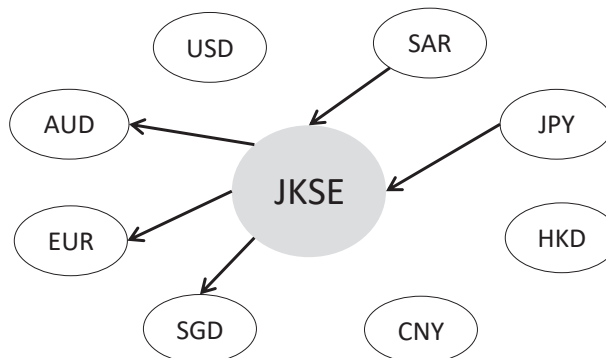
Source: Jakarta Stock Exchange (www.tr4der.com, 2020)

of them are from Foreign Currencies to the Jakarta Stock Exchange (H5: SAR→JKSE) and (H6: JPY→JKSE). In other words, some portfolio managers from Japan and Saudi Arabia resumed their investment in Jakarta. Under President Jokowi and his innovative policies, investor confidence has grown and led to more foreign investment in real sectors.

In contrast, some portfolio managers continue to take profit from their earlier investments.

As shown by Figure 6, three outflows from Jakarta Stock Exchange to Foreign Currencies (H10: JKSE→AUD, (H11: JKSE→EUR), and (H12: JKSE→SGD).

Conclusion

This study unravels the movement of JKSE and Foreign Currencies during the Indone-

Table 6. Daily Foreign Exchange and Jakarta Composite Index - Granger Causality Test Result.

Dependent Variable	Variable								
	RUSD	RAUD	REUR	RSGD	RSAR	RJPY	RHKD	RCNY	RJKSE
Panel A: Pre-Election: 2 Jan 2013 - 31 Dec 2013									
RUSD		2.69	3.165	1.834	1.011	3.369	0.826	1.829	1.258
		-0.101	-0.075	-0.176	-0.315	-0.066	-0.364	-0.176	-0.262
RAUD	1.038		0.719	0.013	1.057	0.166	1.018	0.727	0.467
	-0.308		-0.397	-0.908	-0.304	-0.684	-0.313	-0.394	-0.494
REUR	1.197	0.218		0.15	1.193	1.127	1.216	0.873	3.824
	-0.274	-0.641		-0.699	-0.275	-0.289	-0.27	-0.35	-0.051
RSGD	0.309	0.195	1.554		0.313	0.042	0.292	0.316	0.029
	-0.578	-0.658	-0.213		-0.576	-0.839	-0.589	-0.574	-0.864
RSAR	1.599	0.704	3.263	1.569		3.232	1.455	2.346	0.344
	-0.206	-0.401	-0.071	-0.21		-0.072	-0.228	-0.126	-0.558
RJPY	1.548	4.6	0.215	1.437	1.529		1.459	1.889	0.989
	-0.214	-0.032	-0.643	-0.231	-0.216		-0.227	-0.169	-0.32
RHKD	0.442	9.958	0.118	0.591	0.437	0.425		0.025	6.268
	-0.506	-0.002	-0.731	-0.442	-0.509	-0.515		-0.874	-0.012
RCNY	0.232	0.052	0.051	0.082	0.23	0.016	0.23		3.032
	-0.63	-0.819	-0.822	-0.774	-0.632	-0.898	-0.632		-0.082
RJKSE	0.592	0.13	1.298	0.415	0.594	1.096	0.508	0.878	
	-0.442	-0.718	-0.255	-0.52	-0.441	-0.295	-0.476	-0.349	
Panel B: Election: 3 January 2014 - 8 July 2014									
RUSD		9.125	1.387	4.355	2.821	2.275	2.73	2.724	4.477
		-0.244	-0.986	-0.738	-0.901	-0.943	-0.909	-0.909	-0.724
RAUD	7.842		6.214	10.827	7.885	7.1	7.811	7.841	11.492
	-0.347		-0.515	-0.146	-0.343	-0.419	-0.35	-0.347	-0.119
REUR	7.204	5.352		6.762	7.253	4.002	7.449	7.54	7.008
	-0.408	-0.617		-0.454	-0.403	-0.78	-0.384	-0.375	-0.428
RSGD	13.323	14.337	8.832		13.324	11.664	13.587	13.307	11.438
	-0.065	-0.046	-0.265		-0.065	-0.112	-0.059	-0.065	-0.121
RSAR	2.697	8.868	2.56	6.703		2.739	2.651	2.574	6.202
	-0.912	-0.262	-0.923	-0.46		-0.908	-0.915	-0.921	-0.516
RJPY	7.203	8.569	10.487	9.924	7.22		7.346	7.932	5.406
	-0.408	-0.285	-0.163	-0.193	-0.406		-0.394	-0.339	-0.611
RHKD	13.235	24.881	10.171	19.382	13.27	15.874		14.99	10.626
	-0.067	-0.001	-0.179	-0.007	-0.066	-0.026		-0.036	-0.156
RCNY	5.343	11.07	7.663	6.401	5.403	7.758	5.508		6.619
	-0.618	-0.136	-0.363	-0.494	-0.611	-0.354	-0.598		-0.47
RJKSE	13.98	6.091	13.891	14.706	14.052	14.437	14.054	15.066	
	-0.052	-0.529	-0.053	-0.04	-0.05	-0.044	-0.05	-0.035	
Panel C: Post-Election 1: 10 July 2014 - 30 January 2015									
RUSD		8.163	2.66	6.565	1.652	0.463	1.706	1.835	0.916
		-0.086	-0.616	-0.161	-0.8	-0.977	-0.79	-0.766	-0.922
RAUD	3.088		6.217	3.343	3.082	3.43	3.091	3.775	1.07
	-0.543		-0.184	-0.502	-0.544	-0.489	-0.543	-0.437	-0.899
REUR	1.932	2.409		3.218	2.014	2.076	1.999	2.013	2.005
	-0.748	-0.661		-0.522	-0.733	-0.722	-0.736	-0.733	-0.735
RSGD	1.628	6.079	2.658		1.704	14.641	1.634	1.696	7.318
	-0.804	-0.193	-0.617		-0.79	-0.006	-0.803	-0.791	-0.12
RSAR	1.726	15.327	1.449	7.376		0.99	1.738	1.826	9.475
	-0.786	-0.004	-0.836	-0.117		-0.911	-0.784	-0.768	-0.05
RJPY	1.414	7.597	5.841	6.884	1.424		1.489	1.538	8.582
	-0.842	-0.108	-0.211	-0.142	-0.84		-0.829	-0.82	-0.072
RHKD	4.173	1.572	2.209	2.098	4.174	0.987		3.431	3.285
	-0.383	-0.814	-0.697	-0.718	-0.383	-0.912		-0.488	-0.511
RCNY	2.826	1.23	4.612	2.815	2.834	0.476	2.966		0.695
	-0.587	-0.873	-0.33	-0.589	-0.586	-0.976	-0.564		-0.952
RJKSE	3.558	11.723	20.6	9.435	3.495	5.821	3.759	4.73	
	-0.469	-0.02	0	-0.051	-0.479	-0.213	-0.44	-0.316	

*, **, and *** denoted as statistically significant at levels 10%, 5%, and 1%

The above model is based on an optimal lag selection of 1, 7 and 4 for Pre-election, election, and post-election.

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Table 7. Daily Foreign Exchange and Jakarta Composite Index - Summary Result of Hypothesis

Hypotheses	Transaction Flow	Pre-Election 2 Jan 13 - 30 Dec 13	Election 3 Jan 14 - 8 Jul 14	Post 10 Jul 14 - 30 Jun 15
H1	USD→JKSE	-	-	-
H2	AUD→JKSE	-	-	-
H3	EUR→JKSE	Supported	-	-
H4	SGD→JKSE	-	-	-
H5	SAR→JKSE	-	-	Supported
H6	JPY→JKSE	-	-	Supported
H7	HKD→JKSE	Supported	-	-
H8	CNY→JKSE	Supported	-	-
H9	JKSE→USD	-	Supported	-
H10	JKSE→AUD	-	-	Supported
H11	JKSE→EUR	-	Supported	Supported
H12	JKSE→SGD	-	Supported	Supported
H13	JKSE→SAR	-	Supported	-
H14	JKSE→JPY	-	Supported	-
H15	JKSE→HKD	-	Supported	-
H16	JKSE→CNY	-	Supported	-

Table 8. Daily Foreign Exchange and Jakarta Composite Index - Summary of Information Flow

Hypotheses	Transaction Flow	Pre-Election 2 Jan 13 - 30 Dec 13	Election 3 Jan 14 - 8 Jul 14	Post 10 Jul 14 - 30 Jun 15
Foreign Currencies → JKSE		3	-	2
JKSE → Foreign Currencies		-	7	3
Total Flow		3	7	5

sian Presidential election based on daily data collected from January 2013 until June 2015. Furthermore, the data is divided into three sub-periods pre-, during and post-2014 Indonesian Presidential election for empirical analysis. Our result of the analysis shows: Firstly, in the pre-election period (2 Jan 13 - 30 Dec 13), JKSE shows the most endogenous variable. This result is indicated by the information flow from HKD, Renminbi and EURO to JKSE (see Table 7).

Secondly, during the Presidential election (3 Jan 14 - 8 Jul 14), JKSE shows the most exogenous variables with information flow from JKSE to seven foreign currencies except HKD and AUD. More outflow of foreign portfolio monies was due to profit-taking activities and uncertainty due to the election-related activities (see Table 7).

Third, various information flows occur in the post-election period (10 Jul 14 - 30 Jun 15). An inflow of three currencies from the Japanese Yen and Saudi Riyal to JKSE and an outflow from JKSE to AUD, EUR and SGD occur during this period (see Table 7). These results imply important stylized facts: The outflow of information exceeds inflow during uncertainties, as seen during the election.

Table 8 summarizes the total number of information flow between JKSE and foreign currencies. As observed, seven information flow can be observed in the Election period, five information flow in the Post-election period and three information flow in the Pre-election period. Evidence also shows a peak of trading activities during the President Election year in 2014.

It can be seen that the short-run dynamics between foreign currencies and JKSE exhibit valuable information flow not yet reported in any finance literature. The foreign currency market is subtly linked to JKSE. Due to the availability of data, this study can only be shown at the aggregate level. If more detailed data is available, the analysis can be more refined.

Our empirical findings suggest that the market was susceptible to political events like the Presidential election. Hence, Bank Indonesia needs to guard against the exodus of capital from the stock market during uncertainty like the election. There was a significant change in foreign currency during the election and post-election periods (see Table 7). The results have shown that having trading partners like Japan and Saudi Arabia is essential to assist the Indonesian market in capital inflow.

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