The Seasonality of Market Integration: The Case of Indonesia's Stock Markets

Shieldvie Halim

Rayenda Brahmana

Aldrin Herwany

Abstract

Even though Market Integration and the Weekend Effect have been extensively investigated in the past two decades, the examination of its linkage has been rarely found. Considering its importance for portfolio practices, this study investigates the possibility of integration to occur on a certain day over the period of January 2000 until December 2010. This research employed Stehle's (1977) ICAPM model for measuring the market integration, and French's (1980) Weekend Effect for measuring the Weekend Effect in rolling regression mode. To control the equation, we introduce the exchange rate of IDR-to-USD, and oil prices. For robustness, we adopted and modified the French's Model to examine the seasonality inside market integration. This research remarks that there is seasonality in stock market integration.

1. BACKGROUND OF THE STUDY

The weekend effect is one of the anomalous conditions in the stock market. It is associated with the distribution of daily common stock returns. It refers to the repeated returns' cycle on a certain day (usually on Monday), is negatively highly dispersed compared to other days. Such a relationship has been verified mainly in the developed markets since the past two decades.

This anomaly has been also reported in most of the emerging stock markets, including Indonesia. Ho and Cheung (1994) investigated the seasonal pattern in the volatility in Asian stock markets and found the seasonality. Choudry (2000) examined the day-of-the week effect in emerging stock markets and found the calendar anomaly by applying the GARCH model. Basher and Sadorsky (2006) did a similar study like Choudry (2000), and arrived at the same conclusion.