Impact of Commodity Prices and Macroeconomic Variables on Stock Market Performance - Evidence from Sri Lanka

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ABSTRACT

Introduction: In Sri Lanka, the stock market performance is impacted by numerous variables. Out of these variables, this research study has been carried out to determine the impact of commodity prices and macroeconomic variables on stock market performance in Sri Lanka.

Design/Methodology/Approach: This study incorporated two models by using stock prices generated through ASPI and S&P SL20 index as dependent variables. As the commodity variables, tea, coconut, rubber, gold, silver, aluminium and crude oil were used whilst as macroeconomic variables, real GDP, inflation rate and exchange rate were used. Aforesaid variables are used as independent variables. Vector Error Correction Model is used as the main analysis along with descriptive analysis, correlation analysis along with related tests.

Findings: The results emphasize that commodity prices of tea, rubber, coconut, gold, silver, aluminium and crude oil have insignificant long run relationship with ASPI and S&P SL 20 & Tea and Rubber prices have a short run impact towards ASPI while only rubber prices impacted to S&P SL20 in short run. Macroeconomic variables of real GDP, exchange rate and inflation rate have insignificant long run relationship with ASPI and S&P SL20 and Exchange rate has a short run impact to both ASPI and S&P SL20 index.

Conclusion: It is concluded that there is no relationship between the commodity prices and stock market performance except for tea and rubber prices. Meanwhile, real GDP, exchange rate and inflation rate have an impact on stock market performance.

Keywords: *ASPI, S&P SL20 Index, Commodity Prices, Macroeconomic Variables, VECM*