

Gold as Safe Haven Strategy During Covid-19 Pandemic: The Case of Bursa Malaysia

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Abstract

Studies on the property of gold investment as safe haven strategies have been done worldwide. However, the study on the impact of Covid-19 crisis is limited as the crisis is still new. This study is trying to fill in the gap by identifying the safe haven property of gold in Malaysia market. Preliminary results show that performance of gold price is parallel with the performance of KLSE during the pandemic. It shows that the property does not exist in Malaysian market. However, statistical test needs to be done to identify the result precisely. It hopes that result of the study could help investors in constructing better portfolio in managing the risk of their investment.

Keywords: Gold investment, Safe haven, Investment strategy, Portfolio

Introduction

COVID-19 was first detected in December 2019 during the outbreak from a city of Wuhan in China. The first case of COVID-19 in Malaysia reported by Malaysian Ministry of Health (MOH) started among tourists from China during the Chinese New Year holiday. While the local contact in Malaysia started with the Sri Petaling Tabligh cluster which had affected 3,375 individuals. On 11 March 2020, as the number of cases increased drastically, reaching 149,382 cases with 4,649 deaths tolls globally, The World Health Organization (WHO) had declared the COVID-19 disease as pandemic. The pandemic affects the nation in various angles including social and economic activities as well as the financial market. The world was shutting down (Mitchell, 2020). After the developed vaccines had successfully controlling the impact of the virus, WHO had restated the situations from pandemic to epidemic on 5 May 2023. History was created and the world was reset (Schwab & Malleret, 2020).

World stock markets were facing severe impact from the economic shutdown. The impacts were well documented. During the pandemic, global stock markets showed negative returns (Khan, et.al., 2020) and more volatile (Kusumahadi & Permana, 2021). To lessen the negative impact, wise investors will diversify their investment into several portfolios such as bonds, real estates, and gold investment. This study will measure the properties of gold investment as safe haven during the crisis, which is focusing on the COVID-19 crisis.

Literature Review

Numerical empirical studies on the roles of gold investment during the financial crisis have been done worldwide. The studies showed gold strongly reacts as a strong safe during negative market shocks due to the financial crisis in developed (Baur & McDermott, 2010) and emerging market (Gürkün & Ünalımsı, 2014). The safe haven property hold for a year (Bredin,

et. al., (2015). However, the property level was different for each financial crisis between the year 1258 to 2018 (Boubaker, et. al., 2020).

Most of earlier studies were focusing on the safe haven property of gold during the financial crisis. On the contrary, study of the property during the COVID-19 crisis is scarce as the pandemic is relatively new as compared to the other crisis. COVID-19 was unique as it involved all sectors including health and economics crisis. It showed that gold also acts as a safe haven investment during the COVID-19 crisis (Ji et.al, 2020). However, the property only holds for a short-term basis as investors' confidence were recovered in response to actions taken by government in assisting the economy recovery (Akhtaruzzaman, et. al., 2021).

Study by Ghazali, et. al (2020, 2022), showed that gold investment does not provide hedging towards inflation in Malaysian market. However, during the stock market crisis and COVID-19 crisis, in most Asian countries including Malaysia gold shows safe haven strategy with ability to reduce the risk during the period (Yousaf, 2021). Study on the safe haven property of gold investment during the crisis (specifically COVID-19 crisis) in Malaysian market is scare even though the demand and number investment platforms available are increasing over time.

Research Method

The study aims to investigate the safe haven property of gold investment during the COVID-19 crisis in Malaysian market.

Following Baur & McDermott (2016), the dependent variables of the study will be the daily gold price. While closing value of FTSE Bursa Malaysia, which also known as Kuala Lumpur Composite Index (KLCI) will be the independent variable. Sample of the data will be covering a period between 1st January 2019 to 31st December 2023 which covers several phases which are before the pandemic, during the pandemic and after the pandemic (after WHO declaring the epidemic status). Safe haven property of gold investment will be tested using the following model.

$$r_{Gold,t} = \alpha + \gamma_0 r_{s,t} + \gamma_1 r_{s,t} Dq10 + \gamma_2 r_{s,t} Dq5 + \gamma_3 r_{s,t} Dq1 + \varepsilon_t \quad (1a)$$

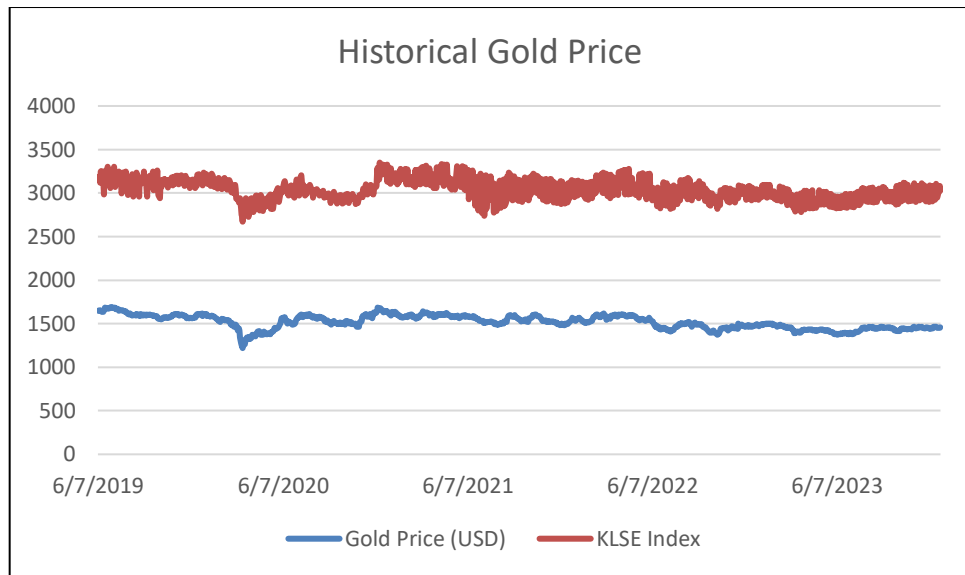
$r_{Gold,t}$ is the gold return while $r_{s,t}$ is the stock market return with Dq as dummies of extreme negative market index returns (at 1% quantile, the 5% quantile and the 10% quantile).

Data for the both dependent and independent variables the (gold prices and Bursa Malaysia KLCI index) will be downloaded from investing.com and the daily cases of COVID-19 will be obtained from the statistics produced by World Health Organization (WHO).

Preliminary Result

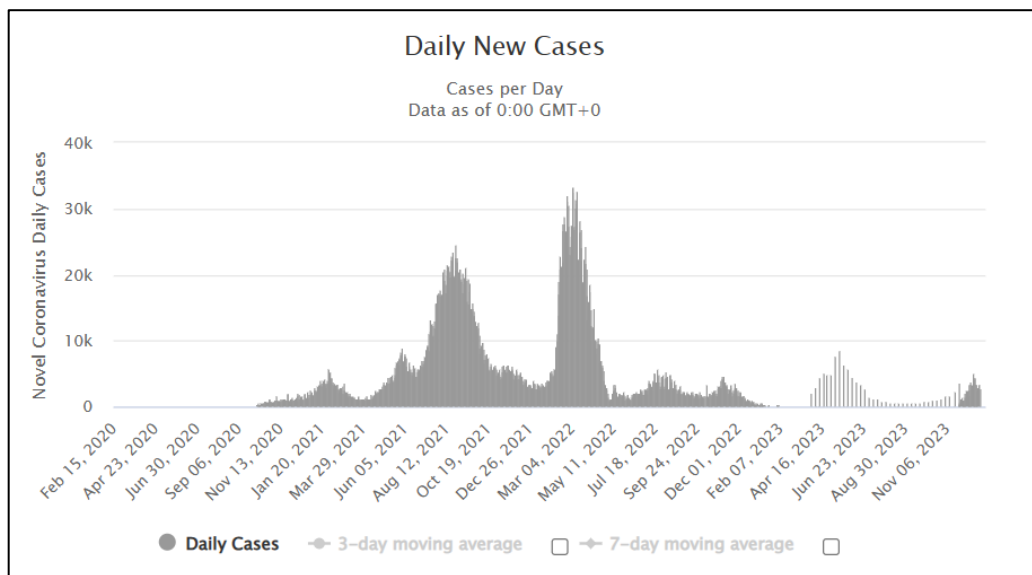
Figure 1 shows preliminary observations of gold performance (price) for three-year period representing before, during and after the COVID-19 crisis. The number of daily Covid-19 cases were shown in Figure 2. The figures clearly show that the performance of both gold price and KLSE Index dropped at the early stage of the pandemic and remained stable towards the end of the period. Both variables were moving in the same directions throughout the period. Generally, gold does not provide the safe haven property during the Covid-19 crisis. However, this is only the observation without testing the estimation model that has been

discussed earlier. The model will be used to prove is there any relationship between both variables.



Source: Author based on the data downloaded from GoldBroker.com and Investing.com

Figure 1. Historical Gold Price Before, During and After Covid-19 Crisis in USD



Source: Worldometers (2023).

Figure 2. Covid-19 Daily Cases

Conclusion

The COVID-19 outbreak has drastically changed economic and social activities through the new norms of lifestyles. Investors need to plan their investment properly. Wise investors will not put all eggs in one basket. This study will measure the properties of gold investment as safe haven during the crisis, which is focusing on the COVID-19 crisis in helping the investors constructing better investment portfolio.

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