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EXCHANGE RATE MOVEMENT AND INVESTORS CONFIDENCE: EVIDENCE FROM NIGERIAN STOCK MARKET

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ABSTRACT:

This study examined the relationship between Naira foreign exchange rate and investors' confidence in Nigeria stock market from 2005 to 2020. The volume and value of traded securities were used as proxies for investors' confidence. The study made use of secondary data sourced from Nigerian Stock Exchange (NSE) facts book and Central Bank of Nigerian statistical bulletin for various years. The data were analyzed using pie chart, while the formulated hypotheses were regressed with the help of e-view package. From the result it was ascertained that Naira exchange rate has negative and insignificant relationship with investors' confidence. The positive aspect of the result is that government and institutions can resort back to the stock market as a cheap source of fund instead of borrowing externally with the prevalent high exchange rate. The study recommends creation of more investment outlets or opportunities including retail and consumer outlets where people can invest as individuals and corporate bodies. Again capital market awareness creation about the available investment opportunities shouldn't be neglected as it is capable of attracting both foreign portfolio and local investors.

Key words: *Investors confidence, Institutional Investors, Volume of traded securities and Value of traded securities*
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1. INTRODUCTION

The level of development of capital markets to a large extend affects the economic performance of any nation, simply because, the capital market plays an immeasurable role towards the economic development of both developed and developing nations. The capital market is assumed to be developed when both the government and institution can source suitable fund from the market without disrupting the economic condition of the nation, and when institutional investors can confidently invest profitably in such market. To a great extent, a developed capital market will be efficient enough that the investing public should have access to important information that will guide their investment decisions. The level of capital market development seems to have positive relationship with the level of investors' confidence on any nation. Investor's on their own seem to trust developed or developing economies with stable economic history. Though there are investors who psychologically believe that past history are irrelevant and as such do not want to spend time

researching the past investment experience of others (Xu, 2010). Nevertheless, maintaining a high investors' confidence is of a great paramount because to a large extent, it has been affirmed by scholars like Rachel (2013) that investors' react based on information they got from observing others. These results also confirmed the findings of Ray and Mbodja (2010) which states that investors react differently to stock price shock, the reactions can either be positively or negatively.

Maintaining investors' confidence is not limited to stock market only; it can be extended to every sphere of human investment life, including private and public firms that have the capacity to borrow from investing public. High level of investors' confidence can benefits both the surplus and deficit units of every economy as investors are always willing to invest in a safe and profitable outlet, while borrowers are always more comfortable to borrow from available source at a cheap rate. This is to say that lack or low level of investors' confidence can affect both the potential investors' and borrowers. Borrowing domestically can be of a great benefit to both the borrower and the nation, because it is always cheaper and can be repaid with the domestic currency, minimizing the adverse effect of foreign exchange rate to those parties. In Nigeria, Naira exchange rate to dollar has always been on the increase and Nigeria is characterized with high burden of external debt servicing due to her high rate of external borrowing and unfavorable exchange rate experienced over some decades. Again, the local investment outlets are not deep enough to cater for the appetite of institutional investors and foreign portfolio investors. This challenge draws a wide range between the surplus and deficit units of the country, with the high foreign exchange rate like cancer eating deep into the treasury of both surplus and deficit unit. One can rightly wonder why Nigeria can still heavily depend on external borrowing and Nigerian capital market till date still remains an emerging market despite over sixty years of independence. Could that be attributed to our unfavorable foreign exchange rate over the years? Or could it be that the exchange rate has discouraged investors from investing in our capital market? In a bid of finding a dependable answer to the above questions, this research work seeks to examine the relationship between Naira foreign exchange rate and investors confidence from 2005 to 2020, with the Volume and Value of traded securities acting as proxies for investors' confidence.

1.1 Objectives of the Study

The major objective of this study is to examine the relationship between the exchange rate movement and Investors Confidence in the Nigerian Exchange Group. The specific objectives are:

1. to evaluate the relationship between foreign exchange rate and volume of traded securities in the Nigerian stock market.
2. to examine the relationship between foreign exchange rate and value of traded securities in the Nigerian stock market

1.2 Hypotheses

The following hypotheses were used to pilot this study:

H_{o1}: foreign exchange rate has no significant relationship with the volume of the traded securities in the Nigerian stock market

H_{o2}: foreign exchange rate is not significantly related with value of traded securities in the Nigerian stock market

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Confidence and Volume of Traded Securities

Confidence in the context of this study is a prediction of positive future (Rachel, 2013). Investors confidence means, believe and the expectations of the investors and potential investors that the economic future of a particular market will be positive. To Jeremy (2017) investors confidence is the willingness of investors to invest in the available investment outlets and related intermediation channels base on the investors' perception of the related risk and return. There are two components

of investors' confidence, they include: investors' optimism, which means investors' perception about the risk and return that is associated with a particular security, and investors trust, which has to do with the perception of the investors that their interest is properly protected from exploitation of issuers and intermediaries. Trust is the hallmark in investment principles as greater trust is positively related to higher level of investment.

Volume of traded securities can be seen as the total number of shares traded on the nations' stock exchange or, the total number of shares traded divided by total number of shares outstanding (Andrew and Jiang, 2000). Volume of traded securities has also been seen as an indicator of stock market performance and possible price movement. On the hand, value of traded securities is the monetary value of the total traded securities. The value of securities is measured by the price of the securities.

2.2 Empirical Review

Related works on the topic of interest were review with the sole aim of driving home the points on investors' confidence and variable of interest or related variables.

Andrew and Jiang (2000) investigated how and why trading activities vary from stock to stock using cross-sectional and time series data of individual securities in order to examine the behavior of both aggregate and individual volume of traded securities over the years of study.

Ray (2010) studied pre and post event price behavior and discovered that investors' react differently to price shocks, this reaction can either be positively or negatively. Again, that increase in price to a large extent, drive post event abnormal returns positively.

Xu (2010) attempted to solve the problem of cognitive deviation as a result of non-rational behavior. The study concludes that deviant investing behavior can be corrected with on relevant learning theory which can address the investors self confidence and anxiety.

Rag and Mbodga (2010) tested competing hypotheses as it relates to volatility and trading volume using United States Dollar dominated currencies like British Pounds, Canadian Dollar and Japanese Yen. The result showed a negative correlation between the tested variables.

Rachel (2013) investigated the effect of incomplete confidence of investors on their stock demand. The result showed that demand for stock is negatively elastic and that investor are subjected to herding behavior, which means that investors react based on information they obtained from observing others.

Praveen and Alessandro (2013) examined the impact of corporate governance on investors' confidence and discovered that corporate governance has a positive impact on investors' confidence as it relates to public firms as investors' can only invest on a productive firm. Again, the bases for survival of any public firm, are the investors resources, so lack of investors' confidence on the firm can lead to withdrawal of resources by investors, which can lead to liquidation of the firm.

Salma and Barry (2007) analyzed relationship between the level of leverage in the choice of capital structure and influence of confidence. Grouping confidence into investors' confidence and managers' confidence, the result revealed that managers who have over confidence on their firm's future prefer debt to equity financing, while investors' confidence are negatively related to leverage.

In Nigeria, Osarumwense Osabuohien-Irabor (2020), the paper examined empirically whether investors' online search intensity measured by GSV and Wikipedia page views influences the stock return, trading volume. The analysis covers the top thirty (30) firms in Nigeria stock market

exchange with respect to their market capitalization and liquidity. The analyzed empirical results suggest that the use of data information offered by Wikipedia and Google services can be of great benefit to active and prospective investors as well as individual companies. Results show that the GSV does not influence firms listed on NGSE-30 index. Nevertheless, changes in the numbers of Wikipedia page views related to stock market activities negatively impact both the contemporary explanatory and predictive stock returns. Negative significant influence of attention on stock returns implies that, higher investors attentiveness by viewing firm's Wikipedia pages related to stocks market might lead to lower stock returns. This suggest that investors of NGSE-30 index companies appear to be more sensitive to bad news than good news in their investment decision. In summary, this article suggests that Google query for searching stock related information is not a driving factor for price movement for companies in NGSE-30 and appears not to interact with return, trading volume and volatility when determining price dynamics.

The study by Akinmade *et al* (2020) is the first attempt to empirically analyze stock market manipulation on the Nigerian Stock Exchange and its consequences on economic performance. The empirical investigation employs a broad data set of 186 actual manipulation cases indicted by the Nigerian Security and Exchange Commission between 2002 and 2016. It embraced market microstructure analysis and the event study method to understand how various manipulation techniques impact on market measures, and the Error Correction Model to evaluate their economic effects. Manipulation is found to distort market efficiency measures (such as market capitalization, value traded ratio and All-Share Index) and genuine traders are forced to exit the market to avoid possible trading with a manipulator. Such huge divestment and the subsequent financial risk weaken the ability of the Stock Exchange market to improve economic performance, creating negative consequences at the post-manipulation period. Essentially, economic variables (such as the GDP) react negatively to manipulative trading. This finding is insightful and a prompt to the Securities and Exchange Commission to design policy responses towards deterring and prosecuting unfair trading practices or other activities that contravene the market rules.

3. MATERIAL AND METHOD

This research work is a developmental research that seeks to examine the nature of relationship that exist between investors' confidence and Nigerian foreign exchange rate for fifteen year period; 2005-2020. Two variables that were used as proxies for investors' confidence are volume of traded securities and value of traded securities. The researcher made use of secondary data only, which was sourced from Nigerian stock exchange (NSE) facts book and Central Bank of Nigerian (CBN) statistical bulletin for various years. The data were analyzed using pie chart, while the formulated hypotheses were tested using ordinary least square methods.

3.1 Model specification

The model for this study was developed from the variables of interest which include: Naira foreign exchange rate (NFER) as the independent variable, and volume of traded securities (VOTS) and value of traded securities (VATS) as the dependent variables.
Mathematical form of the model
VOTS = f(NFER)……1
VATS= f(NFER) ……2

The above stated models are presented in econometrical form and logged variables as:
$LogVOTS = \alpha_o + a_1\, logNFER + \mu_1$ …… *model 1*
$logVATS = \alpha_o + \alpha_2\, logNFER + \mu_2$ …… *model 2*

4. RESULT AND DISCUSSIONS

4.1Data Analysis

This section presents the secondary data used in the analysis which were obtained from Nigerian Stock Exchange(NSE) factbooks and Central Bank of Nigeria (CBN) Statistical Bulletin.

Table 1: Variables of interest

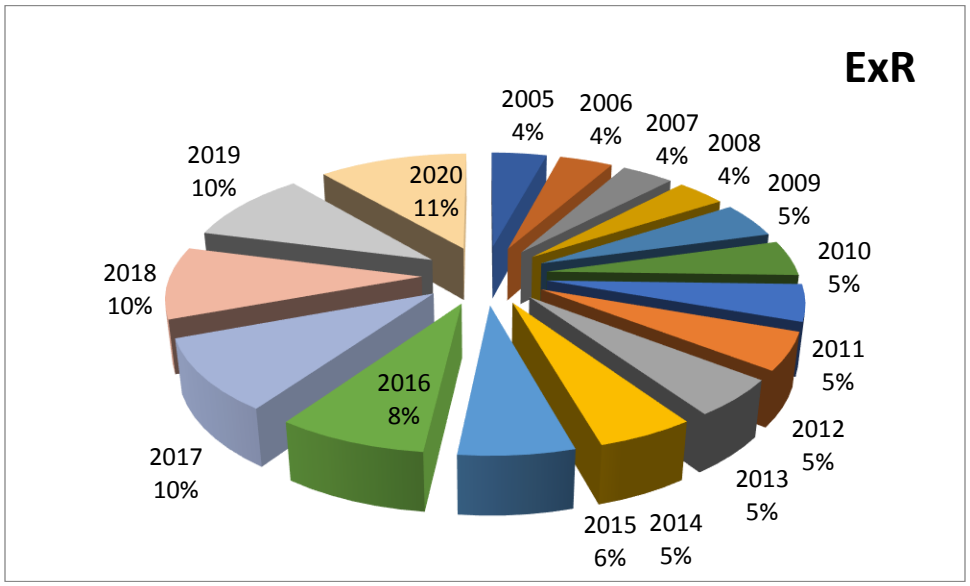
Year	Volume of Traded Shares	Value of Traded Securities (N" Billion)	Exchange Rate
2005	1,021,967	262,935.8	133.00
2006	1,367,954	470,253.4	128.67
2007	2,615,020	1,076,020.4	125.72
2008	3,535,631	1,679,143.7	119.00
2009	1,739,365	685,717.3	150.57
2010	1,925,314	799,910.9	151.09
2011	1,235,467	638,925.7	155.89
2012	1,147,616	808,994.18	158.84
2013	3,245,866	2,350,875.7	159.25
2014	2,248,939	1,338,600.7	164.88
2015	950,001	978,047.0	195.52
2016	837,259	620,018.1	253.49
2017	879,067	1,078,491.8	305.79
2018	1,048,777	1,284,976.3	306.08
2019	875,711	931,287.0	306.92
2020	1,156,830	`1,086,180.0	358.81

Source: NSE Facts books and CBN Statistical Bulletins

Table 1 contains all the three variables of interest of this research work. They include; Volume of traded securities, Value of traded securities and Naira foreign exchange rate from 2005 to 2020, making it up to fifteen years. The exchange rate data were sourced from CBN statistical bulletin, while data of volume and value of traded securities were sourced from NSE facts book.

The data presented in Table 1 were analyzed using pie chart for the three variables of interest, while the formulated hypotheses were tested with Ordinary Least Square method.

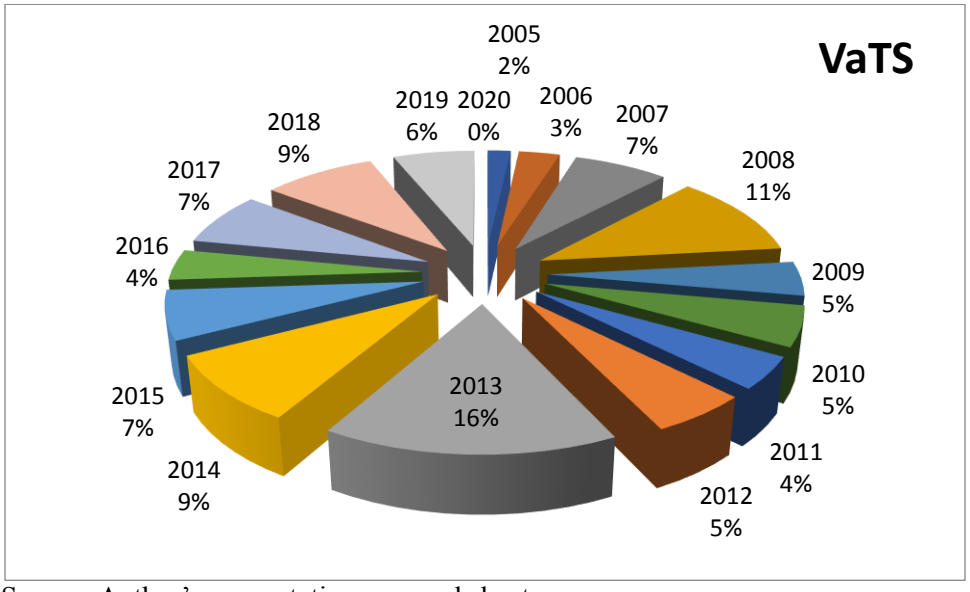
Figure 1: Exchange rate



Source: Author's computation on excel sheet

Figure 1 shows that Nigerian exchange rate movement has been on increase throughout the years of study. The increment seems to be at a stable rate of 4% from 2005 to 2008. Then from 2009 to 2014, the rate of the increment went up to 5%. Then a percentage increment was added to it in 2015. In 2016, the economy experienced 8% increment, while 2017 to 2019 witnessed 10% increment, and the hallmark seems to be 2020 with 11% increment. There is a clear indication that there was no decline in exchange rate over the years of study. That is to say that throughout the years of study, Naira kept loosing value continuously without a break.

Figure 2: Value of Traded Securities

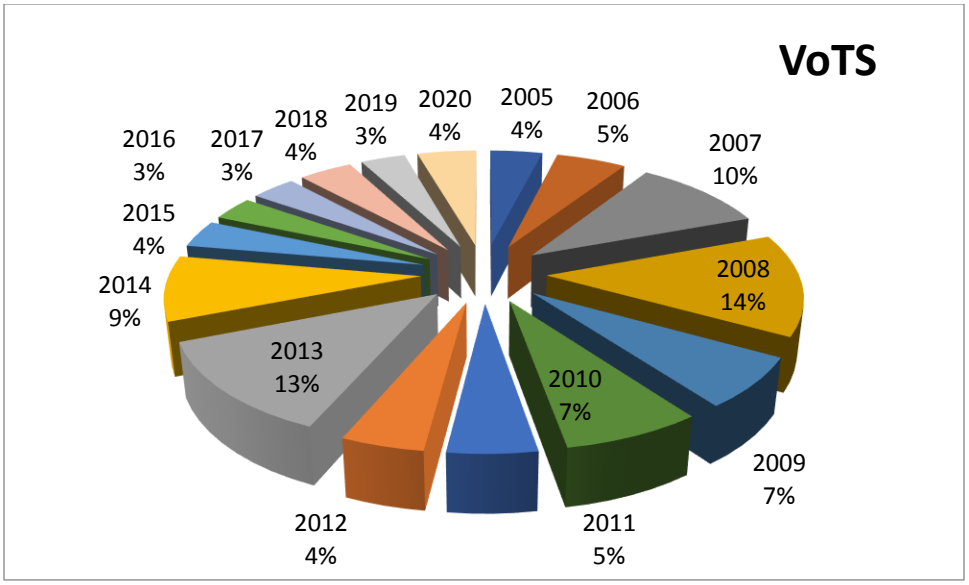


Source: Author's computation on excel sheet

The trend of value of traded securities did not follow any linear trend. From the base year, the value witnessed only 2% increment and 3% increment in 2006. 2007 witness 100% increase in value of securities traded, the increment went up to 11% in 2008. There was a serious loss of value from 2009 to 2012 due to global economic meltdown which also affected Nigerian stock market. The securities recorded its highest value in 2013 with 16% increment. In 2014, it lost 7% of the value and came down to 9%, and 7% in 2015. 2016 was another unfavorable year as the value went down to 4% before witnessing gradual increase in 2017 and 2018. The value decreased further in 2019 to 6%, and the hallmark seems to be 2020 when the values of traded securities recorded 0% increase. Though not, scientifically ascertained, the 0% increase could be attributed to COVID-19 pandemic when the global economy witnessed total lockdown, which lead to reduction in productivity, savings and investment across the globe.

From figure 2, it could be ascertain that value of traded securities in Nigerian stock market did not follow any pattern or linear movement with the Nigerian foreign exchange rate. This is to say that graphically Naira foreign exchange rate has not significantly influence or related to value of traded securities in Nigerian stock market over the period of study.

Figure 3: Volume of Traded Share



Source: Author's computation on excel sheet

The volume of traded securities seems to have a related movement with the value of traded securities as we discussed in figure 2 with 2013 recording the highest increment on the volume of traded securities, followed by 2008. However volume of traded securities seems to have more stable movement than the value of traded securities. 2015 to 2020 recorded stable increment of 3% to 4%. Though the exchange rate had a stable movement at the beginning and end of the years of study, but that cannot be linked directly to volume of traded securities. Graphically, we can ascertain that exchange rate does not significantly influence volume of traded securities.

4.3 Test of Hypothesis

4.3.1 Hypotheses one

H_{o1}: There is no significant relationship between foreign exchange rate and volume of traded shares of the Nigerian stock market.

Table 2: Result of hypothesis one
Dependent Variable: VOTS
Method: Least Squares
Date: 02/14/22 Time: 20:01
Sample: 2005 2020
Included observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2815300.	516140.2	5.454526	0.0001
EXCHR	-6054.481	2425.689	-2.495984	0.0257

R-squared	0.307956	Mean dependent var	1614424.
Adjusted R-squared	0.058525	S.D. dependent var	868071.2
S.E. of regression	747487.1	Akaike info criterion	30.00329
Sum squared resid	7.82E+12	Schwarz criterion	30.09986
Log likelihood	-238.0263	Hannan-Quinn criter.	30.00824
F-statistic	6.229937	Durbin-Watson stat	1.613113
Prob(F-statistic)	0.025665		

Source: E-view Result

The result showed that if exchange rate is held constant, volume of traded shares will grow by 2815300, as shown by the constant coefficient. The exchange rate coefficient showed a negative effect of exchange rate on volume of traded shares. The Adjusted R-square coefficient showed that a percentage increase in exchange rate will lead to 5% variation in the dependent variable, which is statistically insignificant. The Durbin-Watson shows no autocorrelation problem of the model.

Decision: The P-value is greater than 0.05, hence we accept the null hypothesis and conclude that *there is no significant relationship between foreign exchange rate and volume of traded shares of the Nigerian stock market.*

4.3.2 hypothesis two

H_{O2}: There is no significant relationship between foreign exchange rate and value of traded securities of the Nigerian stock market.

Table 3: Result of hypothesis two
Dependent Variable: VATS
Method: Least Squares
Date: 02/14/22 Time: 20:02
Sample (adjusted): 2005 2019
Included observations: 15 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	945523.1	412922.4	2.289833	0.0394
EXCHR	-291.8069	2072.108	0.140826	0.8902

R-squared	0.001523	Mean dependent var	1000280.
Adjusted R-squared	-0.075283	S.D. dependent var	519137.6
S.E. of regression	538324.1	Akaike info criterion	29.35388
Sum squared resid	3.77E+12	Schwarz criterion	29.44828
Log likelihood	-218.1541	Hannan-Quinn criter.	29.35287
F-statistic	0.019832	Durbin-Watson stat	1.565415
Prob(F-statistic)	0.890166		

Source: E-view Result

The result showed that if exchange rate is held constant, value of traded securities will grow by 945523.1, as shown by the constant coefficient. The exchange rate coefficient showed a negative relationship with value of traded securities. The Adjusted R-square coefficient showed that a percentage increase in exchange rate will lead to 7% variation in the dependent variable, which is statistically insignificant. The Durbin-Watson shows no autocorrelation problem of the model.

Decision: The P-value is greater than 0.05, hence we accept the null hypothesis and conclude that *there is no significant relationship between foreign exchange rate and value of traded securities in the Nigerian stock market.*

CONCLUSION AND RECOMMENDATIONS

This study examined the relationship between of foreign exchange rate and investors confidence (proxy by volume and value of traded securities) on Nigerian stock market for the period of fifteen years, from 2005 to 2020 The result of the analyses reveals that foreign exchange rate has negative but insignificant relationship with the investor's confidence in Nigerian stock market. The insignificant nature of the relationship reveals the extent of underdevelopment of the stock market, and also the level of significance of the stock market on economic development of Nigeria. That is to say that both government and institutions do not depend on Nigeria stock market for their sources of income, and the stock market seems not to be an investment platform for both foreign and local investor.

The positive aspect of the result is that government and institutions can resort back to the stock market as a cheap source of fund during a high exchange rate period, but for that to be effective, there is need for creation of many investment outlets or opportunities including retail and consumer outlets where people can invest as individuals and corporate bodies. Again capital market awareness of available investment opportunities in Nigerian stock market shouldn't be neglected for that is capable of attracting both foreign and local investor.

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