

# The Commodity Price And Tin Stock Price: A Literature Review

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**Abstract:** Indonesia is a large country that has a large and small islands, and contains natural resources in such as mining commodities. Mining commodity products are the world's strategic trade commodities, including gold, tin, nickel, coal, gas and petroleum as well as other mining products. The commodity is very important to investors and affects the prices. The method in this research uses a literature review. This research wants to find the relationship between commodity price and tin stock price. We identified through search engines using search strings related to the topic, i.e. commodity price, and tin stock prices. We find that there is empirical evidence that shows the relationship between commodity prices and tin stock prices in Indonesia.

**Index Terms:** Commodity Price, Tins Stock Price.

## 1. INTRODUCTION

Tin commodity is a non-hard metal, used as a mixture for wrapping paper, kitchen utensils, soldering materials, and so on [1]. Tin mineral is a metal mineral that is usually found in rock, in rock layers, on river beds, and on the seabed. Fundamental problems in finance are which factors influence the expected returns on assets, the sensitivity of the expected returns to these factors, and the rewards for bearing this sensitivity. Many studies have found a strong relationship between the stock market and economic growth. Although commodity prices are very important, little research has emphasized the impact on stock prices. In this study, we will try to explore the relationship between commodity prices on the stock price through a literature review. The main idea is that rising commodity prices may have very different effects on stock prices. The increasing in commodity prices often comes on the back of a sharp increase in demand due to booming economic activity [2]. If the price of production process input (such as energy, metals, raw materials) increases, the firms will see their profits shrink, other things being equal, and therefore will have less dividends to distribute [3]. Then this will cause pressure on the stock price and the stock price may decline. Previous studies have analyzed the factors that influence commodity prices by observing the main characteristics of the evolution of commodity prices with cyclical behavior. Commodity cycle price movements such as rising and falling decline by inviting prices can stimulate various fluctuations in income from export commodities, especially for developing countries where many depend on commodity exports [3]. In contrast to research [4] concludes that commodities have a dependency between the stock market and commodities between industrial metals and equity markets which increased in early 2003. So this spread to all commodity classes during the 2008 global financial crisis. The research conducted by [5] found that the commodities prices influence stock price index in the mining sector in Indonesia. They found that world crude oil prices, world gold prices, world coal prices and world tin prices simultaneously affect the stock price index of the mining sector in Indonesia. The results of other studies also show the same results that world gold prices commodities

have a partial effect on the composite stock price index [6].

## 2 METHODOLOGY

The method in this present research uses a literature review. According to [7] said that a literature review is a critical and in depth evaluation of previous research. Meanwhile, Arikunto said that literature study is a method of collecting data by finding information through books, newspapers, magazines, and other literature [8]. Articles are collected using search engines related to commodity prices and stock prices

## 3. LITERATURE REVIEW

### 3.1. Commodity Price

According to [9] said that the commodity prices are volatile as well as most of the commodity exchanges are volatile and also dynamic. It will also affect the domain of specific fields, such as the economics of agricultural. For many financial institutions in the commodity trading has become an important mean to gain profit by the firm. The commodities price nowadays has become an important issue of many investors' portfolios [9]. Commodities are traded every day in commodity market as a financial instrument and a raw material for all commodities that we use in daily life. Commodity prices are known as very important for the economy because it can directly affect the prices. Moreover, the commodities price can influence stock market, and they are used as financial instrument [10]. The commodities can be consist of the basic materials and natural resources that used in virtually all production and also manufacturing processes. Commodity market also known as a market where the commodities are traded. There are various types of commodities include "hard commodities" and "soft commodities" in the market [10].

World mining commodity prices are factors that must be considered in observing sector stock price index movements mining in Indonesia after economic factors macro. Global mining commodity prices cannot separated from sector stock price movements mining in Indonesia. Increase and the decline in share prices in the mining sector as well caused by fluctuations in commodity prices world mine. Prices of mining products are also noted are crude oil, gold, coal and tin [5]. According to [11] commodities are merchandise or materials that have economic value offered or provided by producers to meet consumer demand. Characteristics of trading in the primary commodity market are fluctuating price movements and the development of price trends following certain patterns,

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making it interesting for investors to enter.

### 3.2. Stock Price

Stock as one of the instruments contained in the capital market. Investors can choose to buy ordinary shares and preferred shares. Common stock and preferred stock each have advantages and disadvantages and shares also provide benefits in the form of dividends and capital gains [5]. Stocks also are one of the capital market instruments that investors are most interested in because they provide attractive returns. Stock or also known as stock is a financial instrument that describes the ownership portion of an open company. According to [12] stock is a piece of paper that shows the investor's right, namely the party who owns the paper to obtain a share of the prospect or wealth of the organization that issued the security, and various conditions that enable the investor to exercise his rights. Meanwhile according to [13] stocks are one of the capital market instruments most in demand by investors, because they can provide an attractive returns. Shares are papers that are clearly listed in face value, company name, and are followed by rights and obligations that have been explained to each holder. The stock price index is an indicator which shows the movement of stock prices. Index serves as an indicator of market trends, that is index movements describe market conditions when the market is actively active or lethargic [14]. Another opinion said that stock prices determine shareholder wealth. Maximization Shareholder wealth translates into maximizing prices company stock. The price of a stock at a certain time will depend the expected future cash flows by "average" investors if investors buy shares[15].

### 3.3. The Relationship Between Commodity Prices on Stock Prices

The relationship between commodity prices and the stock market has been of considerable concern to previous researchers. Martono dan Agus also said that many factors affect stock prices. Besides macroeconomic factors, commodity prices also affect the stock price index [16]. In paper [17] revealed that there are two main reasons: i) investors are interested in whether corporate stock returns whose main business is commodity can reflect changes in commodity prices (underlying assets), and ii) to examine the relationship between commodity prices and the stock market in an effort to increase wealth (wealth) on the stock market. The mechanism that explains the relationship of commodity prices can be explained from the perspective of supply and demand. Fluctuations in commodity prices have an indirect effect on aggregate demand which has an effect on the economy [17]. According to [18] commodity cycle price movements such as rising and falling slumping by inviting prices can stimulate various fluctuations in income from export commodities, especially for developing countries where many depend on commodity exports. Different with [4] concluded that commodities that have a dependency between the stock market and commodities are time-varying, symmetrical and occur most of the time and that there was a co-movement between the industrial metal and equity markets which increased in early 2003. Whereas commodity companies can have profits from changes in their own commodity prices and margins obtained from processing commodities [19]. Thus, margins in tin companies are obtained from the difference between the selling price and the cost of production.

Therefore, tin companies that are able to manage optimal price differences have resilience to the fluctuations in tin commodity price fluctuations. Therefore, companies that have sufficiently strong capital will carry out a policy of storing tin stock blocks if the price of tin commodities falls below the cost of production with the aim of getting optimal profits in the future. Tin commodity companies that have high profits are certainly considered investors as a good company. An increase in cash flow if the price of tin is high will be considered good by investors so that it will make investors interested in investing their funds in the company's shares. In general, for tin producing countries, an increase in tin prices is a blessing due to state revenues, namely by increasing royalties, labor use, multiplier effects and resulting in better welfare. Whereas for tin companies, the increase in tin prices will increase production costs but not significantly, this is due to the use of tin in small amounts in the industry. The increase in tin prices causes the company to get a good margin, the company's condition is stable, thereby increasing investor confidence in the company's stock price. Tin companies try to improve stock performance by increasing operational and investment performance for tin mining exploration. Tin companies strive to improve company efficiency so that company margins can be obtained maximally. On the one hand, efficiency by using new technology results in abundant tin products and the discovery of new reserves also results in fluctuations in tin commodity prices. Therefore the collapse of tin prices with the collapse of ITA was caused by the discovery of new reserves in the Latin American country [20]. Prebisch-Singer Hypothesis explains that the price of primary commodities decreases relative to the price of goods produced in the long run which causes the prices of primary commodities to decrease. Thus the flow of the relationship of stock performance that is well illustrated with operational performance will cause oversupply resulting in fluctuations in world tin commodity prices. In paper [21] conducted research in Indonesia concerning the effect of gold prices, currency exchange rates and deposit rates on IHSG using multiple regression analysis. Using data from the 1998-2000 period, concluded that changes in gold prices will affect the stock price index positively.

## 4 CONCLUSION

According to the literature review results of our study, we find there is an empirical evidence that show the relationship between commodity prices and tins stock prices in Indonesia. The relationship of commodity prices can be explained from the perspective of supply and demand. Fluctuations in commodity prices have an indirect effect on aggregate demand which has an effect on the economy. The commodities price effect the stock price index in Indonesia.

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