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THE DYNAMICS OF THE EXCHANGE RATE: IMPACT OF STOCK PRICE MOVEMENTS OF UNDERPRICING ISSUERS

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Abstract

This study analyzes the impact of exchange rates on the fluctuation of issuer share prices during underpricing in initial public offerings from 2022 to 2023. The primary focus is on situations where the initial public offering share price is traded lower than the closing price on the first trading day, known as underpricing. The study aims to provide new insights into how exchange rate dynamics influence underpricing levels and contribute to both practice and science. Based on data from 83 companies that went public during this period, the research methodology includes statistical description, classical assumption tests, and linear regression analysis. The results indicate a significant relationship between exchange rates and underpricing. These findings offer a deeper knowledge of the factors influencing underpricing, particularly in the context of exchange rate fluctuations. The practical implications include aiding investors, issuers, and regulators in making informed decisions.

Keywords : *Exchange Rate, Initial Public Offering, Underpricing*

1. INTRODUCTION

In the context of investment, the price movements of shares offered during an Initial Public Offering (IPO) are often the main focus of investors. An IPO is an important moment for companies that want to raise funds from the public to finance various purposes, such as business expansion or new project development. For investors, IPOs offer a golden opportunity to own shares of companies that are predicted to grow rapidly in the future. By buying shares in advance, they hope to benefit when the share price increases after being listed on the stock exchange. However, one phenomenon that often occurs during an IPO is underpricing. Underpricing is a situation when the share price offered to the public is lower than the closing price on the first day of trading. This is an interesting issue because shares acquired at a lower price have the potential to provide large profits for investors when the shares begin trading in the secondary market. Under these conditions, the surging share price after the IPO reflects the high demand in the market, thus providing profits for early investors. The underpricing phenomenon is not only important for investors but also for the company conducting the IPO. The company may miss out on potentially greater revenues if the offered share price is too low. In other words, the company may sell its shares at a price below their true value. This phenomenon is an interesting topic to analyze as it involves many factors that affect the share price, including the economic situation, company performance, and various other external variables.

Underpricing is not just a phenomenon. Underpricing describes an interesting phenomenon that exists in initial public offerings (IPOs) (Haniifah & Hartati, 2021), but also illustrates the various factors at work behind the scenes. For investors, underpricing can be a lucrative opportunity, as they may buy shares at a lower price and resell them at a higher price on the first day of trading. However, for the company doing the IPO, underpricing can mean the loss of potential funds that could have been raised if the share price was offered at a higher price.

One of the factors that is strongly suspected of influencing underpricing is the exchange rate. A dynamic exchange rate can reflect economic uncertainty that affects investment decisions. When the exchange rate of a currency is dynamic or fluctuates sharply, it can reflect economic instability that may make investors hesitant to invest. Conversely, a stable exchange rate tends to give a positive signal about economic stability, which can boost investor confidence.

In 2022-2023, Indonesia experienced various global and domestic economic dynamics that affected the exchange rate. The average Rupiah exchange rate in the second quarter of 2023 weakened by 2.12 percent compared to the average in the second quarter of 2022 (Rifa'i et al., 2023). Various factors, such as monetary policy changes by the central bank, global economic conditions, and the domestic political situation, all contributed to the dynamic IDR exchange rate. This provides an interesting context to examine how exchange rate dynamics during this period impacted the level of stock underpricing on the Indonesia Stock Exchange abbreviated IDX.

Therefore, it is interesting to further examine how the dynamic exchange rate during this period impacts the level of stock underpricing on the IDX. Sharp changes in exchange rates are often an indicator of economic instability that can affect investment decisions. Through this study, it is expected to find out how investors respond to exchange rate fluctuations, as well as the extent to which it affects the price of newly traded shares post-IPO. This study is also expected to shed more light on the mechanism of the relationship between macroeconomic variables such as exchange rates and the underpricing phenomenon in the Indonesian stock market. In addition, this study can provide useful strategic insights for companies planning to conduct IPOs in the future in order to set a more optimal share price. For policymakers, the results of this study can be used as a foundation for formulating more effective economic policies to maintain the stability of the capital market. Thus, this study not only makes an academic contribution in enriching the literature related to underpricing and exchange rates but also offers practical implications for the world of investment and economic policy.

Some previous studies that the reviewer tried to relate to this study included (Beh & Yew, 2020) argument that the real effective exchange rate in the US affects the US stock market and China's real effective exchange rate affects the Chinese stock market. (Hudayah et al., 2018) proved that the exchange rate can again have a significant effect on foreign direct investment in the Indonesian manufacturing sector. (Krishnan & Dagar, 2022) discovered that fluctuations in exchange rates exert a negligible influence on the daily closing prices of stock indices, including the DJI, SSE, and Nifty50 in the United States, China, and India. However, exchange rates do exert an impact on the volume of shares traded on the aforementioned stock exchanges. (Yuan et al., 2020) identified a correlation between exchange rates and stock indices under specific conditions. (Huang & Bai, 2020) discovered that stock prices exert a unidirectional Granger influence on the RMB exchange rate against the US dollar. Conversely, stock prices demonstrate a robust and negative reaction to exchange rate fluctuations. (Shaikh et al., 2021) study indicated that exchange rate fluctuations did not appear to have a significant impact on the daily closing prices of stock indices, including DJI, SSE, and Nifty50 in the United States. However, the findings did suggest that exchange rates might play a role in influencing the volume of shares traded on these three stock exchanges. A study by (Fadli & Sagita Sumantri, 2022) found a positive correlation between the number of new cases of the coronavirus and exchange rates and a negative correlation between the number of new cases and stock index prices, with the exception of China. The findings of (Saidi et al., 2021) indicate that, in the short term, the IDR/USD exchange rate exerts a symmetrical influence on stock prices. (Andriani et al., 2022) find that the current ratio has a big impact on underpricing, while return on assets does not have much of an effect. Exchange rates also don't have a significant impact on underpricing. (Gunawan & Gunarsih, 2021) found that the IDR exchange rate has a negative effect on stock underpricing, but only to a certain extent. (Amalia & Arisnawati, 2021) found that a company's earnings per share have a big impact on how much a new share is underpriced. This is partly because a company with a good reputation as an underwriter tends to have lower underpricing. Inflation and exchange rates don't have a significant effect on underpricing. (Budianto et al., 2019) found that non-accounting information variables can affect IPO underpricing negatively and significantly, and non-accounting information, one of which is none other than the exchange rate. (Thoriq et al., 2018) revealed that external factors have no effect on underpricing, which in this case is the exchange rate.

Furthermore, researchers consider that this study has a significant contribution to practice and science. Practically, this study is expected to provide insight for investors regarding the factors that influence underpricing. This knowledge will be very useful in the investment decision-making process, especially in assessing the risks and potential returns when investing in new public stocks. In addition, the results of this study can also provide guidance for issuers planning to conduct IPOs so that they can determine the share price more precisely to maximize the funds obtained and reduce the risk of underpricing. For regulators and policymakers, the findings of this study will assist in providing relevant and empirical information, which can be used as a basis for formulating more effective policies in regulating the stability and development of the stock market. From an academic perspective, this study also contributes to adding the relevant literature on the relationship between exchange rates and underpricing in the Indonesian stock market. We hope that the results of this study will serve as a reference for future studies, as well as enrich the academic discussion on the impact of macroeconomic variables on the underpricing phenomenon in the capital market, especially in the context of the Indonesian economy.

From this introduction, the researchers take several main objectives of this study. First, this study aims to analyze the dynamic effect of exchange rates on the stock movements of issuers that experience underpricing during IPOs in the period 2022 to 2023 on the Indonesia Stock Exchange (IDX). The exchange rate, as one of the macroeconomic variables that often fluctuates due to various external and internal factors, is believed to have an impact on investors' perceptions of the value of newly public shares. Therefore, this study wants to look deeper into how changes in exchange rates, whether they tend to be stable or not, affect the level of stock underpricing at the time of an IPO. The second objective of this study is to determine how much the exchange rate affects the underpricing of shares on the IDX during the period. This is important to provide a clear quantitative picture of the relationship between exchange rate fluctuations and the underpricing phenomenon. By understanding the extent to which the exchange rate plays a role in shaping stock prices on the first day of trading, the results of this study can provide sharper insights for investors, companies going public, and market regulators. In addition, this study aims to contribute to the academic literature on macroeconomics, especially by expanding the understanding of the variables that affect stock underpricing. This study will focus on how the exchange rate, as one of the important macroeconomic indicators, interacts with the underpricing phenomenon, thus making an important contribution to the development of literature in the field of capital markets and macroeconomics in Indonesia.

2. LITERATURE REVIEW

Initial Public Offering (IPO)

An initial public offering, which can be called an IPO or known as going public, is a market where a number of shares of a company are offered for the first time. The definition of public offering in the Law of the Republic of Indonesia No. 8 of 1995 concerning the Capital Market is a securities offering activity carried out by the issuer to sell securities to the public based on the procedures regulated in this law and its implementing regulations (UU Nomor 8 Tahun 1995, 1995).

Underpricing

According to (Yolana & Martani, 2005), underpricing is a positive difference between the share price in the secondary market and the share price in the primary market or at an IPO. The positive difference reflects the existence of a share price in the secondary market that is higher than the share price in the primary market. This shows that investors, in assessing stocks that have the potential to experience price strengthening, can cause demand for existing shares to increase. This is in line with the study by (Ljungqvist, 2007) that underpricing can serve as an effective marketing strategy for companies to attract new investors. An in-depth understanding of underpricing is crucial to analyzing how exchange rate fluctuations affect capital market behaviors and dynamics.

Exchange Rate

According to (Sukirno, 2014) exchange rates or better known as currency rates are the price or value of a country's currency expressed in the currency of another country or can also be defined as the amount of domestic money needed to obtain one unit of foreign currency. In this case, the foreign exchange rate (Dollar / USD) against the Rupiah or IDR. The exchange rate indicates the value of a country's currency in terms of another country's currency. It can also be defined as the amount of domestic money needed to get one unit of foreign currency. When the exchange rate is low or the rupiah is weak against the dollar, it has a negative effect on the economy and the capital market on the IDX. The opposite is also true. This is consistent with the findings of (Gunawan & Gunarsih, 2021), which suggest that the rupiah exchange rate may have a notable impact on underpricing.

IPO, Underpricing, and Exchange Rate Relationship

The relationship between these three variables can be explained through the logic that IPO as an activity of offering shares to the public is often accompanied by underpricing, where the company offering the shares tends to provide a price that is lower than the value expected by the secondary market. In a broader market context, exchange rate fluctuations can affect investor sentiment, especially foreign investors, who may be more sensitive to economic risks, including currency risks. A company that goes public amidst fluctuating exchange rate conditions may experience greater or lesser underpricing, depending on investors' perceptions of economic stability as affected by the exchange rate.

It is coupled with findings regarding the relationship between exchange rates and underpricing that they are not always consistent. According to (Thoriq et al., 2018), external factors have no effect on underpricing, which in this case is the exchange rate. This finding reveals that exchange rate fluctuations are not an influential variable in determining underpricing. In contrast to (Budianto et al., 2019), a year later, it is said that non-accounting information affects IPO underpricing, in this case, the exchange rate. These differences are what make the reviewer focus on the exchange rate and underpricing variables. This matter can be a factor that contributes to investor expectations on the price of shares that conduct IPO. With these results or explanations, the hypothesis formulation that the reviewer makes can be seen below. The exchange rate indicates the value of a country's currency in terms of another country's currency. It can also be defined as the amount of domestic money needed to get one unit of foreign currency. When the exchange rate is low or the rupiah is weak against the dollar, it has a negative effect on the economy and the capital market on the IDX. The opposite is also true. This is consistent with the findings of (Gunawan & Gunarsih, 2021), which suggest that the rupiah exchange rate may have a notable impact on underpricing. Thus, the hypothesis pattern below is formed:

H1: The dynamic value of the exchange rate has an impact on the movement of the issuer's stock price that occurs underpricing.

Looking at the form of the hypothesis pattern, the researchers try to make a framework associated with that hypothesis. First, we can identify that the independent variable in this study is the dynamics of the exchange rate, and the dependent variable is the movement of the issuer's share price that experiences underpricing. Meanwhile, for an explanation of the relationship between variables, the first is the dynamics of exchange rates, namely fluctuations in currency exchange rates, which can affect the performance of companies that will conduct IPOs. Unstable exchange rates can cause uncertainty, for example, in import and export costs, and affect the company's profits and cash flow. Next is the stock price movement, which is the company's stock price in the market that can reflect how the market perceives the impact of the exchange rate on the company's performance. Underpricing occurs when the offering price of a stock is below its intrinsic value, often due to uncertainty or risk that investors perceive as high. Lastly, underpricing is a phenomenon in which the price of shares offered to the public at the time of the IPO is lower than the actual market price after the IPO. This can be influenced by external factors, including exchange rate fluctuations. Furthermore, in terms of hypothesis development based on the hypothesis obtained, several variables are considered, including exchange rate fluctuations as measured by the standard deviation or volatility of currency exchange rates, a stock price that can be measured by the share offering price at the time of the IPO, and the share price in the secondary market. Then, underpricing can be calculated as the difference between the IPO price and the first market price after the IPO.

3. RESEARCH METHODS

We are thrilled to present the findings of our study, which was conducted on companies or issuers that launched IPOs on the Indonesia Stock Exchange (IDX) between 2022 and 2023. The study has a quantitative nature, applies linear analysis, and uses an exploratory or explanatory research study type by explaining the relationship between existing variables. The dependent variable used in this study is the underpricing (dependent variable), and the independent variable is the exchange rate. The information used in this study is secondary data, that is, information obtained through the Indonesia Stock Exchange.

Population

According to (Sugiyono, 2019), a population is a group of people or things that have been selected by researchers to study and then draw conclusions about. The population in this research is all issuers that conduct IPOs on the Indonesia Stock Exchange from 2022 to 2023. The total population is 138 issuers, of which 79 in 2023 and 59 in 2022 (Bursa Efek Indonesia, 2023). This research uses the exchange rate data issued by the Indonesian Ministry of Trade.

Sample

The sampling technique in this study was purposive sampling. (Sugiyono, 2019) stated that purposive sampling is a technique used to ensure that all elements (members) of a given population have an equal chance of being selected as a sample member. When going through a careful selection process, 83 companies were finally selected as samples because they met the criteria set out in this research.

Definition of Operational Variables

Determining the classification of variables used in the study will help understand the relationship between the independent variable (symbolized by X, namely the exchange rate) and the dependent variable (denoted by Y, namely underpricing). The operational description of this research variable is X_ Exchange Rate, namely the amount of the exchange rate in the month before the IPO issuer (dollar/USD exchange rate against rupiah on trading data) with a measure of value. Meanwhile, Y_Underpricing is the close price minus the open price divided by the open price multiplied by 100% with a measure of value.

Data Type and Origin

This research uses quantitative data, which is data that can be measured as numbers, and secondary data as a source of information. Secondary data sources are defined as those that do not directly provide data to data collectors. Such data are probably obtained through other individuals or the utilization of documents

(Sugiyono, 2019). The researchers obtained information from the issuer through www.idx.co.id and the rate-specific info from the Ministry of Trade of the Republic of Indonesia web page (satudata.kemendag.go.id).

Data Analysis Techniques

In this study, descriptive statistical analysis is used to provide information on data that can show the average value (mean) and standard deviation. Descriptive statistics facilitate the transformation of data into a form that is more readily comprehensible and accessible (Imam, 2011).

Subsequently, classical assumption testing will be conducted to ascertain the veracity of the assumptions employed in the linear regression model, thereby facilitating a more objective analysis of the data. Classical assumption testing in this research has three important processes. First, the normality test is conducted to determine whether each variable has a normal distribution. Subsequently, an autocorrelation test is conducted to ascertain whether there is a correlation between the error terms in period t and those in the preceding period (t-1) within the linear regression model. Finally, we conduct a heteroscedasticity test used to check the possibility of whether or not there is a non-uniformity variance of the residuals between observations in the regression model.

In this instance, the regression analysis employed is linear regression. The objective is to ascertain the direction of the relationship between the independent and dependent variables, with the data being an interval or ratio scale type.

$$Y = a + \beta 1 X 1 + e$$

Explanation:

Y	= The dependent variable to be predicted is underpricing
a	= Constant
β 1	= Regression coefficient of X
X 1	= The cold variable is the exchange rate
e	= Error

The coefficient of determination (R^2) test is a useful tool for evaluating the extent to which a model can describe the variation in a dependent variable. It is important to note that the range of coefficient of determination values is between zero and one. In some cases, a relatively low (R^2) value may suggest that the ability of the independent variables to explain the variation in the dependent variable is limited. Conversely, a higher (R^2) value could indicate a stronger explanatory power of the independent variables.

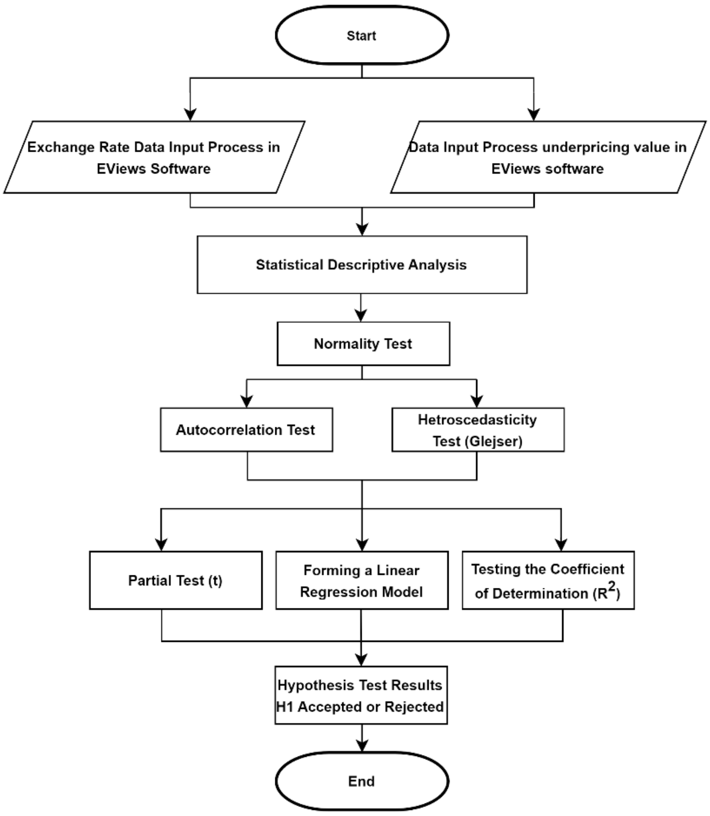
The t-test is a statistical tool that can be used to evaluate the extent to which one independent variable may contribute to explaining the variation in a dependent variable. It is typically carried out with a significant level of $\alpha = 5\%$ or 0.05. The benchmark for hypothesis testing using the t statistical test is if the t significance value (p-value) <0.05, then the alternative hypothesis is accepted, which states that an independent variable individually and significantly affects the dependent variable (Imam, 2011).

Hypothesis testing accepted or rejected H1: The dynamic value of the exchange rate has an impact on the movement of the issuer's stock price that causes underpricing.

Data Analysis and Decomposition

EViews software is used in data processing this time. This step is important to organize and analyze the data systematically to produce relevant and in-depth information. We will look at the study results and compare them to the theories we have seen in the literature review. This should help us understand the inflation factors that affect underpricing in IPOs better.

Thinking Framework



Source: Study Results (2024)

Figure 1. Thinking Framework

Based on the above framework, the research model used is a linear regression model, where the exchange rate is used as the main predictor of underpricing. This research model is expected to explain the causal relationship between existing variables as well as provide a deeper understanding of how external factors such as exchange rates affect the outcome of an IPO in the capital market.

In this framework, the first process or stage begins with preparing the data needed for further processing. Then, the second stage is the process of inputting exchange rate and underpricing data simultaneously into the EViews software. After the data is inputted and processed, in the third stage, the results of descriptive statistical analysis data are obtained, including the maximum, minimum, sum, average value, and standard deviation. In stage four, the researchers get the results of the normality test, and if it passes, it can proceed simultaneously to the heteroscedasticity test and the autocorrelation test at stage five. After obtaining the results of both tests with the fulfillment of the conditions, the process proceeds to stage six, namely forming a linear regression model and obtaining the results of the partial test (t) and the coefficient of determination test (R2). The determination of the results of the hypothesis test, whether it is accepted or rejected, is carried out at stage seven, and after that, the process is complete.

4. RESULT AND DISCUSSION

Based on the results of the tests and previous literature on conditions of exchange rates that can change, it is likely that investors tend to become more risk-averse because the value of their money can be eroded by the exchange rate. As a result, investors may take more risk into account in the valuation of new share prices and demand higher rewards, which can result in underpricing. This may be due to different investor perceptions: they may see the exchange rate as a relevant factor in assessing the price of new shares (IPO) and may focus on external factors of the company. In this case, the exchange rate that needs to be taken into account will have a direct influence on their investment decisions, so it can affect the level of underpricing. By utilizing the relevant literature and designing the research appropriately, this hypothesis can be accepted, with the dynamic exchange rate having an impact on the movement of the issuer's share price that occurs underpricing. The details of the research results can be seen below.

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Descriptive Analysis

The findings from the descriptive statistical analysis revealed that the sample data consisting of 83 observations for variables X and Y had a standard deviation of 418.12 and 12.14, respectively. In addition, the mean for the two variables is 15001.24 and 20.89, respectively. These results indicate that the distribution of data on both variables tends to be uniform or close to the mean value. This shows that the difference between the two variables is pretty small, and there is a tendency for data values to get closer to the middle or average value of the distribution.

Normality Test

According to (Imam, 2011), the normality test can be useful in knowing whether the data to be analyzed is normally distributed or not. In testing normality, we can utilize the Jarque-Bera probability as an indicator. When the significance value exceeds 0.05, this indicates that the data tends to follow a normal distribution pattern with a significance value of 0.067. Nevertheless, when the significance value is less than 0.05, it suggests that the data may not fully align with the typical distribution expectations.

Autocorrelation Test

According to (Imam, 2011), the autocorrelation test can be useful in seeing the residual correlation between one observation and another. In testing autocorrelation, we can use the LM Test autocorrelation test with a value obtained of 0.50. If the Chi-Square probability value exceeds 0.05, this study shows there is no autocorrelation of $0.05 < 0.50$.

Heteroscedasticity Test

According to (Imam, 2011), the heteroscedasticity test can be useful in seeing the inequality between variants of the residuals of one observation to another in a regression equation model. In testing for heteroscedasticity, we can use the Glejser method with a value of 0.75 in this study. If the test result is greater than 0.05, it indicates that there is no evidence of heteroscedasticity, as the value is above 0.05 but less than 0.75. Conversely, if the result is less than 0.05, this suggests that heteroscedasticity may be present in the data variables being analyzed.

Linear Regression Analysis

The EViews program gave us the following results: C = 176.42, exchange rate = -0.0104. Based on these, we created a model for using linear regression analysis:

$$Y = 176.42 + (-0.0104\ X1) + e$$

Once the model has been created, it is possible to start making interpretations. Firstly, if we take the constant value of 176.42 as our starting point, we can see that if we assume the exchange rate is constant (with a value of 0), then the level of underpricing will be 176.42. Secondly, the exchange rate regression coefficient (-0.0104) indicates that for every 1% increase in the exchange rate variable, the underpricing rate will decrease by 0.0104, and vice versa. This is counterintuitive given that the exchange rate has a negative (-) or opposite direction, which would suggest that the exchange rate is opposite to the value of underpricing.

Coefficient of Determination (R2) Test

The coefficient of determination test using EViews shows an adjusted R-squared value of 0.1167. This suggests that the exchange rate variable can account for approximately 11.67% of the observed variation in the level of stock underpricing. It seems plausible to suggest that the remaining 88.33% may be influenced by other factors that have not been included in this study.

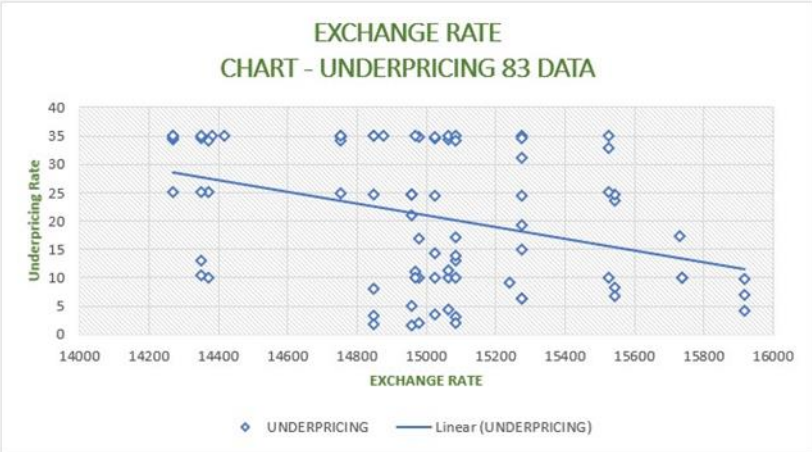
Partial Test or T Test

A review of the test results using EViews in this study indicates that the probability for the independent variable X_Exchange Rate is 0.0009. This indicates that the independent variable X_Exchange Rate in the period 2022 to 2023 has an influence on underpricing. The value of the probability is less than 0.05, namely $0.0009 < 0.05$; this seems to support the conclusion that there may be an influence of the independent variable on the dependent variable.

Hypothesis Test

Next, we tested the results of tests done by researchers on data from 83 issuers whose share prices were underpriced during IPOs between 2022 and 2023. As previously established, the regression coefficient for the exchange rate variable is -0.0104, indicating a negative correlation between the independent variable (exchange rate) and the dependent variable (stock underpricing). In other words, an increase of 0.0104 in the exchange rate will result in a corresponding decrease of 0.0104 in stock underpricing. This is in line with the study conducted by (Gunawan & Gunarsih, 2021) and contrary to the results of the study by (Thoriq et al., 2018).

The figure below illustrates a declining linear trend when the exchange rate is in a low position, between Rp. 14,000 and Rp. 15,000. Many issuers' share prices have a high underpricing value of 35% in this range. Conversely, a higher exchange rate of Rp. 15,000 leads to a decrease in underpricing value below 5% for IPO shares. Considering the above, the H1 hypothesis can be accepted, namely that the dynamic exchange rate has an impact on the movement of the issuer's share price that occurs underpricing.



Source: Study Results (2024)

Figure 2. Exchange Rate Chart-Underpricing 83 Data

The results of this study reveal that the exchange rate has a significant negative effect on underpricing at the time of the IPO. Based on the regression analysis, every 1% increase in the exchange rate has the potential to reduce the underpricing rate by 0.0104. This phenomenon indicates that when the exchange rate increases, investors tend to be more cautious in making investment decisions. They calculate a higher risk premium because exchange rate fluctuations can reduce the value of their currency, resulting in a more conservative valuation of the new share price. This finding is in line with previous studies that show the importance of external factors, such as exchange rates, in determining the IPO share price. In addition, tests for normality, autocorrelation, and heteroscedasticity indicate that the research model is valid. With an adjusted R-squared value of 11.67%, approximately 11.67% of the variation in the underpricing rate can be explained by changes in the exchange rate, while the remaining 88.33% is influenced by other factors such as macroeconomic conditions or internal company variables. The T-test also shows that the exchange rate variable has a significant effect on the level of underpricing with a probability value of 0.0009 (<0.05), confirming that the exchange rate is an important factor affecting the dynamics of IPO.

This study concludes that exchange rate fluctuations have a significant impact on the level of underpricing. When the exchange rate is within the range of IDR 14,000 to IDR 15,000, the underpricing rate tends to be higher. However, when the exchange rate increases above IDR 15,000, the underpricing rate drops below 5%. This suggests that companies that will conduct an IPO need to consider external factors such as the exchange rate in determining the share price to reduce the risk of excessive underpricing and ensure that the share price reflects fair value in the market.

5. CONCLUSION

The conclusion of this study shows that the dynamic exchange rate affects the level of underpricing of IPO stocks. The results of the analysis indicate a negative relationship between the exchange rate and the level of underpricing, where any increase in the exchange rate is followed by a decrease in the level of underpricing. This finding is in line with previous research, which states that investors tend to be more cautious of the risks caused by changes in exchange rates, which may affect the valuation of new shares. Descriptive analysis shows a uniform distribution of data, while tests for normality, autocorrelation, and heteroscedasticity indicate that the data fulfills the basic assumptions of regression. With a relatively low coefficient of determination, it can be concluded that other factors besides the exchange rate also influence stock underpricing. The tested hypothesis is accepted, confirming that dynamic exchange rate changes have a significant impact on underpricing stock price movements.

This is an important concern for stakeholders and shareholders, as well as potential investors in the shares of issuers conducting IPOs. If the exchange rate affects the level of underpricing for IPO shares, the issuer should also think about the exchange rate when they go to IPO. They should consider whether the exchange rate is stable or fluctuates a lot.

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