

Examining the Role of Inflation Moderation in Mitigating the Impact of Crude Oil Prices on Indonesia's Sharia Stock Market

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Abstract

This study investigates the impact of crude oil prices on Indonesia's Sharia stock market, considering inflation as a moderating variable to address existing debates in prior research. Utilizing data from June 2011 to December 2021, including the Indonesian Sharia Stock Index (ISSI), World Texas Intermediate (WTI), and inflation, the study employs Moderated Regression Analysis (MRA) to uncover significant positive correlations between crude oil prices and the Sharia stock market. The findings highlight the moderating role of inflation, indicating that the market weakens when crude oil prices rise alongside inflation and strengthens in the absence of inflationary pressures. Practical implications suggest portfolio diversification for investors to manage associated risks. The study contributes theoretically by introducing additional moderator variables and offers empirical insights, yet acknowledges limitations, advocating for further research to deepen the understanding of the complex relationship between crude oil prices, inflation, and the Sharia Stock Market in Indonesia.

Keywords: *Crude Oil Prices, Inflation, Sharia Stock Market*

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Introduction

The Sharia stock market is now starting to play an important role in the country's economy. This interpretation is very reasonable because if viewed from an economic perspective, the Sharia Stock Market is a mediator that bridges investors and users of capital while from a financial perspective, the Sharia stock market is a place to gain profits for investors through price differences and dividends (Laeven, 2014).

In Indonesia, the Sharia stock market continues to experience rapid escalation, this can be seen from the growth of Islamic stock capitalization which reached 16.17% in the last five years (Otoritas Jasa Keuangan (OJK), 2021). This growth can continue to occur, considering that the majority of Indonesian people's religion is Islam. For this reason, the government must pay more attention to the investment climate in the Sharia stock market. Because the Sharia stock market has been proven to have better performance than the conventional stock market (Sherif, 2020). This condition occurs because Sharia shares have adopted Sharia characteristics such as total debt being smaller than assets and non-halal income being smaller than operating income (Farooq & Alahkam, 2016; Sapari & Arifin, 2016). However, the Sharia Stock Market is not immune from fluctuations in macroeconomic variables such as crude oil. As one of the world's trade commodities, crude oil is not only associated with important world events but also underlies various price changes that cause inflation or recession (Baek, 2021). Thus, investors need to pay attention to the condition of the Sharia stock market whether it is stable or experiencing sluggishness. One of the indicators used is the Indonesian Sharia Stock Index (ISSI) (Zahrok, Sulchan, Almira, & Aeni, 2021).

Several studies have been conducted to explain the effect of crude oil prices on the Sharia stock market in Indonesia. However, from the results of these studies, there are still differences. Some say that crude oil prices

have a positive effect on the sharia stock market in Indonesia (Bawono & Mutaqin, 2019; Masrizal, Ubaidillah Al Mustofa, & Herianingrum, 2019; Zahrok et al., 2021). Some say that crude oil prices have a negative effect (Antonio et al., 2021; Fitrianto, 2020; Rokhaniyah, 2020), and there is also research that says that crude oil prices have no significant effect (Mahfudz & Nurhadi, 2021; Mubarak, Al Arif, & Mufraini, 2020; Nawindra & Wijayanto, 2020).

This difference may be caused by moderating variables such as inflation. Considering that inflation is the entry point for several macroeconomic variables, especially crude oil prices before it finally affects the Sharia stock market (Noval & Nadia, 2020). Therefore, this study not only aims to explain the independence debate about the influence of crude oil prices on the Sharia stock market in Indonesia. However, it will also discuss the role of inflation in mediating the effects of these two variables. The remainder of this article is organized as follows. Section 2 provides a literature review. Section 3 describes the methodology used in this study. Section 4 presents the results and discussion of the empirical analysis and section 5 presents the conclusions and recommendations of this study.

Literature Review

Crude Oil Prices and Sharia Stock Market

World crude oil is one of the pivotal sources of energy playing a crucial role in today's global economic growth. This is because derivative products from crude oil serve as a driving force for the world economy, consequently exerting indirect influences on several countries simultaneously (Ahmed, Bhutto, & Kalhor, 2019). Consequently, when crude oil prices rise, production and distribution costs escalate (Meo, Chowdhury, Shaikh, Ali, & Masood Sheikh, 2018; Taghizadeh-Hesary, Rasoulinezhad, & Yoshino, 2019), potentially leading to inflation (Baek, 2021), and weakening activities in the stock market.



For instance, Chkili (2022) identified a significant and positive relationship between oil prices and Sharia Stock Markets, particularly during turbulent periods, indicating the financialization of the crude oil market. Additionally, Salles et al. (2022) presented evidence of the influence of crude oil prices on the stock markets of 18 countries, demonstrating diverse impacts across these economies. Furthermore, Darmawan et al. (2020) revealed that fluctuations in crude oil prices hurt the stock market performance of oil-importing countries like Indonesia (R. Robiyanto, 2018; Robiyanto Robiyanto, Santoso, Atahau, & Harijono, 2019; Salisu & Isah, 2017), but a positive effect on oil-exporting countries, emphasizing differential impacts based on the economic status of these nations (Darmawan et al., 2020). This finding is further supported by Zaman (2019), who highlighted the impacts of oil price fluctuations on various economic aspects, including money markets, exchange rates, economic growth, and international trade between oil-importing and oil-exporting countries. Additionally, Wu & Lu (2019) and Gao & Chen (2022) provided insights into the spillover effects of international crude oil futures prices on stock markets, indicating varying impacts across different countries and regions.

Specifically in the context of the Sharia Stock Market in Indonesia, previous research provides contradictory results. Antonio et al (2021), Fitrianto (2020), and Rokhaniyah (2020) have concluded that crude oil prices have a negative effect on Islamic stocks in Indonesia. In contrast, Bawono & Mutaqin (2019), Masrizal, Ubaidillah Al Mustofa, & Herianingrum (2019), and Zahrok et al. (2021) concluded that crude oil prices have a positive effect on the Sharia Stock Market in Indonesia. However, other studies conducted by Mahfudz & Nurhadi (2021), Mubarak, Al Arif, & Mufraini (2020), Nawindra & Wijayanto (2020), and Noval (2022) indicate that crude oil prices do not have a significant impact on the Sharia Stock Market in Indonesia.

H1: Crude oil prices have a negative effect on the sharia stock market

Inflation and Sharia Stock Market

The relationship between inflation and Sharia Stock Markets has been extensively investigated in academic literature. Studies have explored the impact of inflation on stock market returns in various countries and the unique characteristics of Sharia Stock Markets. For instance, research conducted in Indonesia indicates that the Indonesian Islamic Stock Index (ISSI) is influenced by macroeconomic factors such as inflation, interest rates, and exchange rates (Amal & Musthofa, 2023). This study illustrates the interconnectedness of macroeconomic factors with the performance of the Sharia Stock Market in Indonesia.

The effect of inflation on the growth of corporate sukuk in the Indonesian Sharia Stock Market has also been examined, revealing a significant impact of inflation on corporate sukuk growth (Sholeh & Ekowati, 2023). This research expands the understanding of the consequences of inflation in the context of Islamic finance in Indonesia. Furthermore, the relationship between inflation and stock market returns has been studied in the context of both Islamic and conventional stocks. Studies have found that inflation rates can affect the returns of both Islamic and conventional stock markets, with some research indicating a positive long-term relationship between inflation and stock market returns (Jelilov, Iorember, Usman, & Yua, 2020; Kwofie & Ansah, 2018). However, other studies suggest that inflation may have a negative impact on the Sharia Stock Market index in the short term, especially during economic shocks such as the COVID-19 pandemic (Halim, 2020; Suriani, Nasir, & Ernawati, 2022).

Differences in the behavior of Islamic and conventional stock markets have also been a focus of research. Studies highlight differences in the response of Sharia Stock Markets to macroeconomic variables such as

inflation and interest rates. Some research suggests that Sharia Stock Markets may exhibit different reactions to inflation compared to conventional stock markets, possibly due to the prohibition of prohibited goods and an aversion to excessive risk-taking in Islamic financial principles (Indarwati & Widarjono, 2021; Nurhayadi & Rito, 2019). Moreover, the impact of inflation on the volatility of Sharia Stock Markets in developed and developing countries has been explored, with findings suggesting that Islamic stock indices may demonstrate greater resilience to financial crises and unique characteristics that differentiate them from conventional stock markets (Sampurna & Maronrong, 2019). While previous research results have shown varying interpretations of the impact of inflation on the Sharia Stock Market in Indonesia, with some studies stating a negative effect (Abdul Jabar & Cahyadi, 2020; Ash-shiddiqy, 2018; Fuadi, 2020; Handriani, Isnurhadi, Yuliani, & Sulastri, 2021; Masrizal, Sukmana, Al Mustofa, & Herianingrum, 2021; Nawindra & Wijayanto, 2020; Noval & Nadia, 2020; Sari & Latief, 2020), while others stating that inflation has no significant effect or even a positive effect (Anwar & A, 2020; Mahrina, 2020; Sukmayadi & Oktaviani, 2019; Umam, Ratnasari, & Herianingrum, 2019).

H2: Inflation has a negative effect on the sharia stock market

Inflation Moderation in the Effect of Crude Oil Prices on the Sharia Stock Market

The surge in crude oil prices can significantly impact the global economy, leading to an increase in the prices of goods. Understanding how inflation responds to this surge has been a focal point in economic literature. Azis et al. (2015) assert that inflation should not merely be viewed as a temporary increase in product prices, such as those occurring before major holidays, natural disasters, or seasonal price hikes. They emphasize that the essence of inflation

lies in a sustained and general increase in product prices over an extended period.

Furthermore, in the context of the Indonesian economy, as outlined by Azwar and Subekan (2017), the inflation rate is influenced by a combination of core inflation and non-core inflation. Core inflation reflects fundamental and more stable price increases, while non-core inflation can be influenced by external factors such as fluctuations in crude oil prices. In tandem with the focus on the impact of rising crude oil prices, recent research has shed light on the relationship between inflation and the Sharia Stock Market. The study by Kasongwa and Minja (2022) specifically investigates the moderating effects of inflation on the performance of the Sharia stock market, with a particular emphasis on its relationship with crude oil prices. Their findings suggest that crude oil prices have a moderating effect on the relationship between inflation and the performance of the Sharia stock market.

Nurwulandari (2019) explores the impact of inflation and the Rupiah exchange rate on the Islamic social reporting of consumer goods industry companies listed in the Indonesian Sharia Stock Index (ISSI). The results indicate a substantial impact of inflation on stock prices in the ISSI, highlighting the sensitivity of the Sharia stock market to inflationary factors. Sholeh and Ekowati (2023) delve into the analysis of the inflation rate and ISSI's effects on the growth of corporate sukuk in Indonesia. Their study reveals a significant impact of the inflation rate on the growth of corporate sukuk, providing insights into the potential influence of inflation on the performance of Sharia-compliant financial instruments. Moreover, Selvi et al. (2020) examine changes in macroeconomic conditions, including the impact of inflation, on Sharia stock returns in Indonesia. Their findings indicate varying effects of changes in inflation and interest rates on Sharia stock returns, underscoring the intricate relationship between inflation and stock market performance.

In conclusion, this literature review provides a comprehensive understanding of the implications of rising crude oil prices on inflation and its relationship with the Sharia stock market. While some findings suggest a moderating effect of inflation on the relationship between crude oil prices and Sharia stock market performance, it is crucial to acknowledge the complexity of this

relationship, influenced by various factors such as macroeconomic conditions and interest rates. Further research may be necessary to delve deeper into these dynamics and their implications for investment in the Sharia stock market.

H3: Inflation weakens the influence of crude oil prices on the sharia stock market

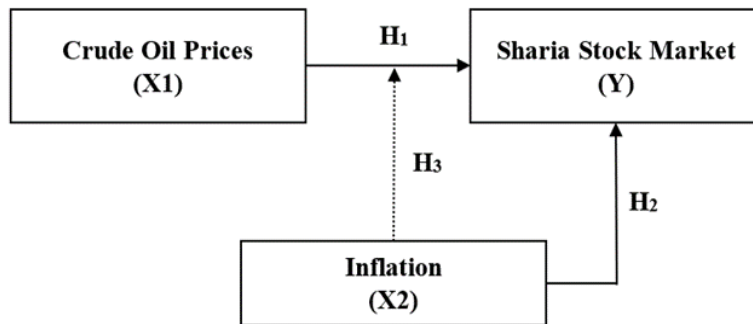


Figure 01: Conceptual Framework

Methodology

This study uses a quantitative approach with an explanatory design. The data used is monthly data on the Indonesian Sharia Stock Index (ISSI), World Texas Intermediate (WTI), and Inflation for the period June 2011 to December 2021. The data sources for the Indonesian Sharia Stock Index (ISSI) and World Texas Intermediate (WTI) are obtained directly from the website www.investing.com while inflation is obtained directly from the website of Bank Indonesia.

Population and Sample

The population for this study consists of 127 monthly observations. Due to the relatively

small size of the population data, the sample is determined using a saturated sampling technique. Saturated sampling is chosen to ensure that every observation in the population is included in the sample, allowing for a comprehensive representation in the analysis of this research.

There are three variables focused on in this study: the Sharia stock market, crude oil prices, and inflation. All variables are measured using monthly data covering the period from June 2011 to December 2021. The decision to use this period is based on the availability of data from the Indonesian Sharia Stock Index (ISSI) in Indonesia. This aligns with the information provided in the Operational Variable table below.

Table 01: Variable Operation

Variable	Operational Definition	Source
Crude Oil	The closing price of WTI oil is every month from June 2011 to December 2021.	www.investing.com
Inflation	Indonesia's inflation data is every month from June 2011 to December 2021.	Bank Indonesia
Sharia Stock Market	Closing Data for the Indonesian Sharia Stock Index (ISSI) is every month from June 2011 to December 2021.	www.investing.com

Method of Data Analysis

To obtain accurate analysis results and test hypotheses, this study employs Moderated Regression Analysis (MRA) with the assistance of the EViews version 12 program. However, before conducting this analysis, a regression equation must satisfy several classical assumptions, including autocorrelation, heteroscedasticity, normality, and multicollinearity tests, ensuring that the regression equation model is considered valid as an estimator (Kumar, 2020).

In this study, the autocorrelation test employs the Lagrange Multiplier Test method, with the criterion that if the probability value of ObsR-squared > 0.05, there is no autocorrelation; however, if the value is <0.05, autocorrelation is present. The heteroscedasticity test utilizes the Breusch Pagan Godfrey method, and the criterion is that if the probability value of ObsR-squared > 0.05, there is no heteroscedasticity, but if the value is <0.05, there are symptoms of heteroscedasticity. For the normality test, this study applies the Jarque-Bera method, and the decision rule is that if the probability value is > 0.05, the data is normally distributed; otherwise if the probability value is < 0.05, the data is not normally distributed. The multicollinearity test adopts the Variance Inflation Factors (VIF) method, with the rule that if the VIF value is <10, there is no multicollinearity problem, but if

the VIF value is >10, multicollinearity is present (López-Ruiz, 2022).

Data Analysis and Discussion

Descriptive statistical analysis was used to describe the observed data from the maximum value, minimum value, average value (mean), and standard deviation value. The results of descriptive statistical analysis show that the minimum price of crude oil was 18.84 in April 2020 and the maximum value was 107.65 in August 2013. The average price of crude oil is 67.21. Meanwhile, the standard deviation of crude oil is 22.47. Although the price of crude oil fell at the beginning of COVID-19, along with the easing of rules for public mobility in several countries, the price of crude oil increased again at the end of the year. The minimum inflation rate was 1.32% in August 2020 and the maximum was 8.79 in August 2013. The average inflation rate was 4.14% while the standard deviation of inflation was 1.93. So, it can be concluded that from 2015 to 2021 the inflation rate was below the target set by Government. The minimum ISSI value was 115.42 in September 2011 and the maximum value was 197.46 in January 2018. The average ISSI value is 163.53 while the standard deviation value is 19.08. So, it can be concluded that the ISSI movement is quite stable during the period 2011 to 2021, it can be seen from the ISSI value which has increased at the end of the year.

Table 02: Descriptive Statistics Results

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
Crude Oil	67.21	61.06	107.65	18.84	22.47
Inflation	4.14	3.61	8.79	1.32	1.93
Sharia Stock Market	163.53	167.07	197.46	115.42	19.08

Source: Analysis Results (2022)

Autocorrelation Test

The results of the initial test of classical assumptions in the regression equation have an autocorrelation problem so a first difference transformation is needed to overcome it (Gujarati, 2021). The use of this method will reduce the number of data from 127 to 126 data. The results of the autocorrelation test using the Lagrange Multiplier Test after data transformation, it is known that the Chi-Square (2) probability value in Obs*R-squared is 0.4723, because this value is greater than 0.05, it can be concluded that there is no autocorrelation symptom. on the data of this study.

Table 03: Autocorrelation Test Results

Obs*R-squared	1.500336
Prob. Chi-Square (2)	0.4723

Source: Analysis Results (2022)

Heteroscedasticity Test

Based on the results of the heteroscedasticity test using the Breusch Pagan Godfrey method, it is known that the Chi-Square Probability (2) on Obs*R-squared is 0.1748. Because this value is above the value of 0.05, it can be concluded that the research data is homoscedastic or there are no symptoms of heteroscedasticity.

Table 04. Heteroscedasticity Test Results

Obs*R-squared	4.959727
Prob. Chi-Square (2)	0.1748

Source: Analysis Results (2022)

Normality Test

Testing the normality of the data using Jarque-Bera. Based on the test results, it is known that the probability value is 0.143434,

this value is greater than the 0.05 value, so it can be concluded that the research data is normally distributed.

Table 05. Normality Test Results

Jarque-Bera	3.883755
Probability	0.143434

Source: Analysis Results (2022)

Multicollinearity Test

Multicollinearity testing uses the Variance Inflation Factors (VIF) method. Based on this method, it is known that each VIF value of all variables is below the value of 10 so it can be concluded that there are no symptoms of multicollinearity in the independent variables.

Table 06: Multicollinearity Test Results

Variable	VIF
D_WTI	3.168
D_Inflation	5.883
D_Int_1	7.553

Source: Analysis Results (2022)

Hypothesis Testing

Moderated Regression Analysis (MRA)

Moderated Regression Analysis (MRA) is used to examine the moderating effect of inflation on the effect of crude oil prices on the Sharia stock market in Indonesia. The results of the analysis show that crude oil prices have a significant positive effect on the Sharia stock market in Indonesia ($\beta=0.506669$; $p < 0.05$), therefore H1 is supported. These results support research (Bawono & Mutaqin, 2019; Masrizal et al., 2019; Zahrok et al., 2021) which states that crude oil prices have a positive effect on the sharia stock market in Indonesia.



Inflation has no significant effect on the Sharia stock market in Indonesia ($\beta=3.398602$; $p > 0.05$) therefore H2 is not supported. This study supports research (Alam, Thifal Anggraeni, & Anas, 2020; Nawindra & Wijayanto, 2020; Yahya, 2020) which states that inflation has no significant effect on the sharia stock market in Indonesia. The results of the moderation test show that inflation can weaken the effect of crude oil prices on the Sharia stock market in

Indonesia ($\beta = -0.069339$; $p < 0.05$), therefore H3 is supported. This shows that when inflation increases beyond the target, the impact of rising crude oil prices will increase the risk in the sharia stock market so that investors will shift their investment to other forms of investment such as sukuk, gold, or time deposits (Shabbir, Kousar, & Batool, 2020). So the Sharia stock market will experience a weakening.

Table 07: Moderated Regression Analysis (MRA) Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.480477	0.533860	0.900006	0.3699
D_WTI	0.506669	0.147851	3.426881	0.0008
D_INFLATION	3.398602	2.405925	1.412597	0.1603
D_INT_1	-0.069339	0.028573	-2.426748	0.0167
F-statistic	5.588145	R-squared		0.120812
Prob(F-statistic)	0.001263	Adjusted R-squared		0.099193

Source: Analysis Results (2022)

Discussion

Effect of Crude Oil Prices on Sharia Stock Market

The increase in crude oil prices has had a significantly positive impact on the Sharia stock market in Indonesia, as evidenced by Moderated Regression Analysis (MRA). The findings of this research reveal that changes in crude oil prices have a strong positive correlation with the movement of the Sharia stock market, and approximately 50.6% of the variability in these changes can be explained by crude oil price factors. Several factors explain these findings. Firstly, fluctuations in crude oil prices have a positive impact on the performance of stock markets in oil-exporting countries, including Indonesia. This creates a spillover effect of greater volatility in stock market indices across various regions, indicating that the Indonesian Sharia stock market tends to benefit from changes in oil prices (Darmawan et al., 2020; Zhang, He, Nakajima, & Hamori, 2020).

Secondly, the impact of fluctuations in crude oil prices on stock market volatility is non-linear and asymmetric. The results indicate

that the positive impact of rising crude oil futures prices is more dominant than the negative impact on certain stock markets. This suggests a higher responsiveness of the Indonesian Sharia stock market to an increase in crude oil prices compared to a decrease, creating a favorable balance (Gao & Chen, 2022). Thirdly, the positive correlation between crude oil prices and stock returns affirms that the increase in crude oil prices provides a positive boost to the returns of companies listed in the Indonesian Sharia stock market (Chen, Cheng, & Liu, 2022). The increased profitability and Earnings Per Share (EPS) of Sharia issuers become a crucial factor in enhancing activity in the Sharia stock market.

The positive impact of the increase in crude oil prices on the Sharia stock market in Indonesia is influenced not only by internal factors but also by external conditions, especially government policies and Bank Indonesia. The government's anticipation of the increase in crude oil prices during the period 2015 to 2021, balanced with the implementation of a series of policies, helped prevent adverse inflationary effects in Indonesia. As a result, Sharia companies



experienced increased profitability, reflected in the growth of activities in the Indonesian Sharia stock market. In the context of the Indonesian Sharia stock market, long-term studies indicate that the increase in global crude oil prices can also affect the exchange rate in Indonesia. These factors, along with the domino effect of fluctuations in crude oil prices in the Sharia stock markets of neighboring countries, such as Qatar, Saudi Arabia, and the United Arab Emirates, contribute to the dynamics of the Indonesian Sharia stock market (Siswara, Effendi, & Muthoharroh, 2021; Supriani, Herianingrum, Ninglasari, & Budi, 2022).

Furthermore, it is important to note that the results of this research support previous studies indicating the positive impact of crude oil prices on the Sharia stock market in Indonesia (Bawono & Mutaqin, 2019; Masrizal et al., 2019; Zahrok et al., 2021). However, the literature also reflects divergent opinions, with some studies concluding a negative or insignificant impact of crude oil prices on Sharia stocks (Antonio et al., 2021; Fitrianto, 2020; Mahfudz & Nurhadi, 2021; Mubarak et al., 2020; Nawindra & Wijayanto, 2020; Noval, 2022; Rokhaniyah, 2020). This indicates the complexity of the relationship between crude oil prices and the Sharia stock market, which can be influenced by a number of economic variables and policies. Therefore, further research is needed to comprehensively understand the interaction between crude oil prices and the Sharia stock market in Indonesia.

Effect of Inflation on the Sharia Stock Market

Based on the analysis of Moderated Regression Analysis (MRA) results, this study concludes that there is no significant influence of inflation on the Sharia Stock Market in Indonesia. In other words, fluctuations in the inflation rate, whether upward or downward, do not directly trigger changes in the performance of the Sharia Stock Market. This phenomenon is noteworthy, especially when compared to the conventional stock market, particularly the

Indonesian Sharia Stock Index (ISSI), which appears less responsive to inflation rates.

Previous research indicates that macroeconomic factors such as inflation, exchange rates, and interest rates have a limited impact on the performance of the Sharia Stock Market (Ibrahim, 2019; Mashudi, Ibrahim, & Ilahi, 2020; Yahya, Majid, & Hafasnuddin, 2021). Furthermore, these findings support the idea that inflation does not significantly influence economic growth through the Sharia Stock Market, as proposed by Alam et al. (2020), Bassar et al. (2021), Masrizal et al. (2019), and Priyono & Kartiko (2021). Although inflation and exchange rates do not seem to be significant in influencing the performance of the Sharia Stock Market, there are indications that the response to monetary policy instruments and the debt-to-equity ratio may be influenced by different conditions during the observed inflation period in Indonesia (Ibrahim, 2019).

This study emphasizes that the Sharia Stock Market exhibits resilience to inflationary pressures and macroeconomic fluctuations, supported by findings from various related studies. Some studies highlight the unique nature of Islamic financing and the resilience of the Sharia Stock Market to external economic shocks as key factors in this resilience (Godil, Sarwat, Sharif, & Jermisittiparsert, 2020; Muharam & Pratama, 2020). However, other research notes the potential negative impact of inflation on the Islamic banking sector, particularly regarding the ratio of problem financing in commercial Islamic banks (Ikramina & Sukmaningrum, 2021; Widarjono & Rudatin, 2021). Overall, the complexity of the impact of inflation on the Sharia Stock Market in Indonesia indicates the need for careful explanation. These findings suggest that the unique characteristics and principles of Islamic finance may protect against the conventional impact of inflation on the Sharia Stock Market. Therefore, further research is needed to comprehensively understand the factors and mechanisms contributing to this phenomenon.



This study also rejects previous research findings that state inflation has a negative effect on the Sharia Stock Market in Indonesia, as expressed by Handriani, Isnurhadi, Yuliani, & Sulastri (2021), Masrizal, Sukmana, Al Mustofa, & Herianingrum (2021), Noval & Nadia (2020), Abdul Jabar & Cahyadi (2020), Fuadi (2020), Nawindra & Wijayanto (2020), Sari & Latief (2020) and Ash-shiddiqy (2018). Additionally, this study contrasts with research stating that inflation has a positive effect on the Islamic capital market in Indonesia, as noted by Umam, Ratnasari, & Herianingrum (2019), Anwar & A (2020), Sukmayadi & Oktaviani (2019) and Mahrina (2020).

Inflation Moderation in the Effect of Crude Oil Prices on the Sharia Stock Market

The results of Moderated Regression Analysis (MRA) shed light on the critical role of inflation as a moderating factor in the relationship between crude oil prices and the Sharia Stock Market in Indonesia. These findings offer a deeper understanding of the intricate dynamics involved in the influence of these two factors on the performance of the Islamic financial market. The significance of inflation as a moderating factor in the impact of crude oil prices becomes apparent through the estimations. The results indicate that when the increase in crude oil prices is accompanied by a rise in inflation rates, the Sharia Stock Market tends to weaken. Conversely, if the increase in crude oil prices is not followed by an inflationary surge, the Sharia Stock Market in Indonesia tends to strengthen. The implication is that investors and policymakers need to consider not only changes in crude oil prices but also their potential impact on inflation and, subsequently, the performance of the Sharia Stock Market.

This finding aligns with the study by Kasongwa and Minja (2022), emphasizing the moderating effect of inflation on the relationship between crude oil prices and stock market performance. Furthermore, the research by Indarwati and Widarjono (2021)

adds a positive dimension by indicating that world crude oil prices can have a positive influence on stock prices, indicating a complex interaction between these factors. The additional contribution from the study by Yahya et al. (2021) highlights the resilience of Islamic stocks to fluctuations in macroeconomic variables, including inflation. This suggests unique characteristics in Islamic stocks that can moderate the impact of inflation on stock returns, providing potential certainty and resilience in the face of economic changes.

Despite the substantial positive impact of global crude oil prices on the Sharia Stock Market, it is essential to acknowledge the potential emergence of negative risks when the increase in crude oil prices coincides with a surge in other inflationary pressures. Earlier studies, including those by Shabbir et al. (2020), Istiak & Alam (2019), Meo et al. (2018), Mukhtarov et al. (2019), and Taghizadeh-Hesary et al. (2019), propose that surpassing the government's inflation target in Indonesia could elevate risks in the Sharia Stock Market, prompting investors to explore alternative investments. These studies underline the critical need for additional comprehensive research to fully fathom the interconnectedness of inflation, crude oil prices, and the performance of the Sharia Stock Market. This underscores the utmost importance of a holistic understanding for both investors and policymakers, empowering them to make well-informed decisions in efficiently managing risks and responding adeptly to dynamic economic conditions.

Conclusion

This comprehensive study provides empirical evidence supporting the significantly positive impact of increasing crude oil prices on the Sharia stock market in Indonesia. The observed positive correlation is ascribed to a combination of internal and external factors, including spillover effects from oil-exporting nations and proactive government policies implemented by the Indonesian government and Bank Indonesia. Notably, the Sharia



stock market exhibits resilience to inflation, with no significant influence observed during the period from 2015 to 2021.

This resilience is attributed to the effective anticipation and management of inflation by the government and central bank, coupled with weakened domestic demand due to the COVID-19 pandemic. The study emphasizes the critical role of inflation as a moderator in the relationship between crude oil prices and the Sharia stock market. When an increase in crude oil prices coincides with a rise in inflation rates, the Sharia stock market tends to weaken, underscoring the importance of considering the interplay between crude oil prices and inflation for informed decision-making. The findings not only contribute valuable insights for investors and policymakers to manage risks but also highlight the complexity of the relationships among crude oil prices, inflation, and the Sharia stock market, warranting further research for a more comprehensive understanding and strategic decision-making in response to dynamic economic conditions.

The study makes a theoretical contribution by introducing additional moderator variables to

elucidate the impact of crude oil prices on the Sharia Stock Market in Indonesia—a topic still under debate regarding independence. Moreover, the modest application of inflation as a moderating variable in the influence of crude oil prices on the Sharia Stock Market in Indonesia highlights an avenue for future exploration. The empirical contribution provides a practical recommendation for investors to analyze the movement of the Sharia Stock Market in Indonesia. This involves not only monitoring crude oil prices but also paying attention to inflation, as an increase surpassing the target could have a detrimental effect on the market. To navigate this challenge, investors are advised to diversify their portfolios, incorporating instruments such as sukuk, gold, and time deposits.

The study has limitations on the sample size as well as the number of variables. Therefore, it is hoped that further research can add macroeconomic variables such as exchange rates, regional indices, Gross Domestic Product (GDP), and the money supply so that it can be seen the role of inflation in moderating the influence of crude oil prices on the Sharia Stock Market in Indonesia later.

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