Sharia compliant gold investment in Malaysia: Hedge or safe haven?

Abstract

This paper studies the hedge and safe haven characteristics of Sharia compliant gold in Malaysia. Specifically, we would like to know whether the official gold and gold account traded, which complies with Islamic principles, can be used as a hedge or a safe haven for the Malaysian market. To answer this question, we examine both constant and time-varying relations between domestic stock and gold returns. The notable finding is that the official gold standard of Malaysia can act as a strong hedge relative to the use of the Islamic gold account. On the other hand, the domestic gold, in particular the Islamic gold account, does not perform attractively as a safe haven during the episodes of extreme drops in stock market. These findings show that gold does not play a major role during the stock market declines in Malaysia. Nevertheless, we note that the official gold standard performs better than the gold account.