

Do oil-price shocks move stock markets? New evidence from OECD members

Jochen H. F. Güntner*

University of Magdeburg

November 17, 2011

Abstract

In this paper, I extend Kilian (2009)'s structural VAR model of the global market for crude oil along the lines of Kilian and Park (2009) and identify the impact of oil price shocks on stock market returns in six OECD member states. The sample of countries is selected to incorporate four major net importers and two net exporters of crude oil. Using monthly data from 1974 to 2011, I isolate structural oil supply shocks, aggregate demand shocks, and oil-specific demand shocks from a block-recursive three-variable VAR model.

My results suggest that unexpected shortfalls in the global supply of crude oil do not have a significant impact on the stock market in any of the six countries under consideration. While a positive innovation to global aggregate demand raises oil prices and cumulative stock returns in all countries, the effect lasts longer for net oil exporters and is more pronounced in Norway. Precautionary demand shocks have a detrimental impact on the stock market in oil-importing countries, a statistically insignificant effect on the Canadian, and a significantly positive effect on the Norwegian stock market.

Keywords: Net oil exporters and importers; Oil price shocks; Stock market returns; Structural VAR estimation

JEL Classification: C32, C51, C58

* Jochen Güntner is Research Associate at the Chair of International Economics, Otto-von-Guericke-University Magdeburg. Address: PO Box 4120, 39016 Magdeburg, Germany. e-mail: jochen.guentner@ovgu.de, telephone: +49 391 67-12163, fax: +49 391 67-11177.

References

Kilian, L., 2009. Not All Oil Price Shocks Are Alike: Disentangling Demand and Supply Shocks in the Crude Oil Market. *American Economic Review* 99 (3), 1053–1069.

Kilian, L., Park, C., 2009. The Impact of Oil Price Shocks on the U.S. Stock Market. *International Economic Review* 50 (4), 1267–1287.