Time Variance and Spillover Effects between International Crude Oil Price and Ten Emerging Equity Markets

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Abstract : This paper empirically examines the time-varying relationship and spillover effects between the international crude oil price and ten emerging equity markets, namely three oil-exporting countries (Brazil, Mexico, and Russia) and seven Central and Eastern European (CEE) countries (Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, and Slovakia). The results revealed that there are spillover effects from oil markets into almost all emerging equity markets save Slovakia. Besides, the oil supply glut had a homogenous effect on the emerging markets, both net oil-exporting, and oil-importing countries (CEE). Further, the time variance drastically increased during financial turmoil. Indeed, the time variance remained high from 2009 to 2012 in response to aggregate demand shocks (global financial crisis and Eurozone debt crisis) and quantitative easing measures. Interestingly, the time variance was slightly higher for the oil-exporting countries than for some of the CEE countries. Decision-makers in emerging economies should therefore seek policy coordination when dealing with financial turmoil.

Keywords : crude oil, spillover effects, emerging equity, time-varying, aggregate demand shock
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