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## Energy Shocks and Financial Markets

*Journal of Futures Markets, Vol. 16, No. 1, pp. 1-27, 1996*

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Posted: 16 May 2006

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### Abstract

This study analyzes the information transmission mechanism linking oil futures with stock prices, where we examine the lead and lag cross-correlations of returns in one market with the others. We investigate the dynamic interactions between oil futures prices traded on the New York Mercantile Exchange (NYMEX) and U.S. stock prices, which allows us to examine the effects of energy shocks on financial markets. In particular, we examine the extent to which these markets are contemporaneously correlated, with particular attention paid to the association of oil price indexes with the S&P 500 index; 12 major industry stock price indices and 3 individual oil company stock price series. We also examine the extent to which price changes or returns in one market dynamically lead returns in the others and whether volatility spillover effects exist across these markets. Using VAR model estimates for various time series of returns we find that petroleum industry stock index and our three oil company stocks are the only series where we can reject the null hypothesis that oil futures do not lead Treasury Bill rates and stock returns, while we can reject the hypothesis that oil futures lag these other two series. Finally, the return volatility evidence for oil futures leading individual oil company stocks is much weaker than is the evidence for returns themselves.

**Keywords:** Energy shocks, oil futures, oil price dynamics, stock price index dynamics, VAR model, return volatility**JEL Classification:** C22, D84, E44, G14[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN\\_ID900741\\_code122768.pdf?abstractid=900741&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID900741_code122768.pdf?abstractid=900741&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN\\_ID900741\\_code122768.pdf?abstractid=900741&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID900741_code122768.pdf?abstractid=900741&mirid=1&type=2)

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