

Impact of International Oil Prices on the Stock Exchange of Malaysia and Turkey

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Abstract

In this paper, we are trying to dig out impact of international oil prices on the stock exchange of Malaysia and Turkey. For this purpose, we have taken the time series data of 15 years and apply the correlation analysis to find out the relationship between them were international oil prices are dependent variables and Malaysia and Turkey stock exchange are dependent variables. We have observed that there is negative relationship between them. Our study is trying to show that Last decade witnessed that there were high volatile; it was recorded US\$148 per barrel. Due to these prices the supply and demand were affected due to fluctuate in these prices. There are some notable significant events like invasion of Iraq versus US.

Keywords: Malaysia; Turkey; Correlation analysis; International oil prices; Supply; Demand

Introduction

Oil is known as the major source of the energy. In the world, it is seen that it has the strategic role and it has also influenced on the supply and demand. From the last few decades, all the developing and under developing country are facing the problem of oil shortage and this is the main issues that economy of all countries are affecting. Most of the scholars proved that International oil prices have affected on the stock exchange in several ways. In all the issues all the consumers are directly and indirectly affected. The prime aim of this paper is to analysis the impact of oil prices on the stock market of Malaysia. International oil prices has effected on both importing and exporting country. In the world, not any country which has no linked with the international oil prices. In this paper, we has also analyzed the impact of international oil prices on all the sector of Malaysia. Stock markets of all the nations are the best way to reflect the economic position on all the developing and emerging countries. The importance of stock markets are increasing day by day. Across the world, all the commodities are being affected. Different studies have also proved that there is association between stock returns and different macroeconomic variables. There is also relationship between international oil prices and gold prices. Last decade witnessed that there were high volatile; it was recorded US\$148 per barrel. Due to these prices the supply and demand were affected due to fluctuate in these prices. There are some notable significant events like invasion of Iraq versus US. These countries are known as the oil exporting 1) Yemen 2) Iran 3) Yemen. On the demand side, in India and china are the most exporting country in the world. After the financial crisis 2008, most of the countries were facing the problem of oil crisis (Figures 1-3).

Problem Statement

Impact of international oil prices on the stock exchange of Malaysia.

Objectives

- 1) Impact of international oil prices on the stock exchange of Malaysia.
- 2) Impact of international oil prices on the development of stock exchange.
- 3) Impact of international oil prices on stock returns.

Hypothesis study

H0: There is positive relationship between stock prices and international oil prices.

HA: There is no positive relationship between stock prices and international oil prices.

Literature Review

Amano and Van Norden examined the impact of international oil prices on the stock exchange of India. For this purpose, they had taken the data from 1998 to 2008 and applied the linear regression model their results are showing that there is association between international oil prices and stock exchange. They suggested that oil prices have good and bad impact on the stock exchange [1].

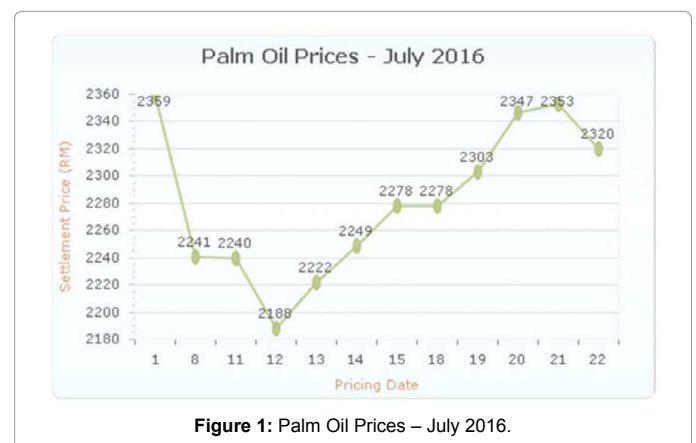


Figure 1: Palm Oil Prices – July 2016.

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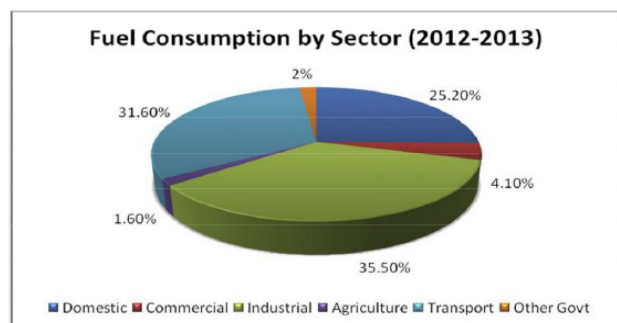


Figure 2: Fuel Consumption by Sector (2012-2013).

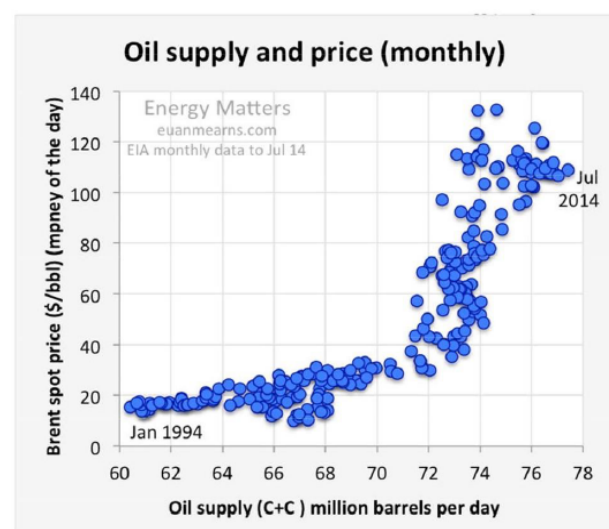


Figure 3: Oil supply (c+c) million barrels per day.

Chu-Chia et al. analyzed the impact of international oil prices on the stock exchange of Pakistan. For this purpose, they had taken the data from 1991 to 2001 and applied the VAR model and results are showing that there is association between international oil prices and stock exchange. They suggested that oil prices have good and bad impact on the stock exchange [2].

Cheng et al. observed the impact of international oil prices on the stock exchange of India. For this purpose, they had taken the data from 1998 to 2008 and applied the linear regression model their results are showing that there is association between international oil prices and stock exchange. They suggested that oil prices have good and bad impact on the stock exchange [3].

Chung, analyzed the impact of international oil prices on the stock exchange of Turkey. For this purpose, they had taken the data from 1995 to 2005 and applied the VCM model their results are showing that there is association between international oil prices and stock exchange. They suggested that oil prices have good and bad impact on the stock exchange [4].

Rabianajaf and Khakan najaf examined the impact of international oil prices on the stock exchange of Malaysia. For this purpose, they had taken the data from 1999 to 2009 and applied the VECM model and results are showing that there is association between international oil

prices and stock exchange. They suggested that oil prices have good and bad impact on the stock exchange [5].

Denial et al. observed the impact of international oil prices on the stock exchange of France. For this purpose, they had taken the data from 1991 to 2001 and applied the unit root model and results are showing that there is association between international oil prices and stock exchange. They suggested that oil prices have good and bad impact on the stock exchange [6].

Gerben Driesprong et al. viewed of international oil prices on the stock exchange of Canada. For this purpose, they had taken the data from 1991 to 2001 and applied the ECM model and results are showing that there is association between international oil prices and stock exchange. They suggested that oil prices have good and bad impact on the stock exchange [7].

Chen et al. employed of international oil prices on the stock exchange of Canada. For this purpose, they had taken the data from 1999 to 2009 and applied the multi regression model and results are showing that there is association between international oil prices and stock exchange. They suggested that oil prices have good and bad impact on the stock exchange [8-15].

Jiménez-Rodríguez and Sanchez examined of international oil prices on the stock exchange of UK. For this purpose, they had taken the data from 1994 to 2004 and applied the GARCH model and results are showing that there is association between international oil prices and stock exchange. They suggested that oil prices have good and bad impact on the stock exchange [16-22].

James D Hamilton analyzed of international oil prices on the stock exchange of USA. For this purpose, they had taken the data from 1996 to 2006 and applied the ARCH model and results are showing that there is association between international oil prices and stock exchange. They suggested that oil prices have good and bad impact on the stock exchange [23-25].

Mukhuti observed of international oil prices on the stock exchange of Finland. For this purpose, they had taken the data from 1997 to 2007 and applied the OLS model and results are showing that there is association between international oil prices and stock exchange. They suggested that oil prices have good and bad impact on the stock exchange [26-29].

Theoretical Framework

Theoretical framework is shown in Figure 4.

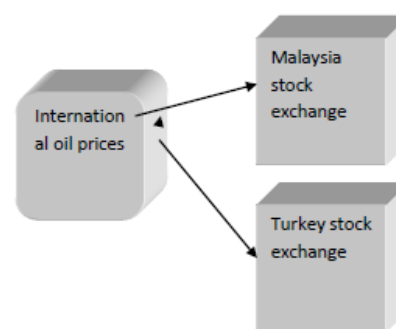


Figure 4: Theoretical framework.

Methodology

We have taken the data of 20 years of both international oil prices and stock exchange of Malaysia and Turkey. For this purpose, we have taken the data from 1990 to 2010 and applied the different models to analysis the impact of international oil prices on the stock exchange of Malaysia and turkey. In this paper r, we have taken the stock market as the dependent variable and international oil prices as the independent variables. According to that there is found negative association between international oil prices and stock exchange of Malaysia and Turkey. According to there is significant negative association between international oil prices and stock exchange of America (Table 1).

Interpretation

We have utilized the correlation and regression analysis for the proper results. These are helpful to calculate the mean value of both variables. The results of correlation are showing positive results. There is found level of sensitivity more in Malaysia then turkey stock exchange. In the Table 2, the results are showing that there is significant association between stock prices and international oil prices. The values of standard deviation are helpful to explain the risk factor. In the Table 3, results are showing the correlation between both the variables. The results are 32.528 and 59.8 showing the variation ratio. ANOVAs table is helpful to give the results that model is fit or not. Here results are showing that there is significant relationship between oil prices and stock exchange of Malaysia and Turkey.

Conclusion

Our study is showing to show that in the stock markets, there might be a lot of variables, which have impact on the performance of the stock exchange. In this paper, we have observed the impact of international oil prices on the stock exchange of Malaysia and turkey. For this purpose, they had taken the data from 1992 to 2012. Our results are trying to show that there is significant negative association between international oil prices and stock market of Malaysia and Turkey.

Recommendation

1. Forecasting is the best way for the investment in the stock exchange.
2. International oil prices are known as the uncontrollable variable.
3. There must be make some polices about the control of risk.
4. There must be alternative of oil like gas etc.

Variable	Min	Max
BORSA	12.2	125.4
KLSE	12.5	210.8
OIL PRICES	26.12	85.26

Table 1: Methodology.

Variables	Oil Prices
BORSA	0.672
KLSE	0.633

Table 2: Correlation matrix.

Stock Prices	R	R-SQ	ADJ R-SQ
KSE	38.428	52.5	52.4
KLSE	41.7	62.24	61.6

Table 3: Regression analysis.

Future Research

In the future, we shall disuse impact of international oil prices on the progress of country. There is any impact of oil prices on the import and export of the commodities.

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