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Volatility Spillover Analysis between Oil Prices and Financial Stress

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ABSTRACT

The volatility transmission between oil prices and financial stress has been recently investigated. However, there exist a small number of studies that explore this relationship by considering the spillover effect of oil prices on financial stress index or vice versa since financial stress index is a new concept. In this study, we explore the volatility spillover between oil prices and financial stress index by employing DCC-GARCH and VAR models. We use weekly WTI crude oil prices and St. Louis financial stress index for the period 1994-2015 and we split it into three sub-periods: pre-crisis, crisis and post-crisis periods. Besides, the causality tests are employed in order to determine the risk transfers from oil prices to financial stress and from financial stress to oil prices in the pre-crisis, crisis and post-crisis periods.

KEYWORDS Volatility Transmission; Oil Prices; Financial Stress Index

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