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The Impact of Oil Price Shocks on Sector Indices: Evidence from Turkey

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ABSTRACT

This study examines dynamic linkages between oil prices and stock returns, also known as the oil price-stock price nexus in Turkey by classifying the sectoral index returns as oil-user, oilrelated, oil-substitute, and financial, since oil price fluctuations affect sector indexes differently. The empirical results indicate that there exists one cointegrating relationship between oil prices and five of the eleven industry sector indices. Four of these indices are categorized as oil-user sectors, for which oil is a key raw material. We also find that oil price granger causes electricity, mining, basic metal, chemical, petroleum and plastic, metal product machinery and insurance sector returns. The results of the variance decomposition analysis show that for all sector indices, a high percentage of forecast error variance is influenced by its own innovations. The oil-user sectors are the most affected by the oil-price shocks, oilsubstitute sectors, the least.

KEYWORDS Real Estate Markets; Stock Markets; Cointegration

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