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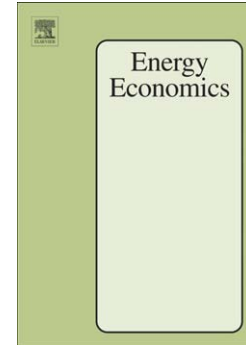
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Quantile dependence of oil price movements and stock returns

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Abstract

We examine the impact of quantile and interquantile oil price movements on different stock return quantiles by testing the hypothesis of equality in conditional and unconditional quantile distribution functions of stock returns. We capture quantile dependence under different stock market conditions, while taking into account different kinds of oil price movements, by computing unconditional and conditional stock return quantiles through marginal models for stock returns and copula functions for oil-stock dependence. Analysing stock return data for three developed economies (the US, the UK and the European Monetary Union) and the five BRICS countries (Brazil, Russia, India, China and South Africa) for 2000 to 2014, our results indicate that: (1) the impact of extreme upward and downward oil price changes on upper and lower stock price quantiles was much smaller before compared to after crisis onset; (2) the downside spillover effects were larger than the upside spillover effects for most countries before crisis onset and for all countries after crisis onset; and (3) small positive and negative oil price movements had no impact on any stock return quantiles neither before nor after crisis onset.

Keywords: Oil prices; Stock returns; Quantile; Copula.

J. E. L. Classification: C22; C58; G12; Q40; Q43

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