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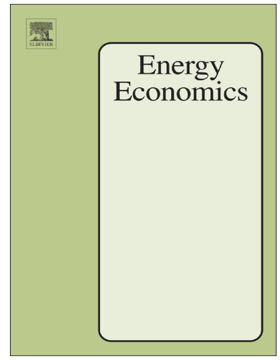

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The Dynamic Effects of Oil Supply Shocks on the US Stock Market Returns of Upstream Oil and Gas Companies

by

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Abstract

A time-varying parameter VAR model is used to examine the impact of structural oil supply shocks on the US real stock market return of oil and gas exploration and production companies. The result shows that the impact response of the real return of the upstream stocks to a negative world non-US oil supply shock increases substantially over recent years, from an average value of 0.70 percent in 2006 to 6.16 percent during 2008-2010, with a spike of 6.81 percent in 2014Q3. The endogenous effects of US oil supply shocks on the return play an important role, in that the responses of the stock returns to a negative US oil supply shock are positive and persistent with an average value of 3.60 percent over time. The time-varying effects of oil supply shocks are heterogeneous. The magnitudes of return responses are different among independents, large proved-reserve independents and integrated companies over time.

JEL classifications: E44, G10, Q41, Q43

Key words and phrases: oil supply shocks, real stock return, time-varying parameter VAR, oil and gas exploration and production companies

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