Department of
Economics and Finance

Working Paper No. 18-08

Economics and Finance Working Paper Series

Alanoud Al-Maadid, Guglielmo Maria Caporale,
Fabio Spagnolo, Nicola Spagnolo

Political Tension and Stock Markets in the Arabian Peninsula

October 30, 2018

http://www.brunel.ac.uk/economics

Political Tension and Stock Markets in the Arabian Peninsula

Alanoud Al-Maadid , Guglielmo Maria Caporale [w]

1 Introduction

Equation

generally become stronger as a result of the recent political tensions, and have therefore made individual markets more vulnerable to turbulence originating from other markets in the region. In terms of policy implications, this evidence strengthens the argument for further financial integration (possibly including the introduction of a single currency) in order to deal with a possible decline in risk appetite following the crisis, regardless of the degree of integration of this region with the developed economies (Wang, 2017), and to attenuate the impact of external common shocks, as the Asian experience has previously shown (Asian Development Bank, 2013). Further, it implies that fewer portfolio diversification opportunities are available in the region for hedge funds and institutional investors.

References

[1] Asian Development Bank (2013, October). “Regional cooperation and integration”, in Asian Development Bank (Ed.), Asian Economic Integration Monitor. Asian Development Bank.

[2] Boutchkova, M., H., Doshi, A., Durnev, and A., Molchanov. (2012), "Precarious politics and return volatility" The Review of Finan-304((that)-340.1(few)31.1(e)-1.3(r)-337.2(p)-26.6(t2.8(v -1.

Panel A: Descriptive statistics and conditional correlations

Descriptive Statistics

	UAE	Qatar	Saudi A.
Mean	0.026	0.001	0.005
St. Dev.	1.902	0.978	1.049
Min	-2.993	-1.261	-1.431
Max	0.433	0.268	0.304
Skewnes	-0.701	-0.462	-1.057
Kurtosis	9.891	5.887	7.601

Conditional Correlations

Pre 2017	UAE	Qatar.	Saudi A
UAE	1	0.121 (0.006)	0.418 (0.053)
Qatar		1	0.377 (0.043)
Saudi A.			1

Post 2017	UAE	Qatar.	Saudi A
UAE	1	0.045 (0.004)	0.555 (0.216)
Qatar		1	0.379 (0.201)
Saudi A.			1

Panel B: Estimated VAR-GARCH(1,1) Model:

	Coef.	p-value		Coef.	p-value		Coef.	p-value
Conditional Mean Equation								
$_1$	0.216	(0.000)	$_{12}$	-0.179	(0.004)	$_{12}$	0.104	(0.099)
$_2$	0.099	(0.019)	$_{13}$	0.044	(0.381)	$_{13}$	-0.058	(0.343)
$_3$	0.096	(0.000)	$_{21}$	0.057	(0.009)	$_{21}$	-0.101	(0.000)
$_1$	-0.101	(0.000)	$_{23}$	0.065	(0.081)	$_{23}$	0.452	(0.000)
$_2$	-0.035	(0.037)	$_{31}$	0.069	(0.012)	$_{31}$	0.121	(0.000)
$_3$	-0.022	(0.146)	$_{32}$	-0.106	(0.041)	$_{32}$	0.027	(0.618)
$_{11}$	0.315	(0.000)	$_{22}$	0.116	(0.000)	$_{33}$	0.261	(0.000)
Oil U $_{w\ 1}$	0.025	(0.000)	Oil Q $_{w\ 1}$	0.021	(0.000)	Oil S $_{w\ 1}$	0.023	(0.000)
VIX U $_{w\ 1}$	-0.052	(0.001)	VIX Q $_{w\ 1}$	-0.034	(0.045)	VIX S $_{w\ 1}$	-0.051	(0.000)
Int. U $_{w\ 1}$	-0.062	(0.000)	Int. Q $_{w\ 1}$	-0.017	(0.008)	Int. S $_{w\ 1}$	-0.001	(0.582)
Conditional Variance Equation								
f $_1$								