Chapter 13

Investigating the Impact of Declining Oil Prices in Global Stock Markets:
Oil Exporting and Oil Importing Countries

Jose J. Haspa DeLarosiere
Universidad EAFIT, Colombia

ABSTRACT

As well as illustrating wider and interrelated repercussions of plunging oil prices on the global economy – and its impact on global financial markets, this chapter also re affirms the realization that the strong form of the Efficient Market Hypothesis appears to introduce less accountability than the weak and semi strong components. Even though it appears that fundamentals underlying previous Financial Crises and recent volatilities differ, recent evidence also provides interesting information about turbulences that currently plague global stock markets. Can previous historical records be relied upon (reasonably or otherwise) to predict future outcomes? Where predictability (redictive values) and confirmatory attributes (confirming values) constitute components of relevance in financial reporting, then it appears that certain historical reports, data and information based on the age and relevance of such data, still constitute relevant and reliable data given that such information is current, relevant and reliable in the sense that it can be predicted upon, confirmed and verified.

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INTRODUCTION

Even though it appears that fundamentals underlying previous Financial Crises and recent volatilities in global stock markets differ, evidence also lends support to salient commonalities between major and significant events which have heralded financial turbulences that currently plague global stock markets.

Based on World Bank reports (2015, p. 155), similarities and reminders can be drawn between recent plunges in oil prices and the collapse in oil prices in 1985-86. Further, it is highlighted that between 1984-2013, five other episodes of oil price declines of 30 percent or more in a six-month period occurred, coinciding with major changes in the global economy and oil markets (see page 155):

- An increase in the supply of oil and change in OPEC policy (1985-86); U.S. recessions (1990–91 and 2001); the Asian crisis (1997–98); and the global financial crisis (2007–09).

In view of the above correlations, can distinguishing features be identified – such as to delineate the present plunges in oil prices from previous episodes? Several remarks have also been made in relation to oil importers, particularly emerging market economies such as China and India, benefiting from the recent drops in oil prices – hence mitigating potentially devastating consequences which could result from a full blown and elevated global crisis. As highlighted in previous chapters relating to the impact of recent regulatory and financial reforms – as well as monetary policies – and the response of emerging market economies to such regulatory reforms, these economies have found it difficult to recover from the recent Financial Crisis partly in attribution to such reforms. Is it then realistic and optimistic to expect that they should weather the storms generated by the recent oil plunges – even if expected to profit from lower oil prices?

Various sources of evidence and reports not only indicate that the impact of lower oil prices on growth is expected to boost activity in China by 0.1-0.2 percent because oil accounts for only 18 percent of its energy consumption, but that the sustained low oil prices of 2015 are expected to widen the current account surplus by some 0.4-0.7 percentage points of GDP (World Bank, 2015, p. 161). Further reports (BBC, 2015) also indicate that Thailand, India, South Korea – and to an extent, China and Japan, should benefit from recent plunges in oil prices for the following reasons:

- Lower inflation.
- Lower costs for business.
- Higher spending power for households.
- Improved government finances.