

Chapter 14

Information Uncertainty and Volatility in Financial Stock Markets: Commodity Price Fluctuations and Business Cycles

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ABSTRACT

Rising oil prices, steel prices - as well as the stronger dollar certainly impacted the financial markets during the latter part of May 2016. So also, the expected announcement of higher interest rates in June 2016 by the Federal Reserve. As well as illustrating the impact of financial shocks for emerging economies, this chapter also illustrates the impact of financial shocks for smaller – as well as more advanced economies. Having highlighted through the entire volume, the macroeconomic consequences of the changes and fluctuations of commodity prices – as reflected through the recent global financial market volatilities. This chapter will also focus on the main channels through which commodities price fluctuations affect business cycles in EMEs.

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INTRODUCTION

The reaction of financial markets to announcements, as well as information uncertainty, has been clearly illustrated from results which have been revealed – most notably, during the months which ushered in 2016 – and particularly those preceding June 2016. As the EU Referendum looms on the 23rd of June 2016, there have been concerns relating primarily to information uncertainty – as well as forecasts which have dominated various sectors in relation to the impact on the UK economy in the event of a decision to leave the EU. During the month of May 2016, concerns were expressed by very prominent figures, including the Bank of England Governor, and the IMF Chief as regards the impact of leaving the Eurozone – as well as the resulting domino effects on other economies.

Whilst the Bank of England Governor and the IMF chief had clearly expressed the facts and concerns relating to the impact of information uncertainty – as a result of possible consequences of the UK leaving the European Union, it was the timing of their warnings that sparked outrage amongst the Brexit supporters – particularly with respect to Mark Carney, the Bank of England Governor, whose intervention in matters of such a political nature, was considered to be in contravention to the goals of the Monetary Policy Committee – in retaining central bank independence and abstaining from political intervention.

The events and controversial intervention, however, demonstrate serious concerns regarding the timing of the EU Referendum and the current state of the UK economy. Had the Referendum been held or scheduled to hold at a period where the UK and global economy were more economically robust, such warnings, it is highly likely, would have been more restrained.

Even though the manufacturing sector appeared to have stabilized in May 2016, recent reports highlighted trade deficits being at their highest levels since the Financial Crisis – with the recent Steel Crisis still being addressed. Hence the consequences of further uncertainty and Brexit were enough to warrant concerns such that the Bank of England had to take unprecedented steps in highlighting the dangers of leaving the European Union.

The impact of the EU Referendum had also been evident from stock market figures which reflected investment concerns – even where commodities such as oil prices played a significant role in impacting stock markets when price increases occurred - improving stock market values.

Rising oil prices, steel prices - as well as the stronger dollar certainly impacted the financial markets during the latter part of May 2016. So also, the expected announcement of higher interest rates in June 2016 by the Federal Reserve.

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