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Political Tension and Stock Markets in the
Arabian Peninsula

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Political Tension and Stock Markets in the Arabian Peninsula

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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 Financial Studies* 25(1), 1-37.

Panel A: Descriptive statistics and conditional correlations							
	Descriptive Statistics			Conditional Correlations			
	UAE	Qatar	Saudi A.	Pre 2017	UAE	Qatar.	Saudi A
Mean	0.026	0.001	0.005	UAE	1	0.421 0.006	0.418 0.453
St. Dev.	1.902	0.978	1.049	Qatar		1	0.377 0.443
Min	-2.993	-1.261	-1.431	Saudi A.			1
Max	0.433	0.268	0.304	Post 2017	UAE	Qatar.	Saudi A
Skewnes	-0.701	-0.462	-1.057	UAE	1	0.445 0.404	0.555 0.216
Kurtosis	9.891	5.887	7.601	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	(0.446)	32	-0.106	(0.041)	32	0.027 (0.018)
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							