

Abstract

This paper investigates the link between oil price shocks and share market returns in Brazil, Russia, India, China and South Africa collectively called the BRICS countries. Monthly data was analysed for the period February 1998 to December 2017. Granger causality tests were run to test uni-directional causality from oil prices to stock returns. It was found that oil prices granger cause share returns for all the BRICS countries. A Vector Auto Regressive (VAR) model was employed with Impulse Response Functions (IRFs) and variance decompositions computed in order to aid the analysis. Significant positive relationships were found between oil prices shocks and share market returns for Brazil and Russia while India, China and South Africa initially experienced positive shocks that become negative over time. The status on whether a country is a net oil importer or net oil exporter played an important role in determining the contribution of oil price shocks to fluctuations in share market returns. The findings of this study could assist investors in better understanding and predicting the performance of share markets by examining the link between share market returns and oil prices. It can also assist regulators to increase investor confidence in share markets by protecting their interests against uncertainty, the risk associated with the oil market and minimizing share markets dependency on oil prices.