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Abstract
This paper aims to analyze whether US news on inflation and unemployment causes returns and volatility of seven emerging Asian stock markets from 1994 to 2014, by employing the causality-in-quantile approach. We find evidence that US news affect returns and/or volatility of all the seven stock markets considered, with these effects clustered around the tails of the conditional distribution of returns and volatility when they are either in bear or bull modes. In general, our results highlight the importance of modeling nonlinearity and studying entire conditional distributions of stock returns and volatility to draw correct inferences.

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1. Introduction
Emerging financial markets have been significantly influenced by changes occurring in developed economies. Globalized economic environment has led the world to experience a great financial integration in the past two decades. Given this, the purpose of our study is to examine the impact of surprises about U.S. macroeconomic news announcements on South Asian emerging financial markets. More specifically, we examine the possible causality from US macroeconomic news' shocks to stock returns and return volatility in seven emerging economies, namely India, Indonesia, Korea, the Philippines, Singapore, Taiwan, and Thailand. To capture the US inflation and unemployment news effect on emerging markets daily stock returns and volatility, we employ a recently proposed nonparametric causality-in-quantiles test by Balcilar, Gupta, Kyei, and Wohar (2016) and Balcilar, Bekiros, and Gupta, 2017.

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Note that, the decision to choose the seven Asian economies is well-motivated based on data on portfolio investments in these economies. Foreign portfolio investors focus on stable macroeconomic environment of country. Since the impact of the Asian financial crisis on the five major equity markets of Southeast Asia in 1997–99, the global portfolio investment industry had been going through rapid change. Portfolio investors also consider the host country macroeconomic stability and exchange rate along with the interest rate. Moreover, they argue that stock market is an indicator of performance and investor expectations for host country. Portfolio flows to emerging markets reached almost $25 billion in July 2016. Inflows were dominated by emerging markets in Asia (The Institute of International Finance, 2016). However, foreign portfolio equity in Asian countries has been volatile since 2008. The share of portfolio flows in gross capital inflows has grown since the global financial crisis. Portfolio Inflows to Asia between October 2008 and September 2013 has increased to almost 1% percent of GDP (IMF staff estimates). Based on the World Development Indicators (WDI) data, the country rankings for portfolio equity net flows are as: India 12th, Indonesia 26th, Korea 17th, Singapore 175th, Phillipines 36th, Thailand 176th, with no ranking available for Taiwan, but portfolio investment have been continuously on the rise based on data available from the Bank of China.\(^1\) This ranking clearly shows how important the Asian countries are in the portfolio equity investments.

The cause of stock market fluctuations have been studied by researchers (Chen, Roll, & Ross, 1986; Campbell & Shiller, 1988; Fama & French, 1988). Chen et al. (1986) and Fama (1981) have identified that economic news, particularly macroeconomic news, as one of the drivers of stock returns and causes of financial market fluctuations. Many studies investigate the effect of macroeconomic announcements on the volatility of the domestic financial markets. For example, Ederington and Lee (1993) find a significant effect of regularly scheduled US macroeconomic announcements on the volatility of the US treasury and foreign exchange futures. On the other hand, Cutler, Poterba, and Summers (1988) find that macroeconomic news does affect stock returns. In the case of Japan economy, Andersen, Bollerslev, and Cai (2000) study the Japanese macroeconomic news announcements and find that it explains only 0.1% of variation in the intraday volatility.

Most economies are integrated with each other after the globalization took over the world, and macroeconomic announcements of major economies such as European Union, Japan and, particularly the US, are likely to not only affect their domestic financial markets, but also the financial markets of other countries (Cakan, Doytch, & Upadhyaya, 2015). Asset returns are functions of the state variables of the real economy, and the real economy itself displays significant fluctuations, with macroeconomic surprises playing a part in this (Cakan, 2012). In other words, such macroeconomic news surprises affects the US economy, and hence its stock market. At the same time, note that these seven countries are subjected to US investment flows, hence, as changes in the macroeconomic environment of the US affects its domestic and global investment potential, and thus, it is likely to feed into growth process and stock markets of these economies (Mensi, Hammoudeh, Reboredo, & Nguyen, 2014; Menzi, Hammoudeh, Yoon, & Nguyen, 2016). Moreover, US investors are interested in these emerging stock markets for risk diversification opportunities, which in turn, provide a direct channel through which a change in the macroeconomic environment in the US, can affect stock market movements of these seven Asian emerging markets under consideration (Mensi et al., 2014, 2016). In other words, US macroeconomic news surprises are expected to affect the stock returns and volatility of these three economies, given the increased economic integration of the world economy in general, and the financial markets in particular. Note that, irrespective of whether the news are good or bad, in terms of the nature of the surprises in the US market, these emerging markets are likely to be affected, given the importance of the US economy and the extent of the global trade linkages it has with other world economies (Cakan et al., 2015).

Good macroeconomic news, might imply bright future prospect for the US economy and investors would pull out investments from these emerging markets, while bad news might mean more inflow into these markets in an attempt to diversify risks. In addition, it is also possible, that investors might feel that with bad news, the US economy, and hence, the entire global economy and the world financial system is likely to slow down, so they might invest into safer assets like gold. So, whatever the type of news, both the domestic and emerging equity markets are likely to be affected based on the above channels.

There are many examples of empirical evidence in support of the non-domestic macroeconomic news affecting the domestic financial markets. For example, Hanousek, Kocenda, and Kutan (2009), who study the reaction of asset prices to macroeconomic announcements in Hungary, Czech Republic and Poland using intraday data\(^2\) find that Czech stock market is impacted more by the U.S. macroeconomic announcements than by EU macroeconomic announcements. On the contrary, the Hungarian and the Polish stock markets are more affected by the EU macroeconomic news than US macroeconomic news. Moreover, Hanousek and Kocenda (2011) categorize EU and US macroeconomic announcements in four general classes, reducing the number from fifteen different classes previously analyzed, to study their impact on Czech, Hungarian and Polish stocks for the period from 2004 to 2007. The authors’ findings suggest that the Czech, the Hungarian and the Polish stock markets have significant responses to EU macroeconomic news, but not to U.S. macroeconomic news. However, these findings have been questioned by another study on the same stock markets. Using a GARCH model and data for the period 1999–2006, Buttner, Hayo, and Neuenkirch (2012) find that both EU and US macroeconomic news significantly affect financial sectors of the above three countries. The only difference in response of the three stock markets is that the impact of EU news dominates over the impact of US news on the Czech market.

Aside from the mentioned studies above, there is limited research on the impact of economic shocks of developed economies on stock prices of emerging markets. Various other studies are concerned with the globalized outreach of other macroe-
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