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OIL MARKET DYNAMICS ACROSS THREE ERAS: DOES FINANCIALIZATION STILL DRIVE RETURNS AND VOLATILITY?

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Extended Abstract

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Abstract Summary

This study investigates the evolving impact of financialization on oil returns and volatility. We analyse three distinct phases; the pre-financialization period before 2004, the financialization era from 2004 to 2014, and the post-financialization era after 2014. Our methodology utilizes a dynamic TVP-VAR SV model. We incorporate CFTC historical data, alongside fundamentals of the oil market. Our research attempts to reconcile past studies while highlighting shifts in oil market structure and behavior. We focus specifically on changes occurring after the 2008 global financial crisis. Our findings indicate that speculative activity prior to 2014 had a positive, short-term, and transient impact on oil prices. Conversely, the post-2014 effects are heterogeneous in direction and asymmetrical in intensity. Furthermore, these effects now persist into medium- and long-term horizons.Such evidence suggests that financialization remains a critical factor, marking the transition into a "post-financialization" era. We also find that the influence of financialization on oil price volatility is time-varying. While there is a weak, short-term positive impact, the effect is strongly negative over the medium and long terms. Ultimately, our findings indicate that financialization has served as a dampening force on oil volatility for the last three decades.

Presenting Author Biography

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