



THE NEXUS BETWEEN OIL PRICES AND AIRLINES STOCK RETURNS IN BORSA ISTANBUL DURING THE COVID-19 PANDEMIC

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ABSTRACT

Purpose- The impact of crude oil on the industries is different based on the dependency of the related business line. Thus, airlines are usually sensitive to the changes in crude oil price changes since it composes a considerable proportion of the operational costs. This study distinguishes itself from the majority of the literature that it focuses on analyzing the crude oil price airlines stock prices and transportation index in Borsa İstanbul and discuss the impact of the change in crude oil prices on them both in the long-run and specifically in the covid-19 pandemic.

Methodology- In our study, the return spillover effect is determined by the mean equation set as vector autoregressive model (VAR model) while the volatility spillover effect between crude oil price and the stock price of airlines companies is determined via the variance equation set as the VECH-TARCH model to catch the asymmetric news impact as well.

Findings- According to the model results the volatility spillover effect between crude oil price and airlines' stock price is more significant compared to the return spillover effect. In the short term the volatility spillover effect between crude oil price and Turkish Airlines stock price is more significant compared to Pegasus Airlines (PGSUS) and transportation index. Secondly, in the long run the volatility spillover effect between crude oil prices and all three assets are strongly significant. Third, there is no asymmetric news impact between crude oil prices and Pegasus Airlines stocks and transportation index. However, asymmetry exists for Turkish Airlines stocks. Good news from crude oil markets to Turkish Airlines increase the volatility as well.

Conclusion- According to the model results the volatility spillover effect between crude oil price and airlines' stock price is more significant compared to the return spillover effect. transportation index and oil prices. Only in the Covid-19 period there is an influence between Turkish Airlines and transportation index returns with Dubai and WTI oil prices.

Keywords: Spillover, airlines, VAR-VECH-TARCH, crude oil, Turkish Airlines, Pegasus, contagion effect

JEL Codes: C58, G14, L93, E44

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