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Opinion

The Impact of Energy Product Prices on Economic Activity and Stock Markets

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Opinion

The end of the 20th century and the first years of the 21st century signaled many important changes in international economies, both pleasant and unpleasant, affecting the international community during almost the first quarter of the current century.

More specifically, the first great event took place was the monetary integration of EU, the use of a common currency and the expansion of political integration to European East. This achievement led to great optimism for further European integration and positive outlook for long-term economic growth and prosperity.

Few years later, in 2007, started from US the global financial crisis right after the bankruptcy of Lehman Brothers and spread rapidly in Europe, affecting mainly the weaker economies and those with limited reform programs implemented, high debt and high twin deficits. In order to avoid the bankruptcy of specific members and the dissolution of Eurozone, ECB proceeded to the implementation of unconventional policy measures to preserve Euro.

Although the world economy has gone through a financial crisis and while the economies were in the phase of recovery, indicating positive growth rates and central banks kept implementing unconventional measures, two new crises appeared apparently; corona virus pandemic and war in Ukraine. Corona virus pandemic prevented economies from further growth, created recessionary conditions and constituted the first generalized black swan situation globally for the last half century.

The investigation of Covid-19 vaccines, after one year the economic lockdown and social isolation, led gradually world economies and markets of fully open and perform, creating auspicious prospects. However, any positive market reaction came to an abrupt halt after the Russia-Ukraine war and the imposition of sanctions on both sides between the Western economies and Russia, which led to a worldwide deep recession and the emerging global food crisis.

After World War II, oil has been the cornerstone of global economic growth. According to Ross [1], oil markets are inextricably linked with every major crisis of the modern era (socioeconomic, ecological and refugee). The health crisis of coronavirus is no exception, bringing significant effects to the oil industry. The oil market suffered an unprecedented collapse, creating intense uncertainty internationally, both in the energy sector and economies' worldwide. Initially, as a result of the economic activity's restart after the pandemic lockdown, the demand for gas and coal has boosted but their supplies have not been able to keep up. This resulted in the first strong shock to the market, which could not fully cover its energy needs. Subsequently and while the world economy was trying to restore balance, Russia invaded Ukraine, where sanctions were imposed on both sides from the Western economies to Russia, and vice versa.

Russia's most important sanctions against European Union, in response to EU'S sanctions against it, were related to the restriction of the use of Russian energy resources by European states, which launched energy resources prices, led to the greatest inflationary pressures at international level after the second world war and created intense recessionary situations and ominous prospects. The high dependence of European Union countries from Russian energy resources affected Europe more than the other developed economies. It has to be mentioned that 40% of natural gas, 25% of oil and 50% of coal imported into the EU, come from Russia [2].

Post-double shock, investment psychology remains fragile, as there are no obvious signs of war de-escalation and inflation rates reduction. The current condition forces Central Banks globally to proceed to continuous and stable interest rate increases, in order to restrain inflation. The implementation of a such tight monetary policy raises undoubtfully concerns about a serious slowdown or even recession in the global economy.

As firms' international operations become less profitable, the profits of international firms will be squeezed, forcing them to revise down their earnings outlook and looking at their stock prices fall and industrial stock indices receding, indicating significant losses. More specifically, while global energy crisis is being intensified, it hammers the companies' shares and stock indices of industries that consume a lot of power and sending the stocks of those that produce it soaring [3,4]. We are currently living in a very vulnerable period and in a condition, according to which, energy crisis may exist for the next several years and all actors should take necessary measures, to restrict their losses and improve their outlook.

According to Sweeney [5], fluctuations of oil prices deriving either from demand or supply sides affect in a direct way economic efficiency, energy policy, energy markets and indirectly governmental finances, exclusively heading for coping with the crisis. Conventional energy resources are considered as the growth lever of all economies and firms worldwide. This implies that intense and continuous variations of international energy products prices affect economies' sustainability and outlook [6]. Moreover, it is perceived that oil is of a major importance trading product that transcends economy and society, extending its influence in politics and diplomacy and consists a tool for military power Qiang et al. [7]. The negative outlook is primarily based on the ongoing energy crisis, as the risk of gas disruptions threatens German industry, the engine of Europe, fueling recessionary scenarios.

At stock markets level, oil prices tend to affect stock returns in a negative way, which way [8-11] This impact become even more influential in case of periods intense variability and economic shocks [12,4]. Nevertheless, it seems to be a diversification of related to the type of oil dependence between countries. More specifically, it tends to be a negative impact of oil price shocks on stock returns and an economy as a whole for net oil-importing countries, while this relationship has a positive impact for net oil-exporting economies (Baumeister & Hamilton, 2019; Jiménez-Rodríguez, 2022).

In such context should be mentioned that the relationship between stock returns and oil prices is mainly determined by the law of demand and supply in oil market, as the shocks deriving by the demand side is more likely to explain the dynamics of stock markets, than from the supply side [13]. This output is independent from the nature of the country, either oil exporting or oil importing [14,15].

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