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Do the Islamic Stock Market Returns Respond Differently to the Realized and Implied Volatility of Oil Prices? Evidence from the Time–Frequency Analysis

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Abstract:
This paper makes an initial attempt to investigate the responsiveness of the Islamic stock market returns to the realized and implied volatility of oil prices at different investment horizons. The CBOE crude oil volatility index (OVX) is used for the implied volatility of oil price. The data are weekly from May 2007 to May 2017. The wavelet coherence analysis indicates that the negative effect of the implied volatility of oil price on Islamic stock market returns is more persistent compared to that of realized volatility across both time and scales. This finding tends to indicate that the Islamic stock market returns are more sensitive to the implied volatility of oil price compared to that of realized volatility. This may be due to the implied volatility, unlike the realized volatility, containing information of both historical volatility of oil spot prices and also predicted volatility. The results are plausible and have strong policy implications.