Influence of Oil Prices on Stock Market Performance in Kenya

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Abstract
This study examined the relationship between oil prices, exchange rates, interest rates and other macroeconomic variables and the stock market in Kenya. Monthly data of oil prices, interest rates, total country oil consumption, exchange rates and stock market indices are modeled into a linear regression model. Automotive diesel oil prices have been used since diesel is the main product used for industrial product in Kenya among the three main grades imported into the country. Four hypothesis were used to test the relationship between the macroeconomic variables and the performance of the Nairobi Securities Exchange. The study used secondary data on Diesel prices obtained from the Petroleum Institute of East Africa, data on total oil consumption obtained from the Ministry of Energy, data on exchange rates and interest rates obtained from the Central Bank of Kenya. Pearson correlation and regression were used to test the relationship and significance. The findings indicated that both diesel prices and interest rates have significance relationship with stock market performance. However while the relationship is positive for diesel prices, the relationship for interest rates is negative. The findings also indicated that although both the total oil consumption and exchange rates had a positive relationship with the stock market performance, that relationship was not significant. The findings also indicated a very strong relationship between diesel prices and the exchange rates.

Keywords
Oil Prices, Exchange Rates, Market Index, Causality

I. Introduction
The effect of oil prices on a country’s economy has been and continues to be a keen interest to many people, particularly economists. Throughout the history, oil has played a critical role to shape countries development. Given the importance of oil and the attention oil prices receive, a considerable economic literature has been devoted to study the impact of oil prices on macroeconomic variables such as inflation, growth rates and exchange rates in one country (e.g. [11]; or using cross sectional data [40] and [32]). The aforementioned strand of literature argued that oil prices affect economic condition and may cause a recession in the economy. However, [7] have argued that it is not the oil price that is the principal cause of recession, but the fact that the central banks have responded to higher oil prices by increasing interest rates in order to control inflation. The confusion between oil shocks and response of monetary policy may explain why oil shocks appear to have an effect that far exceeds what is expected based on a comparison of energy costs to total production cost.

Therefore, if oil plays an important role in the economy one would expect oil prices to affect stock markets [1], and oil shocks on real cash flows can partly account for fluctuation in aggregate stock prices [2]. In other words, does a local peak (valley) in the price of oil portend a falling (rising) overall stock market? In sharp contrast to the extensive investigation in the previous literature of the oil prices effect on economic feature, there still little research in the previous literature on how stock market is affected by oil prices movements, most of which concentrate on oil producing or exporting countries and mix of European countries (e.g. [3]; [27]; and [19]).

The aim of this paper is to investigate the relationship between oil prices, exchange rates and stock market return in Kenya. The investigation of such relationship in such a country is interesting for several reasons. First, while higher oil prices would affect stock markets positively in oil exporting country by increasing the government revenues and though increasing the public expenditure on infrastructure and other omega projects, changes in oil prices is presumed to affect stock markets negatively. This negative impact of oil prices on stock prices (returns) can be explained in two ways:

1. Higher oil prices reduce the amount of disposable income that consumers have left to spend on other goods and services, and increase the cost of production for manufacturing firms that are oil dependent. If this production costs have not been covered by consumers, profits and then dividends, key drivers of stock prices, will also decrease and

2. According to the equity pricing model, the price of equity at any point in time is equal to the expected present value of discounted future cash flows [1]. Increasing oil prices are often indicative of inflationary pressures. Thus, central banks try to control the inflation by increasing interest rate which also directly impact the discount rate used in the equity pricing formula and then decrease share prices. Although this negative relation has been illustrated theoretically, few studies provide empirical support for the reality or myth of this relation (see for example [4] among others). Given the importance of oil and the attention oil prices receive in the media and coupled with the high investment risks, this poses the needs for investors and professional portfolio managers to find factors, such as oil prices, to improve their price predictability. Changes in the price of crude oil are often considered an important factor for understanding fluctuations in stock prices. In the long-term, the influence of oil price on stock prices prevail, as oil price effect transmits to macroeconomic indicators that influence liquidity of these markets. This suggests that the effect of oil price changes transmit to fundamental macroeconomic indicators, which in turn affect the long-term equilibrium linkage between these markets. Conditions that reflect change in observable factors that affect an economy. Second, there are speculative factors that operate entirely within a market over short periods. These two sets of conditions sometimes work together, and sometimes opposite. Thus, a given market can be speculatively strong, but fundamentally weak, or the reverse [5].

On theoretical grounds, oil-price shocks affect stock market returns or prices through their effect on expected earnings [6]. One rational of using oil price change as a measure for change in key macroeconomic indicators is that value of stock prices in theory equals discounted expectation of future cash flows (dividends), which in turn are affected by macroeconomic events that possibly can be influenced by oil shocks. Since oil price increase, it raises the production cost in industrial oil consuming countries. Due
to increase Oil price it is expected to raise the cost of imported
capital goods, therefore it may adversely affecting the prospects
of higher profits for firms traded in Indian stock markets. On
the demand side, oil price increases drive up the general level of
prices, which translates into lower real disposable income, and
consequently reduces demand. Besides the direct impact on
general price levels, oil prices also have secondary effects on wage
levels, which in combination with high general prices result in
increased inflation. Inflationary pressures are usually controlled
by central banks through increase in interest rates. Given the
higher interest rates, bond investments will become more attractive
than stock investments, which will result in lower stock prices.
Finally, increasing import prices trigger a deterioration of the
terms of trade and therefore impose welfare losses. Oil-exporting
countries, on the other hand, benefit from higher export revenues,
which could be diminished by a decline in a global oil demand [8].
Liberalization and integration of international markets economies
[9] and [10], characterized with increased level of capital flows
and international investments in emerging have made global
investors more vulnerable to oil price impact on emerging stock
markets. Therefore, understanding the level of susceptibility of
stock prices in emerging economies to movement in global oil
prices is very important.

II. Problem Statement
There is very little or no literature on the relationship between oil
prices, exchange rates, stock markets and economic performance in
Kenya. The investigation of such relationship in such a country is
interesting for several reasons. First, while higher oil prices
would affect stock markets positively in oil exporting country by
increasing the government revenues and though increasing the
public expenditure on infrastructure and other omega projects,
changes in oil prices is presumed to affect stock markets negatively.
This negative impact of oil prices on stock prices (returns) can be
explained in two ways:

- Higher oil prices reduce the amount of disposable income that
consumers have left to spend on other goods and services,
and increase the cost of production for manufacturing firms
that are oil dependent. If this production costs have not been
covered by consumers, profits and then dividends, key drivers
of stock prices, will also decrease and
- According to the equity pricing model, the price of equity
at any point in time is equal to the expected present value
of discounted future cash flows [1]. Increasing oil prices
are often indicative of inflationary pressures. Thus, central
banks try to control the inflation by increasing interest rate
which also directly impact the discount rate used in the equity
pricing formula and then decrease share prices. Although
this negative relation has been illustrated theoretically, few
studies provide empirical support for the reality or myth of
this relation (see for example [4]).

Whereas several studies have focused on the effect of Oil
price shocks on stock markets, no other study to the best of our
knowledge has tried to make a comparison on the influence of
oil prices versus other macroeconomic variables on stock market
performance. This study therefore sets out to also look at the
influence of not only the oil prices but other variables such as
exchange rates and interest rates on the stock markets.

In Kenya the rise in the cost of living was blamed particularly
on rising oil prices despite other macroeconomic factors being at
play. Decision makers have been quick to put in place measure to
control the rising cost of living and thus target to control the oil
prices. The central bank of Kenya also blamed the depreciation of
the Kenya shilling against the Us Dollar on the rising oil prices
in the world. The decisions have however been arrived at without
any empirical research to back this policies.

Objective of the study
The general objective of this paper is to determine the influence
of oil prices on the stock market performance in Kenya.

A. Specific Objectives
1. To determine if a relationship exists between oil prices and
stock market performance
2. To determine if Exchange rates has any influence on stock
market performance
3. To determine if interest rates have any influence on stock
market performance
4. To determine whether oil prices has a higher influence
on stock market performance than other macroeconomic
variables like exchange rates and interest

B. Hypothesis
1. Oil Prices have no influence on stock market performance
2. Exchange rates do no influence stock markets
3. Interest rates have no influence on stock markets
4. Oil prices have less influence on stock market performance
than exchange rates and interest rates.

III. Scope of the Study
The scope of the study is limited to the influence of diesel prices
on stock market performance in Kenya. The study therefore does
not cover other oil or petroleum products like Petrol and kerosene
which may also have an influence on the performance of the
stock exchange. Also different sectors of the economy may be
affected differently and it would be interesting to investigate how
performance of each sector is influenced by the oil prices.
The data used was limited to the period between January 2009
and December 2012 covering 48 months only. A longer period
would yield more credible results.

IV. Literature Review
According to economic theory, oil price changes influence
economic activity through both supply and demand channels.
Supply side effects could be explained based on the fact that oil
is an important input in production. Therefore, oil price increases
reduce the demand for oil, decreasing productivity of other input
factors which induce firms to lower output. Furthermore, oil
price changes have demand side effects through consumption
and investment. Consumption is affected indirectly by its positive
relation with disposal income. When the oil price increases,
an income transfer occurs from oil importing countries to oil
exporting countries. Therefore, consumption in oil importing
countries decrease and the magnitude of this effect is greater
the more the shocks are perceived to be long-lasting. Oil price
increases also have an adverse effect on investment by increasing
firm’s cost. In addition to these supply and demand effects oil price
changes could influence the economy through foreign exchange
markets and inflation.

[15] investigates a general equilibrium model of unemployment
and business cycle model where it is costly to shift labor and capital
inputs between sectors. In such a model he shows that energy price
shocks can reduce aggregate employment by inducing workers in
adversely affected sectors to remain unemployed while they wait
for labor conditions to improve in their sector, rather than move

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to a sector not adversely affected. [12] studied the impact of oil price shocks on output and real wages with a simple aggregative model by assuming imperfect competition in the product market. Allowing for a modest degree of imperfect competition (such as an implicit collusion between oligopolists) can account for declines in output and real wages after oil price shocks. According to them, an imperfect competition model can explain the effects of oil price shocks on the US economy greater than an aggregate model which assumes a perfectly competitive market product. [13] showed that perfectly competitive model can also explain the effect of oil price shocks. He uses the concept of utilization rates for productive capital. The main idea of his model comes from the relationship between energy usage and capital services. Specifically, energy is essential to obtain the service flow from capital. Capital utilization rates are determined by energy use. Due to oil prices, the decline of energy use reduces output and labor’s marginal product, leading to a decline in wages and labor supplied. According to him, an oil price shock is like an adverse technology shock inducing a contraction in economic activity. [14] investigate the macroeconomic impact of oil price shocks with a dynamic equilibrium model of a small open economy for Spain. In their model, oil is included as an imported productive input and oil prices as well as interest rates are assumed to be set by the international market. With respect to the exogenous oil price shocks, their model reproduces Spanish GDP closely from 1970 to the mid 1980’s, while it replicates less for the period 1985 - 1998. In addition, they show that oil price increases have a negative and significant effect on welfare.

V. Empirical Review

A large body of the empirical research has confirmed that oil prices have negative and strong effect on the world economy (see seminal work of [11] and for more recent review see [16]. A long line of empirical work finds that oil price increases negatively impact measures of macroeconomic activity. It has been estimated that a $5US price increase a barrel reduces global economic growth by 0.3% in the following year. In sharp contrast to the volume of studies investigating the link between oil price shocks and macroeconomic variables, there have been relatively few analyses on the relationship between oil price shocks and financial markets such as the stock market. In this context, [1] opine that if oil plays an important role in an economy, one would expect changes in oil price to be correlated with changes in stock prices. [17] investigated whether changes in oil prices predict stock returns. They used stock market data from forty-eight countries, a world market index and price series of several types of oil. They found that oil price changes sensitivity is expected to vary across countries. [2] argued that the impact of oil price changes to a country’s economy of which reflected on stock returns are likely to vary across countries depending on their oil production and consumption level. Theoretically, in oil exporting countries, stock market prices are expected to be affected positively by rising oil price changes through positive income and wealth effects. [18] argued that higher oil prices represent an immediate transfer of wealth from oil importers to oil exporters. She stated that the medium to long term effect depend on what the government in the oil producers do with the additional income. If this income is used to purchase goods and services in their country, higher oil prices will generate a higher level of activity and though improve stock returns.

In oil importing countries, oil prices are expected to have significant negative effect on the stock market. One of the key researches is done by [4]. He investigated the dynamic interaction between oil price and other economic variables including stock returns using US data. He finds that oil price changes and oil price volatility have a significant negative impact on real stock returns. He also finds that industrial production and interest rates responded positively to real stock return shocks. [2] examined whether stock prices reflect the impact of news on current and future real cash flows. They find that oil price increases in the post war period have a significant detrimental effect for the US, Canadian, Japanese and UK stock market.

[19] examined the relationship between oil price shocks and stock markets in the US and 13 European countries using monthly data during the period 1986-2005. This study finds that oil prices play a crucial role in the stock market of oil importing countries. Additionally, Park brings evidence that stock markets in oil exporting countries are less affected by oil prices relative to oil importing countries while stock prices in the later countries are less sensitive to interest rate. Recent papers of the oil prices effect on stock markets distinguished between developed and emerging market response to the changes in oil prices. [21] argue that developed economies are more energy efficient with oil consumption as a result of their ability to reduce the energy intensity through technological innovation and these countries do rely more on a diversified range of energy sources. In this context, [21] measured how sensitive the financial performance of alternative energy companies are to changes in oil prices. Four variables VAR model has been developed and estimated in order to investigate the empirical relationship between alternative energy stock prices, technology stock prices, oil prices, and interest rates. They show that technology stock price and oil price each individually Granger causes the stock prices of alternative energy companies. [22] stated that emerging economies are less able to reduce oil consumption and thus these countries are more energy intense and more exposed to oil prices than more developed economies. Therefore, oil price changes are likely to have a greater impact on profits and stock prices in emerging economies. Yet, the effect of oil price shocks on stock market prices in developed and emerging countries is mixed. In this context, [23] examined the relationship between oil price and stock market returns for 22 emerging economies for the period from 1998 to 2004. He shows very weak evidence that oil price shocks affect stock market returns in emerging economies. He concludes that the higher the country energy intensity consumption, the higher the response to oil prices. He explains these results based on the efficient market hypothesis. Stock markets in the emerging economies are inefficient in the transmission of new information of the oil market, and stock market returns in those countries do not rational signal changes in crude oil price.

[25] examined the relationship between beta risk and realized stock index return in the presence of oil and exchange rate sensitivities for fifteen countries in the Asia-Pacific region using the international factor model and weekly data during the period 1994-2004. They document basically no country shows sensitivity to oil price measured in US Dollar regardless whether the oil market is up or down. In spite of the attention paid to examine the oil price effect on oil exporting countries, no such attention were paid to test the influence of oil prices increase on oil importing emerging countries. In our view, this issue is even more important to examine. Increasing the prices over a short period may created a serious hardship for many non oil exporting countries by raising their costs of imported oil. Therefore, in this study we contribute to the previous literature by focusing on an oil importing country,
examining the relationship between oil prices and stock market returns. There have been a large number of studies stating relationship between oil prices and stock return. Most of these studies have reported significant effects of oil price changes on stock return. For example, [3], [26], [27], [28] and [29] have investigated the effects of oil prices on stock prices in developed countries. In addition, studies by [23] and [30] assessed the relationship between oil prices and Vietnam’s stock prices with daily series from 2000 to 2008. Using the Johansen test, the findings provided evidence of oil prices, stock prices, and exchange rates for Vietnam sharing a long-run relationship. In addition, the study found both oil prices and exchange rates have a positive and statistically significant effect on Vietnam’s stock prices in the long-run and not in the short-run. [22] uses VAR analysis to study the effect of oil price changes on GCC stock markets and shows that only the Saudi and Omani markets have predictive power of oil price increase. [2] examined the reaction of stock returns in four developed markets (Canada, Japan, the UK, and the US) to oil price fluctuations on the basis of the standard cash flow dividend valuation model. The study found that for the US and Canada stock market reaction can be accounted entirely because of impact of oil shocks on cash flows. However, some studies have shown that the link between oil and economic activity is not entirely linear and that negative oil price shocks (price increases) tend to have larger impact on growth than positive shocks do [16], [31], and [32]. Thus, we should expect that oil prices equally affect stock markets in a nonlinear fashion. Notwithstanding such widely held views in the financial press, there is no consensus about the relation between the price of oil and stock prices among economists. [33], for example, concluded that oil price changes have no effect on asset pricing. [1] provides evidence in favor of causality effects from oil futures prices to stock prices. [34] finds that oil price increases lead to reduced stock returns in the United States, the United Kingdom and France. [1], however, found no negative relationship between stock returns and changes in the price of oil futures. Many of these studies determined the relations between oil prices and stock prices, and they have featured only developed countries, and the situations in developing countries have not been discussed.

VI. Relationships Between Oil Prices and Stock Returns

Theoretically, oil prices can affect stock prices in several ways. The price of a share in a company at any point in time is equal to the expected present value of discounted future cash flows [1]. Oil prices can affect stock prices directly by impacting future cash flows or indirectly through an impact on the interest rate used to discount the future cash flows. In the absence of complete substitution effects between the factors of production, rising oil prices, for example, increase the cost of doing business and, for non-oil related companies, reduce profits. Rising oil prices can be passed on to consumers in the form of higher prices for final goods and services, but this will reduce demand for final goods and services and once again reduce profits. Rising oil prices are often seen as inflationary by policy makers and central banks respond to inflationary pressures by raising interest rates which affects the discount rate used in the stock pricing formula. There is a fairly sizable literature showing that oil price movements affect stock prices (see, for example, [1-4], [19-22]. While most of the research investigating the relationship between oil prices and stock prices has been conducted using developed economies, there is some research looking into the relationship between oil prices and emerging stock markets (see for example, [20] and [22]. On balance, these papers provide evidence that changes in oil prices affect emerging market stock prices. Oil price movements are expected to depend upon the demand for oil. While the demand for oil in most developed economies is growing very slowly or hardly at all, demand for oil in emerging economies is rapidly increasing. Between 2001 and 2006, for example, oil consumption has grown the fastest in developing and emerging economies like Qatar, China, Turkmenistan, United Arab Emirates and Ecuador (Table 1). Over the past ten years, Qatar, China and Kuwait have each experienced triple digit growth in oil consumption.

VII. Relationships Between Oil Prices and Exchange Rates

The idea that there is a relationship between oil prices and exchange rates has been around for some time (early papers, for example, include, [37] and [38]) provide a good description, based on the law of one price, of how exchange rate movements can affect oil prices. Commodities like oil are fairly homogeneous and internationally traded. The law of one price asserts that as the US dollar weakens relative to other currencies, ceteris paribus, international buyers of oil are willing to pay more US dollars for oil. [35] find that, empirically the negative correlation between commodity prices and the US dollar increased after 1986. In addition to the theoretical and empirical work by [35] empirical papers by [36] and [24] find that changes in exchange rates impact oil prices. [31] finds a significant influence of the US dollar exchange rate on international oil prices in the long run, but short run effects are limited. Between oil prices and exchange rates highlights that there are strong theoretical arguments for why exchange rates should affect oil prices and there are strong theoretical arguments for why oil prices should affect exchange rates.

Ultimately, the relationship between these two variables can only be resolved through empirical analysis. Interest rates may also affect oil prices through a connection with inflation. Unexpected inflation erodes the real value of investments like stocks and bonds. Central banks can respond to inflationary pressures by raising interest rates. International investors looking for better investments in inflationary times may prefer to invest in real assets like oil, which drives the price of oil up and puts further pressure on inflation. Recycled petrodollars from oil rich countries can help to reduce the impact of increases in interest rates [38-39]. finds that commodity prices increase in response to reductions in real interest rates.

VIII. Research Methodology

This study adopted an empirical research design. The population of study was the listed companies at the Nairobi Securities exchange. Since there are only 52 listed companies at the Nairobi Securities Exchange, the whole population was considered and the Nairobi All Share Index (NASI) was used. The monthly data for 48 months from January 2009 to December 2012 was compiled for the various variable used in the study. Secondary data was collected for the period 2009 to 2012 and fitted into a linear regression model. Data analysis was guided by the research objectives. The results of the linear regression were as shown in Table 2. Pearson’s bivariate correlation coefficient was used to test the relationship between the independent and the dependent variables. The correlation coefficient was calculated to determine the strength of the relationship between the independent and the dependent
variable. Analysis of the variance test was then used to analyse whether the relationships were statistically significant. The results were as shown in Table 1.

Table 1: Pearson’s Correlation Test Results

<table>
<thead>
<tr>
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<th>NASI</th>
<th>Diesel Prices</th>
<th>Total Oil</th>
<th>Exchange</th>
<th>Interest Rates</th>
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<tbody>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td>1</td>
<td>.316*</td>
<td>.236</td>
<td>.055</td>
<td>-.375**</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.023</td>
<td>.092</td>
<td>.698</td>
<td>.006</td>
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</tr>
<tr>
<td><strong>N</strong></td>
<td>52</td>
<td>52</td>
<td>52</td>
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</thead>
<tbody>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td>.316*</td>
<td>1</td>
<td>.678**</td>
<td>.721**</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.023</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>52</td>
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<th>Total Oil</th>
<th>Exchange</th>
<th>Interest Rates</th>
</tr>
</thead>
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<tr>
<td><strong>Pearson Correlation</strong></td>
<td>.236</td>
<td>.678**</td>
<td>1</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.092</td>
<td>.000</td>
<td>.000</td>
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<td><strong>N</strong></td>
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<th>Exchange</th>
<th>Interest Rates</th>
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<td><strong>Pearson Correlation</strong></td>
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<td>.621**</td>
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<td><strong>Sig. (2-tailed)</strong></td>
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<td><strong>N</strong></td>
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* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

Source: Field Survey

Table 2: Linear Regression Test Results

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<tr>
<th>Model Summary</th>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
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<tr>
<td></td>
<td>1</td>
<td>.766a</td>
<td>.586</td>
<td>.551</td>
<td>365.746741</td>
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<td>a. Predictors: (Constant), Interest Rates, Total Oil, Exchange, Diesel Prices</td>
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<td></td>
<td></td>
<td></td>
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<th>ANOVAa</th>
<th>Model</th>
<th>Sum of Squares</th>
<th>DF</th>
<th>Mean Square</th>
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<td>.000b</td>
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<td>Residual</td>
<td>47</td>
<td>133770.679</td>
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<td></td>
<td></td>
<td>Total</td>
<td>51</td>
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<td></td>
<td></td>
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<tr>
<td>a. Dependent Variable: 20 Share</td>
<td></td>
<td></td>
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<tr>
<td>b. Predictors: (Constant), Interest Rates, Total Oil, Exchange, Diesel Prices</td>
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<th>Standardized Coefficients</th>
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<th>Sig.</th>
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<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
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</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
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<td>873.268</td>
<td></td>
<td>2.859</td>
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<tr>
<td></td>
<td>Diesel Prices</td>
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<td>6.163</td>
<td>.988</td>
<td>6.055</td>
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<td></td>
<td>Total Oil</td>
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<td>-.015</td>
<td>-.117</td>
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<tr>
<td></td>
<td>Exchange</td>
<td>-20.064</td>
<td>13.402</td>
<td>-.211</td>
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<tr>
<td></td>
<td>Interest Rates</td>
<td>-69.764</td>
<td>9.969</td>
<td>-.850</td>
<td>-6.997</td>
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<tr>
<td>a. Dependent Variable: 20 Share</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Source: Field Survey

IX. Conclusions and Recommendations

The findings showed that the diesel oil prices positively and significantly influences the performance of the Nairobi Securities Exchange. The results indicated that interest rates have a negative and significant influence on the performance of the Nairobi Securities Exchange. However the results also indicated that total oil consumption and exchange rates though positively influencing
the performance of the Nairobi Securities Exchange, that influence is not significant.

The results from the regression showed that the model fitted was a good fit with an R of 0.766 and an R squared of 0.586. All the objectives of the study were arrived at since it was also found that Diesel prices did not have the highest influence on the performance of the Nairobi Securities Exchange. Interest rate was found to have the highest influence.

It’s important to also mention that all the other macroeconomic variables, that is, exchange rate, interest rate and total oil consumption were found to have a strong relationship with diesel prices with the exchange rate having the highest influence on diesel prices. This is significant in that it can help the policy makers in deciding on the variables to control in trying to caution the country from the effects of oil price shocks.

From the findings of this study, we recommend that further research be carried out to include the other petroleum products like super petrol and kerosene. Also the period of study should be increased to about 10 year period to increase the accuracy of findings. We also recommend that further research be carried out to investigate how this petroleum prices influence the stock returns of the different sectors of the Kenyan economy.

References


