Understanding stock market fluctuations: Evidence from Sudan
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Abstract

This paper investigates the responses of the Sudanese stock market to fluctuations in exchange rate, inflation and crude oil price. The paper employs a bi-variate vector autoregressive-generalized autoregressive conditional heteroscedasticity model recently developed by Ling and McAleer (2003). The dataset is divided into two sub-periods, before and after the secession of South Sudan in July 9, 2011. The empirical results show that the returns on KSE index are significantly affected by their own past values suggesting some evidence of short-term predictability in KSE index changes. In addition, significant effect of a one-period lagged of returns on crude oil price, inflation and exchange rate on KSE returns is provided. Consistent with turbulent macroeconomic environment in Sudan during the past few years, the paper illustrates that KSE has experienced higher levels of fluctuations especially in the post-secession period. The paper concludes that the fluctuations of KSE index are greatly attributed to oil shocks and exchange rate fluctuations. These results are of great interest and have important implications for investors and policymakers. For example, policy-makers can use such results to adjust their actions to prevent contagion risks in the event of market crashes or crises and the macroeconomic fluctuations. The paper recommends that a better management of KSE volatility and appropriate policies to increase its efficiency represent good starting points in order for the market to play a significant role in the national economy.

Keywords: Exchange rate, inflation, oil price, fluctuations, Khartoum stock exchange

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