Spillovers between the spot ve future markets: empirical evidence from Turkey

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Future markets have two fundamental functions, those are transferring risk and price discovery. However, comovements of markets is important for portfolio diversification and future contrats can be used for diversification. The movement of markets together is also can be used for risk transfer and potential abnormal returns alongside of diversification. Within this context, this study examines volatility transmission between spot and future indexes (based on gold, Euro, dollar, BIST30, BIST100). The literature shows that, generally Granger Causility Test, VAR Models, VEC Models, Toda Yamamoto Causility Test and GARCH Models have been used in the studies analyzing the interactions between the spot and future martkets. The newly developed causality in variance test used in the study (Hafner and Herwart Lagrange multiplier test) to daily data from March 1986 to June 2013. Differently from the other methods Hafner and Herwartz method investigates volatility transmission testing for causality in variance based on estimating univariate GARCH models. Based on GARCH parameters there is short term volatilty in future gold returns while there are long term and permenant volatility in all the other returns. The volatility transmission results indicates that there have been volatility transmissions from all the future returns to BIST100 and additionally from BIST100 to future gold, dollar, BIST30 and BIST100 returns.

Keywords: volatility spillover, causilty in variance, GARCH Models, future markets, diversification.