

Oil Price Volatility and Option Implied Risk Connectedness in the Canadian Banking Sector

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Abstract

This research explores risk connectedness in the Canadian banking sector from 2007 to 2022, employing diverse measures such as daily realized volatility, implied volatility from option prices, and tail risk assessed through volatility skew (SKEW). During crises, interconnectedness peaks at 81.3% in 2020, highlighting sector vulnerability. Surprisingly, WTI oil volatility exhibits limited influence during the 2014-16 oil price collapse episode. Tail risk connectedness, indicated by SKEW, reveals a moderate level (53.8%) of interconnectedness regarding extreme events.