

# The globalization of financial news and their impact on the financial markets

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## Abstract

This study presents the correlation between the globalization of the financial news and their impact on the financial markets. The national news are replaced by international news or by the national news caught in a global frame. For instance, a certain text extracted from the body of a piece of news can determine the investors to buy company's X stocks or to sell company's Y stocks. It is obvious that financial news have a significant contribution to the evolution of the financial market. As a direct consequence of this fact, and also as a side effect that there are no more barriers in front of capital flows found into the global financial system, during the last decades appeared companies that were exclusively dedicated to this type of news. The most relevant example for the above-mentioned idea is company Bloomberg L.P. Therefore, at the end of this study we will analyse the evolution of this company and we will look over the market share distribution inside the financial data market.

*Keywords:* globalization; news; financial markets.

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## 1. Introduction

“Society is changing at a pace that defies the perception and adaptation. There is more change and transformation that we are able to digest. Tied nets are thrown over the Planet, as if protecting it from disintegration. One net is the one of instant communication, another one – of unlimited information, another one – financial and banking and of the Global economy (...). We call this banding of the Planet with kerchiefs and nets Globalisation.” [1] There isn't any final and concise definition of Globalisation, but this scientific approach might start with some explanations that characterise this phenomenon. Robertson says that the world became one single place [2]. Globalisation is the process through which a supra-territorial area – without distances or borders – has been added to the social space [3].

The technological progress is one of the important pillars, which support Globalisation. Therefore, due to the information boom during the last decades, the less developed countries are interconnected with the developed countries, with those, which set the trend for the whole world.

By minimising the above-mentioned framework, the Globalisation phenomenon reaches an area, which is in connection with the dissemination of information, i.e. mass-media sector. One may ask why mass-media was so much touched by the trans-nationality phenomenon; might be two approaches of this matter: the first answer to be

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drafted (technical and structural) is that the innovation facilitated the transfer of the information, cancelling thus the dead-times on the information route; a second answer (rather empirical and intuitive) might be found in a better understanding of a local problem, when it is holistically treated. The best way to realise the impact of Globalisation on mass-media is by observing the news and the modality in which the news are able to break the space and time barriers.

By mirroring the above reasoning, we could say it might function also in reverse side. To a great extent, mass media significantly contributed to the propagation and dissemination of the concepts referring to trans-nationality. For this reason, the communicational sovereignty of the states (i.e. state authority exercised on the flow of ideas and information inside a certain territory [4]) has been affected.

## 2. The globalization of news - the case of financial news

News' industry was like apiece, which had a significant influence on this entire mechanism. News agencies have been the first world organisations which acted not just globally, but also completely, in the production and dissemination of "consciousness" through news exchange; they acted in ways which had serious implications in helping us to understand and perceive the time and the space [5]. News industry appeared in the 19<sup>th</sup> Century in Europe and North America in response to a defined need: to be informed. There were four types of information requests: request for political news – made by those who were part either of the civil society or of the public life; request for sport news – made by the fans of different sport teams; request for social news, concerning various events; and request for financial news.

We may say that the news represents the main factor that contributes to Globalisation in mass media. Consequently, on a social level, one may say that the Globalisation process facilitates togetherness of worldwide people, bringing thus together and closer the world cultures and nations.

In fact, the news agencies have been classified from the very beginning in a simplistic manner, however well defined manner: the big news agencies, operating globally and the local media agencies. Once the mass-media industry has not been any more regulated and innovative technologies for news dissemination appear, above almost stable classification starts losing the accuracy.

A well-defined sub-category of the news is the one represented by the news regarding the financial markets, hereinafter called *financial news*. This news category went also through some changes during the last decades, as its coverage area extended due to the global world. In this paper our intention is to observe the influence of the media channels (both classical and modern), but mainly we will try to observe the niche created by this sector of informational transfer. In order to better emphasize the inclusion of the above-described sectors, we will further use a logic diagram:



Fig. 1. *Spheres of inclusion*; source: the author

The first big important news agency, which has been involved in the financial sector, was Reuters. As Donald Read, the company historian, pointed out, ‘the founder, Paul Julius Reuter, was not primarily a reporter, but an important entrepreneur in the news sector. In the second half of the 19<sup>th</sup> century the news became a big opportunity, but also goods of the industrial revolution. If he (Julius Reuter) has entered the business at the beginning of the 20<sup>th</sup> century, he would have become an oil tycoon (oil-man).’ [6]

In 1856 Reuters established the first connections with the financial sector. How did this happen? The agency began to provide information regarding stock prices to the brokers and merchants, once or twice per day, at the stock exchange opening and closing. So, in that year Reuters concluded contracts with local agencies from France (Havas) and Germany (Wolff) with regard to the financial information. It can be noticed that Julius Reuters was a visionary person and he targeted a market which is still targeted by others after 160 years.

The news moves the markets and the news represents a market. The revelation of this pun couldn’t be better reflected but by the economic sector and by the services of financial news. The revenues on this market are impressive, but so are the costs: research and development, investments in the technological infrastructure of the transfer data networks etc. The sales men for news and financial data claims that they bring an extra value to the news, because an investor can easier express his option, in real buying or selling time, due to the last minute information. Another value-added element is represented by the analysis based on information, provided by those agencies, which are specialised also in the financial news offered to the customers.

The volume of the financial news in a news agency may be explained by the fact that daily the consumers of this type of news are confronted with a new set of decisions, which should be taken. The financial decisions are not taken only in the context of the economic and financial flows, but there are also taken into consideration influences of other types of factors. For instance, if a war breaks out between two countries, the investors decide to withdraw the capital from the areas affected directly or indirectly by the conflict. If the Government decides to invest in infrastructure, this fact will be ‘translated’ into an increase of the government debts. If for the current year the forecast is for a poor cotton harvest due to diseases affecting the plant, the cotton stock exchange quotation will increase, both on the spot market and on the futures market (for term contracts). Which will be the decision of a cotton producer who has also stocks from the previous years? Most probably, he will decide to wait till the demand and the price for his product increase, given the rarity of his goods. Therefore, the market fluctuations may be often anticipated based on the news regarding a certain subject.

On the other side, a textiles producer will want to keep the price of the resource he needs for processing, so he will buy the cotton at that moment or will buy on term contracts for cotton, in order to avoid price fluctuations for the production price of these products. Almost any news of this type broadcast via media on-line or via classical media channel will have a financial implication for a person in some corner of the world.

Some increases in stock price quotations may thus be explained through an intense promotion made by the news agencies. This means certain goods or shares having an ascending trend will attract the investors. In continue in the sense of the above-mentioned example, will again discuss about cotton. The spectacular increase of the goods has been heavily advertised in the specialised groups during the last months, or at least until April this year. It can be easily thought that in this moment the price is not reflecting the available quantity of cotton on the market, but is a price involving more speculative elements. The evolution of the quotation of this raw material during the last year can be seen on the graph below:

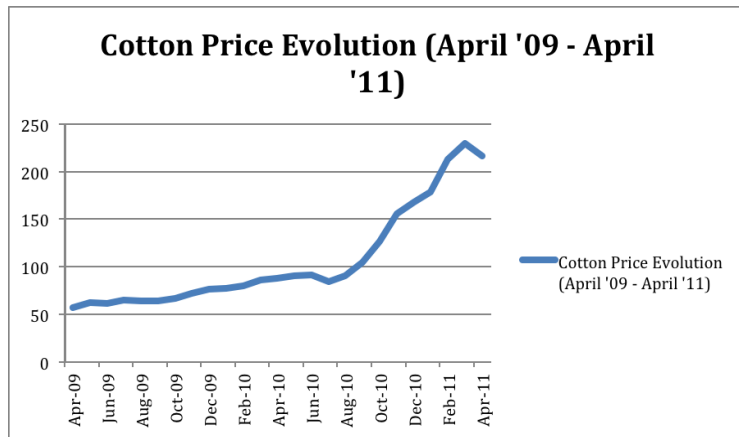


Fig. 2. Cotton price evolution (April 2009 – April 2011); source: the author (the data set was provided by www.indexmundi.com)

A certain text from certain news may determine the sale of Company X's shares or the buying of Company Y's shares. The impact the news can have on the price of the shares, on the transactions' volume or even on the future revenues of the company results both from the information element of certain news and from the emotional connections of the investor with what is communicated through the news; connections with his preferences and options and also with the related portfolio. As an intermediate conclusion, it may be said that the financial news can put a lot of pressure on the price of the shares, pressure that is felt in both ways, either positively or negatively.

As a consequence of these processes, but also as an emergent effect of the fact that there are not any more important barriers in front of capital flows in the global financial system, during the last two decades has been set up companies exclusively dedicated to the financial markets, being specialised in financial results, analysis and in providing trading platforms, personalised for certain types of customers – the investors; however they have inside the Trust a news agency. A relevant example for this fact is Bloomberg L.P. Company.

Bloomberg L.P. has been set up by Michael Bloomberg (at the time of writing – Mayor of the city of New York), after he has been fired by the investments bank Salomon Brothers (currently part of Citigroup), where he was partner. He received compensation package with a value of 10 million US dollars and the money was used to set up a new company, called Innovative Market Systems. In 1982, the investment fund Merrill Lynch was the first company client and bought 22 terminals used for accessing in real time the stock quotes; they were also the first investor of the new company, investing in it the amount of 30 million US Dollars [7].

In 1986 the name of the company has been changed into Bloomberg L.P. and sold more than 5000 such terminals. During several years, the company continued its development and launched also a trade platform (Bloomberg Tradebook), messaging system Bloomberg (Bloomberg Messaging Service) and the news service Bloomberg.

The services connected to the financial news came as a natural completion of the financial services provided by them till 1990, when the news division of Bloomberg has been launched. Currently, this news agency has an extremely important role inside the company, which has more than 2000 employees and 145 offices around the world. They produce more than 5000 news daily [8]. They provide information for almost 350 newspapers and reviews worldwide. Among the most important publications we can mention 'The New York Times', 'The Economist' and 'USA Today'.

Currently Bloomberg owns the following news channels: Bloomberg television and the radio station WBBR. Besides these channels, the on-line channel and also the mobile telephone applications area are used, too. The value of the company at the half of 2008 was around 22.5 billion US dollars.

In the same time, Bloomberg controlled one third of the global market of financial data. The value of this market is 16 billion dollars. Thomson-Reuters controlled another third of this market, and small players owned the last third of the market. This analysis clearly reflects what actually means the globalisation of the financial news and that in a

global financial world there is a need for players on this market at the global level, that are able to broadcast in real time either news, quotations or analysis which may directly influence decisions which are in the area of the investment placements.

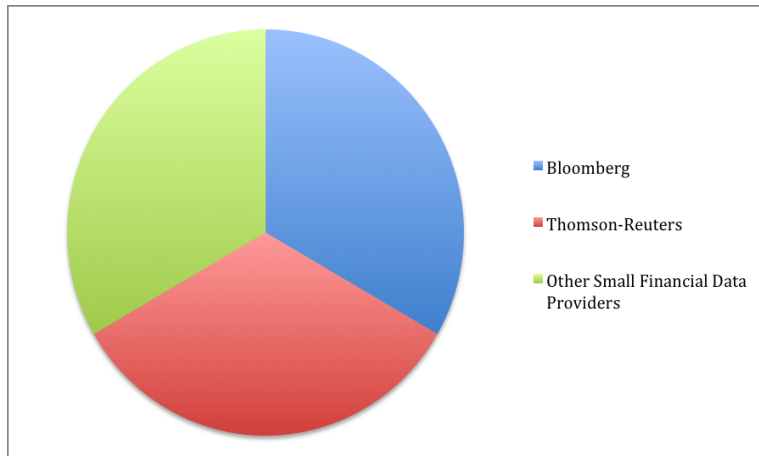


Fig. 3. *Market shares on the financial data market*; source: the author (the data set was provided by The New York Times)

### 3. Conclusions

We are going through a period in which the feeling of trans-nationality is not any more a simple ideological concept, but is a patent fact. The local level of certain news, especially of the financial news, remains valid only if it is treated in a larger context, adapted to the global world. The capital can create news, but most necessary, the news can bring extra capital. It is still open the discussion regarding the interests, who guide certain agencies, and regarding the question ‘who do they serve?’ It is no doubt that the news connected to financial contexts act as a driving force for the quotations of certain shares, goods or derivatives financial instruments. This kind of news may influence quotation of the shares, either positively or negatively. With regard to the market of news and financial data, Bloomberg L.P. and Thomson – Reuters are the main providers, and they represent the main mechanism through which the transfer out of the financial environment, but also inside it is made, having both vertical and horizontal directions.

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