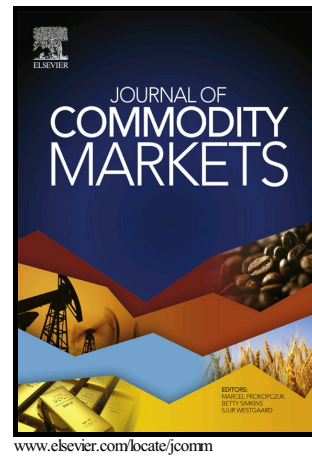


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Price co-movement and the crack spread in the US futures markets

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Price co-movement and the crack spread in the US futures markets

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Abstract

The strength and the pattern of linkages between output and input futures prices are of particular importance for risk management in the energy sector. This paper investigates the co-movement between crude oil, heating oil, and reformulated gasoline futures prices using non-parametric and time-varying copulas. The empirical results suggest that short-run co-movement is high, symmetric with respect to the sign of shocks, and asymmetric with respect to the size of them. Depending on the source of a shock, the asymmetry with respect to size is likely to work towards widening or narrowing the crack spread. In the long run, however, price co-movement becomes perfect, and the price interrelationships obey the Law of One Price.

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