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News Surprises and Volatility Spillover Among Agricultural Commodities: the case of corn, wheat, soybean and soybean oil

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Abstract

This paper focuses on commodity financialization and examines the level of interdependence across major agricultural commodities. Specifically, we test the level of interdependence across corn, wheat, soybeans and soybean oil in terms of return volatility spillover. We further investigate the impact of macroeconomic announcements and news on the measurement of integration among these commodities. We apply a combination of econometric tools –the ICSS, GARCH(1,1) and 3SLS models and incorporate structural breaks– to measure the instantaneous and delayed volatility spillovers among these agricultural commodities. We find significant evidence of bidirectional volatility spillovers; particularly, there is more spillover from soybeans and soybean oil markets to corn and wheat markets, than the inverse. In addition, a news surprise originating in the economy has strong impact on the variance of agricultural commodities.

Keywords: Return volatility spillover, Agricultural commodity integration, Portfolio diversification, Structural breaks, GARCH, Structural equations

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