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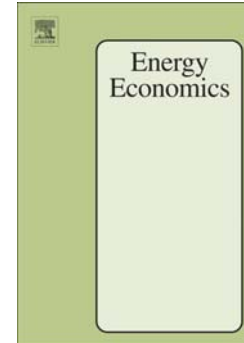
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How is volatility in commodity markets linked to oil price shocks?

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Abstract

This study investigates the effects of oil price shocks on volatility of agricultural and metal commodities. We decompose an oil price shock to its underlying components, including macroeconomics and oil specific shocks. The applied method is the structural vector autoregressive (SVAR) model and the time span is from April 1983 to May 2014. The investigation is divided into two subsamples, *before and after May 2006 for agriculture taking into account the 2006-2008 food crisis and change in U.S. ethanol production policy*, and before and after January 2008 for metals considering the recent global financial crisis. We find that, based on impulse response functions, the response of volatility of each commodity to an oil price shock differs significantly depending on the underlying cause of the shock for the both periods. Moreover, according to variance decomposition the explanatory power of oil shocks becomes stronger after the crisis. The different responses of commodities are described in detail by investigating market characteristics in each period.

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