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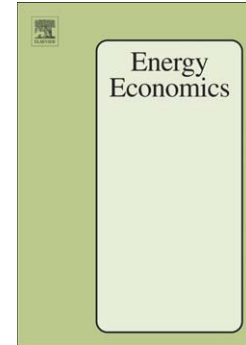
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Structural breaks, dynamic correlations, asymmetric volatility transmission, and hedging strategies for petroleum prices and USD exchange rate

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Abstract. This paper investigates the influence of structural changes on the asymmetry of volatility spillovers, asset allocation and portfolio diversification between the USD/euro exchange market and each of six major spot petroleum markets including WTI, Europe Brent, kerosene, gasoline and propane. Using the bivariate DCC-EGARCH model with and without structural changes dummies, the results provide evidence of significant asymmetric volatility spillovers between the U.S. dollar exchange rate and the petroleum markets. Moreover, the model with the structural breaks reduces the degree of volatility persistence and leads to more appropriate hedging and asset allocation strategies for all pairs considered. Thus, the findings have important implications for financial risk management.

JEL classification: G14; G15

Keywords: Petroleum markets, USD/euro exchange rate, Asymmetric volatility spillovers, Dynamic hedge ratios, Multivariate-DCC-EGARCH, Structural breaks.

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