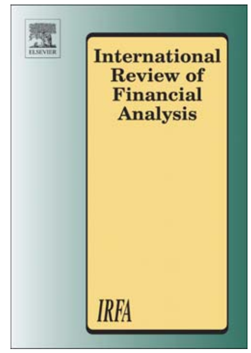

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Dynamic Spillovers between Commodity and Currency Markets

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Abstract

In this study, we examine the dynamic link between returns and volatility of commodities and currency markets. Based on weekly data over the period from January 6, 1987 to July 22, 2014, we find the following empirical regularities. First, our results suggest that the information contents of gold, silver, platinum, and the CHF/USD and GBP/USD exchange rates can help improve forecast accuracy of returns and volatilities of palladium, crude oil and the EUR/CHF and GBP/USD exchange rates. Second, gold (CHF/USD) is the dominant commodity (currency) transmitter of return and volatility spillovers to the remaining assets in our model. Third, the analysis of dynamic spillovers shows time– and event–specific patterns. For instance, the dynamic spillover effects originating in gold and silver (platinum) returns and volatility intensified (degraded) in the period marked by the global financial crisis. After the global financial crisis, the net transmitting role of gold and silver (platinum) returns shocks weakened (strengthened), while the net transmitting role of gold, silver and platinum volatility shocks remained relatively high. Overall, our findings reveal that, while the static analysis clearly classifies the aforementioned variables into net transmitters and net receivers, the dynamic analysis denotes episodes wherein the role of transmitters and receivers of return (volatility) spillovers can be interrupted or even reversed. Hence, even if certain commonalities prevail in each identified category of commodities, such commonalities are time– and event–dependent.

Keywords: Precious metals, Oil prices, Exchange rates, Static and dynamic spillovers

JEL codes: C32, O13, Q30, Q43

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