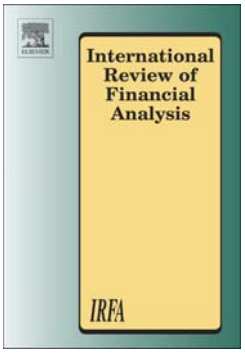

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PII: S1057-5219(16)30161-2
DOI: doi: 10.1016/j.irfa.2016.10.010
Reference: FINANA 1051

To appear in: *International Review of Financial Analysis*

Received date: 13 October 2016
Accepted date: 23 October 2016

Please cite this article as: Baur, D.G., Beckmann, J. & Czudaj, R., A Melting Pot - Gold Price Forecasts under Model and Parameter Uncertainty, *International Review of Financial Analysis* (2016), doi: 10.1016/j.irfa.2016.10.010

A Melting Pot - Gold Price Forecasts under Model and Parameter Uncertainty*

Dirk G. Baur† Joscha Beckmann‡ Robert Czudaj§

Abstract

Gold is special as it is influenced by a wide range of factors such as commodity prices, interest rates, inflation expectations, exchange rate changes and stock market volatility. Hence, forecasting the price of gold is a difficult task and the main problem a researcher faces is to select the relevant regressors at each point in time. This model uncertainty in combination with parameter uncertainty is explicitly accounted for by Dynamic Model Averaging (DMA) which allows both the forecasting model and the coefficients to change over time. Based on this framework, we systematically evaluate a large set of possible gold price determinants and find that DMA (1) improves forecasts compared to other frameworks, (2) yields strong time-variation of gold price predictors and (3) favors parsimonious models. The results also show that typical in-sample features of gold such as its hedge property are weaker in an out-of-sample context.

Keywords: Bayesian econometrics, Dynamic Model Averaging, Forecasting, Gold

JEL classification: C32, G10, G15, F37

*We thank the Managing Editor Brian Lucey and participants of the 12th INFINITI Conference on International Finance, Prato/Italy, the 10th BMRC-DEMS Conference on Macro and Financial Economics/Econometrics, London/UK, the 19th Annual International Conference on Macroeconomic Analysis and International Finance, Crete/Greece, the KLU Finance Meeting on Gold, Hamburg/Germany, the research seminars at Bournemouth University/UK, FU Berlin/Germany and TU Chemnitz/Germany and the rotating lecture of the Ruhr Graduate School in Economics, Essen/Germany for valuable comments. Robert Czudaj also gratefully acknowledges the support of MERCUR through project An-2014-0004.

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