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The Impact of Oil Price Shocks on the Term Structure of Interest Rates[☆]

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Abstract

In a structural VAR framework, we study the impact of oil price shocks in the global crude oil market on the dynamics of the entire yield curve in four industrialised countries with different positions on the oil market; the US, Canada, Norway, and South Korea. Responses of the term structure factors to oil market shocks are shown to differ contingent on the underlying sources that drive oil price shocks and the country's dependence on oil. Oil market-specific demand shocks result in increases in the level factor in oil-importing countries, but have no such effect in oil-exporting countries. Oil supply disruptions have short-lived negative responses of the slope factors in the US and Canada, associated with loosening monetary policy, whilst demand side shocks tend to lead to increases the slope in all countries. Overall, oil supply and demand shocks jointly account for a considerable amount of the observed variation in the term structure of interest rates.

Keywords: Oil prices shocks, Term structure of interest rates, Yield curve, Variance decomposition

JEL Classification: E43, E44, G12, Q43

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