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US Monetary Policy and Sectoral Commodity Prices

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Research highlights

- We study the effects of the US monetary contractions on sectoral commodity prices.
- Higher expected inflation, costs or speculations explain the swift rise in prices.
- There is a significant heterogeneity in price responses across commodity sectors.
- Core inflation targeting is preferable to headline inflation targeting.
- Results are robust to the identification, futures prices and unconventional policy.

Abstract

Using a Structural VAR (SVAR) model, we examine the effects of the monetary policy of the United States on sectoral commodity prices (including the non-fuel commodity prices, food prices, beverage prices, prices of agricultural raw materials, prices of metals and prices of fuel (energy) commodities) and macroeconomic activity. The empirical evidence suggests that a U.S. monetary contraction leads to an immediate rise in the broad commodity price index, which possibly reflects an aggregation bias, greater

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