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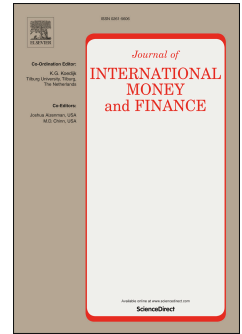
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Can Oil Prices Forecast Exchange Rates?

An Empirical Analysis of the Relationship Between Commodity Prices and Exchange Rates

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Abstract

We show the existence of a very short-term relationship at the daily frequency between changes in the price of a country's major commodity export and changes in its nominal exchange rate. The relationship appears to be robust and to hold when we use contemporaneous (realized) commodity price changes in our regression. However, when we use lagged commodity price changes, the predictive ability is ephemeral, mostly appearing after instabilities have been appropriately taken into account.

J.E.L. Codes: F31, F37, C22, C53.

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