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Cyclical properties of supply-side and demand-side shocks in oil-based commodity markets*

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Abstract

Oil markets profoundly influence world economies through determination of prices of energy and transports. Using novel methodology devised in frequency domain, we study the information transmission mechanisms in oil-based commodity markets. Taking crude oil as a supply-side benchmark and heating oil and gasoline as demand-side benchmarks, we document new stylized facts about cyclical properties of the transmission mechanism generated by volatility shocks with heterogeneous frequency responses. Our first key finding is that shocks to volatility with response shorter than one week are increasingly important to the transmission mechanism over the studied period. Second, demand-side shocks to volatility are becoming increasingly important in creating short-run connectedness. Third, the supply-side shocks to volatility resonating in both the long run and short run are important sources of connectedness.

1 Introduction

Oil-based commodity markets are subject to continuous evolution because of permanent inflow of new technologies, ecological pressures, and geopolitical importance of the control of oil supplies. More importantly, oil-based commodities are of paramount importance to economic prosperity in both developed and developing countries because they constitute...

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