

Christmas Workshop Energy Finance 2016 | December 12th – December 16th | Abstract

Volatility spillover between food, energy and equity markets.
Evidence from Diebold and Yilmaz approach.

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Abstract:

The reason of a surge of food prices in 2007 and 2012, arouse bitter controversy. Literature offers two plausible explanations. The first one is increasing of connection between food market and energy market (biofuels). The second one is a financialization.

The aim of the study is to investigate volatility spillovers between returns of food, energy and equity markets. Weekly series of volatility of Corn, Soybean, Livestock, Crude oil, SP500 futures covering period from 1983-04-04 to 2016-04-10 are used. We base our analysis on a forecast-error variance decomposition in a generalized vector autoregressive framework which is invariant to variables ordering, as is proposed by Diebold and Yilmaz (2012). The data are studied in a rolling subsamples, since evolution of relationship is expected. The result of the study revealed that the total as well as directional volatility spillovers change in time. In recent years, spillovers from equity market increased significantly.