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Commodity Prices, Convenience Yields, and Inflation

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Abstract

This paper provides evidence that the two leading principal components in a panel of 23 commodity convenience yields have statistically and quantitatively important predictive power for inflation even after controlling for unemployment gap and oil prices. The results hold up in out-of-sample forecasts, across forecast horizons, and across G7 countries. The convenience yields also explain commodity prices and can be seen as informational variables about future economic conditions as conveyed by the futures markets. A bootstrap procedure for conducting inference when the principal components are used as regressors is also proposed.

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