

Chapter 8

The Impact of Health Crisis on the Volatility of Commodity Price Return: Does Economic Uncertainty Matter?

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ABSTRACT

This chapter examines the impact of the Covid-19 pandemic on commodity price returns, taking into consideration the role of economic policy uncertainty. Using global monthly data from September 2019 to September 2022, and applying the ARDL model, the study shows that Covid-19 has opposite effects on oil and gold price returns. While oil price returns dropped dramatically, gold continued to rise, serving as a safe asset during this health crisis. Moreover, the results indicate that economic uncertainty has a significant impact on these two commodities, as their importance to the global economy extends beyond their roles as raw materials. Therefore, an uncertain event can affect their stability. These findings can be beneficial to investors and decision-makers, as they should consider turning to gold in times of economic turbulence and uncertainty due to its resistance despite the Covid-19 pandemic.

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INTRODUCTION

Covid-19 first appeared in China in late December 2019 in the city of Wuhan and declared a pandemic by the WHO (World Health Organization) on March 12, 2020 following its rapid spread around the world. The economic pause due to the imposition of general containment had an impact on the global economic. The current crisis can be classified as a Black Swan event because it affects all aspects of financial markets. Consequently, some firms have closed their doors, while others have gone completely online. The abrupt economic upheaval brought on by COVID-19 is not only damaging but also has spillover effects as this induced demand and supply shocks in virtually every area of human activity (El-Erian, 2020). In addition, some businesses experienced a reduction in demand, while others had an unanticipated increase in purchase orders. Because of the volatility of the scenario, businesses have encountered unexpected challenges. Consumer behavior, expectations, and experiences have all transformed dramatically. As a result, traditional models may backfire because economic, political, psychological, and socio-cultural factors are all interlinked (Sigala, 2020). Covid-19's consequences could be greater than any previous global crisis in history, with significant repercussions for financial and managerial systems. In fact, this virus served as a stark example of an exogenous shock to the global economy, external to the economic system, which led to a drop in both business production and household consumption. Therefore, thorough research in all fields can be beneficial in understanding current situations and forecasting the future. Numerous literatures that have studied the Covid-19 pandemic have focused on the effects of the virus's uncertainties and government interventions on the macroeconomy in the medium and long run such as Altig et al. (2020), Aksoy et al. (2020), and Kozlowski et al. (2020)

Moreover, this crisis had an impact on commodity markets such as oil, gold, and gas. Due to the travel restrictions set up by governments during the covid-19, which limited the movement of people and products, there was a decrease in demand for energy items like coal and aviation fuel, which in turn caused the price of oil to decline because of the decreased demand (Ozili et al., 2020). Crude oil or so called the "black gold" plays an essential role in many economies. According to Qiang et al. (2019), it is one of the most popular energy sources and one of the most significant commodities in the world economy. Since it is a substantial source of energy, oil is a vital component of production processes in developed nations. Due to its wide utilization in various industries and serves as the foundation for a variety of products such as tires, plastic, medical equipment, clothing just to name a few. Also taking into consideration its price dynamics volatility these recent years, it has become an important subject to governments and companies and has intrigued several

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