

Commonality in the LME aluminum and copper volatility processes through a FIGARCH lens

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Abstract-

Dynamic representation of spot and three-month aluminum and copper volatilities is considered. Aluminum and copper are the two most important metals traded in the London Metal Exchange. They share common business cycle factors and are traded under identical contract specifications. The bivariate FIGARCH model, which allows parsimonious representation of long memory volatility processes, is applied. The results show that spot and three-month aluminum and copper volatilities follow long memory processes, that they exhibit a common degree of fractional integration and that the processes are symmetric. However, there is no evidence that the processes are fractionally cointegrated. This high degree of commonality may result from the common LME trading process.

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