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Forecasting Volatility of Commodity, Currency, and Stock Markets: Evidence from Markov Switching Multifractal Models

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Abstract

This paper adopts a bivariate Markov switching multifractal (MSM) model to reexamine co-movement in stochastic volatility between commodity, foreign exchange (FX) and stock markets. After the 2007-2008 global financial crisis understanding volatility linkages and the correlation structure between these markets becomes very important for risk analysts, portfolio managers, traders, and governments. Using daily data on stock indices and FX rates from developed and emerging countries and a range of commodities such crude oil, natural gas, aluminum, copper, gold, silver, platinum, wheat, corn, soybean and soybean oil we find evidence of (re)correlation between commodity, FX and stock markets. The bivariate MSM model compares favorably to a bivariate DCC-GARCH and univariate MSM model, especially at short (1, 5 and 10 days) forecasting horizons. Furthermore, we discuss its implications for risk and portfolio management.

Keywords: Multifractal processes, Volatility co-movement, Commodity returns, Foreign exchange returns, Stock returns

JEL classification: C53; C58; G15

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1 Introduction

The rapid financialization of the commodity markets after the 2007-2008 global financial crisis coupled with the increased financial integration between markets has led to an increase in dependence between foreign exchange (FX), stock and commodity markets over the past decade, see, e.g., Fry-McKibbin and McKinnon (2023), Wang and Cheung (2023), Delatte and Lopez (2013), Mensi et al. (2013), Du et al. (2011), Creti et al. (2013), Sadorsky (2014), Ding et al. (2021), Dai et al. (2020), Ali et al. (2020), Nguyen et al. (2020), and Uddin et al. (2020). Recently, Wang and Cheung (2023) find that the strongness of the link between commodity prices, financial assets and exchange rates in the post 2007-2008 global financial crisis period depends on the degree of financialization different commodities experience. As result, a better understanding of the relationship between FX, stock and commodity markets becomes very important due its implications for volatility forecasting, risk management, asset allocation, and monetary policy, see, e.g., Fry-McKibbin and McKinnon (2023), Wen and Wang (2021).

The literature has put forward different theoretical frameworks² to explain the link between commodity prices and other financial assets. While Papers by Chen et al. (2010) and Rossi (2012) argues the existence of a structural link between future commodity prices and exchange rates through the terms of trade and income channel, other works have established financial linkages across commodity and other financial markets, see, e.g., Tang and Xiong (2012). Cheng and Xiong (2014) explain how financialization has transformed the commodity markets through economic mechanisms such as storage, risk sharing and information discovery that facilitate the functioning of the commodity markets. As consequence, these transformations increase the interdependence between commodity markets and other financial markets. In fact, storage reduces fluctuations in commodity prices due its stabilizing forces on demand and supply shocks Deaton and Laroque (1996). In the standard storage theory of Kaldor (1939), Brennan (1958), and Telser (1958), the commodity producers have the option to adjust their production levels through inventories, and thus, the marginal benefit of storage is defined to be the convenience yield. This suggests that the future spreads between the futures and spot prices are impacted by the levels of nominal interest rates because they are the main determinants of the financing cost of the carry trade. Frankel (2006) and Gruber and Vigfusson (2018) show how monetary policy affects the commodity price volatility through this interest-rate channel.

Cheng and Xiong (2014) argue that financialization through risk sharing and information discovery channels has deepened and strengthened the linkage between commodity prices and other financial assets. Their argumentation is based on the hedging pressure theory of Keynes (1923), Hicks (1939) and Hirshleifer (1988). According to the theory financialization reduces hedging pressure, improves risk sharing, and facilitates volatility spillover to commodity markets,

 $^{^{2}}$ We refer the reader to Adekoya and Oloyide (2021) for a recent review on the linkages among different markets.

see Tang and Xiong (2012). In order to hedge commodity price risks, commodity producers that are on the short side of the futures markets have to offer the financial investors or speculators positive risk premia that give them the incentive to take the long side of futures markets. By taking the long side, financial investors or speculators act as providers of liquidity to hedgers, however, due to their time-varying risk appetites, they can become consumers of liquidity from hedgers whenever market conditions change. As result, the dual role of the financial investors causes volatility spillover from other financial markets to commodity markets. Furthermore, it is well-documented that futures markets play a crucial role in information discovery during periods of informational frictions in the global supply, demand and inventory of commodities. Singleton (2014) shows that the information discovery process can influence the expected returns of commodity futures due to the presence of heterogeneous financial investors.

In this paper our goal is to shed light on the implications of the relationship between commodity, stock and FX markets for forecasting accurate volatility in a multivariate framework. Forecasting volatility in asset markets is not only critical for portfolio selection, risk management and the pricing of derivatives, but is also of high importance for policymakers in designing monetary and fiscal policies as volatility shocks represent uncertainty (Liu et al. (2020); Liu and Gupta (2022)). Since the seminal papers by Engle (1982) various uni- and multivariate volatility models have been put forward and successfully used to produce accurate volatility forecasts in stock, commodity, FX markets, see, e.g., Zaharieva et al. (2020) for a recent review on multivariate stochastic volatility (SV) models, Bauwens et al. (2012) and Francq and Zakoïan (2019) for a review on multivariate GARCH models. Recent developments in modeling and forecast volatility in commodity and financial markets are the adaptation of the multifractal processes to finance by Mandelbrot (1974), Calvet and Fisher $(2001, 2004)^3$. While the academic literature on modeling the linkage between stock, FX and commodity markets and forecasting volatility using the DCC-GARCH model of Engle (2002) is vast, see, e.g., Ashfaq et al. (2019), Kumar and Anandarao (2019) among others, it remains on this particular subject using the multivariate multifractal processes somewhat sparse. Our contribution is to close this gap in the literature.

To this end, we consider a new class of volatility models that are designed via the multifractal processes. In fact, the theory of multifractal measures was originally proposed by Mandelbrot (1974) to model turbulent flows and subsequently has received a huge attention in modeling and forecasting financial market volatility in the recent years due to certain similarities of volatility to fluid turbulence. The main reasons for this increased interest in applying multifractal processes for forecasting volatility are two folds: (i) the multifractal model provides a simple uniform framework for long-memory and fat tails in the volatility process and structural breaks through regime switching, (ii) it

³see Lux and Segnon (2018) for an excellent review on uni- and multivariate multifractal volatility models and their applications in finance.

has been showed to be robust and capable of producing more accurate volatility forecasts than the traditional (MS-)GARCH models, see Calvet and Fisher (2004), Lux (2008), among others.

We illustrate the performance of our bivariate multifractal model against the bivariate DCC-GARCH and univariate GARCH models using daily data on stock indices and FX rates from eight developed and emerging countries (Malaysia, Australia, Russia, South Africa, Norway, Mexico, Canada and Brazil) and a range of commodities such as crude oil, natural gas, Aluminum, copper, Gold, silver, Platinum, Wheat, corn, soybean, soybean oil. The rationale behind the selection of these particular countries stems from their significant roles as major exporters in these commodity markets. The economic and financial landscapes of these nations are deeply intertwined with the global movements of these commodities, making their currencies and stock markets highly responsive to changes in commodity prices. For example, Canada, Norway and Russia are influential in the global energy sector, especially in the markets for oil and natural gas. Australia's economic fortunes are strongly linked to the export of metals such as aluminum and gold, with South Africa being a prominent exporter of platinum and gold. In the same vein, Brazil is a key player in the market for soybeans.

Our out-of-sample results indicate that the bivariate multifractal model produces more accurate volatility forecasts and outperforms the DCC-GARCH and univariate multifractal models at short- and long forecasting horizons and across all three markets. This suggests that the bivariate multifractal framework is more appropriate to model volatility and dynamic conditional correlations between commodity, stock and foreign exchange markets.

The rest of the paper is organized as follows. Section 2 presents the data sets used in our empirical analysis. The bivariate multifractal model is presented in Section 3. Section 4 presents and discusses the empirical results and finally, Section 5 concludes.

2 Multifractal models

Most financial market models are based on the additive structure of asset returns dynamics, and models with multiplicative operations have been introduced under the heading of multifractal models. Mandelbrot et al. (1997) introduces the multifractal model of asset returns (MMAR), and the multifractal model assumes that returns r_t follow a compound process, in which an incremental fractional Brownian motion is subordinate to the cumulative distribution function of a multifractal measure. However, the practical applicability of MMAR suffers from the non-causal nature of the time transformation and non-stationarity due to the inherent restriction to a bounded interval. These limitations have been overcome by the development of an iterative version of the multifractal models, including the Markov-switching multifractal model (MSM), see Calvet and Fisher (2004) and Lux (2008). MSM models asset returns as:

$$r_t = \sigma \left(\prod_{i=1}^k M_t^{(i)}\right)^{1/2} \cdot \epsilon_t,\tag{1}$$

the instantaneous volatility is determined by the product of k volatility components or multipliers $M_t^{(1)}$, $M_t^{(2)}$, ..., $M_t^{(k)}$, with a constant scale parameter σ . In addition, M_t can be drawn from either a discrete distribution, e.g., a binomial distribution in Calvet and Fisher (2004), or a continuous distribution, e.g., lognormal distribution in Lux (2008). Each volatility component is updated at time t with probability γ_i depending on its rank within the hierarchy of multipliers or remains unchanged with probability $1 - \gamma_i$. Calvet and Fisher (2004) specify the transition probabilities as:

$$\gamma_i = 1 - (1 - \gamma_1)^{(b^{i-1})},\tag{2}$$

with parameters $\gamma_1 \in (0, 1)$ and $b \in (1, \infty)$; In contrast, without introducing additional parameters, Lux (2008) proposes $\gamma_i = 2^{(k-i)}$. Both specifications guarantee convergence of the discrete-time multifractal process to a limiting continuous-time version with random renewals of the multipliers. In this approach, asset returns volatilities are conceived as hierarchical multiplicative processes with heterogeneous components at different lifetimes.

This novel approach preserves the hierarchical structure of MMAR, but dispenses with its restriction to a bounded interval. While this model is asymptotically "well-behaved" (i.e., it shares all the convenient properties of Markovswitching processes), it is still capable of capturing some important properties of financial markets time series data, namely, volatility clustering and the powerlaw behaviour of the autocovariance function of absolute moments:

$$Cov(|r_t|^q, |r_{t+\tau}|^q) \propto \tau^{2d(q)-1}.$$
 (3)

2.1 Bivariate multifractal models

In order to study the interactions and comovements among financial assets, multifractal models can be easily extended to multivatiate setting without imposing much restrictions. For a bivariate models, Calvet and Fisher (2006) assume that instantaneous volatility is composed of heterogenous frequencies, and model the bivariate asset returns r_t as:

$$r_t = \sigma \otimes \left[g(M_t)\right]^{1/2} \otimes \epsilon_t. \tag{4}$$

Here, r_t , σ , and u_t are all bivariate vectors: $r_t = \begin{bmatrix} r_{1,t} \\ r_{2,t} \end{bmatrix}$, $\sigma = \begin{bmatrix} \sigma_1 \\ \sigma_2 \end{bmatrix}$, $\epsilon_t =$

 $\begin{bmatrix} \epsilon_{1,t} \\ \epsilon_{2,t} \end{bmatrix}$, and \otimes denotes element by element multiplication. σ is the vector of constant scale parameters (the unconditional standard deviation); ϵ_t is a 2 × 1

vector whose elements follow a bivariate standard normal distribution, with an unknown correlation parameter ρ . $g(M_t)$ is the vector of the products of multifractal volatility components, i.e. $g(M_t) = \begin{bmatrix} g(M_{1,t}) \\ g(M_{2,t}) \end{bmatrix}$, with each element defined as in the univariate case:

$$g(M_{j,t}) = \prod_{i=1}^{k} M_{j,t}^{(i)},$$
(5)

as the product of volatility components for asset j, and the bivariate volatility components at frequency i of series j = 1, 2:

$$M_t^{(i)} = \begin{bmatrix} M_{1,t}^{(i)} \\ M_{2,t}^{(i)} \end{bmatrix}.$$
 (6)

 $M_t^{(i)}$ are drawn from the bivariate binomial distribution $M = (M_1, M_2)'$, with M_1 taking values $m_1 \in (1, 2)$ and $2 - m_1$, and M_2 taking values $m_2 \in (1, 2)$ and $2 - m_2$. While the framework by Calvet et al., (2006) allow for variation of the correlation ρ_m between components M_1 and M_2 , they report that a correlation ρ_m equal to one is never rejected in their empirical applications. We therefore restrict this parameter to unity to economize on the number of parameters to be estimated.

In addition, whether or not a volatility component (new arrival) being updated for the individual multifractal processes is governed by the transition probabilities, we use $\gamma_i = 2^{(k-i)}$ as in Lux (2008). The correlation of arrivals between the two series is characterized by a parameter $\lambda \in [0, 1]$, i.e., the probability of a new arrival at hierarchy level *i* for one time series given a new arrival in the other time series is $(1 - \lambda)\gamma_i + \lambda$. New arrivals are independent if $\lambda = 0$ and simultaneous if $\lambda = 1$.

2.2 Two-stage estimation

The dynamics of MSM with a binomial distribution multipliers can be considered as a special case of a Markov-switching process, therefore its likelihood function can be derived by determining the exact form of each possible component in the transition matrix since the state spaces are finite. Let r_t be the set of joint return observations $\{r_{j,t}\}$ for j = 1, 2, and t = 1, 2...T. The likelihood function can be explicitly evaluated as below:

$$f(r_1, \cdots, r_T; \Theta) = \prod_{t=1}^{T} \left[f(r_t | M_t = m^i) \cdot \sum_{i=1}^{(2^n)^k} P(M_t = m^i | r_1, \cdots, r_{t-1}) \right]$$
$$= \prod_{t=1}^{T} f(r_t | M_t = m^i) \cdot (\pi_{t-1}A).$$
(7)

 Θ is a set of parameters to be estimated, n is the number of assets. There are three elements within the likelihood function above, namely, (1) the density of

the innovation r_t conditional on M_t , which is $f(r_t|M_t = m^i) = \frac{F_N\{r_t \div [\sigma \otimes \eta^{1/2}]\}}{\sigma \otimes \eta^{1/2}}$; $F_N\{\cdot\}$ denotes the bivariate standard normal density function, \div represents element-by-element division, and $\eta = g(M_t)$; (2) a vector of conditional probability of $\pi_{t-1} = (\pi_{t-1}^1, \ldots, \pi_{t-1}^{(2^n)^k})$, and $\pi_t^i = P(M_t = m^i|r_1, \cdots, r_t)$; (3) the transition matrix A contains components A_{ij} which are $P(M_{t+1} = m^j|M_t = m^i)$. Note that $i, j = \{1, 2 \dots (2^n)^k\}$ and it indicates the transition matrix A has the dimension of $4^k \times 4^k$ for a bivariate model.

Since the large degree of heterogeneity of volatility trajectories that can be modelled with a relatively large number of k is one of most attractive features of the multifractal approach, therefore, with a larger number of k, the numerous multiplications with the transition matrix A within an optimization step pose computational constraints on this straight forward approach of Eq. (7). One can easily see the computational complexity of evaluating the $4^k \times 4^k$ elements of the transition matrix at each time-step for the maximum likelihood estimation. In practice, it hardly works for the number of multipliers larger than 5, i.e., k > 5, due to the capacity of current personal computers. We therefore adopt a two-stage procedure proposed by Calvet and Fisher (2006), which combines an maximum likelihood (ML) estimator for the first group of parameters $\{m_{1,i}, \sigma_i\}$ with an simulation based ML estimator for the second group $\{\rho \text{ and } \lambda\}$. The second stage is to maximise the simulation based likelihood through the particle filter approach.

As particle filters treat the discrete support generated by the particles as the 'true' filtering density, this allows us to produce an approximation to the prediction probability density $P(M_{t+1} = m_t^i | r_t)$, by using the discrete support of the number *B* of particles, and then the one-step-ahead conditional probability is

$$\pi_{t+1}^{i} \propto f(r_{t+1}|M_{t+1} = m^{i}) \frac{1}{B} \sum_{b=1}^{B} P(M_{t+1} = m^{i}|M_{t} = m^{(b)}).$$
(8)

then the approximate likelihood function is given below:

$$g(r_1, \cdots, r_T; \Theta) \approx \prod_{t=1}^T \left[\frac{1}{B} \sum_{b=1}^B f(r_t | M_t = \hat{M}_t^{(b)}) \right].$$
(9)

The recursive particle filter procedure is detailed in the Appendix.

3 Empirical Results

3.1 Data Description

We collect commodity, stock indices, and foreign exchange rates data cover the period from 7/07/2014 to 25/01/2022. Daily returns are calculated as the log difference, denoted by $r_t = \ln(p_t) - \ln(p_{t-1})$, where p_t represents the prices

of commodities, stock indices, and exchange rates. The commodities include natural gas, crude oil, soybean oil, corn, wheat, aluminum, soybean, copper, gold, silver and platinum. The stock indices pertain to the markets of eight countries: Malaysia, Australia, Russia, South Africa, Norway, Mexico, Canada, and Brazil. The exchange rates are for the currencies of these eight countries relative to the U.S. dollar. Data is obtained from Bloomberg terminal.

In selecting the currencies, stocks, and commodities for our study, we focus on countries that are major players in the export markets of these commodities. This choice is grounded in the substantial literature that highlights the critical role of export-oriented economies in the global commodity markets and their impact on related financial assets (Kocaarslan et al. (2017)). These countries are known for their substantial exports in these commodities, influencing global prices and market dynamics.

For example, Canada, Norway and Russia are among the world's largest oil and natural gas exporters, while Brazil is a significant exporter of various commodities, including soybeans, corn and crude oil.⁴ Similarly, Australia's economy is closely tied to the export of metals such as aluminum and gold, as highlighted in the research by Golev and Corder (2016), which explores the importance of metal flows in the Australian economy. The influence of Mexico in the silver market is well-recognized, a point noted by Garner (2020). The choice of the South African Rand is motivated by South Africa's pivotal role in the platinum and gold markets.⁵ The dominance of these countries in the commodity market renders their currencies and stock markets particularly sensitive to fluctuations in commodity prices. This interrelationship is evident in studies such as that by Kilian (2009), which highlights the impact of crude oil prices on macroeconomic variables, and in the work of Umar et al. (2021), which examines the relationship between equity markets and oil prices in some of these countries.

The summary statistics presented in the Table 1 provide a detailed snapshot of the behavior of stock indices (ST) and foreign exchange rates (FX) across eight countries, alongside the performance of eleven diverse commodities. For stock indices, we observe a spectrum of mean returns, with Russia displaying the highest at 0.039, while Malaysia shows a negative mean return of -0.011. This range indicates varying degrees of market performance across these nations. Volatility, as measured by standard deviation, is notably high in Brazil's stock market (1.641), suggesting significant market fluctuations, in contrast to Malaysia, which exhibits the lowest volatility (0.688). The skewness and kurtosis values across the board suggest deviations from a normal distribution, particularly in Canada and Brazil, where kurtosis values of 11.29 and 13.02, respectively, indicate the presence of outliers or extreme market movements. The Augmented Dickey and FullerDickey-Fuller (ADF) test results uniformly confirm the stationarity of the series across these markets, while the significant ARCH effects underscore the presence of volatility clustering.

⁴see, https://oec.world/en/profile/country/bra.

⁵see, https://commodity.com/data/south-africa/.

In examining the foreign exchange markets, the mean returns are more contained, with Brazil leading and Canada exhibiting the lowest. The volatility within these FX markets shows a marked contrast, with Russia's FX market displaying the highest standard deviation, denoting substantial volatility, while Canada's market is the least volatile. The skewness and kurtosis across these markets suggest non-normality, particularly in Russia and Norway, where the kurtosis indicates heavy-tailed distributions. The pronounced volatility clustering in these FX markets is evident from the ARCH test results, especially in Russia and Norway. In the commodities sector, the variation in mean returns, with some commodities like natural gas and platinum showing negative values, reflects diverse market trends. The standard deviation is markedly high for crude oil, suggesting significant price fluctuations, whereas gold exhibits the least volatility. The commodities demonstrate non-normal distributions, as indicated by the skewness and kurtosis values, with particularly high kurtosis in crude oil and natural gas, pointing towards potential outlier events.

3.2 Empirical Findings

We separate each time series data into two subsets (i.e., in-sample data used for estimation, and out-of-sample data for forecasting assessments). We estimate the in sample data from 07/07/2014 to 31/12/2018, and then perform out-of-sample evaluation of volatility forecasting using data from 01/01/2019 to 25/01/2022, based on the DCC-GARCH, and bivariate multifractal models.

The in-sample DCC-GARCH estimates are shown in Table 2 to 4. Specifically, we estimate the bivariate DCC-GARCH model of Engle (2002), which is an extension of the conventional GARCH model of Bollerslev (1986). With the univariate GARCH (1, 1) formulated as: $r = \mu + \epsilon_t$, and $\epsilon_t | I_{t-1} \sim N(0, \sigma_t)$, the volatility process follows: $\sigma_t = \omega + \alpha \cdot \epsilon_{t-1}^2 + \beta \cdot \sigma_{t-1}^2$. The dynamic conditional correlation (DCC) has a non-linear GARCH-type specification: $Q_t =$ $(1-a-b)\overline{Q} + a\epsilon_t \cdot \epsilon'_{t-1} + bQ_{t-1}$, where a and b are the so-called news and decay coefficients, respectively. $\bar{Q} = E[\epsilon_t \cdot \epsilon'_{t-1}]$ is the unconditional variance and covariance matrix of the standardized residuals (the unconditional covariance) and ρ_{12} represents the unconditional correlation coefficient in the matrix Q. We find most of the unconditional returns are positive for stock indices and foreign exchange rates, while most of commodities returns are negative. Though most of GARCH persistent parameter β estimates are within a reasonable range, i.e., around 0.9, the GARCH reaction parameter estimates α for the Canada exchange rates, copper and platinum return volatilities are much lower, which are indicative of much less spikes in volatility. For the correlation coefficient ρ_{12} , we find that most of estimates for the stock markets and commodity markets correlation are positive, in contrast, most of estimates for the foreign exchange markets and commodity markets correlation are negative.

The bivariate multifractal models parameters estimates are presented in Tables 5 to 7. Note that the vector of bivariate multifractal model parameters consists of $\{m_{1,i}, \sigma_i, \rho, \lambda\}$, *i* stands for returns of stock index, foreign exchange rates and commodity prices, respectively. We use the two-stage estimation procedure illustrated in the last section, that is, an ML estimator for the first group of parameters $\{m_{1,i}, \sigma_i\}$ and a simulation based ML estimator for the second group $\{\rho \text{ and } \lambda\}$. The latter are obtained through the particle filter approach keeping the first set of parameters at their ML-estimated values, and we then maximize the simulated likelihood using the Nelder-Mead algorithm.⁶ The first four of these parameters (Table 5) could be identified by an estimator for a univariate multifractal model, while the remaining ones require the complete bivariate data set. In terms of 'fractality' of volatility as measured by the parameter m_1 , we find that most of the estimates are around 1.2, which indicates assets returns exhibit reasonable persistence for stock markets, foreign exchange, and commodity markets. The unconditional volatility estimate of σ reveals that commodity returns are much volatile than those of the stock indices and foreign exchange rates.

In terms of the correlation of innovations ρ , we find that most of estimates for bivariate models of stock markets and commodity markets correlation are positive (Table 6), while for correlation estimates of the foreign exchange markets and commodity markets correlation are mostly negative (Table 7). We also observe that the correlations for pairs of oil and stock indices and pairs of oil and foreign exchange rates appearing to be more pronounced. Since the correlation across markets often pertain to the arrival of new volatility components, empirical estimates of λ show significant degree of co-movement for all pairs of assets return volatilites.

Table 8 to Table 16 present the out-of-sample forecasting performances at different horizons with a range of 1 day to 100 days. We report the relative mean square error (RMSE), i.e., the mean square error (MSE) divided by the respective statistics of the naive volatility predictor (derived using historical volatility). Therefore, any value smaller than 1 indicates an improvement relative to historical volatility. A glance at Table 8 reveals that the volatility forecasting performance of the univariate multifractal models is quite encouraging for stock indices, foreign exchange rates and commodities. Specifically, we observe most of the reported RMSEs are below 1 for 1, 5, 10 and 20 days horizons, except with some cases at the longer horizons of 50 and 100 days.

We then assess the forecasting performances of the bivariate models when using stock indices and commodities prices pairs, and foreign exchange rates and commodities prices pairs. Table 9 and 10 present volatility forecasting results based on DCC-GARCH models for the eight countries' stock indices and commodities data. We find that DCC-GARCH models perform well at short time horizons, while most of the RMSEs for longer horizons are above 1, for example, RMSEs of the stock markets and commodities of Canada and Malaysia at 10 to 100 days horizons. For the same pairs of data, Table 11 and 12 report the forecasting performances based on bivariate multifractal models. In general, bivariate multifractal models outperform the DCC-GARCH models statistically significant manner at long horizons under the RMSE criteria. The fact that these

⁶The two-stage approach provides a reduction in computation time, and it also makes the choice of larger number of cascade level k feasible. Note that, use k = 8 which is consistent with the existing literature.

gains are statistically significant relative to the DCC-GARCH models are also strongly confirmed by the dominant number of significant Diebold and Mariano (1995) test statistics. Turning to foreign exchange markets and commodities markets pair data, the forecasting results based on CC-GARCH models are reported in Table 13 and 14; the forecasting performances based on the bivariate multifractal models are provided in Table 15 and Table 16. Though our results are not entirely homogeneous, in general, bivariate multifractal models outperform the DCC models in most cases, and the multifractal models produce better forecasting performances by their ability to capture the same in a genuine, i.e., non-spurious-manner, by allowing for regime-switching cascades.

In addition, we are interested in studying if it is likely to exist a bidirectional relationship between the volatility process of the stock markets and commodity markets, the foreign exchange market and commodity returns, as discussed in the introduction. We find either stock markets or foreign exchange markets have major impacts on commodity markets, for instance, for those crude oil exporting countries: Malaysia, Norway, Mexico, Canada and Russia, including their stock market indices or exchange rates do not improve the oil price volatility forecasting. However, some commodity markets do significantly impact foreign exchange rates. As shown in Table 15, Canada exports not only crude oil, but also wheat, Aluminum and gold, we find including oil significantly improves the Canadian dollar exchange rates volatility forecasting at all horizons; For Malaysia, including natural gas also significantly improves the exchange rates volatility forecasting; For Mexican, silver price has a major impact on Mexican exchange rates volatility forecasting at short horizons.

3.3 Implications for risk management

The notion of correlation is central to modern risk management. In fact, correlation is used as a measure of dependence between financial assets in different markets. As a key input in volatility forecasting, dynamic portfolio management, and value-at-risk computation, a change in the correlation represents a risk. It is well-documented that while the correlations between financial assets may be low (or moderate) during low volatility regimes or in normal market circumstances due some arbitrage opportunities or heterogeneity in market participant behaviors, they are very strong during volatile periods or times of crisis. As result, an underestimation of correlation will lead to inaccurate estimates of portfolio volatility, and thus, to inaccurate value-at-risk forecasts, mispricing of short-lived options and inefficient capital allocation. This could on one side misguide financial institutions to hold less than the optimal amount of capital against potential losses from adverse market moves and on the other side also affect the financial decisions of market participants. Furthermore, a hidden correlation risk between commodity, FX and stock markets can negatively influence the flow of capital to a one of these markets that is experiencing a temporary liquidity crisis.

The correlation parameters in the bivariate MSM model are well estimated and allow us to refine our understanding of volatility linkages between commodity, stock and FX markets. Although the estimated correlation parameters are small, they are statistically significant different from zero at 5% confidence level and contribute to the improvement of volatility forecast accuracy of the bivariate MSM model over the DCC-GARCH and univariate multifractal model. While the DCC-GARCH model captures the time dependency between these markets, the parsimonious specification of the bivariate MSM consider several volatility and correlation states and allows us to model different market-dependent dynamics⁷ and the occurrence of contagion phenomena. Our empirical results suggest that analysts should use the bivariate MSM model that seems to be more appropriate for modeling correlation structure between commodity, FX and stock markets and producing more accurate volatility forecasts.

4 Conclusion

This paper uses the bivariate MSM to reexamine volatility linkages between commodity, FX and stock markets. The parsimonious specification of the MSM framework permits to study the correlation between volatility components in several regimes. Using daily data on stock indices and FX rates from developed and emerging countries and a range of commodities such crude oil, natural gas, aluminum, copper, gold, silver, platinum, wheat, corn, soybean and soybean oil we estimate the two parameters, λ and $\hat{\rho}$ that characterize co-movement between volatility components and covariation between prices in stock and commodity (or FX and commodity) markets, respectively. The estimated correlation parameters across stock and commodity or exchange-rate and commodity pairs for all eight developed and emerging countries are statistically significant at 5 % confidence level, however remain low. We identify positive (negative) covariation between prices in stock and commodity markets (in FX and commodity markets). We have showed that the bivariate MSM model outperforms the DCC-GARCH and the univariate multifractal model at 1, 5, and 10 days forecasting horizons. Our results show that after the 2007-2008 global financial crisis there is an increase in interdependencies between commodity, FX and stock markets. As result, the bivariate MSM model seems to be capable to capture the dependency structures between these markets, and thus, produces more accurate volatility forecasts.

Our results have important implications for academics, investors and policy authorities. First, investors in commodity exporting countries can improve their portfolio allocation, pricing of derivative securities and risk management by accommodating the role of commodity market volatility into their models of volatility that are primarily multivariate in nature and capture long-memory and regime-changes, i.e., via the usage of bivariate MSM models. In this regard, from the perspective of an academician, our findings provide further evidence of the connectedness of stock and currency markets with the commodity sector, and hence highlights the influence of the process of financialization. Finally, since volatility provides high-frequency forecasts of uncertainty, which in turn

⁷The dynamics in calm and highly volatile markets may be different.

is known to contain leading information for economic activity, policymakers can nowcast low-frequency macroeconomic variables, and design appropriate policy responses in advance.

Future research can study the relationship between commodities, FX rates, stock indices and digital assets such as cryptocurrencies, NFTs, and DeFi. Given the important impact of digital assets on economic growth in the recent years, it would be interesting to reexamine co-movement in volatility and covariation in prices between the traditional financial markets (commodity, FX and stock markets) and digital financial markets and their implications for volatility fore-casting, risk management, portfolio allocation and economic growth.

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																			num	0119	175	551	576	638	092	941	559	(00						
																			Plati	-0.	1.4	-0.	10.,	-13.	10.	-28.	406.	(0.C		stics test	varz	row	une d in	1
																			Silver	0.006	1.616	-0.764	13.521	-16.119	7.698	-29.739	216.301	(0.000)		d by ADF	ng the Schv	. The last	umplement ses) reporte	- 3 (~~~
																			Gold	0.017	0.861	-0.191	6.946	-5.863	4.967	-31.466	96.769	(000.0)	Ē	irns. The sl rns, followe	chosen usi	lag length.	z and unen n parenthes	
Brazil	0.036 1.641	-1.048	17.523	-15.994	13.023	-31.373	629.510	(0.000)	Brazil	0.045	1.060	0.016	5.377	-5.965	7.112	-32.897	69.537	(0.000)	Copper	0.016	1.303	-0.145	4.599	-6.929	5.003	-32.339	43.766	(0.000)	1	nodities retu osis of retui	regression is	the optimal	n oruer or 1 ne p-value (i	
Canada	0.015 0.978	-1.864	50.116	-13.176	11.294	-14.838	703.637	(0.000)	Canada	0.008	0.476	0.004	4.386	-1.969	2.104	-31.915	120.448	(0.000)	Soybean	0.002	1.287	-0.834	10.761	-10.495	6.426	-19.451	62.024	(0.000)	-	1 eleven comr ess and kurt	in the ADF	IC to select	model with a atistic and th	
Mexico	$0.008 \\ 0.964$	-0.510	7.688	-6.638	4.744	-31.854	420.205	(0.000)	Mexicó	0.023	0.814	0.773	9.758	-4.190	7.977	-30.805	167.106	(0.000)	Alumi	0.025	1.179	0.060	5.423	-7.910	5.975	-30.848	204.577	(0.000)	-	countries and nax.), skewn	l lag length	en use the S	oregressive i e LM test sta	
Norway	0.029 1.109	-0.898	11.259	-9.832	5.842	-31.949	494.469	(0.000)	Norway	0.019	0.726	0.759	10.543	-4.066	7.255	-29.659	502.482	(0.000)	Wheat	0.021	1.723	0.284	3.693	-5.974	6.578	-31.761	36.328	(0.000)		A) of eight (naximum (n	The optima	lags and the	using an aut CH, with the	
Sth. Africa	0.017 1.106	-0.780	12.413	-10.227	7.261	-31.326	650.122	(0.00)	Sth. Africa	0.018	0.994	0.239	4.182	-5.081	4.905	-30.555	90.593	(0.00)	Corn	0.021	1.534	-0.968	16.913	-19.100	7.718	-31.786	37.060	(0.000)	L)	exchange rates (F m (min.) and r	unit root test.	naximum of 20	ne return series thesis of no AR(
Russia	0.039 1.139	-0.780	11.345	-8.713	7.435	-30.809	314.494	(0.000)	Russia	0.042	1.173	0.328	53.133	-17.346	17.001	-30.942	742.848	(0.000)	Soyb. oil	0.025	1.372	-0.126	5.143	-9.278	6.648	-29.902	195.368	(0.000)		and loreign et ion. minimu	er (DF, 1981)	egin with a 1	the null-hype	T /
Australia	0.012 0.998	-1.182	16.826	-10.203	6.766	-31.962	673.766	(0.00)	Australia	0.014	0.609	0.315	5.294	-2.233	3.910	-30.032	182.056	(0.000)	Crude oil	-0.010	3.288	-2.958	76.601	-60.168	31.963	-21.841	278.872	(0.000)		tandard devia	ckey and Full	namely we b	y test statistic st examining)
Malaysia	-0.011 0.688	-0.251	12.746	-5.405	6.626	-29.071	480.785	(0.000)	Malaysia	0.014	0.386	-0.501	10.899	-3.470	1.988	-29.200	389.028	(0.00)	Gas	-0.002	3.140	0.099	7.043	-18.055	19.798	-34.412	138.667	(0.000)	-	ie reports stoc 5 the mean, s	Augmented Di	iterion (SIC),	eroskedasucu iplier (LM) te	
TS	mean Std.dev	Min	Max	$\operatorname{Skewness}$	Kurtosis	ADF	ARCH		FX	mean	$\operatorname{Std.dev}$	Min	Max	$\mathbf{Skewness}$	Kurtosis	ADF	ARCH			mean	$\operatorname{Std.dev}$	Min	Max	$\mathbf{Skewness}$	Kurtosis	ADF	ARCH			Note: This tab of reported are	statistics, i.e., ^A	Information cr.	reports the net Lagrange-Mult	- D 0

Table 1: Summary statistics.

								.0110			
	Malaysia	Australia	Russia	Sth. Africa	Norway	Mexico	Canada	Brazil			
μ	-0.006	0.016	0.041	0.016	0.05	0.012	0.017	0.069			
	(0.014)	(0.02)	(0.029)	(0.025)	(0.025)	(0.021)	(0.016)	(0.04)			
3		0.01	0.033	0.019	(0.043)	0.032	0.013	0.08			
ç	0.007	(0.004)	(0.014)	(0.008) 0.000	(0.027)	(110.0)	(0.005) 0.854	(0.029)			
3	10.09 (0.00)	(CU U)	0.910	(0.018)	(0.055)	(060.0)	(0.034)	0.200			
U	0.086	0.001	0.053	0.072	0.103	0.107	0 124	0.056			
2	(0.017)	(0.018)	(0.014)	(0.014)	(0.03)	(0.02)	(0.024)	(0.015)			
	Malaysia	Australia	Kussia	Sth. Africa	Norway	Mexico	Canada	Brazil			
Y :	0,007	0.095	0.099	0.041		0.099	0.00				
ή	100.00	0700	0.022	0.041	0.022	(100.0)	0.022	0.024			
	(0.001)		(0707)	(0.021)	0.003	(170.0)	(0.014)	(0.020)			
3		0.002	0.04	0.0014			0.419	07170			
Ċ	(0,000)	(100.0)		(100.0)	(200.0)	(0.019)	(210.0)	(6000)			
σ	0.904	0.970	0.029	0710/	(010.0)		0.000	0.143 (0.00E)			
Q	(0.013)	(0.009)	(0.023)	(/ TO.U)	(0.013)	(0.048)	(1001)	(0.080)			
d	0.090	(200 0) 610'0	0.140	0.002		01.0	0.142	(0.04E)			
	(etn.u)	(100.0)	(0.022)	(10.014)	(600.0)	(670.0)	(ocu.u)	(0 1 01)			
	Gas	Crude oil	Soyb. oil	Corn	Wheat	Alumi	Soybean	Copper	Gold	Silver	Platinum
H	0.013	-0.028	-0.027	0 014	-0.001	-0.024	-0.002	-0.024	-0 002	-0.03	-0.065
2	(0.066)	(0.050)	(0.022)	(0.026)	10000	(0.000)	(0.000)	(0.026)	(00.00)	(0.027)	(0.022)
(1)	0.083	0.104	0.002	0.037	0.109	0.198	0.024	1,197	(0.002)	0.006	0.028
3	(0.042)	(0.040)	(0.003)	(0.014)	(0.062)	(0.051)	(0.008)	(0.042)	(0.002)	(0.006)	(0.245)
б	0.908	0.912	0.982	(0.923)	(0.929)	0.726	0.926	0.192	(0.979)	(0.982)	0.173
	(0.014)	(0.019)	(0.006)	(0.016)	(0.029)	(0.055)	(0.012)	(0.268)	(0.006)	(0.007)	(0.192)
θ	0.089	0.071	0.016	0.057	0.035	0.126	0.061	0.052	0.018	0.015	0.12
	(0.014)	(0.014)	(0.006)	(0.012)	(0.013)	(0.028)	(0.011)	(0.026)	(0.005)	(0.005)	(0.04)
	× •	× •	× /	× •	````	· ·	× •	~ ~	` `	````	×
Note:	This table rej	ports the in-sa	mple estimat	es of GARCH(1,	1) models	for stock in	dices (ST), fo	oreign excha	nge rates (J	FX) of eigh	t countries
and co GARC	mmodity pric H models, wh	es. Since it is a ich are estimat	two-stage esterestates the firs	stimation for bive t stage.	uriate DCC (GARCH mo	dels, the par	ameters estu	mates of $\{\mu$	$, \omega, \alpha, \beta $ to	univariate

Table 2: In-sample estimates DCC GARCH models.

Table 3: In-sample estimates DCC-GARCH models for stock indices and commodities.

$\begin{array}{cccc} \frac{1}{1} \operatorname{as} & \operatorname{Alumi} & \operatorname{Golc} \\ 0.40 & 0.081 & -0.07 \\ 0.31 & (0.030) & (0.030 \\ 0.000 & 0.000 $										
$\begin{array}{cccccccccccccccccccccccccccccccccccc$		OII	Corn	Soyb1	Soyb2	\mathbf{IS}	Oil	Wheat	Alumi	Gold
$\begin{array}{cccccccccccccccccccccccccccccccccccc$.0	0.248	0.138	0.132	0.156		0.417	0.081	0.171	0.044
	(j	(0.070)	(0.031)	(0.030)	(0.057)		(0.070)	(0.030)	(0.072)	(0.043)
	Û.	0.007	0.031	0.000	0.000		0.019	0.035 (1.035)	0.00 GUU.U	0.038
031) (0.000) (0.000)	()	(0.005)	(0.019)	(0.000)	(0.006)		(0.007)	(0.047)	(0.003)	(0.020)
000 0.805 0.81	2	0.986	0.738	0.833	0.982		0.973	0.000	0.993	0.831
248) (0.123) (1.150	(0	(0.012)	(0.077)	(0.394)	(0.025)		(0.009)	(1.761)	(0.004)	(0.055)
1 Mexic	co				Norway					
as Oil ST	Oil	Copper	Gold	Silver	$^{\rm r}$	Gas	Oil	Alumi		
001 0.058	0.203	0.187	-0.046	0.094		0.031	0.347	0.178		
028) (0.031)	(0.050)	(0.041)	(0.063)	(0.040)		(0.028)	(0.028)	(0.027)		
044^{\prime} 0.022^{\prime}	0.008	0.013	0.016	0.011		0.000	0.032	0.000		
(0.033) (0.033)	(0.006)	(0.010)	(0.00)	(0.010)		(0.00)	(0.030)	(0.00)		
375 0.367	0.982	0.944	0.964	0.952		0.830	0.798	0.850		
259) (0.549)	(0.012)	(0.027)	(0.018)	(0.045)		(0.425)	(0.283)	(0.904)		
				South A:	frica					
as Oil Whee	at Alumi	Gold	Platinum	\mathbf{TS}	Alumi	Gold	Platinum			
055 0.208 0.01?	7 0.131	-0.014	0.095		0.210	-0.042	0.121			
027) (0.047) (0.03!	(0.074) (0.074)	(0.041)	(0.042)		(0.031)	(0.095)	(0.035)			
000 0.026 0.000	0° 0.023	0.024	0.004		0.097	0.006	0.003			
000) (0.037) $(0.000$	0) (0.024)	(0.012)	(0.022)		(0.037)	(0.003)	(0.117)			
840° 0.861 0.848	(0.910)	0.880	0.844		0.019	0.990	0.811			
668) (0.285) (1.859)	9) (0.040)	(0.036)	(0.238)		(0.426)	(0.007)	(2.720)			

DCC model of Engle (2002) has a non-linear GARCH type specification for the conditional correlation: $Q_t = (1 - a - b)\overline{Q} + a\epsilon_t \cdot \epsilon'_{t-1} + bQ_{t-1}$. a and b are the so-called news and decay coefficients, respectively. $\overline{Q} = E[\epsilon_t \cdot \epsilon'_{t-1}]$ is the unconditional variance matrix of the standardized residuals (the unconditional correlation) and ρ_{12} represents the unconditional correlation coefficient in matrix \overline{Q} , which are estimated in the second stage.

Table 4: In-sample estimates DCC-GARCH models for exchange rates and commodities.

Au FX	stralia Gas	Alumi	Gold	Brazil FX	Oil	Corn	Soyb1	$\operatorname{Soyb2}$	Canada FX	Oil	Wheat	Alumi	Gold
	-0.027	-0.176	-0.397		-0.171	-0.166 (0.034)	-0.163 (0.035)	-0.227		-0.446 (0.055)	-0.124	-0.181	-0.349
	0.000	0.010	0.046		0.007	0.011	0.008	0.019		0.006	0.002	0.069	0.054
	(0.000) 0.847	(0.001)	(0.023) 0.903		(0.007)	(0.009) 0.945	(0.937)	(0.008) 0.960		(0.003)	(0.010) 0.876	(0.000)	(0.021)
	(0.466)	(0.020)	(0.058)		(0.016)	(0.039)	(0.040)	(0.019)		(0.004)	(0.054)	(0.733)	(0.049)
Ma	laysia		Mexico					Norway					
FX	Gas	Oil	FX	Oil	Copper	Gold	Silver	FX	Gas	Oil	Alumi		
	-0.010	-0.133		-0.222	-0.107	-0.186	-0.245		-0.035	-0.335	-0.158		
	(0.042) 0.008	(0.034) 0.000		(0.075) 0.020	(0.060) 0.013	(0.051)	(0.045) 0.029		(0.032) 0.060	(0.036) 0.038	$(0.041) \\ 0.024$		
	(0.006)	(0.000)		(0.007)	(0.007)	(0.021)	(0.023)		(0.036)	(0.016)	(0.012)		
	0.971	0.802		0.967	0.967	0.846	0.903		0.543	0.870	(0.920)		
	(710.0)	(0001)		(TTDO)	(ntn·n)	(200.0)	(otto)		(202.0)	(nnnn)	(ernn)		
Ru	ssia						South A	frica					
FX	Gas	Oil	Wheat	Alumi	Gold	Platinum	FΧ	Alumi	Gold	Platinum			
	-0.049	-0.410	-0.025	-0.091	-0.124	-0.262		-0.136	-0.342	-0.405			
	(0.029)	(0.130)	(0.032)	(0.041)	(0.253)	(0.036)		(0.048)	(0.044)	(0.027)			
	0.000	210.0	0.049	0.001	600.0	010.0		010.0	0.030	(0.043)			
	(0.000)	(100.0)	(0.031)	(200.0) 0.938	(0.004)	(010.0) 0 802		(0.008)	(0.040)	(0.032)			
	(0.298)	(0.014)	(0.128)	(0.118)	(0.009)	(0.064)		(0.021)	(0.137)	(0.414)			
	×			×		~		×		~			
: This 1	able reports	the in-samp	le estimates	of DCC G	ARCH mode	els for foreign	exchange ra	ates (FX) of	eight coun	tries and com	modity price	SS.	
	nodel of Eng.	le (2002) has ' '	s a non-lines	ar GARCH	type specific	cation for the	conditional	correlation:	$Q_t = (1 - \epsilon)$	$(a-b)Q + a\epsilon_t$	$\epsilon'_{t-1} + bQ_{t-1}$		
a <i>b</i> are uncond	titional correls	news and de ation) and <i>o</i>	cay coefficie	ents, respect ts the uncor	ively. $Q = 1$	$E[\epsilon_t \cdot \epsilon_{t-1}]$ is relation coeff	the uncondr icient in ma	tional varian trix \bar{O} , which	ice matrix c h are estim	of the standarc ated in the sec	dized residua cond stage.	uls	
		I (7T.										

Brazil	$1.244 \\ (0.026) \\ 0.962 \\ (0.036)$	Brazil	$\begin{array}{c} 1.195\\ (0.043)\\ 0.985\\ (0.033)\end{array}$. Copper Gold Silver Platin	$\begin{array}{cccccccccccccccccccccccccccccccccccc$	(ST), foreign exchange (FX) and commodi
Canada	$\begin{array}{c} 1.236 \\ (0.031) \\ 1.082 \\ (0.033) \end{array}$	Canada	$\begin{array}{c} 1.303 \\ (0.041) \\ 1.473 \\ (0.027) \end{array}$	Soybean	$\begin{array}{c} 1.301 \\ (0.041) \\ 1.381 \\ (0.031) \end{array}$	stock index
Mexico	$\begin{array}{c} 1.274 \\ (0.026) \\ 1.042 \\ (0.037) \end{array}$	Mexico	$\begin{array}{c} 1.195\\ (0.036)\\ 0.662\\ (0.036)\end{array}$	Alumi	$\begin{array}{c} 1.179\\ (0.026)\\ 1.113\\ (0.032)\end{array}$	models for
Norway	$\begin{array}{c} 1.284 \\ (0.028) \\ 0.866 \\ (0.031) \end{array}$	Norway	$\begin{array}{c} 1.248 \\ (0.036) \\ 0.783 \\ (0.032) \end{array}$	Wheat	$\begin{array}{c} 1.256 \\ (0.041) \\ 2.307 \\ (0.038) \end{array}$	multifractal
Sth. Africa	$1.296 \\ (0.028) \\ 0.56 \\ (0.032)$	Sth. Africa	$\begin{array}{c} 1.542\\ (0.042)\\ 1.252\\ (0.025) \end{array}$	Corn	$\begin{array}{c} 1.217 \\ (0.038) \\ 1.266 \\ (0.033) \end{array}$	es for univariate i
Russia	$\begin{array}{c} 1.293 \\ (0.028) \\ 0.712 \\ (0.031) \end{array}$	Russia	$\begin{array}{c} 1.157 \\ (0.033) \\ 0.498 \\ (0.028) \end{array}$	Soyb. oil	$\begin{array}{c} 1.209 \\ (0.026) \\ 0.796 \\ (0.038) \end{array}$	nple estimate
Australia	$1.218 \\ (0.025) \\ 1.47 \\ (0.026)$	Australia	$\begin{array}{c} 1.243\\ (0.035)\\ 1.043\\ (0.024) \end{array}$	Crude oil	$\begin{array}{c} 1.228 \\ (0.031) \\ 1.237 \\ (0.045) \end{array}$	orts the in-sam
Malaysia	$ \begin{array}{c} 1.254 \\ (0.026) \\ 0.803 \\ (0.033) \end{array} $	Malaysia	$\begin{array}{c} 1.167 \\ (0.022) \\ 0.604 \\ (0.015) \end{array}$	Gas	$\begin{array}{c} 1.263 \\ (0.031) \\ 2.826 \\ (0.042) \end{array}$	'his table rep
	m_1 m_1 σ	FX	σ m_1		σ σ	Note: T

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Table 5:

Gold	$\begin{array}{c} 0.007\\ (0.016)\\ 0.15\\ (0.020)\end{array}$		
Alumi	$\begin{array}{c} 0.181 \\ (0.021) \\ 0.135 \\ (0.025) \end{array}$		
Wheat	$\begin{array}{c} 0.059 \\ (0.025) \\ 0.15 \\ (0.022) \end{array}$	$\begin{array}{c} \text{Alumi} \\ 0.178 \\ 0.122 \\ (0.022) \\ 0.166 \\ (0.021) \end{array}$	
Oil	$\begin{array}{c} 0.412 \\ (0.028) \\ 0.15 \\ (0.024) \end{array}$	$\begin{array}{c} \text{Oil} \\ 0.347 \\ 0.20) \\ 0.187 \\ (0.022) \end{array}$	$\begin{array}{c} Platinum \\ 0.112 \\ (0.027) \\ 0.150 \\ (0.026) \end{array}$
Canada ST		$\begin{array}{c} {\rm Gas} \\ 0.041 \\ 0.016) \\ 0.160 \\ (0.022) \end{array}$	$\begin{array}{c} \text{Gold} \\ -0.062 \\ (0.028) \\ 0.122 \\ (0.025) \end{array}$
Soyb2	$\begin{array}{c} 0.175\\ (0.025)\\ 0.108\\ (0.026)\end{array}$	Norway ST	$\begin{array}{c} \text{frica} \\ \text{Alumi} \\ 0.232 \\ (0.022) \\ 0.135 \\ (0.025) \end{array}$
Soyb1	$\begin{array}{c} 0.113\\ 0.021)\\ 0.135\\ 0.031)\end{array}$	$\begin{array}{c} \text{Silver} \\ 0.081 \\ 0.011) \\ 0.177 \\ (0.021) \end{array}$	South A ST ST
Corn	$\begin{array}{c} 0.129\\ (0.021)\\ 0.135\\ (0.026) \end{array}$	$\begin{array}{c} Gold \\ -0.042 \\ (0.016) \\ 0.145 \\ (0.019) \end{array}$	$\begin{array}{c} Platinum \\ 0.106 \\ (0.021) \\ 0.176 \\ (0.031) \end{array}$
Oil	$\begin{array}{c} 0.281 \\ (0.020) \\ 0.135 \\ (0.025) \end{array}$	Copper 0.193 0.153 0.153 0.153	$\begin{array}{c} Gold \\ -0.017 \\ (0.036) \\ 0.135 \\ (0.026) \end{array}$
Brazil ST		$\begin{array}{c} \text{Oil} \\ 0.224 \\ 0.018 \\ 0.120 \\ (0.012) \end{array}$	$\begin{array}{c} \text{Alumi} \\ 0.144 \\ (0.031) \\ 0.185 \\ (0.026) \end{array}$
Gold	$\begin{array}{c} -0.086\\ (0.016)\\ 0.135\\ (0.025)\end{array}$	Mexico ST	Wheat 0.027 (0.028) 0.177 (0.024)
Alumi	$\begin{array}{c} 0.084 \\ (0.013) \\ 0.154 \\ (0.025) \end{array}$	$\begin{array}{c} \text{Oil} \\ \text{Oil} \\ 0.055 \\ 0.015 \\ 0.224 \\ (0.015) \end{array}$	$\begin{array}{c} \text{Oil} \\ 0.221 \\ (0.027) \\ 0.169 \\ (0.024) \end{array}$
tralia Gas	$\begin{array}{c} -0.061 \\ (0.013) \\ 0.135 \\ (0.024) \end{array}$	$\begin{array}{c} \begin{array}{c} \text{laysia} \\ \text{Gas} \\ 0.013 \\ 0.006 \\ 0.135 \\ 0.135 \end{array} \\ (0.011) \end{array}$	$\begin{array}{c} \frac{\text{ssia}}{\text{Gas}} \\ 0.057 \\ 0.185 \\ 0.185 \\ (0.022) \end{array}$
$\frac{Aus}{ST}$	σΚ	$\frac{Ma}{ST}$	$\begin{array}{c c} R_{\rm US} \\ ST \\ \rho \\ \lambda \end{array}$

Table 6: In-sample estimates of bivariate multifractal models for stock markets indices and commodities prices.

Note: This table reports the in-sample estimates for the bivariate mutitractal models for some muces of λ is the second step of particle filter apprach (with number of particles being 10000), Since we adopt two-stage estimation for bivariate MSM models, it is the second step of particle filter apprach (with number of particles being 10000), here we report the extra bivariate parameters estimates of $\{\rho, \lambda\}$, and numbers in parentheses are standard errors.

Gold	$\begin{array}{c} -0.276\\ (0.033)\\ 0.140\\ (0.021) \end{array}$				
Alumi	$\begin{array}{c} -0.177 \\ (0.030) \\ 0.195 \\ (0.035) \end{array} $				
Wheat	$\begin{array}{c} -0.119 \\ (0.028) \\ 0.137 \\ (0.032) \end{array}$	$\begin{array}{c} \text{Alumi} \\ -0.158 \\ (0.028) \\ 0.15 \\ (0.035) \end{array}$			
Oil	$\begin{array}{c} -0.488\\ (0.032)\\ 0.146\\ (0.020) \end{array}$	Oil -0.314 (0.027) 0.165 (0.036)	Platinum	$\begin{array}{c} -0.406\\ (0.021)\\ 0.157\\ (0.036) \end{array}$	
Canada FX		$\begin{array}{c} \text{Gas} \\ -0.049 \\ (0.027) \\ 0.135 \\ (0.037) \end{array}$	Gold	$\begin{array}{c} -0.265 \\ (0.017) \\ 0.215 \\ (0.036) \end{array}$	
$\operatorname{Soyb2}$	$\begin{array}{c} -0.198\\ (0.027)\\ 0.133\\ (0.028) \end{array}$	Norway FX	frica Alumi	$\begin{array}{c} -0.142 \\ (0.015) \\ 0.135 \\ (0.033) \end{array}$	
$\operatorname{Soyb1}$	$\begin{array}{c} -0.157 \\ (0.021) \\ 0.180 \\ (0.031) \end{array}$	$\begin{array}{c} \text{Silver} \\ -0.214 \\ (0.021) \\ 0.15 \\ (0.031) \end{array}$	South A: FX		
Corn	$\begin{array}{c} -0.166\\ (0.016)\\ 0.135\\ (0.021)\end{array}$	Gold -0.121 (0.025) 0.135 (0.036)	Platinum	$\begin{array}{c} -0.183 \\ (0.011) \\ 0.158 \\ (0.031) \end{array}$	
Oil	$\begin{array}{c} -0.217\\ (0.022)\\ 0.137\\ (0.023)\end{array}$	Copper -0.101 (0.020) 0.15 (0.033)	Gold	$\begin{array}{c} -0.036\\ (0.018)\\ 0.15\\ (0.026) \end{array}$	
Brazil FX		$\begin{array}{c} \text{Oil} \\ -0.274 \\ (0.022) \\ 0.135 \\ (0.038) \end{array}$	Alumi	$\begin{array}{c} -0.089\\ (0.017)\\ 0.135\\ (0.020) \end{array}$	
Gold	$\begin{array}{c} -0.321 \\ (0.018) \\ 0.135 \\ (0.022) \end{array}$	Mexico FX	Wheat	$\begin{array}{c} -0.014 \\ (0.020) \\ 0.115 \\ (0.025) \end{array}$	
Alumi	$\begin{array}{c} -0.177 \\ (0.015) \\ 0.165 \\ (0.020) \end{array}$	$\begin{array}{c} \text{Oil} \\ -0.096 \\ (0.015) \\ 0.164 \\ (0.035) \end{array}$	Oil	$\begin{array}{c} -0.41 \\ (0.015) \\ 0.135 \\ (0.025) \end{array}$	
tralia Gas	$\begin{array}{c} -0.025 \\ (0.010) \\ 0.187 \\ (0.020) \end{array}$	$\begin{array}{c} \underline{\text{aysia}} \\ \underline{\text{Gas}} \\ -0.009 \\ 0.167 \\ 0.167 \\ (0.031) \end{array}$	sia Gas	$\begin{array}{c} -0.047 \\ (0.012) \\ 0.135 \\ (0.027) \end{array}$	
Aust FX	σ	$\frac{\text{Mali}}{\text{FX}}$	Rus: FX	d K	

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ır Platinum	$\begin{array}{c} 0.955\\ 0.971\\ 7 & 0.978\\ 0.987\\ 0.994\\ 0.998\end{array}$		
Silve	16.0 186.0 186.0 186.0 186.0 186.0 186.0		
Gold	$\begin{array}{c} 0.948\\ 0.965\\ 0.983\\ 0.998\\ 0.998\\ 1.001\\ 0.997\end{array}$		
Copper	$\begin{array}{c} 0.964 \\ 0.986 \\ 0.994 \\ 0.992 \\ 0.996 \\ 0.994 \\ 0.994 \end{array}$	$\begin{array}{c} \text{Brazil} \\ 0.916 \\ 0.972 \\ 0.990 \\ 1.002 \\ 1.003 \\ 1.003 \end{array}$	$\begin{array}{c} \text{Brazil} \\ 0.922 \\ 0.940 \\ 0.952 \\ 0.952 \\ 0.965 \\ 0.998 \\ 1.011 \end{array}$
Soybeam	$\begin{array}{c} 0.958\\ 0.959\\ 0.976\\ 0.984\\ 0.99\\ 0.993\end{array}$	Canada 0.943 0.982 0.992 1.001 1.003 1.003	Canada 0.905 0.924 0.951 0.969 0.989 0.996
Soyb. oil	$\begin{array}{c} 0.920\\ 0.948\\ 0.958\\ 0.971\\ 0.986\\ 0.996\end{array}$	Mexico 0.847 0.914 0.942 0.968 0.985 0.993	Russia 0.645 0.690 0.732 0.759 0.847 0.847 0.929
Almum	$\begin{array}{c} 0.945\\ 0.943\\ 0.951\\ 0.961\\ 0.977\\ 0.989\end{array}$	Norway 0.896 0.954 0.974 0.997 1.008 1.008	Mexico 0.837 0.901 0.946 0.990 1.013 1.015
Wheat	$\begin{array}{c} 0.992\\ 0.992\\ 0.999\\ 1.001\\ 1.000\\ 1.003\\ 1.003\end{array}$	Sth Africa 0.919 0.958 0.975 0.975 0.995 1.003 1.002	Norway 0.948 0.996 0.996 1.001 1.003 1.003
Corn	$\begin{array}{c} 0.979\\ 0.980\\ 0.984\\ 0.989\\ 0.997\\ 1.001\end{array}$	Russia 0.915 0.953 0.996 1.010 1.004	S.Africa 0.940 0.954 0.966 0.983 0.990 0.987
Oil	$\begin{array}{c} 0.978\\ 0.990\\ 0.994\\ 0.997\\ 1.001\\ 1.000\end{array}$	Australia 0.898 0.979 0.97 1.002 1.002	Australia 0.948 0.985 0.997 1.004 1.005
Gas	$\begin{array}{c} 0.936\\ 0.937\\ 0.951\\ 0.965\\ 0.991\\ 1.003\end{array}$	Malaysia 0.911 0.955 0.973 0.989 0.989 1.002	Malaysia 0.458 0.510 0.519 0.549 0.682 0.682
Horizons	100^{100}	$100 \\ 100 $	100
Commodities		ST	FX

Table 8: The performance metrics for out-of-sample volatility forecasts based on the univariate multifractal model.

Note: This table reports the relative MSE for the out-of-sample volatility forecasts based on the univariate multifractal models.

																						.
		Soyb2	0.956	0.969	1.004	1.012	1.015									Alumi	0.965	0.967	0.995	1.003	1.005	
H model.		\mathbf{ST}	0.793	0.936	0.998	1.010	1.011									$\mathbf{T}\mathbf{S}$	0.832	0.894	1.012	1.015	1.012	
GARCI		Soyb1	0.882	0.898	0.905	$0.944 \\ 0.944$	0.969		Oil	0.926	0.971	0.986	0.991	1.011 1.010		Oil	0.929	0.973	0.985	1.018	1.009	
the DCC		\mathbf{TS}	0.794	0.936	1 017	1.010	1.011		ST	0.861	0.936	1.034	1.057	1.012		\mathbf{TS}	0.831	0.897	1.009	1.009	1.008	
is from t		Corn	0.987	0.985	0.991	1.002	1.007	sia	Gas	0.945	0.952	0.975	0.984	1.020 1.027	у	Gas	0.944	0.954	0.986	1.020	1.029	
forecast		\mathbf{TS}	0.794	0.939	1 017	1.008	1.011	Malay	\mathbf{ST}	0.862	0.937	1.033	1.059	1.017 1.016	Norwa	$\mathbf{T}\mathbf{S}$	0.831	0.892	1.002	1.004	1.003	
olatility		Oil	0.925	0.973	0.983	1.018	1.006		Gold	0.965	0.979	0.992	1.009	1.006 1.015		Silver	0.947	0.965	0.976	0.983	0.986	
sample v	Brazil	\mathbf{ST}	0.793	0.933	0.990	1.002	0.999		\mathbf{ST}	0.731	0.917	1.042	1.073	1.022 1.019		$\mathbf{T}\mathbf{S}$	0.778	0.858	0.973	0.987	0.993	
: out-of-		Gold	0.965	0.976	1.010	1.013	0.998		Alumi	0.963	0.968	0.982	0.997	$1.004 \\ 1.006$		Gold	0.965	0.979	1.008	1.011	0.998	
etrics for		$\mathbf{T}\mathbf{S}$	0.713	0.842	1.057	1.062	1.026		\mathbf{ST}	0.725	0.912	1.047	1.087	1.032 1.014		$\mathbf{T}\mathbf{S}$	0.771	0.858	0.0390	0.982	1.001	
rmance m		Alumi	0.959	0.968	0.980	1.010	1.010		Wheat	0.986	0.991	0.997	0.999	1.005 1.006		Copper	0.982	0.996	0.998	1.002	1.093	
he perfo		\mathbf{ST}	0.714	0.847	0.989 1 069	1.038	1.029		\mathbf{ST}	0.724	0.910	1.042	1.083	1.023 1.011		$\mathbf{T}\mathbf{S}$	0.778	0.851	0.630	0.982	0.998	-
ble 9: T	lia	Gas	0.944	0.954	0.978	1.019	1.025	a a	Oil	0.927	0.974	0.984	0.990	1.018 1.013		Oil	0.925	0.970	0.985	1.018	1.006	
Tal	Austra	\mathbf{TS}	0.711	0.845	0.989	1.042	1.026	Canad	ST	0.727	0.909	1.045	1.087	1.029 1.003	Mexico	\mathbf{TS}	0.779	0.856	0.590	0.987	0.998	
			1	νο,	10 90	20	100			,	-ro	10	$\frac{20}{20}$	100 100			Η	то г	01 01	50	100	

Note: This table reports the relative MSE for the out-of-sample volatility forecasts based on the DCC model, st denotes stock index for each countries.

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RCH model.		Platinum	0 925	0.955	0.986	0.991	0.989	0.987										
CC-GAI		S.L.	0.853	0.902	0.972	0.997	1.013	1.012										
n the D		Gold	0 967	0.978	0.995	1.008	1.013	1.019										
asts fro		ST	0 855	0.907	0.974	0.997	1.006	1.006										
lity forec		Alumi	0 963	0.968	0.984	0.997	1.001	1.006										
ole volati		S.T.S	0 858	0.914	0.965	0.995	1.006	1.008										
out-of-samp		Wheat	0.983	0.991	0.997	1.009	1.007	1.010		Platinum	000	0.928	0.957	0.984	0.998	0.990	0.991	
trics for		ST.	0.850	0.911	0.966	0.997	1.007	1.008		ST	204 0	0.190	0.877	0.970	1.021	1.018	1.016	
ance me		OII	0 925	0.972	0.984	0.988	1.018	1.002		Gold		0.900	0.977	0.994	1.010	1.015	0.991	
perform		ST	0 858	0.912	0.968	1.002	1.009	1.008		\mathbf{ST}	004.0	U. 189	0.878	0.975	1.021	1.019	1.018	
10: The	C	Gas	0 942	0.956	0.977	0.986	1.019	1.023	Africa	Alumi	0000	0.902 0	0.966	0.984	0.997	1.001	1.006	
Table .	Russia	ST.	0 858	0.912	0.968	0.997	1.006	1.002	South .	\mathbf{T}	0 701	<u>0.791</u>	0.878	0.973	1.028	1.015	1.006	
				ır:	10	20	50	100			-		ഹ	10	20	50	100	

Note: This table reports the relative MSE for the out-of-sample volatility forecasts based on the DCC model, st denotes stock index for each countries.

	Table 11	L'he pe	rtormanc	e metrics	tor out-ot-	-sample v	/olat111ty	forecasts	from the	DIVATIAte	multifrac	tal mode		
	Australi	a					Brazil							
	\mathbf{TS}	Gas	\mathbf{ST}	Alumi	\mathbf{TS}	Gold	\mathbf{ST}	Oil	$\mathbf{T}\mathbf{S}$	Corn	\mathbf{ST}	Soyb1	\mathbf{TS}	Soyb2
بر <i>ب</i> ے	0.895	0.932^{*}	0.897	0.947^{*}	0.896	0.939^{*}	0.914	0.977	0.917	0.976^{*}	0.918	0.918	0.917	0.958
01 10	0.926	0.931	0.954^{*}	0.940 0.954^{*}	0.953^{*}	0.974^{*}	0.952	0.980	0.977^*	0.974^{*}	1.957 0.979*	0.935	0.977*	0.988*
20	0.988^{*}	0.954^{*}	0.991^{*}	0.961^{*}	0.991^{*}	1.004^{*}	0.983^{*}	0.988	1.003^{*}	0.973^{*}	1.003	0.944	1.003^{*}	1.011
50	1.005^{*}	0.989^{*}	1.006^{*}	0.985^{*}	1.005^{*}	1.024	1.016	1.004^{*}	$0.984^{*\dagger}$	0.993^{*}	1.005^{*}	0.946^{*}	1.016	1.012
100	1.014^{*}	1.009^{*}	1.015^{*}	0.961^{*}	1.015^{*}	0.980^{*}	1.018	1.002^{*}	$0.991^{*\uparrow}$	1.000^{*}	1.008^{*}	0.957	1.018	0.996^{*}
	Canada								Malaysia	Ē				
	LS	0:1	\mathbf{TS}	Wheat	$\mathbf{T}\mathbf{S}$	Alumi	\mathbf{TS}	Gold	ST	Gas	\mathbf{TS}	Oil		
Η	0.942	0.976	0.941	0.988	0.943	0.940^{*}	0.943	0.945^{*}	0.857^{*}	0.936^{*}	0.859	0.978		
Ω	0.968	0.985	0.963	0.994	0.968	0.941^{*}	0.967	0.958^{*}	0.936	0.933^{*}	0.935	0.985		
$^{10}_{20}$	0.999*	0.988^{*}	0.998*	1.004	0.999*	0.962^{*}	0.999	1.004^{*}	1.050°	0.953^{+4}	1.050^{*}	0.988^{*}		
50	1.008^{*}	1.004^{*}	1.009^{*}	1.019	1.009^{*}	0.985^{*}	1.009^{*}	0.993^{*}	1.007^{*}	0.989^{*}	1.007^{*}	1.004^{*}		
100	$0.994^{*\dagger}$	1.002^{*}	1.003^{*}	1.040	1.009^{*}	0.967^{*}	1.010^{*}	0.998^{*}	1.002^{*}	1.008^{*}	1.002^{*}	1.002^{*}		
	Mexico								Norway					
	IS	Oil	LS	Copper	LS	Gold	\mathbf{TS}	Silver	LI	Gas	$\mathbf{T}\mathbf{S}$	Oil	\mathbf{TS}	Alumi
μ,	0.830^{\dagger}	0.977	0.837	0.964^{*}	0.834	0.946^{*}	0.832	0.913^{*}	0.890^{\dagger}	0.930^{*}	0.901	0.977	0.889	0.944^{*}
ъ,	0.888	0.985	0.886	0.990^{*}	0.883	0.959^{*}	0.880	0.943^{*}	0.932	0.930^{*}	0.938	0.985	0.929	0.941^*
10 20	0.906	0.984	0.904	1.006	0.901	0.980^{*}	0.901	0.954^{*}	0.945	0.944^{*}	0.953	0.984	0.943	0.950^{*}
202	0.975^{*}	1.004^{*}	0.968^{*}	1.027	0.967^{*}	1.020	0.968^{*}	0.991	1.032	0.988^{*}	1.032	1.004^{*}	1.032	0.984^{*}
100	1.037	1.002	1.035	1.000^{*}	1.036	0.980^{*}	1.037	0.960^{*}	1.024	1.009^{*}	1.025	1.002^{*}	1.025	0.962^{*}
Note: ⁷	This table re	sports the 1	relative MS	SE for the o	ut-of-sampl	e volatility	forecasts	based on th	he bivariate	multifract	al model, s	t denotes s	tock index	
for eac. forecast	h countries.	* indicate untry's ST	es an impr when com	ovement of bining differ	the bivaria	te MF mo dities at tl	del against he 5% leve	t the DCC I: All comp	GARCH n arisons are	based on t	e 5% level; he test stat	; † indicate Jistics of D	es the best iebold and	
Marian	o (1995).	\$		D				•						

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Platinum	$\begin{array}{c} 0.955 \\ 0.966 \\ 0.970^{*} \end{array}$	$\begin{array}{c} 0.979^{*} \\ 0.983^{*} \\ 0.981^{*} \end{array}$		
\mathbf{TS}	$\begin{array}{c} 0.901 \\ 0.935 \\ 0.961^{*} \end{array}$	$\begin{array}{c} 0.992 \\ 1.033 \\ 1.029 \end{array}$		
Gold	$\begin{array}{c} 0.945^{*} \\ 0.957^{*} \\ 0.979^{*} \end{array}$	1.004^{*} 1.007^{*} 0.981^{*}		
$\mathbf{T}\mathbf{S}$	$\begin{array}{c} 0.903 \\ 0.933 \\ 0.959^{*} \end{array}$	$\begin{array}{c} 0.993 \\ 1.035 \\ 1.031 \end{array}$		
Alumi	$\begin{array}{c} 0.957^{*} \\ 0.944^{*} \\ 0.955^{*} \end{array}$	0.968^{*} 0.988^{*} 0.960^{*}		
\mathbf{TS}	$\begin{array}{c} 0.906 \\ 0.933 \\ 0.959^{*} \end{array}$	$\begin{array}{c} 0.991 \\ 1.033 \\ 1.029 \end{array}$		
Wheat	$\begin{array}{c} 0.992 \\ 0.994 \\ 1.004 \end{array}$	$1.008 \\ 1.011 \\ 1.029$	Platinum	$\begin{array}{c} 0.952 \\ 0.962 \\ 0.968^{*} \\ 0.977^{*} \\ 0.982^{*} \\ 0.981^{*} \end{array}$
\mathbf{ST}	$\begin{array}{c} 0.906 \\ 0.933 \\ 0.959^{*} \end{array}$	$\begin{array}{c} 0.990^{*} \\ 1.033 \\ 1.029 \end{array}$	\mathbf{ST}	$\begin{array}{c} 0.906\\ 0.931\\ 0.948*\\ 0.948*\\ 0.987*\\ 1.010*\\ 1.007* \end{array}$
0il	$\begin{array}{c} 0.978 \\ 0.985 \\ 0.984 \end{array}$	$\begin{array}{c} 0.988 \\ 1.004^{*} \\ 0.997^{*} \end{array}$	Gold	$\begin{array}{c} 0.946*\\ 0.959*\\ 0.981*\\ 1.005*\\ 1.006*\\ 0.981*\\ \end{array}$
\mathbf{TS}	$\begin{array}{c} 0.895 \\ 0.931 \\ 0.957^{*} \end{array}$	$\begin{array}{c} 0.993^{*} \\ 1.000^{*} \\ 1.001^{*} \end{array}$	ST	$\begin{array}{c} 0.904 \\ 0.928 \\ 0.946^{*} \\ 0.986^{*} \\ 0.998^{*} \\ 1.011^{*} \end{array}$
Gas	$\begin{array}{c} 0.932^{*} \\ 0.930^{*} \\ 0.943^{*} \end{array}$	$\begin{array}{c} 0.953^{*} \\ 0.991^{*} \\ 1.012^{*} \end{array}$	Alumi Alumi	$\begin{array}{c} 0.941^*\\ 0.943^*\\ 0.952^*\\ 0.964^*\\ 0.986^*\\ 0.967^*\end{array}$
Russia ST	$\begin{array}{c} 0.908 \\ 0.935 \\ 0.962^{*} \end{array}$	$\begin{array}{c} 0.993 \\ 1.034 \\ 1.030 \end{array}$	$\frac{\text{South }A}{\text{ST}}$	$\begin{array}{c} 0.905\\ 0.929\\ 0.946*\\ 0.986*\\ 1.010*\\ 0.998* \end{array}$
	$10 \frac{1}{10}$	$ \begin{array}{c} 20 \\ 100 \\ 100 \end{array} $		100 100 100

Table 12: The performance metrics for out-of-sample volatility forecasts from the bivariate multifractal model.

Note: This table reports the relative MSE for the out-of-sample volatility forecasts based on the bivariate multifractal model, st denotes stock index for each countries. * indicates an improvement of the bivariate MF model against the DCC GARCH model at the 5% level; [†] indicates the best forecast of each country's ST when combining different commodities at the 5% level; All comparisons are based on the test statistics of Diebold and Mariano (1995).

																each
s.	Soyb2	0.953	0.993 1.007	1.011 1.011							Alumi	0.962	0.984	1.001	1.006	ange rate
I model	FX	0.933	0.975 0.982	1.006 1.012							FΧ	0.937	1.017	$1.024 \\ 1.026$	1.019	eign exch.
GARCF	Soyb1	$0.882 \\ 0.898$	0.905 0.919	$0.944 \\ 0.969$		Oil	$\begin{array}{c} 0.925 \\ 0.970 \\ \end{array}$	$0.984 \\ 0.988$	$1.018 \\ 1.002$		Oil	$\begin{array}{c} 0.929 \\ 0.973 \end{array}$	0.984	1.018	1.009	enotes fore
on DCC	FX	0.936	$0.974 \\ 0.986$	1.006 1.011		FX	$0.495 \\ 0.609 \\ 0.609 \\ 0.609 \\ 0.609 \\ 0.609 \\ 0.609 \\ 0.609 \\ 0.600 \\ 0.60$	$0.792 \\ 0.904$	$0.939 \\ 1.102$		FX	$\begin{array}{c} 0.941 \\ 0.985 \end{array}$	1.012	1.023	1.020	del, <i>FX</i> de
s based	Corn	0.987 0.985	$0.991 \\ 0.988$	1.002 1.007	iia.	Gas	$\begin{array}{c} 0.944 \\ 0.954 \end{array}$	$0.978 \\ 0.986$	$1.025 \\ 1.029$	A	Gas	$0.944 \\ 0.954$	0.978	1.020	1.029	DCC mo
forecast	FX	$0.926 \\ 0.951$	0.970 0.983	1.010 1.011	Malavs	FX	$\begin{array}{c} 0.424 \\ 0.483 \end{array}$	$0.511 \\ 0.548$	$0.617 \\ 0.739$	Norwa	FX	$0.934 \\ 0.983$	1.018	$1.024 \\ 1.024$	1.017	ed on the
olatility	Oil	0.925 0.973	0.985 0.985	$1.018 \\ 1.006$		Gold	$0.967 \\ 0.976$	$0.996 \\ 1.009$	$1.006 \\ 0.989$		Silver	0.947	0.969	0.983	0.986	ecasts bas
ample v	Brazil FX	$0.934 \\ 0.956$	$0.972 \\ 0.989$	1.003 1.002		FX	$0.978 \\ 1.008 $	$1.011 \\ 1.002$	$0.998 \\ 1.006$		FX	$\begin{array}{c} 0.753 \\ 0.814 \end{array}$	0.917	1.007	1.013	atility fore
out-of-s	Gold	0.968	$0.994 \\ 1.009$	$1.003 \\ 0.985$		Alumi	$0.963 \\ 0.968 \\ 0.96$	$0.982 \\ 0.997$	$1.004 \\ 1.006$		Gold	$0.968 \\ 0.79$	0.992	1.003	0.990	ample vol
etrics for	FX	0.953	$0.992 \\ 1.011$	1.025 1.035		FX	$0.978 \\ 1.007$	$1.012 \\ 1.003$	1.003 1.005		FΧ	0.755 0.805	0.911	1.009	1.011	ie out-of-s
mance m	Alumi	0.963	$0.982 \\ 0.997$	$1.004 \\ 1.009$		Wheat	$\begin{array}{c} 0.986 \\ 0.991 \\ 0.991 \end{array}$	$0.997 \\ 0.999$	$0.998 \\ 1.002$		Copper	$0.982 \\ 0.996$	0.998	1.003	1.093	MSE for th
te perfor	FX	0.955 0.979	0.991 1.010	1.031 1.035		FX	$0.978 \\ 1.004$	$1.010 \\ 1.008$	$1.002 \\ 1.001$		FX	$0.758 \\ 0.804$	0.905	1.012	1.012	le relative
le 13: Tł	lia Gas	$0.944 \\ 0.954$	0.986	$1.019 \\ 1.025$	ŀ	Oil	$\begin{array}{c} 0.927 \\ 0.974 \\ 0.974 \end{array}$	$0.984 \\ 0.990$	$1.018 \\ 1.013$		Oil	$\begin{array}{c} 0.925 \\ 0.970 \end{array}$	0.983	1.018	1.006	reports th
Tabl	Austra FX	0.957	$0.994 \\ 1.012$	$1.032 \\ 1.034$	Canadá	FX	$0.978 \\ 0.992 \\ 0.992 \\ 0.992 \\ 0.992 \\ 0.$	$1.002 \\ 1.003$	$1.011 \\ 1.012$	Mexico	FX	0.769	0.912	0.998	0.998	his table
		rc	10^{10}	$100 \\ 100$			цъ;	$^{10}_{20}$	100 100			н v:	10	200	100	Note: T

Note: This table reports the relative w country's currency to the US dollar.

RCH model.	Platinum	$\begin{array}{c} 0.925\\ 0.955\\ 0.986\\ 0.981\\ 0.981\\ 0.981\end{array}$		
CC-GA]	FX	$\begin{array}{c} 0.653\\ 0.705\\ 0.755\\ 0.755\\ 0.752\\ 0.885\\ 0.885 \end{array}$		
n the D	Gold	$\begin{array}{c} 0.967 \\ 0.977 \\ 0.994 \\ 1.008 \\ 1.013 \\ 1.019 \end{array}$		
asts fror	FX	$\begin{array}{c} 0.653\\ 0.755\\ 0.755\\ 0.829\\ 0.885\\ 0.885 \end{array}$		
ity forec	Alumi	$\begin{array}{c} 0.963\\ 0.968\\ 0.984\\ 0.997\\ 1.001\\ 1.006 \end{array}$		
le volatil	FX	$\begin{array}{c} 0.657\\ 0.707\\ 0.756\\ 0.756\\ 0.759\\ 0.822\\ 0.879\end{array}$		
out-of-samp	Wheat	$\begin{array}{c} 0.983\\ 0.991\\ 0.997\\ 1.009\\ 1.007\\ 1.007 \end{array}$	Platinum	$\begin{array}{c} 0.925\\ 0.952\\ 0.986\\ 0.988\\ 0.988\\ 0.989\\ 0.986\\ \end{array}$
rics for	FX	$\begin{array}{c} 0.658\\ 0.711\\ 0.758\\ 0.762\\ 0.833\\ 0.876\\ 0.876 \end{array}$	FX	$\begin{array}{c} 0.951\\ 0.957\\ 0.973\\ 1.010\\ 1.021\\ 1.022\\ 1.022\end{array}$
ance met	Oil	$\begin{array}{c} 0.925\\ 0.972\\ 0.984\\ 0.988\\ 1.018\\ 1.002 \end{array}$	Gold	$\begin{array}{c} 0.967\\ 0.979\\ 0.994\\ 1.008\\ 1.005\\ 0.989\end{array}$
perform	FX	$\begin{array}{c} 0.653\\ 0.710\\ 0.751\\ 0.759\\ 0.825\\ 0.879\\ 0.879\end{array}$	FX	$\begin{array}{c} 0.943\\ 0.955\\ 0.971\\ 1.013\\ 1.024\\ 1.028\end{array}$
14: The	Gas	$\begin{array}{c} 0.942 \\ 0.956 \\ 0.977 \\ 0.986 \\ 1.019 \\ 1.023 \end{array}$	Africa Alumi	$\begin{array}{c} 0.962 \\ 0.966 \\ 0.984 \\ 0.997 \\ 1.001 \\ 1.006 \end{array}$
Table .	Russia FX	$\begin{array}{c} 0.653\\ 0.755\\ 0.755\\ 0.752\\ 0.829\\ 0.885\\ 0.885 \end{array}$	South . FX	$\begin{array}{c} 0.943\\ 0.959\\ 0.975\\ 1.013\\ 1.023\\ 1.028\end{array}$
		$100 \\ 100 $		100 100 100 100 100 100 100 100 100 100

Note: This table reports the relative MSE for the out-of-sample volatility forecasts based on the DCC model, FX denotes foreign exchange rate each country's currency to the US dollar.

FX Gas FX Alumi FX Gold FX Oil FX Corn FX Soybil FX	FX Gas FX Ahumi FX Gold FX Oil FX Sovbl FX Sovpl Sovpl FX Sovpl Sovpl FX<	FX Gas FX Alumi FX Gold FX Gas FX Alumi FX Gold FX Com FX Soybl FX 1 0.932* 0.934* 0.944* 0.949* 0.944* 0.944* 0.944* 0.944* 0.944* 0.944* 0.944* 0.946* 0.935* 0.935* 0.935* 0.935* 0.936* 0.936* 0.946*		Australi	a					Brazil							
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	$ \begin{array}{ c c c c c c c c c c c c c c c c c c c$		FX	Gas	FX	Alumi	FX	Gold	FX	Oil	FX	Corn	FX	Soyb1	FX	Soyb2
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$		$0.952 \\ 0.079^{*}$	0.934^{*}	$0.951 \\ 0.70*$	0.940* 0.940*	0.949	0.950	$0.923^{*}_{0.044}$	0.978	$0.917^{*}_{0.010*}$	$0.975^{*}_{0.074*}$	0.921^{*}	0.918	$0.923^{*}_{0.042*}$	0.959
$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	0	0.981^{*}	0.946^{*}	0.982^{*}	0.950^{*}	0.978	0.977^{*}	0.961^{*}	0.984	0.959^{*}	0.973^{*}	0.956^{*}	0.936	0.957^{*}	0.989
$ \begin{array}{ c c c c c c c c c c c c c c c c c c c$	$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	0	0.998^{*}	0.955^{*}	0.999^{+}	0.964^{*}	0.994	1.003^{*}	0.976^{*}	0.989	0.972^{*}	0.972^{*}	0.967^{*}	0.945	0.967^{*}	0.997^{*}
$ \begin{array}{ c c c c c c c c c c c c c c c c c c c$	$ \begin{array}{ c c c c c c c c c c c c c c c c c c c$	$ \begin{array}{ c c c c c c c c c c c c c c c c c c c$	0	1.021^{*}	0.990^{*}	1.020^{*}	0.986^{*}	1.015	1.017^{*}	0.985^{*}	1.004^{*}	0.988^{*}	0.993^{*}	0.986^{*}	0.946	0.991^{*}	1.003^{*}
$ \begin{array}{ c c c c c c c c c c c c c c c c c c c$	$ \begin{array}{c c c c c c c c c c c c c c c c c c c $	$ \begin{array}{c c c c c c c c c c c c c c c c c c c $	00	1.022^{*}	1.010^{*}	1.025^{*}	0.966^{*}	1.021^{*}	0.972^{*}	0.992^{*}	1.003	1.001^{*}	1.002^{*}	0.997^{*}	0.956^{*}	1.002^{*}	1.002^{*}
FXOilFXWheatFXAlumiFXGoldFXGasFXOil $0.903*^{\dagger}$ 0.947^{\ast} 0.945^{\ast} 0.977 0.977 0.947^{\ast} 0.945^{\ast} 0.947^{\ast} 0.945^{\ast} 0.957^{\ast} 0.947^{\ast} 0.476^{\ast} 0.985° 0.977 0.985° 0.947° 0.945° 0.945° 0.945° 0.945° 0.942° $0.942^{$	FX Oil FX	FX Oil FX		Canada								Malaysia	F				
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	$ \begin{array}{cccccccccccccccccccccccccccccccccccc$		FX	Oil	FX	Wheat	FX	Alumi	FX	Gold	FX	Gas	FX	Oil		
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	$\begin{array}{cccccccccccccccccccccccccccccccccccc$	$ \begin{array}{cccccccccccccccccccccccccccccccccccc$		$0.903^{*\dagger}$	0.977	0.947^{*}	0.990	0.942^{*}	0.945^{*}	0.935^{*}	0.947^{*}	0.448^{\dagger}	0.932^{*}	0.655	0.978		
$ \begin{array}{ c c c c c c c c c c c c c c c c c c c$	$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$		$0.924^{*\dagger}$	0.984	0.949^{*}	0.995	0.951^{*}	0.944^{*}	0.950^{*}	0.957^{*}	$0.471^{*\dagger}$	0.930^{*}	0.776	0.985		
$ \begin{array}{ c c c c c c c c c c c c c c c c c c c$	$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	0	$0.945^{*\dagger}$	0.983	1.021^{*}	1.006	1.025	0.954^{*}	1.015	0.977^{*}	$0.496^{*\dagger}$	0.945^{*}	0.862	0.985		
$ \begin{array}{ c c c c c c c c c c c c c c c c c c c$	$ \begin{array}{ c c c c c c c c c c c c c c c c c c c$	$\begin{array}{c ccccccccccccccccccccccccccccccccccc$		$0.964^{*\dagger}$	0.988	1.065	1.011	1.071	0.966^{*}	1.073	1.005^{*}	$0.543^{*\dagger}$	0.952^{*}	0.935	0.989		
$\begin{array}{ c c c c c c c c c c c c c c c c c c c$	$ \begin{array}{ c c c c c c c c c c c c c c c c c c c$	$\begin{array}{ c c c c c c c c c c c c c c c c c c c$		$1.007^{*^{\dagger}}$	1.003^{*}	1.141	1.015	1.141	0.988^{*}	1.146	1.021	$0.600^{*\dagger}$	0.988^{*}	1.040	1.004^{*}		
$\begin{array}{ c c c c c c c c c c c c c c c c c c c$	Mexico Norway FX Oil FX Copper FX Gold FX Silver FX Oil FX Oil FX Oil FX Oil FX Oil FX Oil FX Alumi 0.839 0.977 0.826 0.963* 0.828 0.944* 0.816*† 0.910* 0.945 0.931* 0.977 0.948 0.942* 0.890 0.984 0.875 0.956* 0.860*† 0.942* 0.977* 0.948 0.943* 0.944* 0.942* 0.944* 0.942* 0.942* 0.944* 0.953* 0.942* 0.944* 0.942* 0.944* 0.953* 0.944* 0.955* 0.944* 0.954* 0.944* 0.953* 0.944* 0.954* 0.944* 0.954* 0.944* 0.953* 0.995* 0.995* 0.995* 0.995* 0.995* 0.995* 0.995* 0.996* 0.906* 1.017* 1.001* 0.995* 0.996* 0.906* 1.015* 1.	Mexico Norway FX Oil FX Copper FX Gold FX Oil FX Oil<	00	$1.007^{*^{\ddagger}}$	1.002^{*}	1.203	1.038	1.206	0.970^{*}	1.217	0.978^{*}	$0.694^{*\dagger}$	1.008^{*}	1.244	1.003		
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$\begin{array}{cccccccccccccccccccccccccccccccccccc$	$\begin{array}{cccccccccccccccccccccccccccccccccccc$	$\begin{array}{cccccccccccccccccccccccccccccccccccc$		0.839	0.977	0.826	0.963^{*}	0.828	0.944^{*}	$0.816^{*\dagger}$	0.910^{*}	0.945	0.931^{*}	0.950	0.977	0.948	0.942^{*}
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	$\begin{array}{c ccccccccccccccccccccccccccccccccccc$		0.890	0.984	0.868	0.989^{*}	0.875	0.956^{*}	$0.860^{*\dagger}$	0.942^{*}	0.970^{*}	0.932^{*}	0.977^{*}	0.985	0.973^{*}	0.943^{*}
$\begin{array}{cccccccccccccccccccccccccccccccccccc$	$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	$\begin{array}{c ccccccccccccccccccccccccccccccccccc$		0.929	0.984	0.915	1.008	0.915	0.978^{*}	$0.908^{*\dagger}$	0.953^{*}	0.993^{*}	0.944^{*}	0.995^{*}	0.984	0.995^{*}	0.954^{*}
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-	$0.635^{*\dagger}$	0.931^{*}	0.638^{*}	0.978	0.645^{*}	0.989	0.645^{*}	0.942	0.640^{*}	0.947^{*}	0.645^{*}	0.951
_	0.675^{*}	0.932^{*}	0.673^{*}	0.984	0.685^{*}	0.994	0.682^{*}	0.944	0.678^{*}	0.956^{*}	0.668^{*}	0.962
_	0.729^{*}	0.945^{*}	0.731^{*}	0.984	0.739^{*}	1.006	0.732^{*}	0.952	0.730^{*}	0.979^{*}	0.718^{*}	0.968^{*}
_	0.732^{*}	0.956^{*}	0.732^{*}	0.989	0.740^{*}	1.008	0.734^{*}	0.964	0.733^{*}	1.007	0.720^{*}	0.978^{*}
_	0.794^{*}	0.992^{*}	0.780^{*}	1.003^{*}	0.805^{*}	1.014	0.796^{*}	0.985	0.796^{*}	1.022	0.773^{*}	0.981^{*}
-	0.821^{*}	1.009^{*}	0.818^{*}	1.003	0.835^{*}	1.036	0.826^{*}	0.964	0.827^{*}	0.981^{*}	0.804^{*}	0.982
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- · ·	J.34U	0.909	0.500	U.344	U.341	0.900						
_	0.954^{*}	0.942^{*}	$0.945^{*\dagger}$	0.953^{*}	0.958	0.961						
_	0.967^{*}	0.951^{*}	0.964^{*}	0.975^{*}	0.970	0.967^{*}						
	1.001	0.966^{*}	0.995^{*}	0.984^{*}	0.996^{*}	0.976^{*}						
	1.022	0.984^{*}	1.019^{*}	0.985^{*}	1.010^{*}	0.978^{*}						
	1.020	0.963^{*}	1.022^{*}	0.977^{*}	1.010^{*}	0.979^{*}						

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A Particle filter

In the second stage of estimation, we adopt simulation-based maximum likelihood (SML) approach proposed by Calvet and Fisher (2006). Specifically, by keeping the first set of parameters at their ML-estimated values, we maximize the simulated likelihood using particle filter. The two-stage approach provides a reduction in computation time against a complete SML approach, and it also makes the choice of larger number of cascade level k feasible. Note that, use k = 8 which is consistent with the existing literature.

Recall the conditional probability $\pi_t^i \stackrel{\circ}{=} P(M_t = m^i | r_1, \cdots, r_t)$, and due to

 $\sum\limits_{i=1}^{4^n} \pi_t^i = 1;$ by Bayesian updating, we get

$$\pi_{t+1} = \frac{f(r_{t+1}|M_{t+1} = m^i) \otimes (\pi_t A)}{\sum f(r_{t+1}|M_{t+1} = m^i) \otimes (\pi_t A)}.$$
(A1)

In order to reduce the computational burden, instead of explicitly evaluating the exact $4^k \times 4^k$ elements within the transition matrix, the particle filter uses an approximation to the prediction probability density $P(M_t = m_t^i | r_{t-1})$, by using the discrete support of a finite number *B* of particles. Denoting by $m^{(b)}$ the volatility state of any particle $b = 1, \ldots, B$, the one-step-ahead conditional probability is approximated by:

$$\pi_t^i \propto f(r_t | M_t = m^i) \frac{1}{B} \sum_{b=1}^B P(M_t = m^i | M_{t-1} = m^{(b)}).$$
(A2)

As can be seen, Eq (A2) provides a discrete approximation of the conditional densities by filtering the particles. This approximation not only simplifies the maximum likelihood estimation by avoiding evaluation of the infeasible dimensions of the transition matrix, but also provides a practical solution for multistep forecasting. For instance, to obtain one-step ahead π_{t+1}^i , we use particle filter with sampling/importance resampling (SIR), cf. Rubin (1987), Pitt and Shephard (1999), i.e., simulating each $m^{(b)}$ one-step forward and re-weighting using an importance sampler as follows:

- 1. Simulate the Markov chain one-step-ahead to obtain $\hat{M}_{t+1}^{(1)}$ given $M_t^{(1)}$. Repeat *B* times to generate draws $\hat{M}_{t+1}^{(1)}, \hat{M}_{t+1}^{(2)}, \dots, \hat{M}_{t+1}^{(B)}$.
- 2. This preliminary step only uses information available at date t, and must therefore be adjusted to account for the new return. Drawing a random number q from 1 to B with probabilities of:

$$P(q=b) = \frac{f(r_{t+1} \mid M_{t+1} = m^{(b)})}{\sum_{i=1}^{B} f(r_{t+1} \mid M_{t+1} = m^{(i)})}.$$
(A3)

3. We then select $M_{t+1}^{(1)} = \hat{M}_{t+1}^{(q)}$, and repeat *B* times to obtain *B* draws to get the new $M_{t+1}^{(1)}, \ldots M_{t+1}^{(B)}$, which have been adjusted to account for the new realizations.

This recursive procedure provides a discrete approximation to Bayesian updating, which is computationally convenient in large state spaces.