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Keep in mind

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This work analyzes the relationship between real interest rates and commodity prices. According to Frankel's hypothesis (1986-2006): “low real interest rates lead to high real commodity prices”. However, some empirical evidence suggests that commodity prices can predict monetary policy. In this way, there is an endogeneity between commodity prices and monetary policy. Using Frankel's model we include a Taylor rule equation in this theoretical model, which let us analyze the endogeneity problem. In order to find empirical support of this model, we estimate SVAR and, using quarterly data from 1962:Q1 to 2009:Q1, we find that the overshooting of commodity prices to 1% increase of real interest rate can be a minimum of 2.86% and a maximum of 5.97% depending on the chosen model. The increase of real interest rate given a 1% increase in commodity prices is positive and significant but of small magnitude (0.20% - 0.05%).