A Confluence Of Events Has Driven Crude Oil Below $100 Per Barrel

U.S. Dollar Index (DXY) vs. Crude Oil (NYMEX)

View from the Observation Deck

1. Today’s blog post offers a brief analysis for why oil prices have come under pressure in the second half of 2014. The chart highlights one of the negative influences: a strengthening U.S. dollar.


3. From 6/20/14-10/28/14, the price of crude oil plunged from $107.26 per barrel to $81.42, or a decline of 24.1%. The S&P 500 Energy Index posted a total return of -13.7% over the same period.

4. The U.S. dollar, however, appreciated 6.35% against a basket of major currencies, as measured by the U.S. Dollar Index. Since the U.S. dollar is the world’s reserve currency, most commodities, including oil, are priced in dollars.

5. The dollar’s value has likely been driven higher by a number of serious geopolitical events (see chart). Historically speaking, the U.S. dollar has been used by foreign investors as a safe haven in tumultuous climates.

6. In addition to a stronger U.S. dollar and a number of challenging geopolitical situations, an imbalance between the supply of oil and the demand for oil has surfaced.

7. There is concern in the marketplace that a slowdown in global economic growth in Europe and China will ease demand for oil at a time when production is ramping up, especially in the U.S.

8. In the most recent four-week period measured, crude oil inventories increased by 23.11 million barrels, the fifth largest four-week increase since 1983, and the largest since Q1’09, according to Bespoke Investment Group.

9. Of all the geopolitical events, we believe a resolution to the Russia/Ukraine conflict could ease concerns over softening global growth, provided that the U.S., Europe and Russia drop their respective sanctions.

10. With respect to oil production, the Organization of the Petroleum Exporting Countries are scheduled to meet on 11/27 to discuss whether to adjust their output target of 30 million barrels per day for early 2015.

The chart and performance data referenced are for illustrative purposes only and not indicative of any actual investment. The index performance data excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. There can be no assurance that any of the projections cited will occur. The S&P 500 Energy Sector Index is capitalization-weighted and comprised of S&P 500 constituents representing the energy sector. The U.S. Dollar Index (DXY) indicates the general international value of the dollar relative to a basket of major world currencies.