

## Market Research

### *Is The Weakening US Dollar Forcing Crude Oil Higher?*

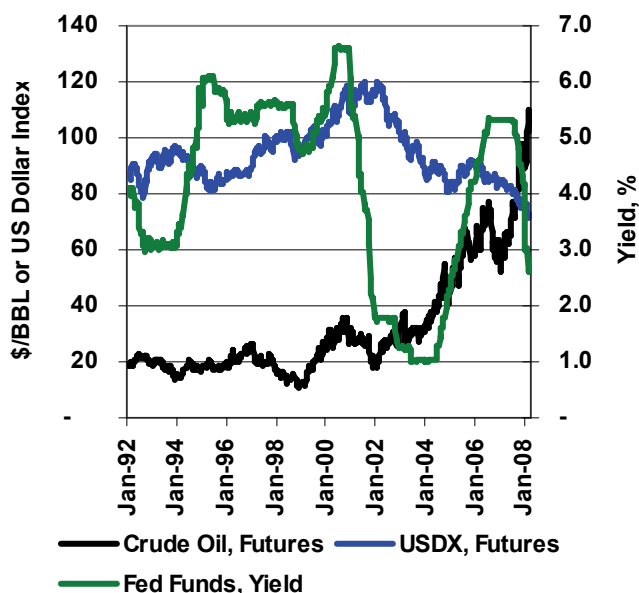
We're hearing it everywhere ..... the weakening US Dollar is causing the price of resources to move higher. Is it so? In the short run, the answer is a resounding **YES!** Investors, hedgers and speculators are rushing into energy, metals and agricultural commodities. A significant portion of this 'money flow' is driven to stem the impact of a weakening US Dollar caused by recent and relative US Fed monetary policy, along with concerns related to the US economy. In the medium and long run, assuming this relationship will continue may be flawed logic!

The value of the US Dollar is, and will continue to be, based on the strength of US public and private fiscal positions relative to that of foreign nations. Over the long run, the price of a barrel of crude oil will be based on global supply and demand. The charts below will help demonstrate.

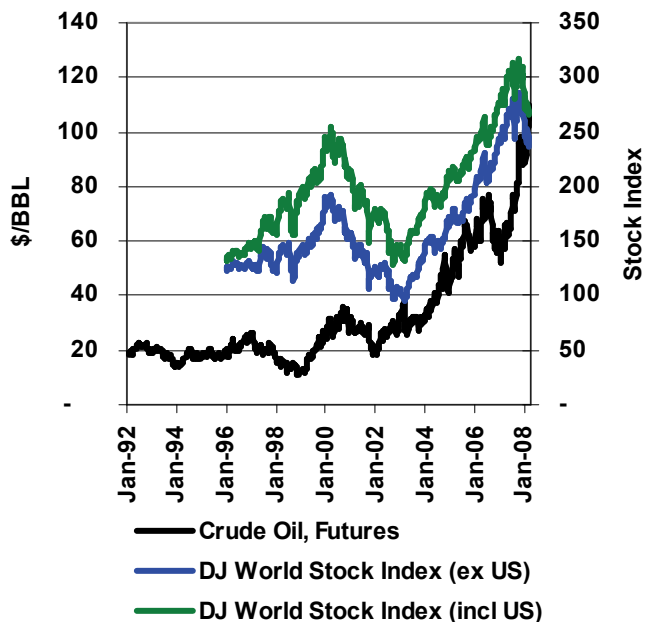
The chart below (left) compares the price of crude oil with the US Dollar Index (USDIX) and the yield on Fed Funds, back to 1992. USDIX represents a weighted basket of foreign currencies including the Euro (57.6%), Japanese Yen (13.6%), British Pound (11.9%), Canadian Dollar (9.1%), Sweden Krona (4.2%) and Swiss Franc (3.6%). While an inverse relationship between the price of crude oil and the USDIX can be argued since 2001, it is not the main driver of recent crude oil price escalation. Additionally, how many countries within the basket of foreign currencies could arguably be considered a resource exporter?

The chart below (right) compares the price of crude oil with the DJ World Stock Index (ex US) and the DJ World Stock Index (incl US). The message is very clear, the primary driver of crude oil price is the astounding success of capitalism on a global basis. This research reinforces the view that new crude oil price realities are demand driven and will be impacted substantially by global economic prospects (growth and recession) and the advent of new technologies.

**Impact of US Dollar and Fed Funds Rate on Crude Oil Price**



**Impact of Capitalism on Crude Oil Price**



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