

2016 PREVIEW VIDEO SERIES: DRIVERS OF OIL PRICE WEAKNESS

**Simon Derrick, BNY Mellon Chief Currency Strategist
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Oil price weakness has been a defining feature of the past eighteen months. What is driving this and will it continue next year?

Clearly there are a variety of factors that can be pinpointed when talking about oil price weakness, not least of the continued weakness in the Chinese economy and of course the fact that OPEC continues to keep the taps fully on for oil supply. However, I've got to say I think for me, the key force over the course of the last 18 months has been actually the relationship between oil prices and Dollar demand. If we go back to the summer of 2014, where you started to see huge inflows into the Dollar from mid-June onwards, at the time of the ECB policy move and of course the dollar rallied exactly in line with those huge inflows. What's absolutely critical to note is that the decline in the oil price comes from almost exactly the same point and there is almost exactly what happens to the dollar. It's not the first time we've seen this happen. You can go back to 2007 and look at the Dollar declines then, and compare it to the sharp rally seen in the oil price. Equally we can look in early 2009, the depths of the recession, and see the introduction of QE in the US, the decline of the dollar matches exactly to the rally in the oil price we've seen. Therefore I think the key issue going into 2016 for the oil prices is do we see another rise in demand for the Dollar? For me, the combination of a Fed that's tightening and an ECB that's going to reduce policy even further, seems to me that if anything demand for the dollar is going to build. And if that's the case, weak oil prices look to be effectively with us quite some time and certainly the opening months of 2016.

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