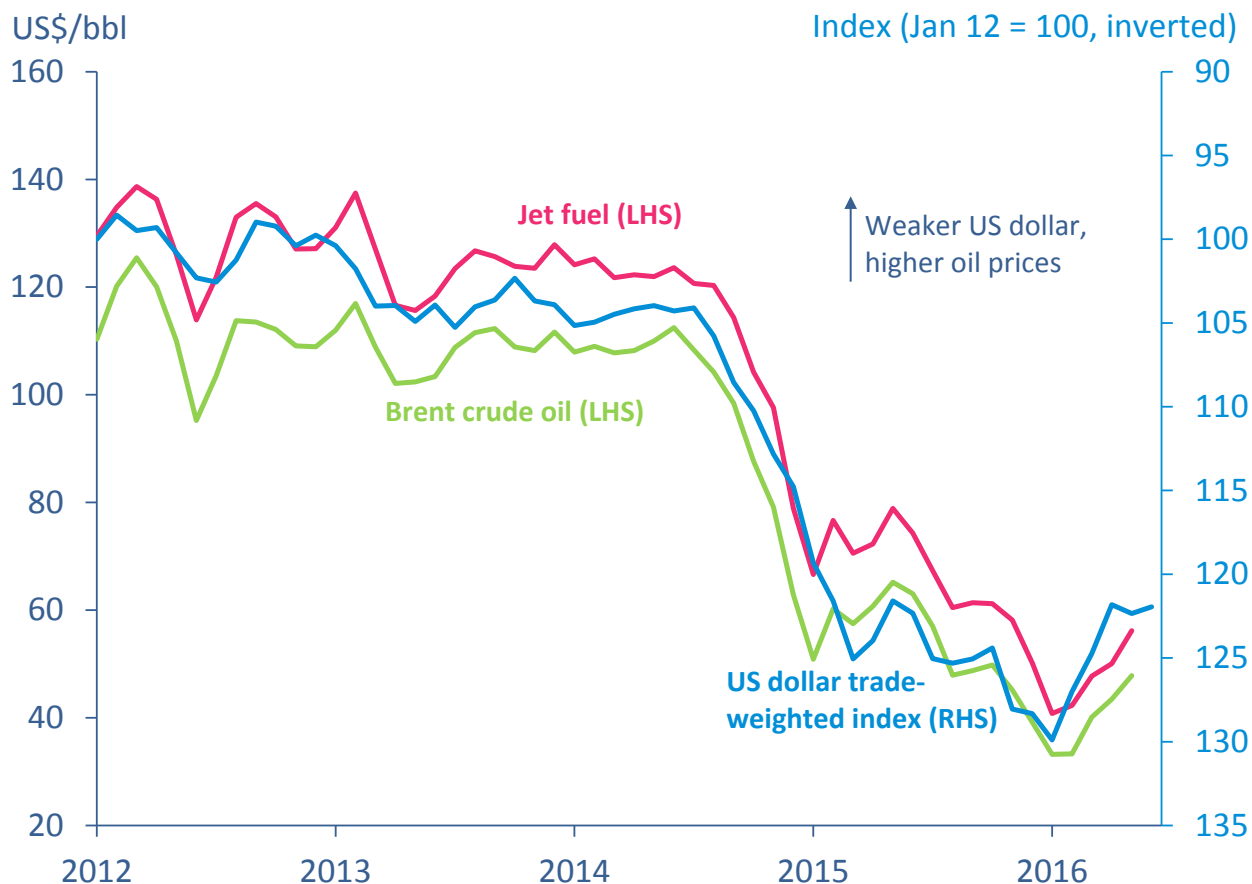




IATA ECONOMICS' CHART OF THE WEEK

17 JUNE 2016

OIL PRICES AND THE US DOLLAR



Sources: Platts, Thomson Reuters Datastream

- Developments in oil prices are driven by a wide range of geopolitical and economic factors including the value of the US dollar. A stronger dollar makes dollar-denominated commodities such as oil more expensive in terms of other currencies. This affects both demand and supply in non-US dollar countries and, all else equal, should translate into downward pressure on oil prices (lower demand, higher supply). The converse situation holds when the US\$ weakens.
- As this week's chart highlights, the broad relationship between world oil prices and the US\$ exchange rate does indeed tend to hold. The 20%+ rise in the US dollar between late-2014 and early-2016 corresponds with the sharp drop in oil prices over the same period. Equally, the strong rally in the price of oil since reaching a 12-year low in January 2016 has coincided with a pronounced weakening in the greenback.
- Nonetheless, it is worth reiterating that changes in the value of the US\$ do not necessarily or immediately translate into movements in the price of oil, which can be driven more by structural and geopolitical shifts in the oil market.

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