

EOA



DOLLAR & YUAN PRICING OF OIL & THE IMPACT OF EXCHANGE RATES ON THE OIL INDUSTRY

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Exchange Rates, Oil, and OPEC

I will answer two questions:

- 1. What is the impact of currency exchange rates on the oil industry?**
- 2. Why does OPEC price its oil in US dollar?**

What is the Impact of Exchange Rates on the Oil Industry?

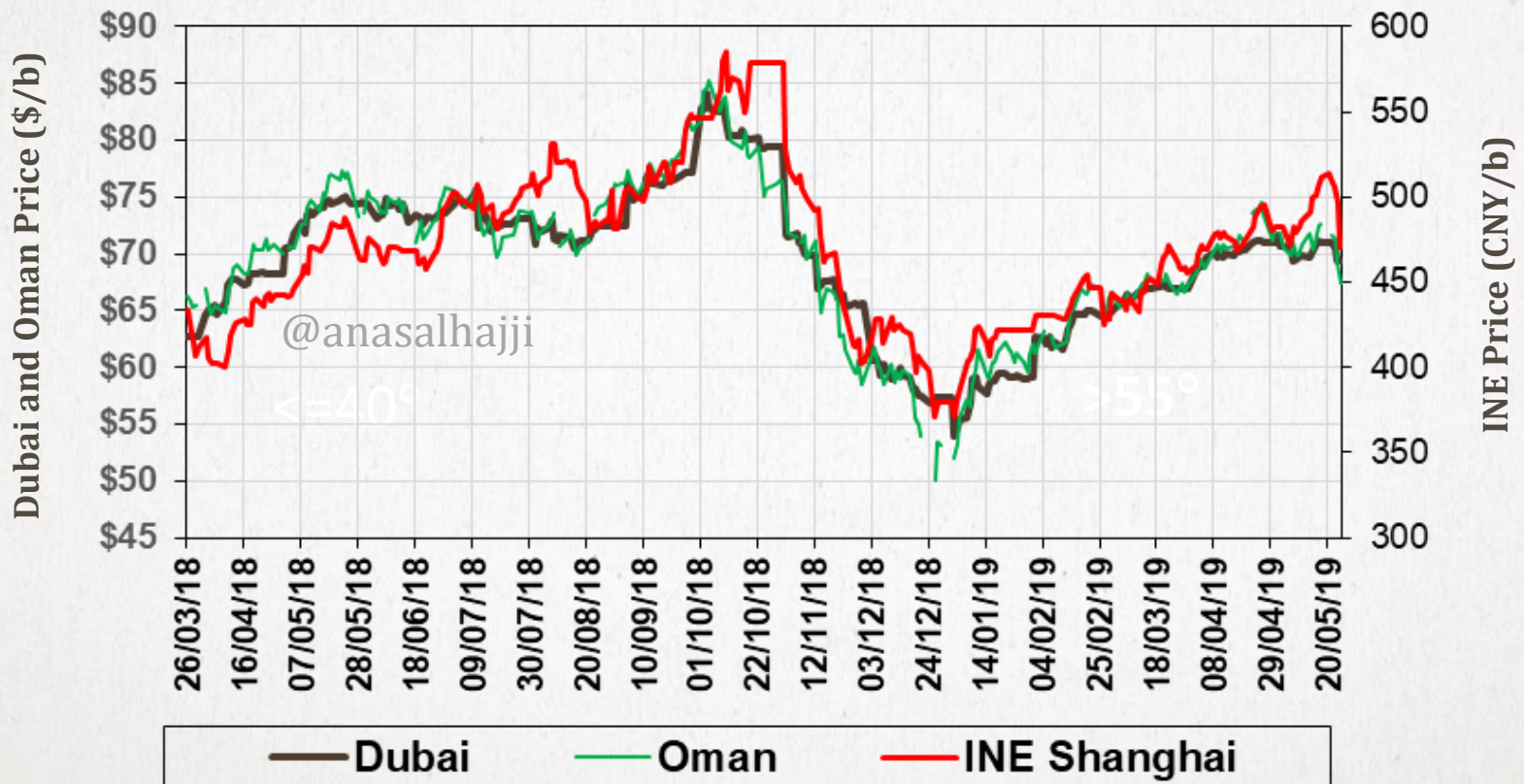
Impact of Exchange Rates on the Oil Industry

Globally, oil is priced in US dollar. higher dollar reduces oil demand and increases oil supply.

- 1. Higher dollar increases the cost of oil imports in countries with depreciating currencies. Higher cost leads to lower demand growth for oil. OPEC does not like to see lower demand growth.**
- 2. Higher dollar reduces the cost of producing oil in the areas with depreciating currencies since most costs are paid in local currencies: North Sea, Russia, and China**
- 3. Higher dollar increases the purchasing power of oil-producing countries that pegged their currencies to the US dollar, leading to higher spending on E&P as they feel richer and can import tools and equipment at lower costs (and higher imports of goods from China)**

INE's Yuan-Denominated Crude is Highly Correlated with Dollar-Denominated Dubai and Oman Crude Markers

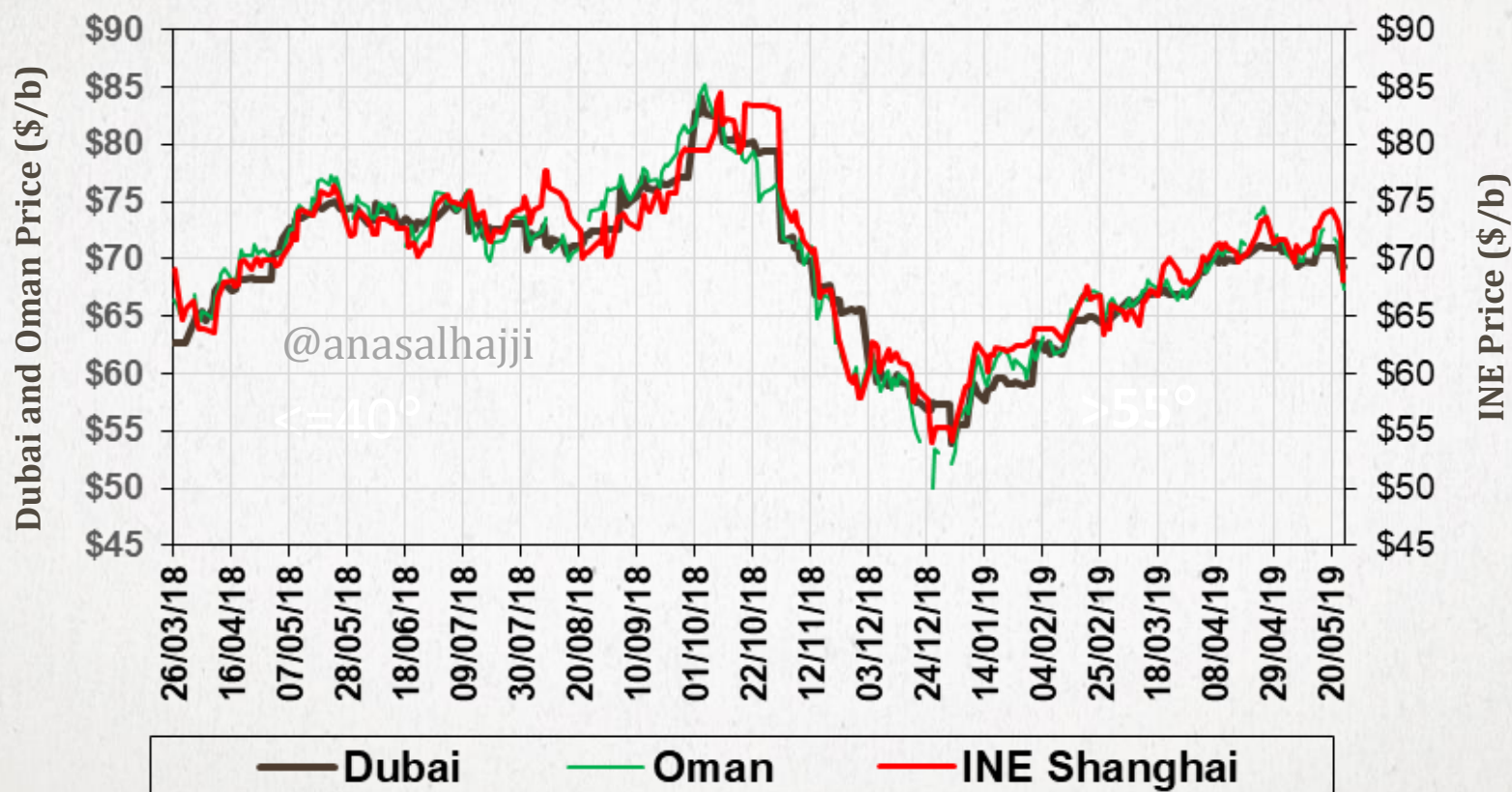
Daily Crude Oil Prices: INE vs. Dubai and Oman



Source: EOA, 2019. UBS, Platts, and Bloomberg, 2019

The Correlation Becomes Stronger Once Exchange Rates Are Conspired

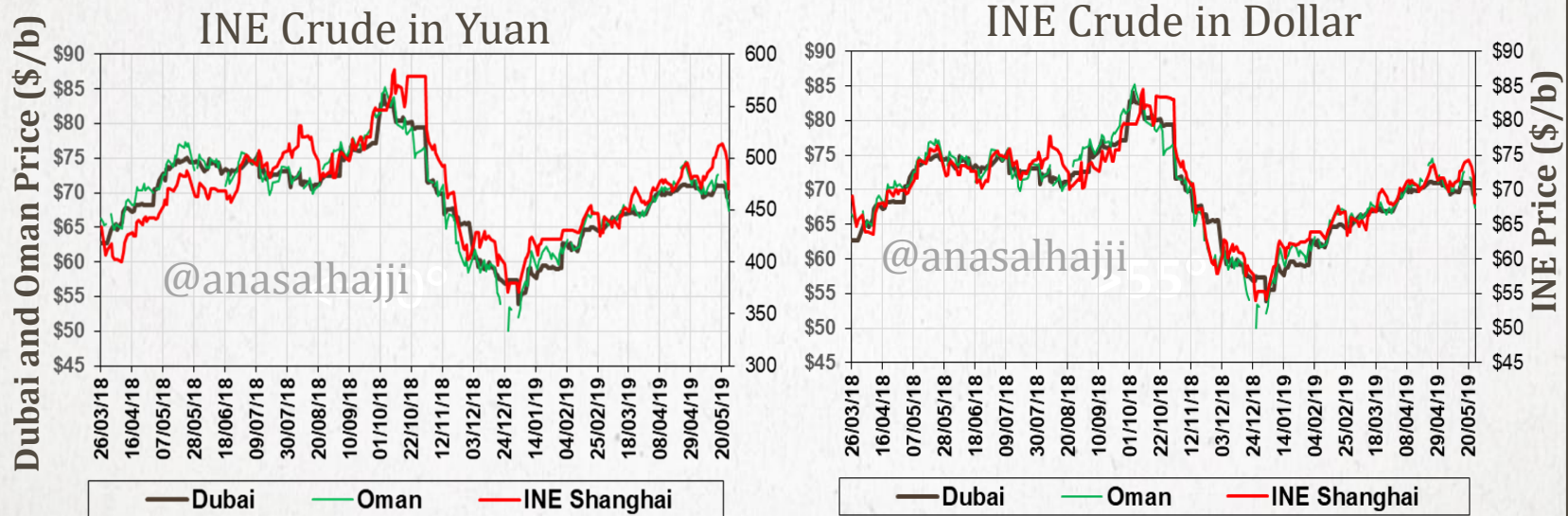
Daily Crude Oil Prices: INE vs. Dubai and Oman



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Exchange Rates Matter: The Correlation Becomes Stronger Once Exchange Rates Are Considered

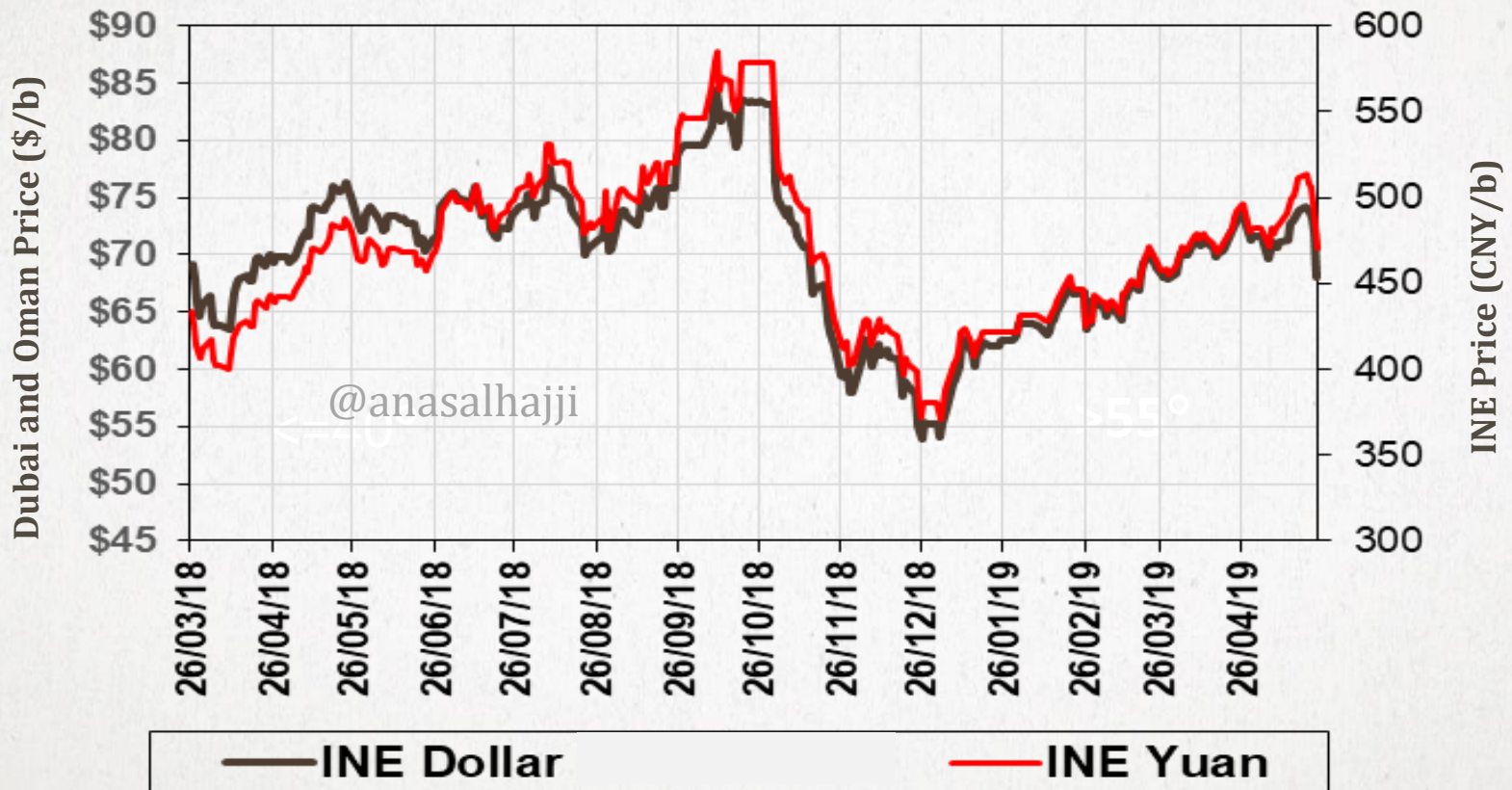
Daily Crude Oil Prices: INE vs. Dubai and Oman



Source: EOA, UBS, 2019, Platts, and Bloomberg, 2019

The Impact of Exchange Rates on INE Crude Oil Pricing

Daily Crude Oil Prices: INE in Dollar vs. INE in Yuan



Source: EOA, 2019.

Example On the Impact of Exchange Rates on China

RMB Devaluation Increases the Cost of Oil Imports		
	Late March 2018	Late May 2019
\$ Oil Price	\$70.00	\$70.00
RMB Exchange Rate	6.27	\$6.90
Price in RMB	438.90	483.00
Difference Per Barrel in RMB		44.10
China Crude Imports (mb/d)	10.5	10.5
Additional Cost Due to RMB Devaluation in Millions of RMB/Day		463.05
Additional Cost Due to RMB Devaluation in Millions of RMB/Year		169,013.25
Additional Cost Due to RMB Devaluation in Millions of US \$/Year	@anasalhajji	\$24,494.67

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Impact of Exchange Rates: Main Trackways

- 1. Once we account for exchange rates and time lags, INE crude is highly correlated with Dubai (more than 90%), emphasizing the idea that crude price discovery remains mostly in US dollar.**
- 2. Yuan devaluation increases the cost of imported oil substantially and might reduce oil demand**
- 3. Higher dollar reduces demand and increases supply**

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