Let us speak about oil prices and exchange rates

Since the early 2000s, oil prices have influenced exchange rates, irrespective of changes in European and US interest rates (**Figure 1**). Until the end of the last century, European currencies were insensitive to crude oil prices. But since the early 2000s, the **euro has evolved roughly in the same direction as black gold, while the dollar varies in the opposite direction**. When the price of oil increases, the dollar weakens against the Euro. On the contrary, a weak barrel strengthens the dollar and weakens the Euro. The reason is simple. A high oil price corresponds to both high demand and high growth, which creates an influx of dollars both in oil-producing countries and in emerging countries that export more. Reinvested in Euros since the creation of the single currency, these influxes mechanically cause a drop in the dollar. Unlike the national currencies which had virtually no capacity to influence the price of raw materials, the Euro became an indirect indicator of the price of oil. A high oil price makes Europe suffer a double penalty: it increases the energy bill and raises the Euro against the Dollar. If the current drop in oil prices gives to Europe a temporary respite, the historical curves of energy dependence do not really cause optimism. By 2015, the Union was dependent on 90% of its oil imports and 66% of its gas imports. The expected recovery in the medium term will inevitably continue to weaken the European economy.

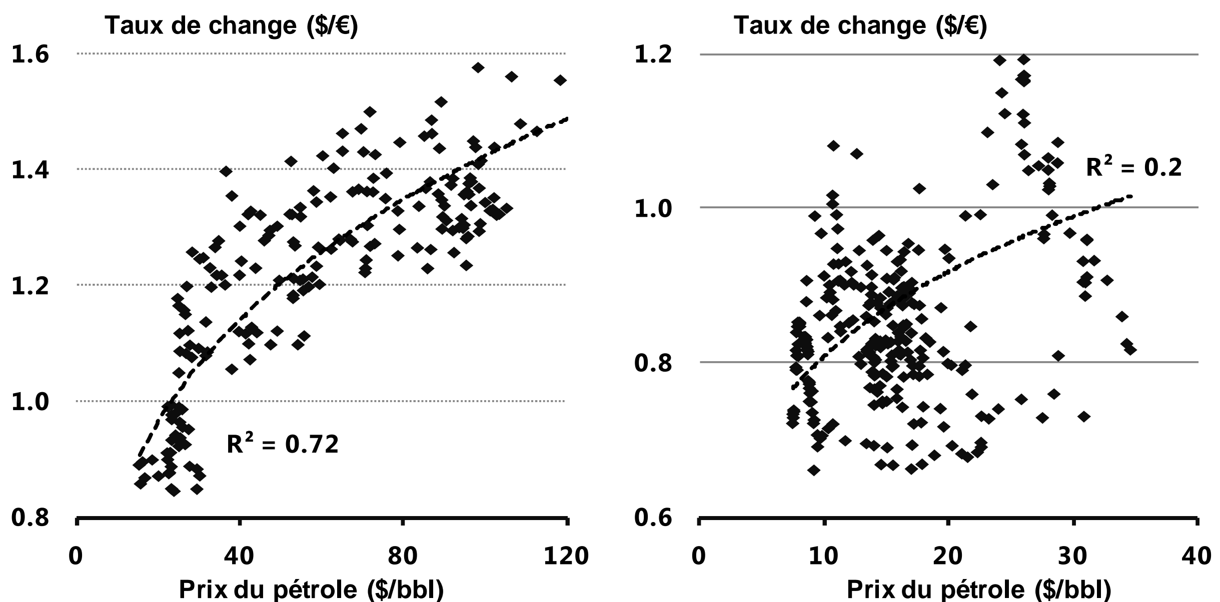

Figure 1 – Exchange rate € vs $ before (right) and after (left) 2000.

(Data source : Eurostats et BP Energy outlook 2016)