

THE FACTS BEHIND OIL PRICES



GLOBAL DEMAND

In an interconnected global marketplace, demand and supply fundamentals are quickly factored into prices for commodities like crude oil. For example, weak demand from large oil consumers like China, coupled with growing supplies, can mean decreased oil prices. Stronger demand can make prices go up.

CHANGING SUPPLY LANDSCAPE



Advancements in drilling technology have resulted in massive increases in domestic production of crude oil. During 2014, the U.S. reached the highest level of crude oil production since 1986 making it the third-largest oil-producing country in the world, close behind Russia and Saudi Arabia.



OPEC

Because OPEC cartel controls a significant share of oil production, crude oil prices can fluctuate depending on where the organization sets its output levels.

LOGISTICS AND INFRASTRUCTURE



On the heels of the U.S. oil boom, U.S. refining inputs have increased dramatically. The U.S. is now a net exporter of refined petroleum products. Government policy allows for U.S. gasoline and other refined products to be exported, while the export of U.S. crude is restricted.



TAXES

Government policies can impact fuel prices through taxes, subsidies and surcharges, which can range from 15 percent per gallon in parts of the U.S. to 60 percent in some European countries.

GEOPOLITICAL CONFLICTS



Ongoing conflict in the Middle East could potentially disrupt supply and cause prices to increase. Some conflicts, such as the recent clashes between Russia and Ukraine, can result in government sanctions that further restrict supplies and affect energy prices.



CURRENCY FLUCTUATIONS

Oil is priced in U.S. dollars so, when it fluctuates, it may affect the demand for dollar denominated commodities. It affects every other nation's consumption of crude oil. A strong dollar means oil is more expensive for overseas markets, whereas a weak dollar equates to stronger overseas purchasing power.

ENVIRONMENTAL POLICIES



Regulations that either restrict the production of oil or impede its flow can affect prices.

