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A Crude Correlation with Canada's Currency

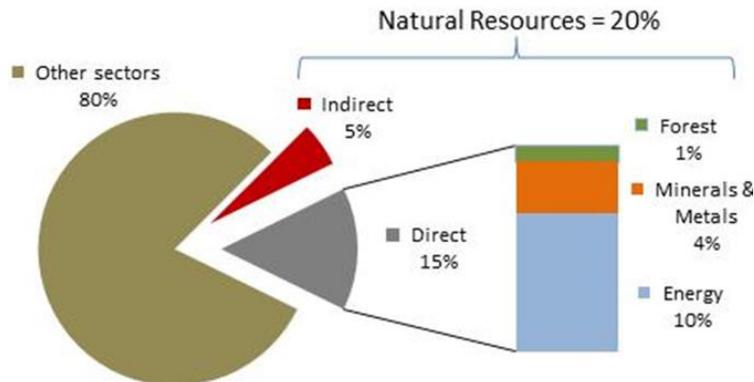
A Monday Morning Musing from Mickey the Mercenary Geologist

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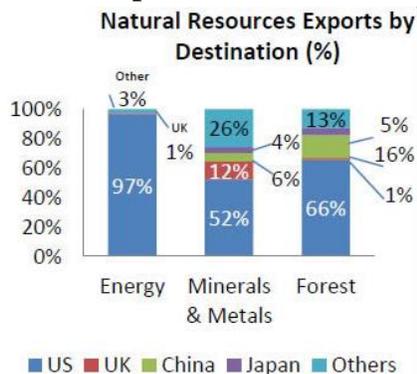
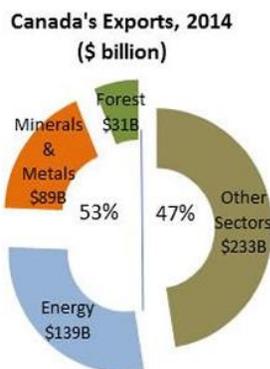
February 8, 2016

Canada is the world's fifth largest oil and gas producer and its energy export revenues are a significant part of the economy. In 2014, energy contributed 10% to Canada's GDP, 28% of its export revenues were from energy products, and 97% of those energy exports were destined for US markets:

Contribution to 2014 Nominal GDP



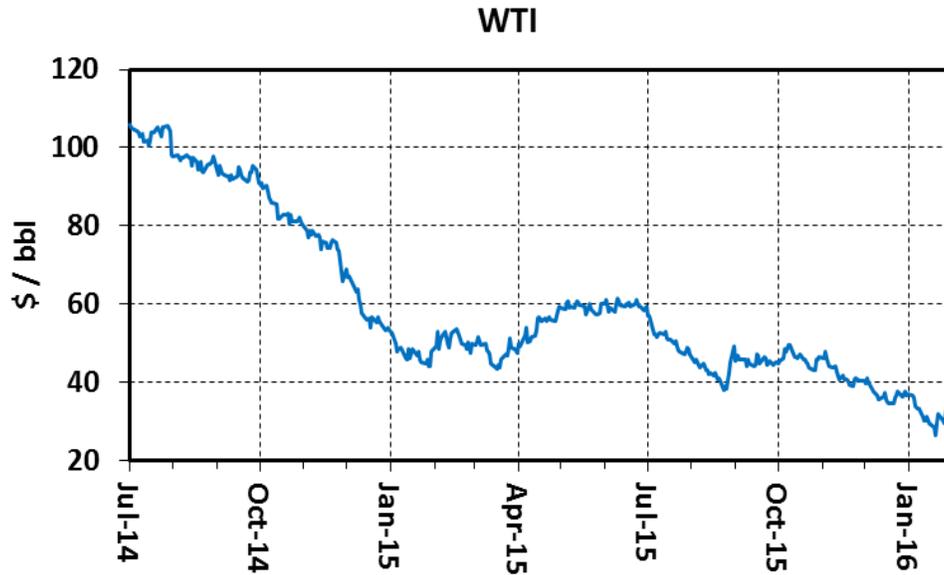
Sources and Destination of Export Revenues



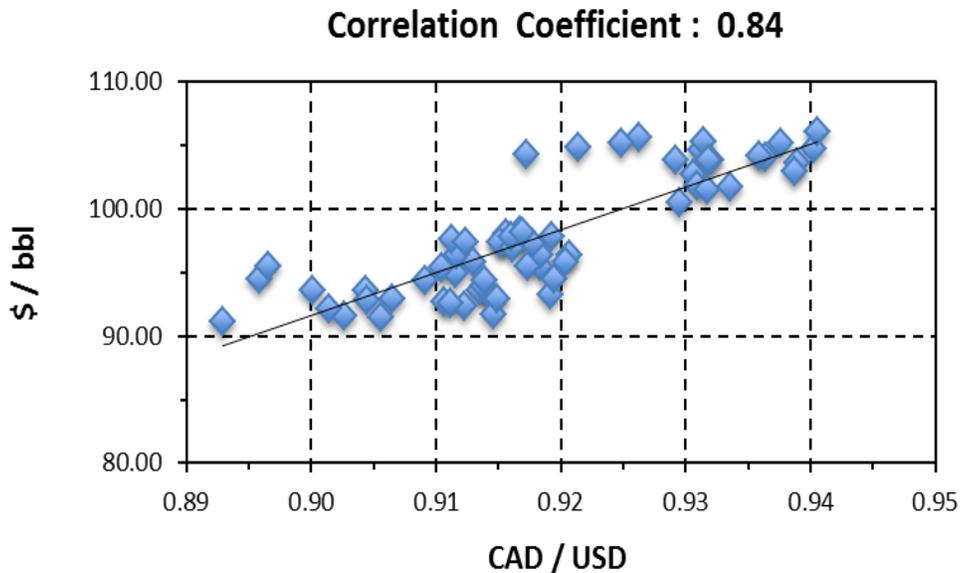
(Source: Natural Resources Canada)

In early July 2014, the North American benchmark for oil, West Texas Intermediate Crude (WTI), traded at \$106 a barrel. Once the US dollar index (DXY) started its big run above 80, the price of oil began to drop and by the beginning of Q4 2014, a worldwide bear market was in full force.

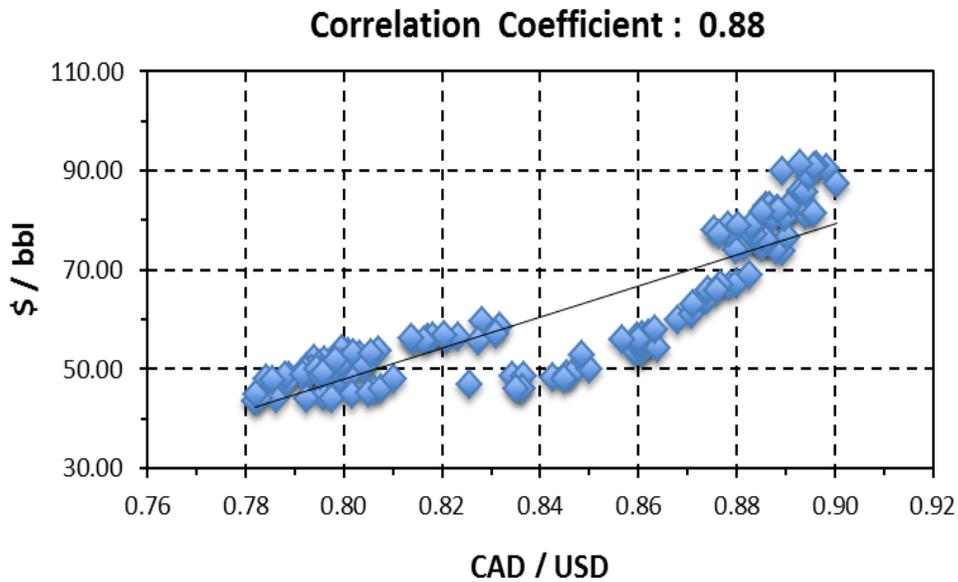
At that juncture, WTI was still around trading at \$90 a barrel. However, it has continued to spiral downward with few respites over the past 19 months:



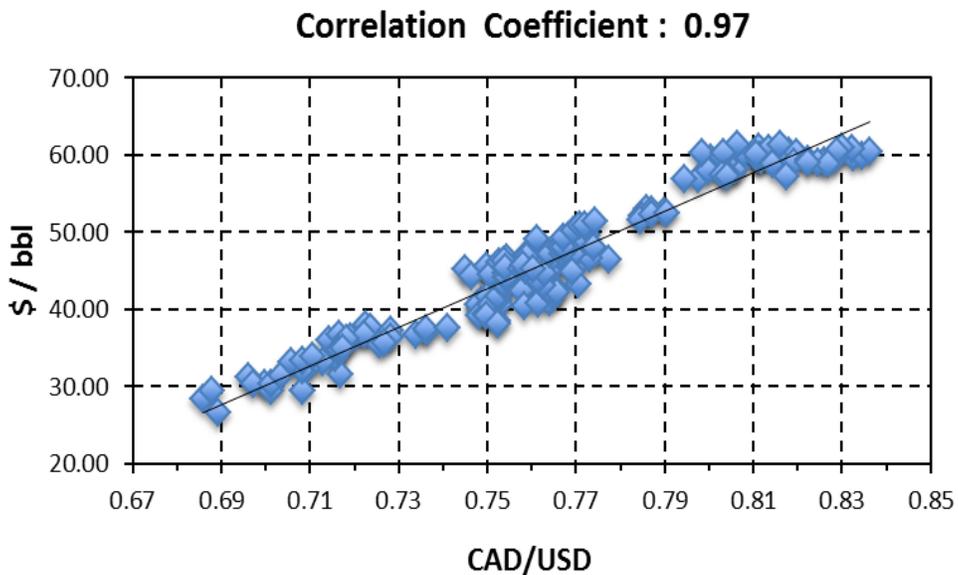
Given Canada's reliance on energy exports, it is not surprising there has been a strong positive correlation between the price of West Texas Intermediate Crude and the value of the Canadian dollar since oil began to fall. Here is the correlation chart from July 1 to September 30, 2014:



Once the bear market for oil hit hard in Q4 2014, this correlation became even stronger. This is the chart for October 1, 2014 to April 30, 2015:



Moreover, as the price of North American oil has continued to decline, the loonie has marched even more in lockstep. Here is the correlation chart from May 1, 2015 to February 4, 2016:



The increasingly positive correlation of crude and the Canuck currency likely reflects the decline in oil's contribution to Canadian GDP and export revenues for 2015.

This relationship between crude oil and the Canadian dollar reminds us of the strong dependence of that country's economic health on natural resources extraction and in particular, its petroleum production.

Simply put: As goes oil, so goes the loonie, and so goes the Canadian economy. Until the worldwide glut of crude oil is remedied, its fiat currency will undoubtedly remain weak.

And while that's bad for most Canadians, it is good for Americans who like to go shopping on Robson Street.

Ciao for now,

Mickey Fulp
Mercenary Geologist



Acknowledgment: Steve Sweeney is the research assistant for MercenaryGeologist.com.

The [Mercenary Geologist Michael S. “Mickey” Fulp](http://MercenaryGeologist.com) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 35 years experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey’s professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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