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Oil to Rise With Dollar, Snap Inverse Link, Archbridge Says

By Grant Smith

Jan. 5 (Bloomberg) -- Oil will extend 2009's rally this year in tandem with a strengthening dollar, as the resurgent global economy buoys both assets and snaps their inverse relationship, according to Archbridge Capital AG.

A decline in the U.S. currency last year aided a 77 percent recovery in crude-oil toward \$80 a barrel as investment managers and banks sought higher-yielding alternatives to mitigate the risk of inflation. Global growth in 2010 will bolster the dollar and oil, which will gain on supply constraints, according to Zug-Switzerland-based Archbridge.

"Economic growth will propel both the dollar and oil, and break the negative correlation," Archbridge Chief Investment Officer Hakan Kocayusufpasaoglu said in an interview in London. "Dollar appreciation is on the cards. And oil will go up irrespective due to its fundamentals."

Crude futures last traded near a 14-month high at \$81.91 barrel on the New York Mercantile Exchange. The dollar index has gained 4.2 percent since reaching a low of 74.27 in November.

Expectations that the Federal Reserve will signal tighter monetary policy coupled with the unwinding of government stimulus measures is likely to strengthen the U.S. currency, according to Kocayusufpasaoglu. Any drag from this on oil prices will be countered by dwindling output from mature oilfields and difficulties activating new supplies, he said.

"Commodities with demand-supply disequilibria will dissociate themselves from the dollar correlation," he said. "Oil fundamentals are going to shine, and that will determine the rally."

Prior to founding Archbridge, Kocayusufpasaoglu spent three years as a proprietary trader with Credit Suisse, and before that was head of commodity derivatives trading at Mitsubishi UFJ Financial Group Inc.

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