

INTERSTING CRUDE OIL FACTS

Crude oil is a natural product consisting mainly of hydrocarbons and a small amount of nitrogen, oxygen, and sulfur. It is formed from the remains of plants and small animals that have buried deeper and deeper below the surface millions of years ago. Due to natural factors such as heat and pressure, all these organic compounds turn into crude oil.

Depending on the type of oil and how it is extracted, it can be classified as light, medium, heavy, or extra heavy oil. The American Petroleum Institute gravity (API gravity) is the unit generally used to measure how heavy or light a crude oil. The lower the API gravity, the heavier the oil and more difficult to refine it later on. This constitutes the [nuances between Brent and WTI](#).

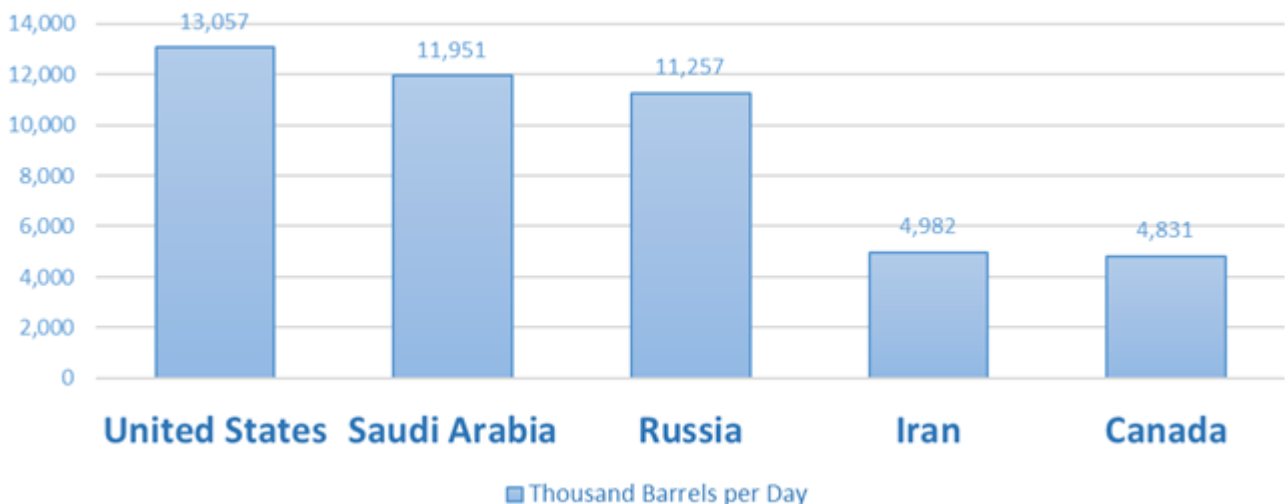
Crude oil is considered one of the most important energy sources in the world due to its extensive use in our everyday lives. Oil is not only a basis for fuel and heating, it's also used in waxes, lubricants, asphalt, and other petrochemicals. These products are then utilized and developed into more familiar products such as plastics, clothes etc.

The device you're using to view this article has encountered crude oil throughout much of its production journey. The airplane, truck, or train used to transport your device to the retail store or your home requires oil. The machines that manufacture devices such as mobile phones and computers need lubricants. Even the shoes you're wearing requires crude oil to end up on your feet. Plastics and waxes (byproducts of crude oil) are incorporated into the shoe making process. Almost all manufacturing plants require energy/heat to function. This energy/heat is often fueled using gas (yet another crude oil byproduct).

It is truly astounding that everything you see around you has been tied to crude oil at some point in its production process. Knowing this, growth in economies means more use and need of the everyday products which in turn pulls more demand on crude oil.

Another interesting oil fact is that the top five oil-producing countries are responsible for nearly half of the world's daily production, which is around 92.65 million barrels per day (bpd).

WORLD TOP OIL PRODUCERS 2017



In 2017, the United States, Saudi Arabia, Russia, Iran, and Canada produced nearly 46 million of the world's 92 million barrel of production. The remaining countries produced the other half. The United States produced the most oil in 2017, with an average of 13 million bpd (barrels per day), keeping in mind the term production here refers to crude oil extraction. For traders, crude oil production from these top five countries has the potential to influence the supply and therefore the price in the market. On the other hand, the crude oil production for a country outside of the top five will have little influence on the fundamental pricing in Brent or WTI.

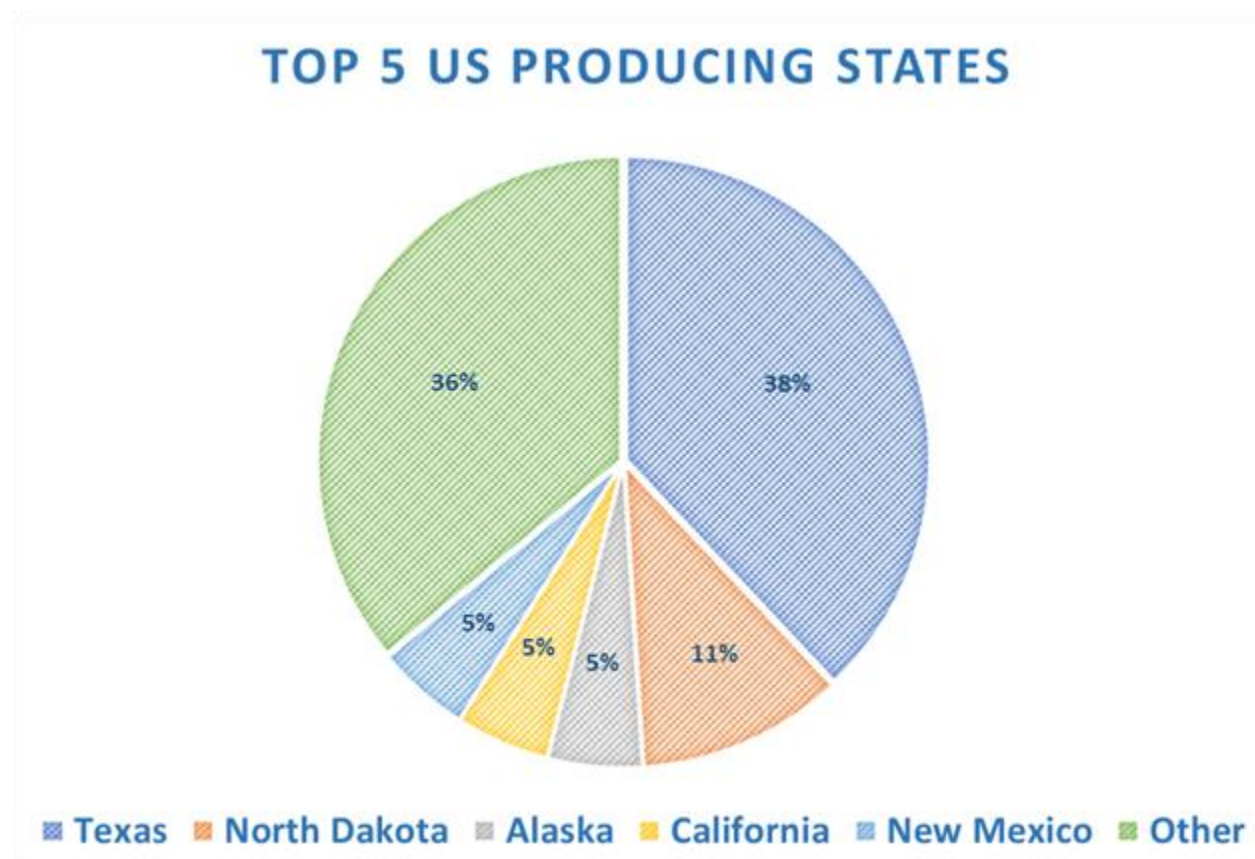
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External factors such as weather and political uncertainty may also have an influence on the price of crude oil within the major oil producing nations. For example, severe weather can halt extraction which may lead to shortages and ultimately higher crude prices. Constant monitoring of these influencing factors will assist in a greater proportion of successful trades.

US states, Texas and North Dakota combined produce more oil than any other country barring Russia and Saudi Arabia. They account for almost 50% of total production in the United States.

When oil is in demand, these top producing areas tend to have high economic growth in comparison to other regions with low/no production of crude oil. Texas was labeled the most rapidly developing state economy in the US in the final 3 months of 2017 by the Bureau of Economic Analysis. The above statistic comes as no surprise as shown by the 38% of total production in the US (See chart below).

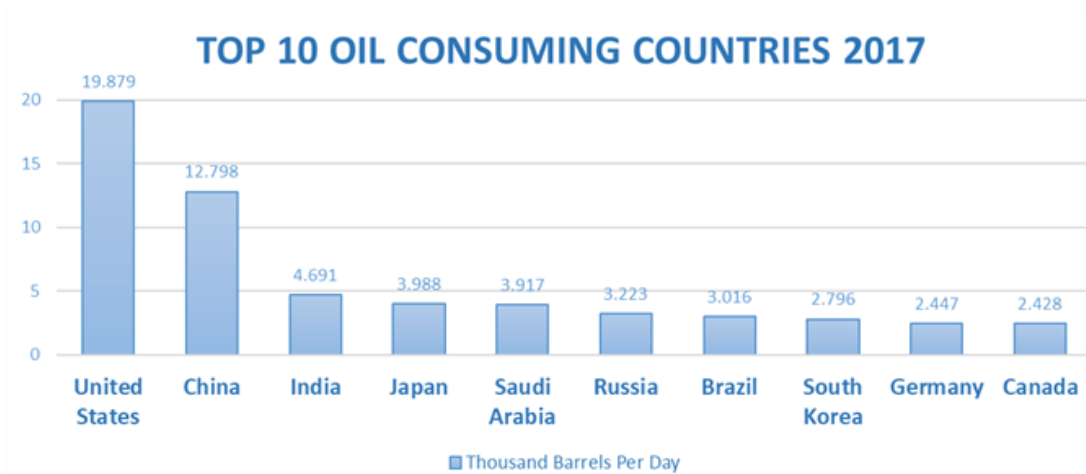
Extraction or supply disruptions in the Texas and North Dakota areas could have an impact on the price of crude oil for trading.



An Olympic sized pool is roughly 25 meters wide and 50 meters long and two meters deep. It would take 1577 barrels of oil to fill up one of these pools. Well, it takes the world about two minutes to consume that oil with just the seven largest countries taking a mere four minutes to consume a pool's worth of oil. That is a lot of consumption!

If traders notice that oil consumption is increasing, then that demand for crude oil may drive the market higher. Therefore, crude oil is seen as a barometer of worldwide economic health in that a stronger economy may lead to more consumption of oil and higher [crude oil prices](#).

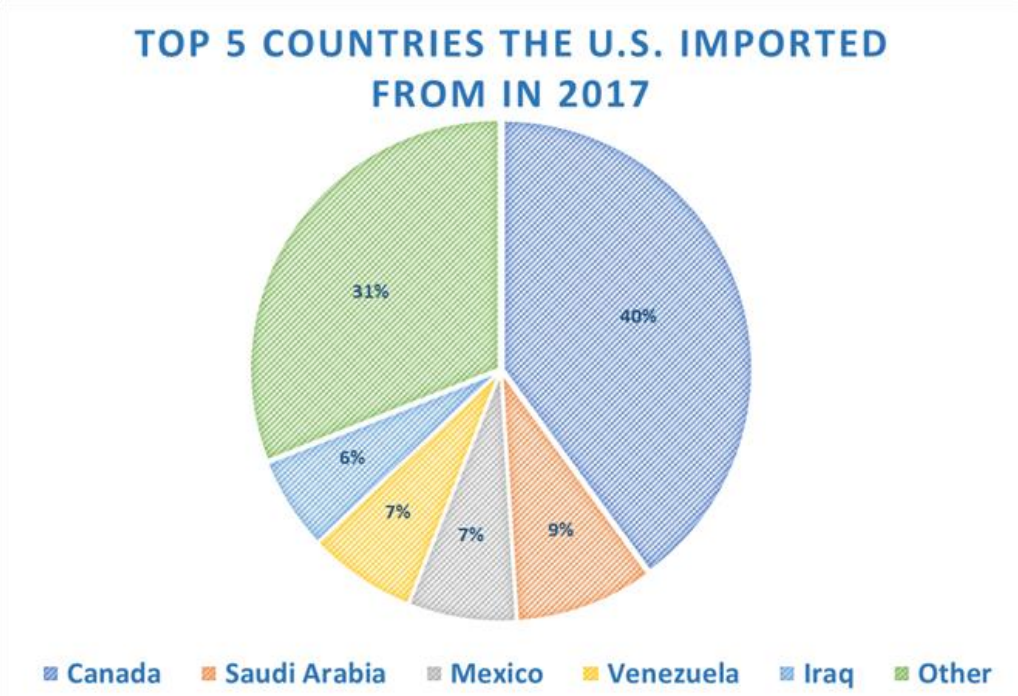
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Although the United States is the largest oil producer in the world, it is also the world's biggest consumer with an average of 19.88 million bpd in 2017. This accounted for around 15.1% of the world's total consumption per day. Around half of the oil consumed in the U.S. is for the transportation industry. If traders notice that oil consumption is increasing, then that demand for crude oil may drive the market higher. Therefore, crude oil is seen as a barometer of worldwide economic health in that a stronger economy may lead to more consumption of oil and higher crude oil prices.

Although the US now leads the world in oil production, it still imports nearly 7.97 million barrels of oil per day. There are two main reasons for this.

Firstly, not all crude oil is the same. We have highlighted the **top five differences between WTI and Brent crude oil**. Secondly, the United States consumption is higher than their domestic production. You can tell that nearly seven million barrels difference between oil fact number three and five above in the US. A healthier US economy can pull in more demand and potentially increase the price per barrel of oil.



The market fundamentals for crude oil could be great, but a strong US dollar may keep oil from pricing at higher levels. Both Brent and WTI crude oil are priced in US dollars so strong trends in the Buck may affect the price per barrel of oil.

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A strong US Dollar generally relates to a strong US economy. This is known as **The Dollar Smile Theory**. In theory, a stronger US Dollar will have an inverse effect on crude oil prices. The chart below shows the relationship between WTI crude oil and the inverse of US Dollar Index for much of the recent past. It is important to keep in mind that the value of US Dollar tends to move in the opposite direction as oil. Therefore, follow US Dollar trends to gain insight on crude oil trends.



A little-known fact about crude oil is that it will frequently correlate to the value of the **Canadian Dollar**. Therefore, when a crude oil trader is seeking to identify technicals such as **trend direction**, they may be able to find insight from the Canadian Dollar. This correlation exists because Canada is a significant producer and exporter of oil to the United States. So if oil is priced relatively high, the Canadian economy may be construed in a favorable/strong position and vice versa.

