Excerpt from Nasdaq.com, December 2009
http://www.nasdaq.com/newscontent/20091129/Energy-ETFs-Oil-and-the-Dollar.aspx

Energy ETFs, Oil, and the Dollar

The price of energy sector ETFs is largely driven by the price of crude. Rebounding global demand for oil has been good for energy assets. But demand is only one reason for the higher valuation for energy ETFs in recent months. Equally important is the return to a weakening US dollar. Crude oil is priced in dollars. It tends to have an inverse relation to the dollar.

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Before the onset of the economic crisis, a seemingly unstoppable weakening of the dollar drove oil and commodity prices to all-time highs. In July of 2008 the price of oil touched $147 dollars a barrel. The world economic crisis temporarily reversed this trend. Oil demand changed during the crisis, but relatively little, and certainly nothing like the per barrel price, which collapsed to below $40/barrel in February.

The reason for this puzzling phenomenon goes beyond traditional commodity supply and demand considerations. Most commentators sought to explain the run-up in oil prices in 2008 in terms of an increased demand for energy and raw materials from China and India. Stories of "peak oil" dominated. But something else behind oil's rise: speculation, and crucially: a weaker dollar.

This became clear during the economic crisis of 2008 and 2009. After the Lehman Brothers collapse, the US dollar strengthened as the liquidity necessary for investors to roll over their dollar-denominated assets dried up. As the dollar strengthened, without change in oil supply and only minor change in oil demand and expected oil demand, the price of crude collapsed. Then, with liquidity coming back into the market in the Spring and Summer of 2009, it became easier and less painful to sell dollar assets. The trend to a weaker dollar returned and with it higher oil prices.

Traditional supply considerations do matter: political instability in the Middle East and Venezuela, hurricanes. But they matter less. Short to mid-term, an investment in crude, like an investment in Energy ETFs is a bet on liquidity and dollar weakness.

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The price of crude can also impact the price of some sub-sector energy ETFs outside of the oil and gas sector, such as coal and nuclear power and alternative energy ETFs, though this correlation is complicated by policy and subsidy. Coal and nuclear power are used for electricity generation, oil rarely. Nevertheless the price of oil can be a factor in these funds as well. They are included among the most important energy sector ETFs in the list below.

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PowerShares WilderHill Clean Energy Portfolio (NYSEArca:PBW) ….
PowerShares Global Clean Energy Portfolio (NYSEArca:PBD) ….
PowerShares WilderHill Progressive Energy Portfolio (NYSEArca:PUW)
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