



Zanetti Monday Missive 2022.03.21 Petrodollar or Petroyuan

“America has no permanent friends or enemies, only interests.”

~ Henry Kissinger

Last week I wrote about rising gas prices and a look back at 2008, the last time gas was over \$4.00/gallon. Last week, the average national price was \$4.33. Well, good news! Today it's down to \$4.26! Ok, so that may not be that great of news but at least it's pulled back in the right direction.

Well, today I'm going to pan out to a little broader perspective – but it still relates to gas.

Today's topic is OIL! And how it's purchased: the Petro-dollar.

To start, let's go back to 1971. President Nixon had his hands full, to say the least. The Vietnam Conflict was expensive and wasn't going well. The US Government had to keep spending money, but inflation was a huge fear. To avoid "pesky" inflation, while still printing greenbacks, President Nixon took the US dollar off the Gold Standard. The dollar was no longer backed by gold, but was instead backed by "The full faith and credit of the United States Government."

That allowed the US Government to print money at a faster rate, but then concern started to rise about whether or not other countries would still use the US dollar as the world reserve currency. So, on behalf of President Nixon, Henry Kissinger went to Saudi Arabia and said... "Let's make a deal!"



Kissinger and King Faisal penned a deal that said Saudi Arabia would sell oil to all nations in US Dollars ONLY. In exchange, the US would protect Saudi Arabia militarily.

This would allow the Royal Saudi Family to spend their profits on Rolls Royce's and yachts instead of tanks and fighter jets (to protect their wealth and power).

Saudi Arabia established the trend, then the other oil producing nations followed suit, and the dollar became necessary as the world consumed the most important energy producing resource of the past century. And the US has remained the economic powerhouse of the world.

The Petrodollar has been a mixed bag for the US. There have been pros and cons...

In the Pro column:

- It elevated the status of the US dollar
- It allowed the US to fund a deficit (spend more than we make)
- It strengthened its status as the reserve currency

In the Con column:

- It forced the US to run a deficit to allow the US dollar to grow with the entire world economy
- Continued US deficits can lead to a loss of faith in the US dollar
- Stopping US deficit spending will lead to liquidity shortage and a global economic slowdown

So, you can see we've kind of painted ourselves into a corner.

Meanwhile, several competing countries have grimaced at the US dollar

being the world reserve currency but because of oil, they had to grin and bear it. Russia, who is a big exporter of oil, has had to sell all their oil in US dollars. So has Iraq (Saddam Hussein unsuccessfully tried to break that tie).

And that's where we come to today.

China is the only global economy who might be able to compete with the United States as a host for a reserve currency. Back in 2017, China made a deal with Russia to trade oil between the two nations using a Petroyuan.

Last week the Wall Street Journal reported that Saudi Arabia and China have had talks for the past six years to trade oil using a Petroyuan but those talks accelerated this past year as the Saudis have become unhappy with US commitments to defend the Kingdom.



The Saudis are unhappy with the Biden administration moving forward with making Iran a nuclear power and they were shocked by the disastrous withdrawal from Afghanistan.

China buys more than 25% of Saudi oil, so this would be no small thing for Saudi Arabia. And if it validated the Chinese Yuan, it would be a major win for China as they compete with the US for global power.

As Greg and I watch the geopolitical tides turn, we constantly look at how we should invest your money. Regardless of how oil is purchased (US Dollar or Yuan), we know oil is still in high demand and will be for sometime to come. We also know the purchasing power of the dollar is declining, which is why we consider cash a bad investment. No matter what, we will continue to closely watch these trends and invest appropriately for you.

Your Oil's-Well-That-Ends-Well Financial Advisor,

Walt

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