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<http://www.moneymorning.com/2008/08/11/opec-dollar/>

## **Eight Ways to Profit if OPEC Dumps the Dollar**

Iranian President Mahmoud Ahmadinejad dropped a bombshell. And while it wasn't a nuclear one, it might as well have been.

He stated on the record at a rare gathering of the heads of the Organization of Petroleum Exporting Countries ([OPEC](#)) member nations have expressed a real interest in converting their cash reserves from the beleaguered U.S. greenback to the European euro. More specifically, Ahmadinejad referred to the U.S. dollar as "a worthless piece of paper."

Not surprisingly, Ahmadinejad ally and fellow anti-U.S. hardliner Hugo Chavez - the president of Venezuela - echoed a similar sentiment.

What makes their posturing so troublesome, however, is that for the first time there was no rebuttal, or reassuring commentary from Saudi Arabia and other key U.S. petrodollar supporters, in response.

In fact, they didn't even mention concerns about the falling U.S. dollar in the summit's final declaration.

Instead, OPEC members formed a working group to study the dollar's effect on oil prices and to "investigate the possibility of a currency basket" as a means of offsetting declining dollar-based reserves. At the same time, Ahmadinejad and Chavez agreed to set up a joint Iranian-Venezuelan bank and concurrently signed deals to boost cooperation in the oil, petrochemical and general industrial sectors, according to Iranian media.

The timetable for recommendations and action, like many things from OPEC, remains unclear. But the mere fact that they've gone so far as to set up a working group to study the currency problem, and that at least two major member states are busy

establishing bilateral financial institutions, suggests that changes are in the wind and this time those changes are for real.

Let me emphasize this point: This is not good. In fact, under the circumstances, I can't think of anything else short of a direct terrorist attack that poses as serious a challenge to our economic future and to any of our investments that aren't positioned for this possibility.

That said, if you know that something is going to happen, there are almost always profitable plays you can make.

Let's talk challenges first.

### **The Fallout From a Falling Dollar**

First, OPEC members have long grumbled about the falling dollar and taking payment in euros. This is nothing new. In fact, China already pays for Iranian oil in euros, so Ahmadinejad's desire to get away from the dollar is hardly unexpected given how much he already banks on the deal. Neither is the fact that both Venezuela and Russia have joined the "euros-for-oil" party, as have Libya, Indonesia and Malaysia, I believe.

But what represents a stark change from past posturing is that this time there was no reassuring voice from countries like Saudi Arabia and Jordan, who have traditionally been our allies in keeping the petrodollar relationship intact since the early 1970s.

This time around, both our "allies" were completely silent on the matter and their silence, as the old adage goes, speaks volumes about how much internal pressure is mounting against such dollar-favorable OPEC members. I've met many of the their representatives over the years, and let me assure you that they are very concerned that the oil-for-euros crowd will win.

The reason is that many OPEC countries peg their own currencies to the dollar. By pricing crude the same way, they have their own form of economic benchmark. Should that change in response to a shift away from dollars, each producer would not only have to endure their own economic reset, but they would potentially also have to begin pricing oil on the free market, which is something

OPEC cartel members have gone to great lengths to avoid for nearly 30 years. This could result in dramatically higher oil prices as the bigger players squeeze the smaller producers out and the dollar falls even further in response.

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So let's shift away from this gloom and doom and instead look at the profit opportunities this unceremonious dumping of the dollar would create.

### **Capitalizing on the Dollar's Denouncement**

One thing is certain in all this: There's no way that Ahmadinejad and Chavez intended to create profit opportunities for U.S. investors. But in making the greenback an OPEC outcast, that's precisely what they'll be doing. Let's look at some of the best opportunities that I see before us. Indeed, if OPEC makes good on this subtle threat, make sure to:

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