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Dollar, Oil, Euro – an Unholy Trinity

Weed-Conference “The New Financial Architecture – a Ruin?”

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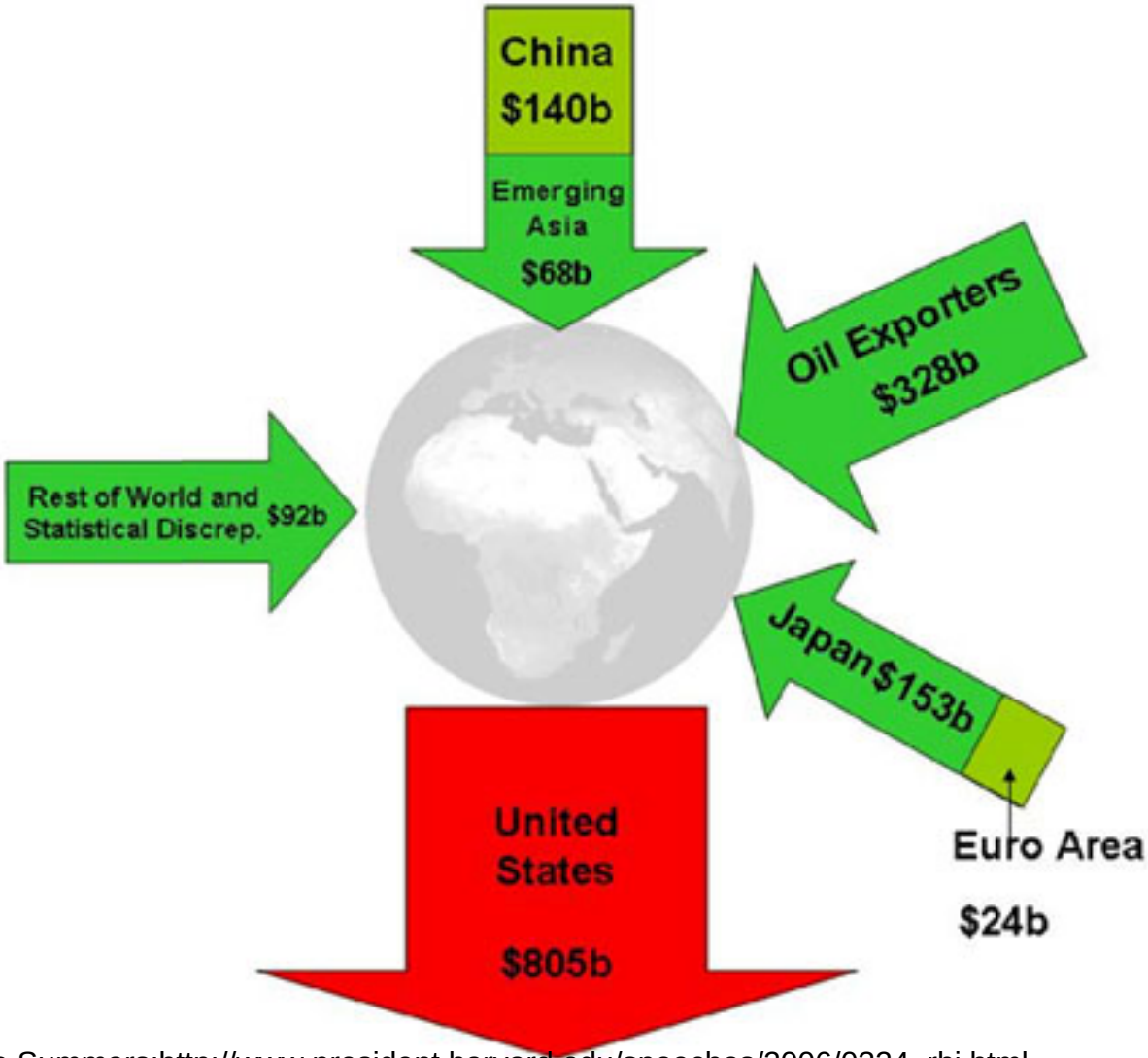
Global Current Account Flows 2005



From: Lawrence Summers:http://www.president.harvard.edu/speeches/2006/0324_rbi.html

Excess Reserves Beyond Short Term Debt due in One Year (Greenspan-Guidotti Rule)

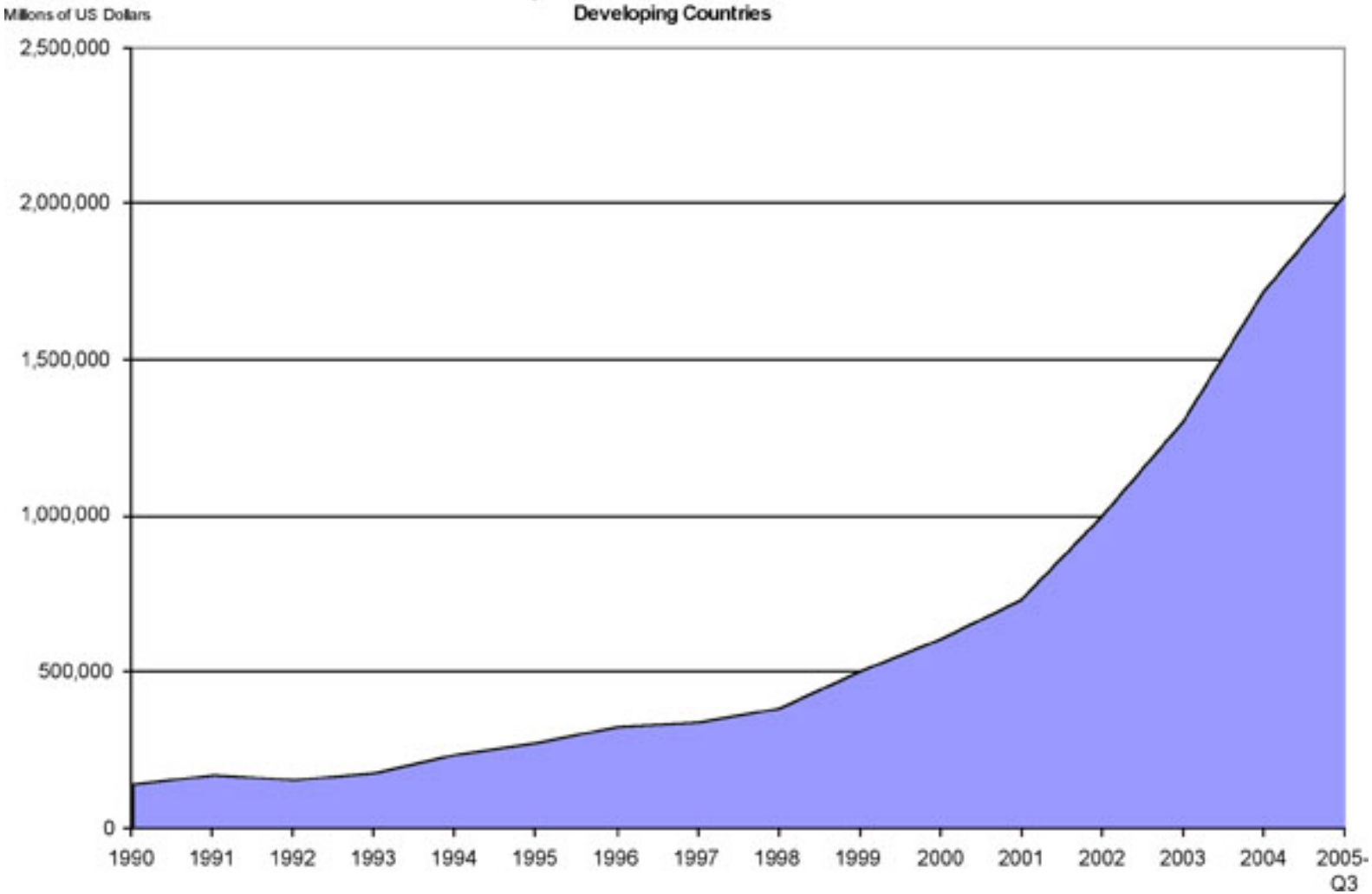
Country	Excess Reserves (millions of US$, Q3 2005))	Excess Reserves as a % of 2004 GDP
China	724,080	41%
Taiwan	210,134	69%
Korea	136,711	18%
Russia	118,154	20%
India	107,703	15%
Malaysia	58,613	50%
Algeria	50,518	60%
Mexico	47,083	7%
Thailand	35,489	21%
Saudi Arabia	73,897	29%

Source: Summers

Figure 3

Excess Reserves Beyond Short Term Debt Due Within 1 Year

Developing Countries



Source: Summers

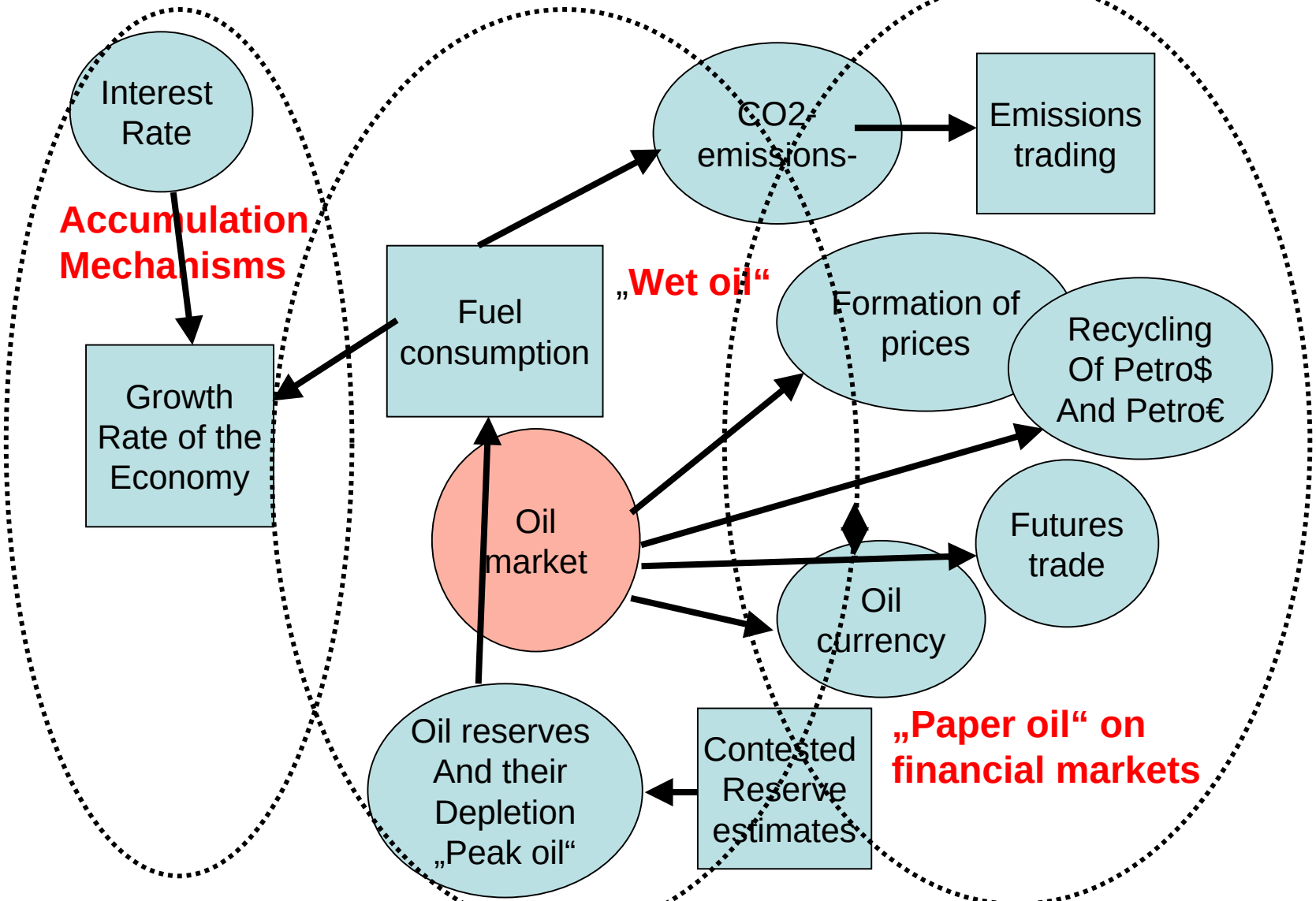
World oil-production and –consumption 2002 – 2006 in million barrels per day (mbd)

	2002	2003	2004	2005	2006
Oil-consumption					
North America	24,1	24,5	25,4	25,7	26,0
Europe	15,3	15,4	15,6	15,6	15,6
Former SU	3,5	3,6	3,7	3,8	3,8
China	5,0	5,6	6,4	6,7	7,3
Latin America	4,8	4,7	4,9	5,0	5,1
Africa	2,7	2,7	2,8	2,9	3,0
World	**77,7**	**79,2**	**82,1**	**83,7**	**85,5**
Oil-production					
North America	14,5	14,6	14,6	14,6	14,8
Europe	6,6	6,3	6,1	5,7	5,5
Former SU	9,4	10,3	11,2	11,6	12,1
China	3,4	3,4	3,5	3,6	3,6
Latin America	3,9	4,0	4,1	4,3	4,5
Africa	3,0	3,0	3,4	3,7	4,3
OPEC	28,8	30,7	33,0	34,8	35,4
World	**76,9**	**79,7**	**83,1**	**84,5**	**85,5**

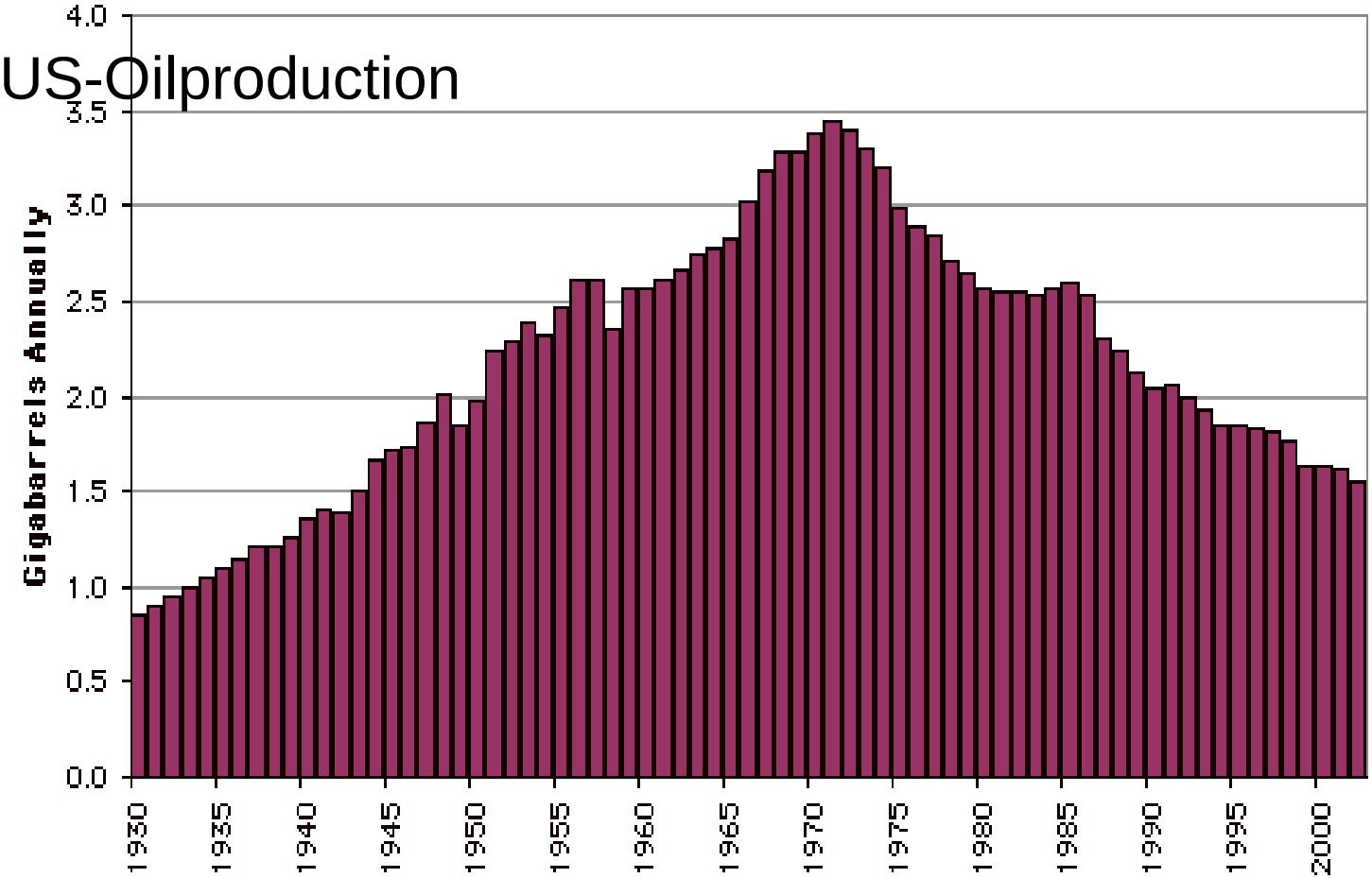
Countries with oil consumption exceeding production

Source: IEA, Oil Market Report

The “Double Character“ of Oil: „Wet“ Oil and „Paper“ Oil

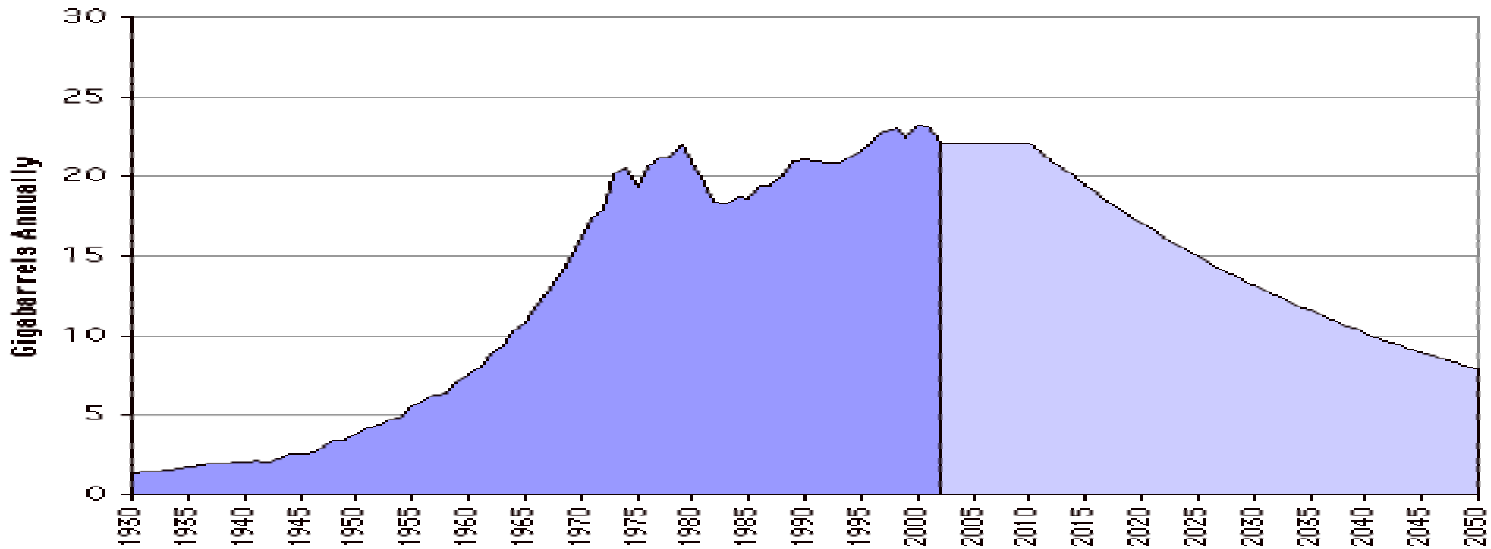


US-Oilproduction



Because the USA (excluding Hawaii and Alaska) has been producing longer than anyone else, largely unaffected by external matters, it shows the Hubbert Curve better than anywhere else. You can see that production has been declining since the 1970s and, despite the efforts of the richest, most technologically advanced society in the world, has not been stopped.
Source: ASPO

Oil Production (world) 1930-2050

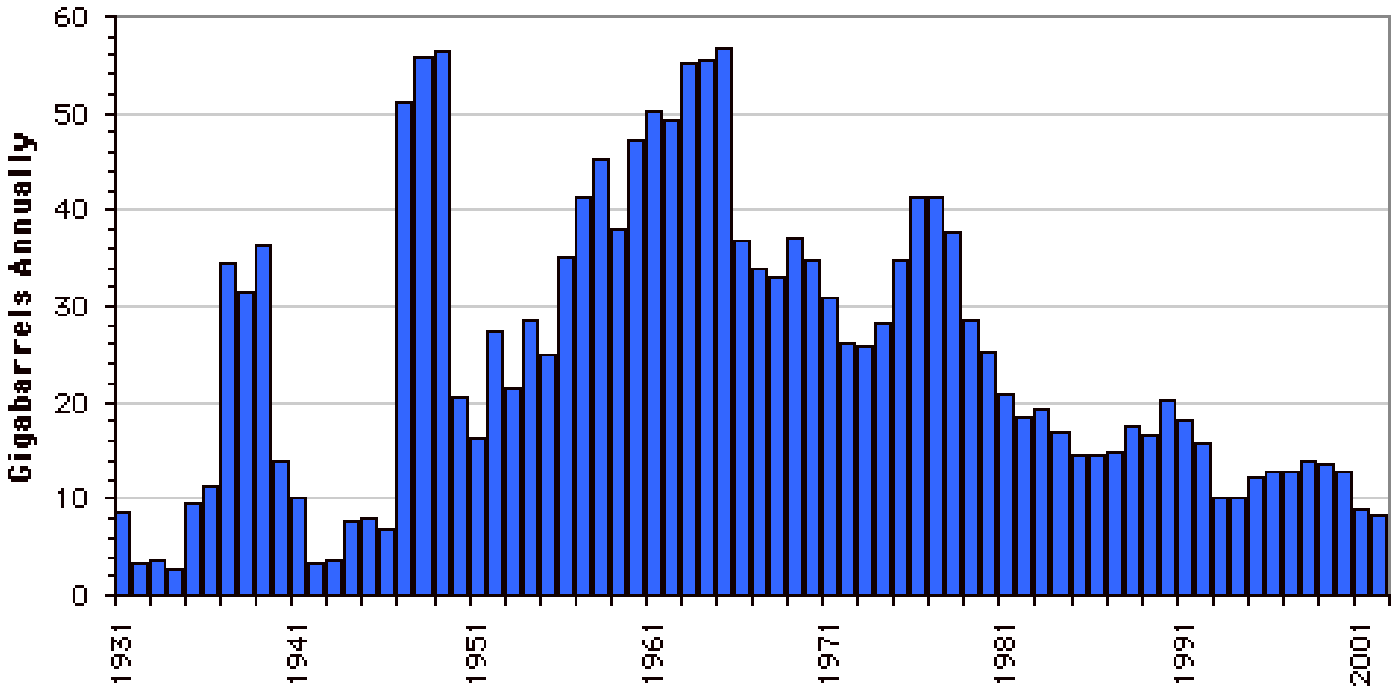


This chart shows world oil production up until 2002 with ASPO's predictions of what might occur afterwards. After a plateau, it is expected to drop away (although it won't be as smooth as shown, of course). The comparisons with the Hubbert Curve are clear until the 1970s when the OPEC-induced oil crisis messed up the slope.

Source: ASPO

Source: ASPO

Oil Discovery (world) 3 year average



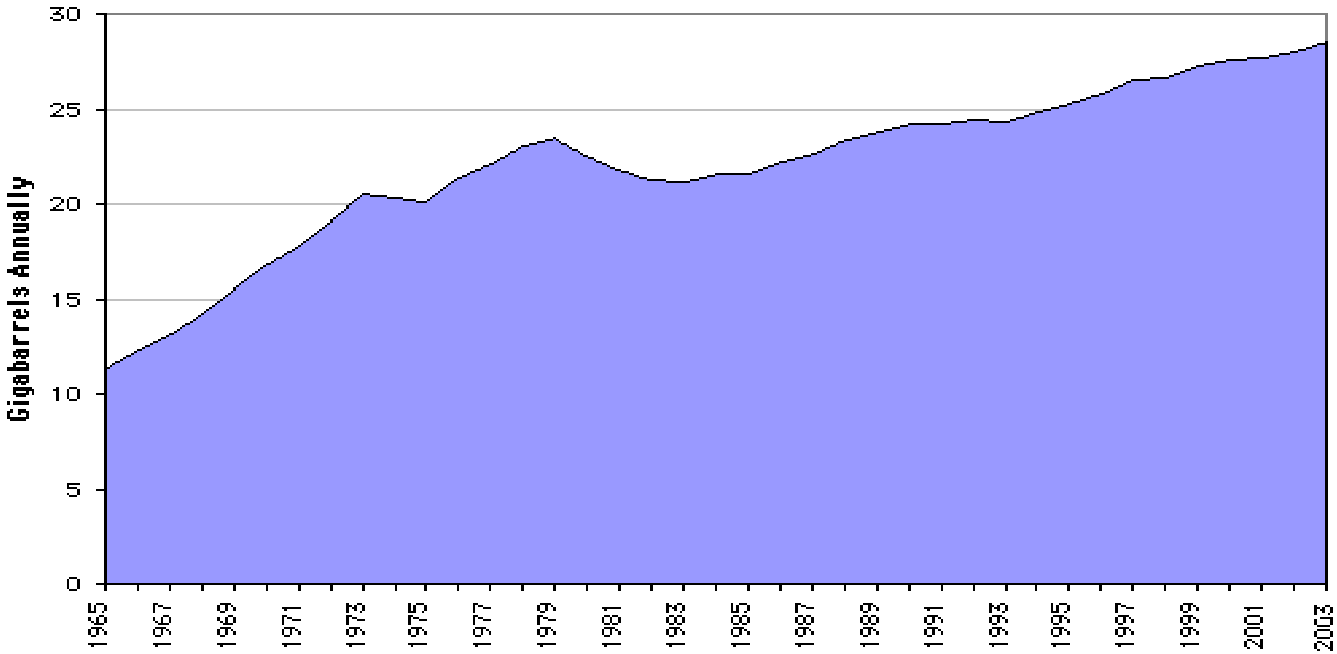
The trend of oil discovery peaked at 90 Gb in 1964 (although there was an exceptional, solitary peak year in 1948 of 147 Gb. As individual years jump about a little, here they have been averaged over three years. It clearly shows the fall in discovery. Even the occasional successes such as the discovery of North Sea oil in the mid-1970s do not halt the trend, just provide a few years' respite.

Source: ASPO

The Increase of Demand for Oil

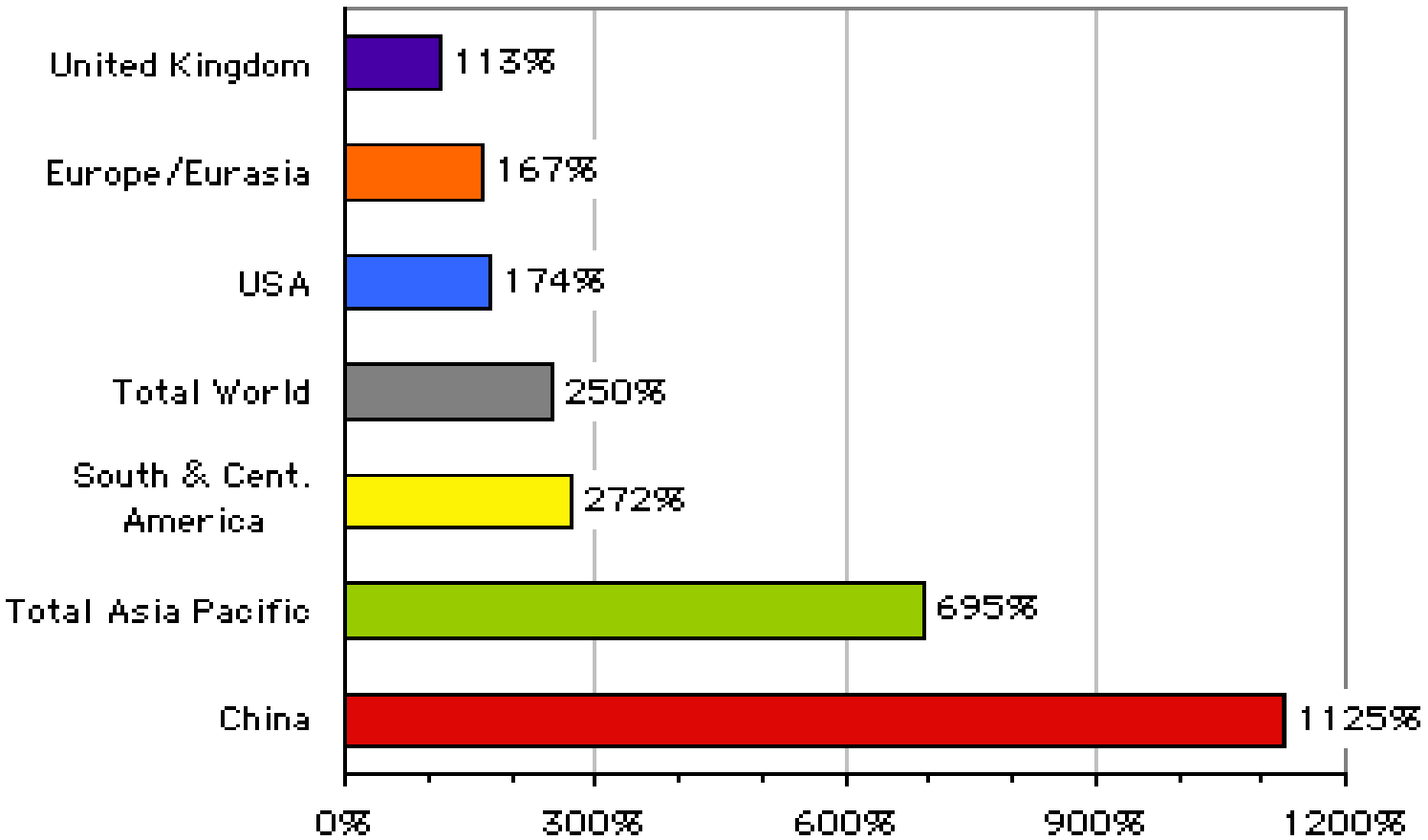
- The Globalisation of the Western Consumption Pattern: Mobility and Energy-Intensity
- The Pressure of Global Competition to Increase Competiveness by Increasing Productivity: Technology Patterns Matter
- Emerging Markets Crowd into the Oil Market
- The Role of Financial Markets and of the „Hard Budget Constraint“: The „Financialisation of Business

Oil Consumption (World) 1965–2003

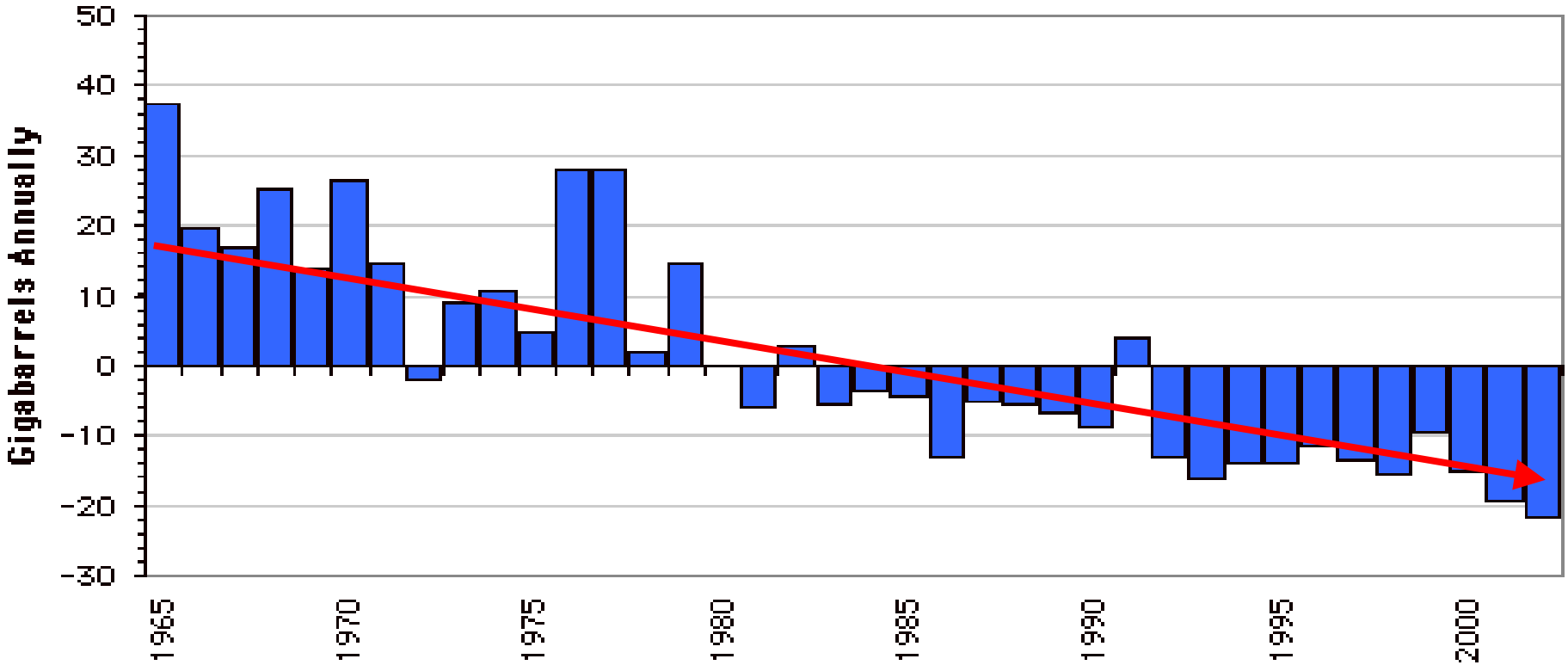


The massive growth in the world's consumption of oil is shown here, doubling in about thirty years. Falls and plateaus tend to be caused by recessions as in the 1970s and 1980s. The change in the previous year was a 2.1% rise. (Source: BP)

Change of oil consumption 1965-2003



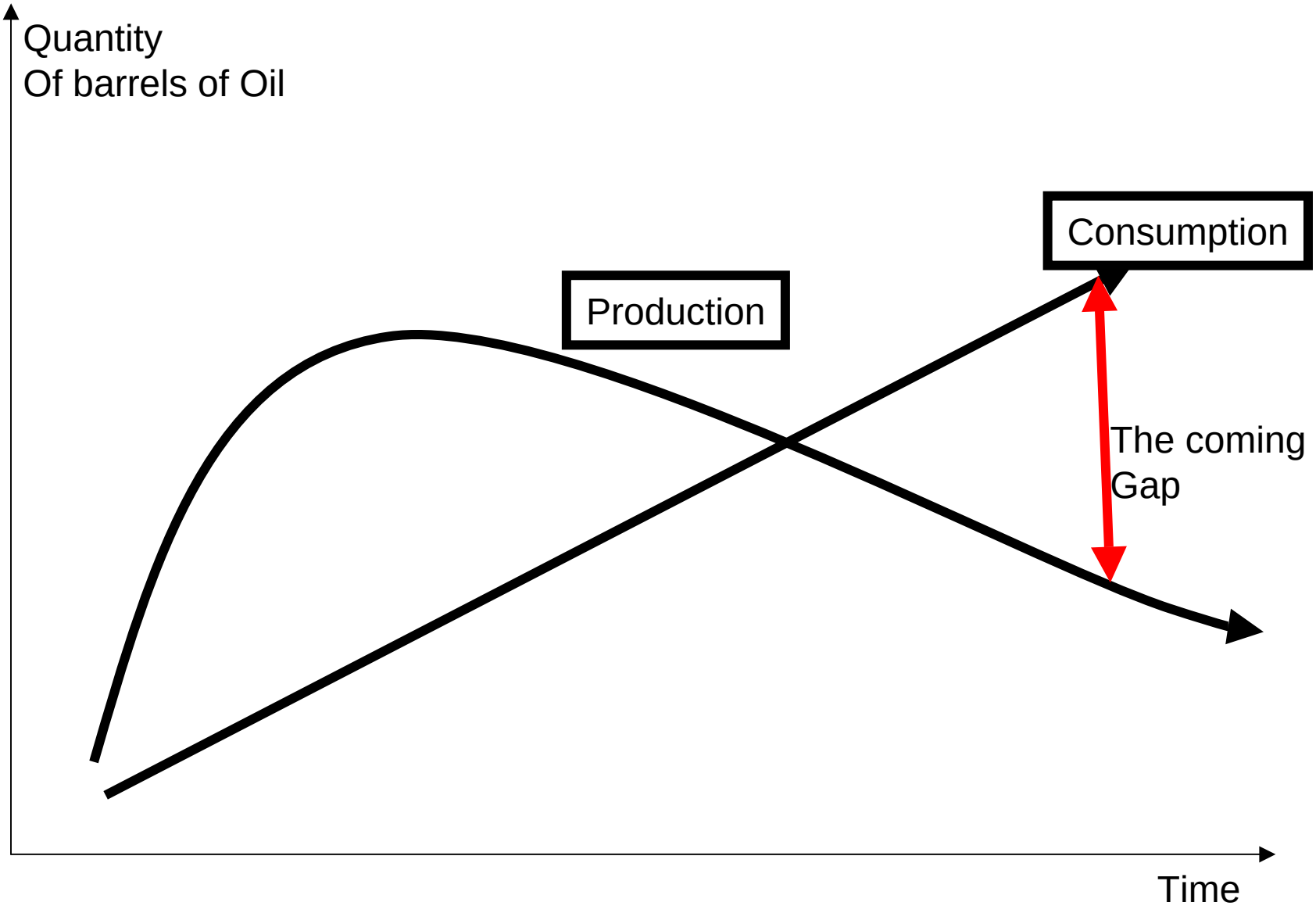
Oil Discovery minus Consumption (world)



The really important statistic about discovery is shown here as the difference between what the world discovers and what it consumes. Until 1980 (with the exception of 1972), we had been discovering more than we used. Since then, the trend has gone into negative and we are eating away at our stores of oil. As discovery is expected to continue to fall and consumption rise, it can only get worse.

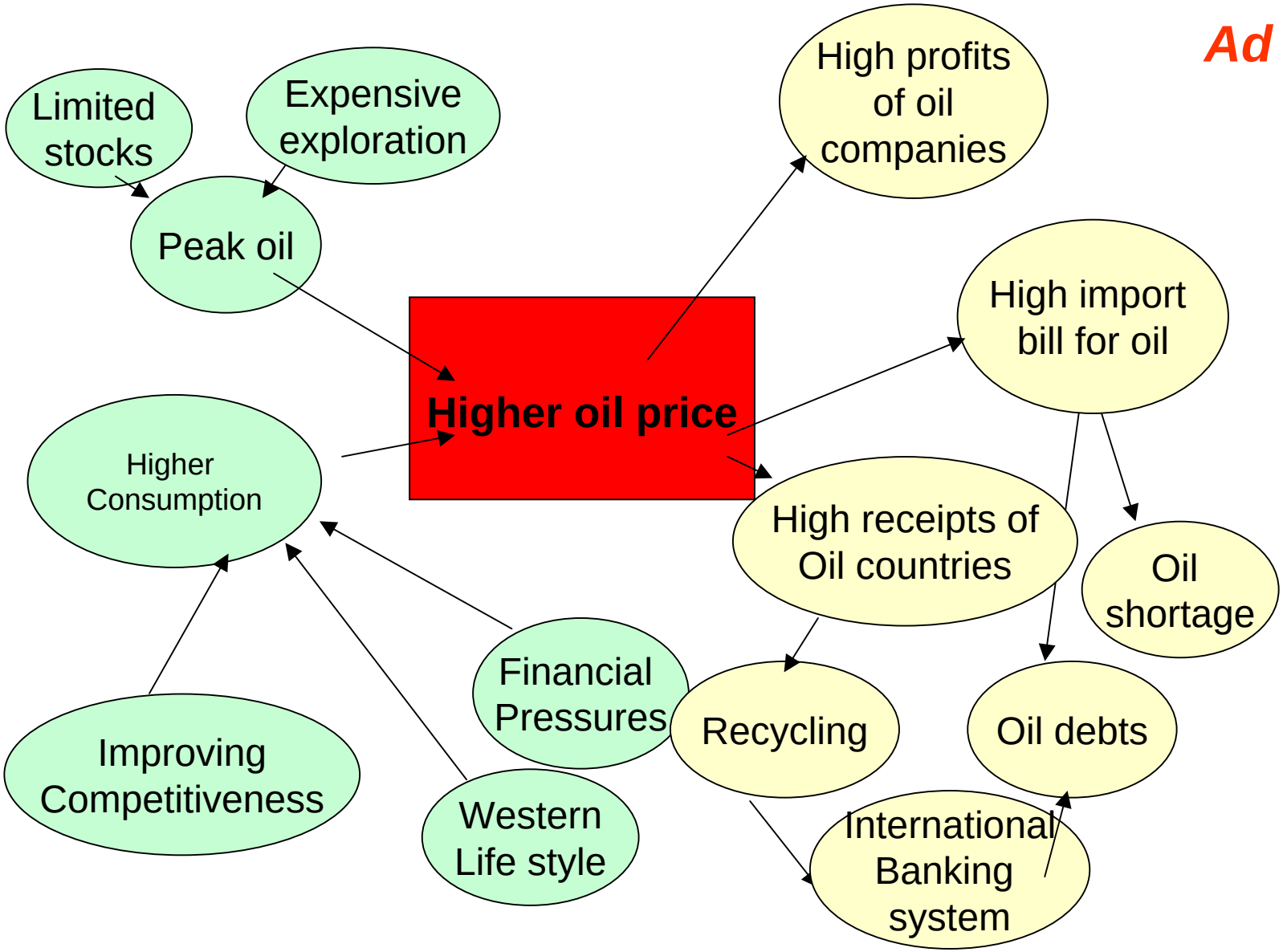
Source: ASPO

The Gap between Oil-Production and Oil-Consumption



Causes and Consequences of Increasing Oil-prices

Ad 2



Oil bill of selected oil importing countries at 30$/b and at 70$/b in relation to export revenues (own calculations)

Country	Oil imports Mill. b/d	Oil imports Mill. b/year	Oil-bill 30$/b Bn$	Oil-bill 70$/b Bn$	Export-revenues Bn$	Percentage of Export-revenues (%)	
						30$/b	70$/b
France	2,28	832,2	24,97	58,25	443,4	5,6	13,1
Germany	2,14	779,28	23,38	54,55	1016,0	2,3	5,4
UK	1,08	395,7	11,87	27,70	342,7	3,2	7,4
Italy	2,16	787,7	23,63	55,22	371,9	6,35	14,85
Netherlands	2,28	833,7	25,01	58,36	365,1	6,9	16,0
Japan	5,45	1988,9	59,67	139,22	550,5	10,8	25,3
USA	13,15	4799,8	143,99	335,98	927,5	15,5	36,2
China	3,23	1177,5	35,32	82,42	752,2	4,7	11,0
India	2,09	762,85	22,89	53,40	76,23	30,0	70,1

Ad 3

Current account balance of MENA-Countries as percent of GDP, 1995 – 2005

Group of Counties	Average 1995-1999	Average 2000-2002	2003	2004	2005
MENA-Region (excl. Iraq)	0,2	6,9	7,8	11,9	18,3
Resource-poor, labour abundant	-3,9	-1,8	0,1	-0,5	-1,7
Resource rich, labour abundant (excl. Iraq)	2,8	8,5	4,3	5,6	9,5
Resource rich, labour importing	0,9	10,3	13,2	20,3	29,7

Source: MENA-Report

Ad 3

External Reserves of MENA-countries in bn US$, 1995-2005

Group of Counties	Average 1995-1999	Average 2000-2002	2003	2004	2005
MENA-Region (excl. Iraq)	..	167,3	227,9	289,0	364,0
Resource-poor, labour abundant	..	36,4	51,8	56,1	62,3
Resource rich, labour abundant (excl. Iraq)	..	41,7	66,5	85,9	117,0
Resource rich, labour importing	35,1	89,2	109,6	147,0	184,6

Source: Mena Main Report: 35

The Use of Petro-Dollar-Reserves

- Stabilisation Fund
- Debt Reduction
- Higher Imports of Goods and Services
- Consumption Goods
- Investment and National Development-Projects
- Recycling on Global Financial Markets

Currency Composition of Official Foreign Exchange Reserves (COFER)

In bn US$

	1999	2000	2001	2002	2003	2004	2005
Industrial Countries							
Total Foreign Exchange Holdings	725,63	785,18	788,28	900,53	1119,22	1314,74	1292,28
Claims in US$	527,60	566,81	570,82	617,76	785,96	936,82	947,79
Claims in Euro	115,69	133,91	141,40	200,73	246,29	273,72	246,19
Unallocated Reserves	7,38	2,81	2,21	2,67	2,64	3,40	5,95
Developing Countries							
Total Foreign Exchange Holdings	1058,26	1157,41	1264,61	1508,58	1910,05	2434,85	2878,01
Claims in US$	449,09	510,80	546,92	584,48	680,51	801,09	932,24
Claims in Euro	131,26	145,55	160,53	227,42	316,17	386,52	440,68
Unallocated Reserves	399,91	420,81	484,79	611,94	799,60	1103,65	1342,85

Source IMF, BIS

Competition on the future oil-currency

- Geopolitical reasons
  - Economic decline of the US, but political and military strength – a shield which the competitors cannot provide
  - However, attempts to get rid of the US-dominantion
    - Iraq 2000
    - Iranian oil bourse
    - Russian and Latin American interests in a dissolution from the US$
- Geo-economic reasons
  - The necessity of a dollar-devaluation
    - The effects on the world economy: China, the EU, Japan, LA and the re-direction of trade flows
    - The devaluation of monetary wealth and the effect on financial markets
  - The blow to the American economy
    - More Savings, more exports
    - Less imports, less consumption

Are there ways out?

- In an unsustainable situation coordinated action is needed: G 8 or G 20, FSF?
- The contribution of global governance institutions inclusive NGO‘s?
- Stabilisation of exchange rates by means of target zones, interest caps etc. and the role of the IMF
- Regulated recycling of petro-currencies in order to avoid a new debt crisis
- Last not least: Transition to renewable energies in order to become less dependent on fossil fuels