



R&R Weekly Column  
By Brunello Rosa



## Will the Petrodollar System Be Replaced By China-led CBDCs?

In the last few weeks, a flurry of reports announced that Saudi Arabia had [quietly let its 50-year petrodollar agreement with the United States expire without renewal](#), causing rumours to spread about the possibility of an official end to the petrodollar system and, with it, the wider US dollar hegemony. [Other media reports suggested this was just “fake news”](#), that nothing has actually changed. In this column we will try to make sense of this story, which we explore in much greater detail [in a forthcoming article](#).

The context here is [the end of the USD convertibility into gold decided by Nixon in 1971](#), which led [major currencies to begin to free float by 1973](#), and the first oil shock, with its 4-fold increase in the price of oil and OPEC oil embargo. In 1974, two separate agreements were signed as a result of this. One, signed on June 8<sup>th</sup>, 1974, established the [“U.S.-Saudi Arabian Joint Commission on Economic Cooperation”](#) to *“fosters closer political ties between the two countries through economic cooperation; assists Saudi industrialization and development while recycling petrodollars.”* The second agreement was secretly signed later in 1974, in which the U.S. promised military aid and equipment in exchange for the Kingdom investing billions of dollars of its oil-sale proceeds in U.S. Treasuries.

While most press reports are suggesting that it was the first of these two agreements that was not renewed earlier this June, in reality it is the second, which remained secret for decades, that gets closer to the “military security in exchange for petrodollar recycling into U.S. Treasuries” deal that people refer to.

Whether a formal agreement as opposed to an established practice existed, the petrodollar system has developed over the decades and has helped in establishing the USD as the global reserve currency. From this perspective, regardless of whether or not an agreement was formally renewed, in practice nothing substantial will change until an equally large and liquid market and widespread currency replaces those of the U.S., and this does not seem to be on the horizon. Some oil transactions will occur in local currencies, in Chinese yuan, etc. but this will not undermine the role of the USD as the global reserve currency.

However, there is an element that makes this story even more intriguing, which cannot be easily dismissed. Just a couple of days prior to the supposed expiry of the “petrodollar deal,” on 6 June 2024, [the Saudi Central Bank confirmed it was joining the mBridge multi-CBDC \(Central Bank Digital Currency\) project as a full participant](#), as the initiative moved from the production phase to the ‘minimum viable product’ phase. Saudi Arabia’s joining the China’s dominated “new rails” for cross-border payments may be [interpreted as a signal that Saudi Arabia is ready to shift away from the U.S.-dominated financial architecture](#). The potential for Saudi Arabia to embrace CBDCs, and, by extension, the financial architecture championed by China and the BRICS, would pose an unprecedented challenge to the existing U.S.-led global financial order. In effect, it would mark a watershed moment for the US dollar’s unchallenged supremacy as the global reserve currency.

### Our Recent Publications

❖ [Macron’s Electoral Gamble Could Cost Dearly to France and Europe, But Market Discipline May Eventually Be The Strongest Guardrail To A Le Pen Presidency](#), by Brunello Rosa and Nouriel Roubini, 21 June 2024

❖ [Review: Bank of England Left Rates Unchanged and Pushes Any Decision To August](#), by Brunello Rosa and Nato Balavadze, 20 June 2024

❖ [Georgia’s Democratic Struggle: Analysis of US and EU Relations and Georgia’s Path to Democracy](#), by Matthew Johnson, 19 June 2024

❖ [Preview: BOE Likely On Hold In June, But Preparing the Ground For a Rate Cut in August](#), by Brunello Rosa, Nouriel Roubini and Nato Balavadze, 17 June 2024

Looking Ahead

The Week Ahead: US QoQ GDP To Decelerate; US PCE Index To Ease Off; UK QoQ GDP To Advance

**In the US**, in Q1, according to the final estimate, GDP growth rate is likely to decelerate to 1.3% q-o-q (*p*: 3.4%). In May, PCE and core PCE index are expected to ease off to 2.6% y-o-y (*p*: 2.7%) and 2.6% y-o-y (*p*: 2.8%). In June, Michigan consumer sentiment is seen falling to 65.9 (*p*: 69.1).

**In the EZ**, in June, economic sentiment and consumer confidence is expected to increase to 96.3 (*p*: 96) and -14 (*p*: -14.3).

**In the UK**, in Q1. According to the final estimate, GDP growth rate is seen advancing by 0.6% q-o-q (*p*: -0.3%) and 0.2% y-o-y (*p*: -0.2%).

**The Quarter Ahead: Biden-Trump Presidential Debates; Hezbollah Threatens Cyprus; Russia And North Korea Signed A Defense Pact**  
**The first debate between Biden and Trump.** It will be the first of at least two debates before the 5 November election and will be held on Thursday 27 June. Robert F. Kennedy Jr. did not meet the network's ballot and polling thresholds for the event.

**Hezbollah threatens Cyprus.** Israel's army approved an offensive against Hezbollah in Lebanon, with an imminent war announcement expected. Hezbollah's leader, Hassan Nasrallah, warned Cyprus against aiding Israel, stating it would become a target if it allowed Israeli forces to use its airports and bases. In response, Cypriot President Nikos Christodoulides denied involvement in the conflict.

**Russia's and North Korea's defensive pact.** Kim Jong Un supports Russia's invasion of Ukraine. Putin, visiting North Korea, threatened to arm North Korea if the West aids Ukraine. The US and South Korea claim North Korea trades artillery to Russia for food and military aid.

Last Week's Review

Real Economy: Headline And Core Inflation Increased In EZ, While Decreased In UK; PMIs Rose In US; BoE Stayed On Hold

**In the US**, in May, IP increased by 0.4% y-o-y (*p*: -0.7%). In June, S&P Global Manufacturing and Services PMIs edge down to 51.7 (*c*: 51; *p*: 51.23) and 55.1 (*c*: 53.7; *p*: 54.8) respectively. Composite PMI increased slightly to 54.6 (*p*: 54.5). In May, retail sales increased by 2.3% y-o-y (*p*: 2.7%).

**In the EZ**, in May both headline and core inflation rates rose to 2.6% y-o-y (*c*: 2.4%; *p*: 2.4%) and 2.9% y-o-y (*c*: 2.9%; *p*: 2.7%). In June, consumer confidence rose to -14 (*p*: -14.3). In June, HCOB Manufacturing and Services PMI edged down to 45.6 (*c*: 47.9; *p*: 47.3) and 52.6 (*c*: 53.5; *p*: 53.2). Composite PMI fell to 50.8 (*c*: 52.5; *p*: 52.2).

**Among largest EZ economies**, in May, headline inflation rate rose by 0.8% y-o-y (*p*: 0.8%) in Italy.

**In the UK**, in May, headline and core inflation cooled off to 2.0% y-o-y (*c*: 2.0%; *p*: 2.3%) and 3.5% y-o-y (*c*: 3.5%; *p*: 3.9%). Gfk Consumer Confidence in June rose to -14 (*c*: -16; *p*: -17). In June, S&P Global Manufacturing PMI edged up slightly to 51.4 (*c*: 51.3; *p*: 51.2), while Services PMI decreased to 51.2 (*c*: 53; *p*: 52.9). Composite PMI edged down to 51.78 (*c*: 53.0; *p*: 53.1). Retail price index rose by 3.0% y-o-y (*c*: 3.1%; *p*: 3.3%).

**CBs stayed on hold.** In the UK, the BoE maintained its Bank Rate at 5.25%.

Financial Markets: Stock Prices Increased; Yields Rose In US, But Fell In EZ; Dollar And Oil Prices Edged Up, While Gold Prices Fell

**Market Drivers:** In the US, stock prices ended the week higher largely due to the meteoric rise of Nvidia. Weak retail sales data initially lowered Treasury yields, but stronger S&P Global readings later pushed them up. In the EZ, the shares rose, as political worries somewhat eased and hopes for monetary policy easing grew.

**Global Equities:** Increased w-o-w (MSCI ACWI, +0.5%, to 801.25). The US S&P 500 index edged up (+0.6% w-o-w, to 5,464.62). In the EZ, share prices rose (Eurostoxx 50, +1.1% w-o-w, to 4,896.35). In EMs, equity prices increased (MSCI EMs, +0.9%, to 1,086.93). Volatility increased slightly to 13.20 (VIX S&P 500, 52w avg.: 14.6; 10y avg.: 18.1).

**Fixed Income:** w-o-w, the 10-year US Treasury yields rose (+4 bps to 4.26%). The 2-year US Treasury yields increased (+2 bps to 4.73%). The German 10-year bund yields decreased (-1 bps to 2.40%).

**FX:** w-o-w, the US Dollar Index increased (DXY, +0.3%, to 105.52; EUR/USD -0.1%, to 1.07). In EMs, currencies are virtually unchanged (MSCI EM Currency Index, +0.0% w-o-w, to 1,722.17).

**Commodities:** w-o-w, oil prices increased (Brent, +2.9% to 85.02 USD/b). Gold prices declined w-o-w (-0.6% to 2,334.7 USD/Oz).

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The picture in the front page was made with pictures taken from [this website](#) and [this website](#)



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**Abbreviations, Acronyms and Definitions**

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year