Robert Triffin International

A watch on the international financial and monetary system

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RUSSIA, OIL PRICE, DOLLAR AND SDR

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In 1960 Robert Triffin, during a hearing in front of the United States Congress, stated that an international monetary system based on a currency issued from a single state – such as the dollar - could not function in the medium-long term. In order to ensure the necessary liquidity to the world economic system, the issuing country needed to have a deficit in the payment balance but if the deficit was too much the trust in the currency would erode: it was the first time that Triffin formulated the "dilemma".

The Bretton Woods system, however, avoided the "Triffin dilemma" since the dollar was convertible into gold at the price of $ 35 an ounce (today the price fluctuates around 1,300 dollars!). Triffin had predicted that it would have been impossible to keep the promise and that the dollar was therefore not convertible, as President Nixon then announced in his famous statement of August 15th, 1971.

In the meantime, Robert Triffin promoted the reform of the IMF, in particular with the creation, in 1967, of the Special Drawing Rights (SDR), which should have become the main source of international liquidity.

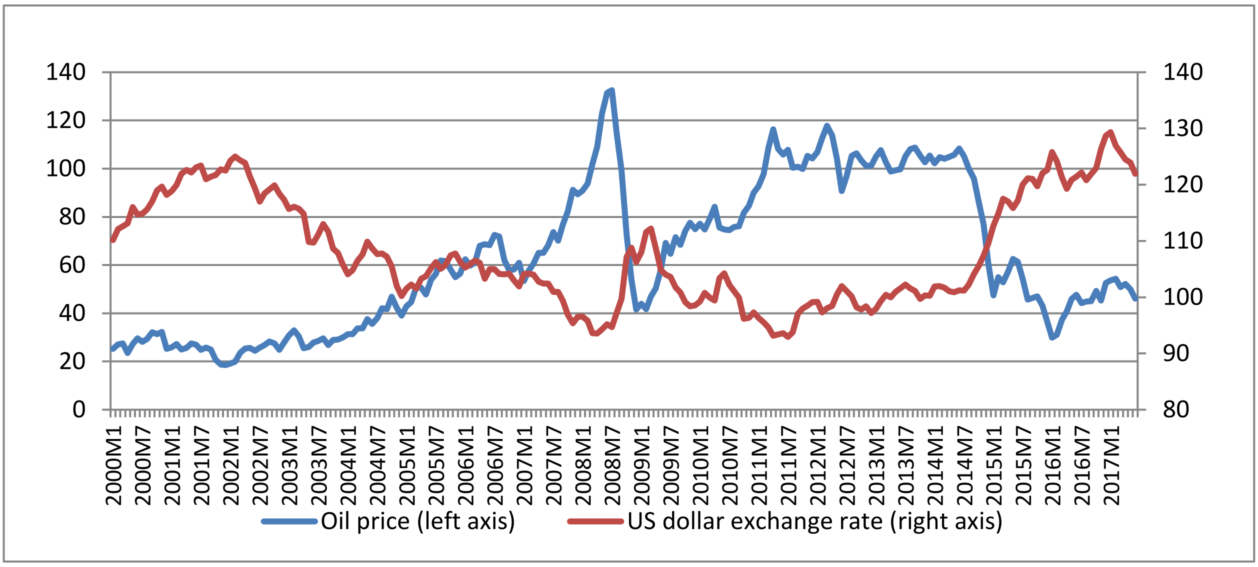
In 1975 the OPEC - after the turmoil that had characterized the dollar – was in favor of quoting the price of oil in SDR. This intention did not realize, as with the following agreement between the United States and Saudi Arabia, the price of oil continued to be anchored to the dollar.

Over time continued fluctuations in the dollar caused sharp fluctuations in the price of oil - not always due to the trend in demand and supply - but to the attempts of producers to maintain the real value of their exports: as a research[1] of the Robert Triffin International shows, there is a strong reverse correlation between the exchange rate of the dollar and the price of oil, which would be less volatile if fixed in euros, or even more stable in SDR. In the period examined (2000-2017), the oil price rises from $ 18 up to $ 140 and then collapses to around $ 50.

*** Secretary General, Robert Triffin International**

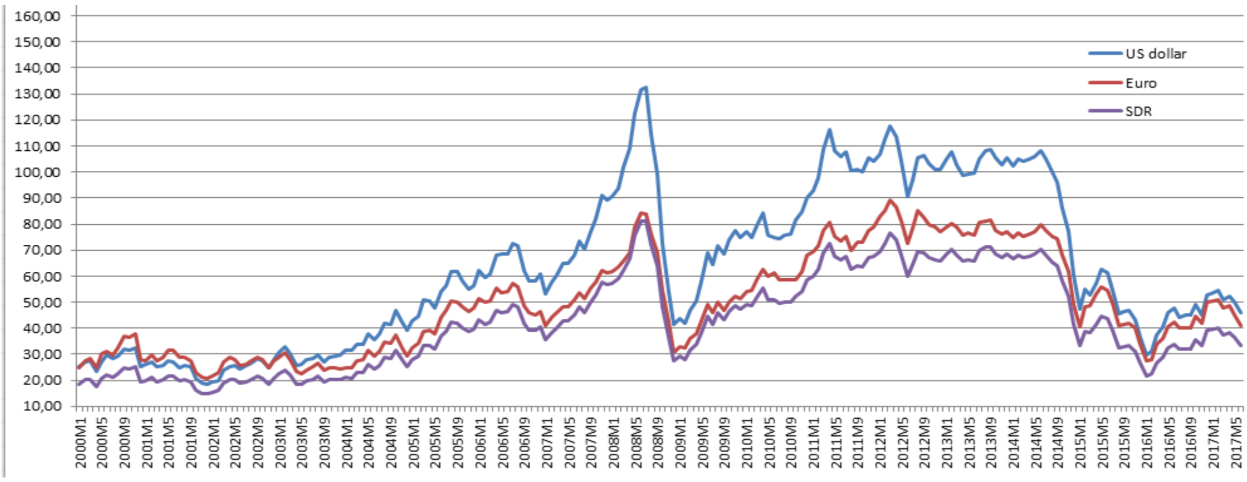
[1] "*The Triffin dilemma on a Russian perspective. The fixing of oil price: dollar, euro, ruble and SDR*". Valentina Tosolini, Robert Triffin International – Centro Studi sul Federalismo, November 2017.

1: Oil price and US dollar exchange rate (2000-2017)



Crude Oil (petroleum), simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh, US$ per barrel. Source: IMF. Real effective exchange rate, CPI based; 2010=100. Source: BIS Statistics

2: Trend in crude oil prices per barrel in US dollar, euro and SDR (2000-2017)

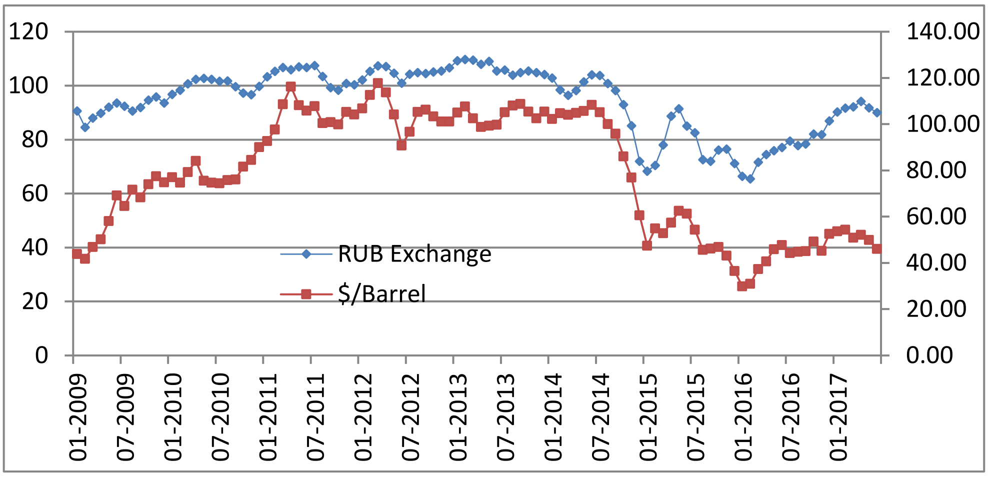


The price for crude oil (petroleum) in US dollars is the simple average of three spot prices: Dated Brent, West Texas Intermediate and the Dubai Fateh. *Source: IMF*
For an effective comparison, the price of an oil barrel expressed in USD has been converted into euro and SDR, using the monthly rate. *Source: IMF and European Commission.*

It may be considered that, for exporters of oil and other energy sources, an increase of the price, due to currency movements, has positive effects. But, as it is shown in the research for the case of Russia, in the phases of rising nominal price of oil, it is necessary to re-evaluate the ruble in order to contain the inflationary effects arising from the liquidity inflow: the maneuver equals to an attempt to set the price of oil in rubles, at least for the domestic economy.

The need to carry out a revaluation of the ruble has an impact on the other sectors of the economy, especially on sectors open to international competition, but above all slows down the process of diversification: it is in the interest of a big and important country like Russia – and even more so of the Eurasian Economic Cooperation Organization – to strengthen its productive capacity and integrate itself in new areas of the world economy. Not surprisingly, the recent historic meeting between Russia and Saudi Arabia has been focused on the diversification of their economies (including renewable energy sources).

3: Oil prices and ruble exchange rate (2009-2017)



Crude Oil (petroleum), simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh, US$ per barrel. Source: IMF. Real effective exchange rate for RUB, CPI based; 2010=100. Source: BIS Statistics

Linking its currency to the SDR can, not only strengthen the diversification of the economy, but also foster the development of a banking and financial system capable of operating in the international market – as it was the case in the Seventies and Eighties for the European banks with the introduction of the ECU - and can also lay down the premises for the inclusion of the ruble itself in the SDR basket.

The SDR was born in 1967 as a basket of 16 currencies, including the Saudi Arabian currency. The subsequent reduction of component currencies was aimed at facilitating the use of SDR by the international market but the inclusion of representative currencies in the new international context will not be an obstacle to this process.

In the multi-currency monetary system that is emerging - first with the come up of the ECU/euro beside the dollar and, more recently, of the Chinese renminbi - an SDR that includes currencies from emerging countries such as the ruble, the Indian rupee, the Brazilian real can strengthen its role as anchor of the system.

The ECU's experience shows that as soon as the SDR market reaches a considerable size, it becomes possible to activate a clearing system that allows it to operate as a basket only on the balances: but also for those amounts it will not be necessary to unbundle them in the component currencies thanks to the liquidity provided by the clearing.

The cases of oil, as well as of wheat and other raw materials indicate that it is possible to create the conditions to fully fulfill the IMF reform of 1969 and make the SDR the main source of international liquidity.

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