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Monday, August 11th, 2008

[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.

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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.

How high will crude oil soar? My calculations suggest \$197.30 a barrel is possible - not probable - but possible.

[There was talk out of the Middle East this weekend of OPEC boosting output, prompting predictions that oil would fall to as low as \$70 a barrel. Even if OPEC boosts production and prices fall that much, I'm telling you right now that any price decline will be temporary, and that oil prices will subsequently resume their upward advance. There's just too much global demand for the "black gold."]

And that brings me to my second point. A run-up in the price of crude oil to nearly \$200 a barrel would imply a dollar falling another 25% from present levels. I've personally addressed the issue for years at financial conferences, but many people still don't connect higher oil prices with the falling dollar... and they should.

The pinch we feel in our wallet is as much the result of U.S. Federal Reserve Chairman Ben Bernanke's seemingly incomprehensible "attention-to-deficits disorder" as it is to any Middle Eastern machinations.

Whether OPEC members make good on their threats to abandon the dollar completely - or simply shift to a currency basket - is a moot point. The real issue is that OPEC members and other oil producers have had to boost the price per barrel to offset both the corresponding loss in immediate cash payments they receive and the decline in value of the dollar-based reserves they maintain.

And OPEC members will have to continue to do so. This can only put additional downward pressure on the greenback.

Any shift away from dollars into other currencies will effectively imbue the U.S. dollar with an added element of exchange-rate risk when it comes to oil - which is seemingly what the anti-US OPEC members want.

If that doesn't make sense, think of it this way: Should that change and U.S. dollars are no longer required for oil purchases, the demand for dollars would plunge, sending the greenback into a freefall.

In other words, the global demand for dollars would fall dramatically because there would be only disadvantages to maintaining it as a reserve if OPEC no longer prices oil in dollars. I don't know about you, but this is enough to make my head spin... and I do this for a living!

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:

- **Grab the Global Titans:** Global titans derive a big portion of their sales from outside U.S. borders, and in currencies other than the greenback. Own a few winners here and you'll suddenly find that you're literally cheering every time the dollar clicks downward; you'll be making it up with investments that are booming even as our own markets are tanking. Examples include **YUM! Brands Inc. (YUM)**, **PepsiCo Inc. (PEP)**, **Boeing Co. (BA)**, **Deutsche Telekom AG (DT)**, and **ABB Ltd. (ABB)**.
- **Plug Into Alternative Energy:** Big Energy is really expensive right now, but those high oil and gas prices will literally fuel the race to find the eventual winning sources of alternative energy. Unless you really know your stuff, it's tough for you to pick the winners. This is one of those cases where it's smart to let the experts make those choices - and to use a fund, with multiple investments, to diversify away the substantial risks. That's why an exchange-traded fund (ETF) like the **PowerShares WilderHill Clean Energy ETF (PBW)** is such a great choice. The continued escalation of energy prices will force the transition to alternatives - far more effectively than any legislative conservation measures ever would.

Clean Up on Currencies: Because the dollar forms the backbone of the major currency-trading relationships within the G10, it makes sense to capitalize on potential currency disruptions down the road. The **Powershares DB G10 Currency Harvest Fund (DBV)** plays that role perfectly. It simultaneously invests in the weakest and the strongest of the G10 currencies and could add a nice kicker as currencies realign themselves in response to a dollar-disadvantaged world. And in this kind of weak-dollar environment, foreign bonds clearly are an attractive investment for U.S. investors. But there aren't any ETFs specializing in foreign-currency bonds. A good alternative would be a high-quality international bond fund: The no-load **T. Rowe Price International Bond Fund (RPIBX)**, which invests in high-quality, non-dollar-denominated bonds, is a sound choice.

Additional Reading:

- **Money Morning Investment Analysis:**
[Venezuela Says "Adios" to Most Foreign Investment. Making it a Stay-Away Play for Investors.](#)
- **Money Morning News:**
['Axis of Unity' Provides Dollar Dissent at OPEC Summit.](#)
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