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## Soaring oil prices may end dollar global status - Study

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According to a Rice University study, soaring oil prices may cause an energy crisis that will eventually lead to a new world financial system based on multiple currencies instead of the US dollar.

According to a study released by the Houston based university's Institute for Public Policy, the rising inflation fed largely by oil producing countries will force Western governments to tighten monetary policies, undermining export driven economies in China and India. That would undercut energy demand, ending cheap credit worldwide that is fueled by so called petrodollars and further undermining the global economy.

The study's authors wrote that "We think that energy markets may play an important role in bringing about a financial crisis that may transform the global financial system. The US dollar's status would likely come to an end."

According to the study, written by Mahmoud Amin El Gamal of Rice University and Amy Myers Jaffe of the Baker Institute, China, India and Middle Eastern oil producers such as Saudi Arabia have an interest in working with Western governments to establish a financial system based on a range of currencies that would offer similar stability to the days of the gold standard.

The study said that governments worldwide hold dollar denominated debt, and an orderly transition would allow those countries to diversify their investment holdings over time.

The authors wrote that high oil prices and their effect on the West eventually will cripple exports from China and India, exposing bad loans in their banking systems. They said that a banking crisis in China would require massive rescue packages, costing well above USD 1 trillion and requiring massive sale of dollar denominated assets, thus deepening the crisis.

The dollar fell the most in a month today as oil prices soared, prompting investors to turn to commodities as a safe haven. The Dollar Index traded on ICE futures in New York, which tracks the dollar against currencies of six trading partners, fell to 72.49 from 73.045 yesterday and has fallen 12 percent in the past year.

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