

Morgan Stanley: A Petrodollar Tsunami Is Coming

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High energy prices lead to transfers from oil importers to oil exporters, note Stephen Jen and Charles St-Arnaud in Morgan Stanley's latest [Global Economic Forum](#), and as oil breaches the psychological US\$100 a barrel, so investment decisions by the owners of these petrodollars clearly become more important the higher oil prices go. As Jen and St-Arnaud point out:

At US\$100 a barrel, the value of the total proven oil reserves in the world is US\$121 trillion, US\$48 trillion of which belongs to the GCC countries. On a flow basis, annual oil export receipts of OPEC countries total some US\$1.3 trillion, at US\$100 a barrel. High oil prices, in short, will lead to a significant transfer of financial power to the petrodollar holders.

...At US\$100 a barrel, the total value of proven oil reserves underground in the world is around US\$121 trillion: US\$48 trillion of this belongs to the GCC member countries, the rest of the OPEC owns another US\$44 trillion, while the non-OPEC countries (Canada, Norway, Mexico and Russia) own another US\$12 trillion worth of oil reserves.

Some of this may clearly be spent on improving domestic infrastructure, though the need for this may be more prominent in such oil producing countries as Russia or Saudi Arabia, than in, say, Norway. However, according to Morgan Stanley, only part of the petrodollar receipts will be spent locally, with the bulk invested in global financial markets.

These oil-exporting countries, with the exception of Russia, cannot fully spend the oil receipts, and therefore much of these trade surpluses will be channeled into the global financial markets... [A] good part – we guesstimate half or so – of these cumulative receipts will be recycled through SWFs. Thus, while there might be a lot of focus on foreign sovereign entities acquiring strategic assets, the root cause of this trend is high oil prices... [B]ulging petrodollars will keep global long-term interest rates artificially low, in our view. As the US savings-investment deficit shrinks, excess global savings are likely to intensify, forcing the world's cost of capital lower.

In the words of Jen and St-Arnaud, a petrodollar tsunami is coming.