

OPEC fixed currency pegs may unravel in oil price rout

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April 17, 2016

The spectacular failure by 75% of the world's largest oil producers at Doha on April 17 to cap global oil production could re-accelerate an oil price slide towards \$20/ \$25 per barrel, and with it, a possible chaotic unraveling of several OPEC linked fixed currency pegs. From Muscat to Caracas, from Lagos to Luanda, many local currency/USD fixed pegs are under severe pressure. A collapse and/or sudden overnight re-evaluation of one or more of these overstretched OPEC fixed currency pegs could trigger a new emerging markets financial crisis. Unlike in 1987 and 1997 today's greater electronic and media inter-connectivity of the global capital markets, as well as divergence in fundamental monetary policy stances by the major central banks: US Fed, BOE, BOJ, SNB and PBOC, risk escalating any collapse of an obscure currency peg in a small emerging or frontier market into a major global capital markets event. In 1993, the collapse of several USD currency pegs supporting relatively obscure currencies such as the Thai baht and Malaysian ringgit triggered the Asian economic crisis.

Russia's liberalized currency regime means that it is not likely to suffer any major devaluation even if oil prices slide further. Also due to Saudi Arabia's gigantic \$660 billion FX reserves, which is in excess of 40% GDP, the kingdom, unlike many Persian Gulf neighbors is not directly vulnerable in an oil price collapse. Conversely however, Kuwait, Bahrain, UAE, Oman, Qatar and OPEC nations Nigeria, Iraq, Venezuela and Angola remain very vulnerable as their fast depleted FX reserves are much more modest as a percentage of GDP.

Several fixed currency pegs vulnerable to sudden reevaluation

	GDP	FX Reserves	FX Reserves as % of GDP	12 month Change in FX Reserves
China	19,500	3,590	18%	-10%
Saudi Arabia	1,668	660	40%	-12%
Kuwait	284	30	11%	-10%
Qatar	299	35	12%	-10%
UAE	641	70	11%	-5%
Nigeria	1,000	30	3%	-22%
Venezuela	530	17	3%	-6%
Hong Kong	412	345	84%	6%
South Africa	725	44	6%	-6%
Russia	3470	360	10%	-18%
Algeria	551	160	29%	-14%
Source: IMF/ World Gold Council/ DaMina Advisors				

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