Oil producers shun the dollar

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FT.com
Updated: 10:41 p.m. CT Dec 10, 2006

Oil producing countries have reduced their exposure to the dollar to the lowest level in two years and shifted oil income into euros, yen and sterling, according to new data from the Bank for International Settlements.

The revelation in the latest BIS quarterly review, published on Monday, confirms market speculation about a move out of dollars and could put new pressure on the ailing US currency.

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Market liquidity is traditionally low in December, and many traders have locked in profits, potentially reinforcing volatility.

Russia and the members of the Organisation of the Petroleum Exporting Countries, the oil cartel, cut their dollar holdings from 67 per cent in the first quarter to 65 per cent in the second.

Meanwhile, they increased their holdings of euros from 20 to 22 per cent, the BIS said. The speed of the shift may help to explain the weakness of the dollar, which recently fell to a 20-month low against the euro and a 14-year low against sterling.

The BIS, the central bank for the developed world's central banks, is customarily cautious in its language. However, it noted: "While the data are not comprehensive, they do appear to indicate a modest shift over the quarter in the US dollar share of reporting banks' liabilities to oil exporting countries."

The review shows that Qatar and Iran, whose foreign exchange policy has sparked widespread market speculation, cut their dollar holdings by $2.4bn and $4bn respectively.

Such shifts may be modest compared with the total assets held, but they provide a crucial indication on future thinking.

Currency switches are likely to be progressive, subtle and discreet, as untoward attention could hit the dollar, lowering the value of depositors' remaining dollar-denominated assets.

The last time oil-exporting countries cut their exposure to the dollar – in late 2003 – it pushed the euro to an all-time high against the dollar. Eighteen months ago, the exposure to the dollar of oil producing countries was above 70 per cent.

BIS data is the best guide financial markets have to the currency investment trends of oil producers, which otherwise do not•provide figures.•The•rise•in oil prices since 2002 means oil producing countries have amassed a current account surplus of about $500bn, according to the IMF. This is 2½ times the current account surplus of China.

Overall, Opec's dollar deposits fell by $5.3bn, while euro and yen-denominated deposits rose $2.8bn and $3.8bn, respectively. Placements of dollars by Russians rose by $5bn, but most of their $16bn additional deposits were denominated in euros.

The dollar has suffered weakness because of concerns about global imbalances and the future course of the Federal Reserve's interest rate policy.

Additional reporting by Peter Garnham in London

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