

# AND NOW THE SAUDIS

Argentine meltdown, here we come. The Saudis are showing signs of disinterest in going down the economic tubes with their friend George.

Saudi Arabia has refused to cut interest rates in lockstep with the US Federal Reserve for the first time, signalling that the oil-rich Gulf kingdom is preparing to break the dollar currency peg in a move that risks setting off a stampede out of the dollar across the Middle East.

"This is a very dangerous situation for the dollar," said Hans Redeker, currency chief at BNP Paribas.

"Saudi Arabia has \$800bn (£400bn) in their future generation fund, and the entire region has \$3,500bn under management. They face an inflationary threat and do not want to import an interest rate policy set for recessionary conditions in the United States," he said.

The Saudi central bank said today that it would take "appropriate measures" to halt huge capital inflows into the country, but **analysts say this policy is unsustainable and will inevitably lead to the collapse of the dollar peg.**

As a close ally of the US, Riyadh has so far tried to stick to the peg, but the link is now destabilising its own economy. [my emphasis]

As Susie points out, one of the goals of the Iraq invasion was to punish Iraq for pegging its currency to the Euro, which made Saddam a pretty penny until BushCo came and took his country away. Iran had been threatening to switch its oil trade to its own currency exchange. The idea was that if we came in and 1) scared the shit

out of anyone considering a Euro or non-dollar peg and 2) sat on some of the biggest undeveloped reserves, we would be able to sustain the dollar peg past the time when the world needed it for stability. Guess that didn't work out so well.

And now our closest "allies" look to be the ones who will precipitate the move away from the dollar peg for the oil market. That's going to give the rest of the world a whole lot less incentive to keep their reserves in dollars, which is going to mean we're no longer going to be able to float George Bush's debt with 2 billion dollars a day in loans from Asia.

The whole American economy is a gigantic house of cards at this point, and it may take nothing more than one slight breeze to bring it all down. Bernanke's interest cut may have been that breeze.