RESEARCH BRIEF

The Petrodollar System

From dollar dominance to currency multipolarity

How oil settlement shaped global finance — and why its monopoly is now under pressure

2026

Global finance · energy · reserves

THE BREAK

The system began with a monetary break.

Gold convertibility ended; energy settlement supplied a new anchor for dollar demand.

1. 1944
   Bretton Woods
   Gold link
2. 1971
   Nixon Shock
   The break
3. 1974
   U.S.–Saudi accord
   Replacement mechanism
4. Today
   Multipolarity
   Transition

1971–1974

The deal that restored dollar demand

The Nixon Shock removed gold backing. The U.S.–Saudi accord connected the dollar to the world's essential commodity.

ACCORD ELEMENT	WHAT IT CHANGED
Oil priced in USD	Oil exports priced and settled in U.S. dollars.
OPEC influence	Saudi Arabia used its OPEC influence to encourage dollar settlement.
Recycling	Surplus oil revenues flowed back into U.S. Treasury securities and other Western assets.
Strategic exchange	Security guarantees and military support completed the strategic exchange.

THE LOOP

Every barrel creates a financial loop

Energy trade, dollar liquidity, and sovereign debt reinforce one another.

The recycling mechanism turns energy settlement into recurring dollar liquidity.

STRATEGIC ADVANTAGE

Dollar primacy became a strategic advantage

The architecture lowered funding costs at home and expanded leverage abroad.

MECHANISM	STRATEGIC EFFECT
Exorbitant privilege	The U.S. issued the reserve asset while importing real goods in exchange for dollar liabilities.
Lower Treasury yields	Persistent foreign demand supported U.S. sovereign debt and reduced borrowing costs.
Deficit insulation	Global dollar absorption softened the pressure normally created by twin deficits.
Financial weaponization	Dollar clearing and SWIFT created sanctions and asset-freezing leverage.

THE BASELINE

Energy prices translate into dollar demand

The system's baseline demand rises with the value and volume of global oil trade.

$D\$ = f(P_o \cdot Q_o, T^g, R_p)$

A compact model of the settlement demand created by energy trade.

P_o

Nominal global oil price in dollars.

Q_o

Aggregate daily crude consumption.

T^g and R_p

Global trade volume and reserve preferences.

Because near-term energy demand is relatively price-inelastic, higher oil prices or volumes expand the liquidity required for energy settlement.

The pressure point is no longer theoretical.

Reserve diversification, alternative settlement, and political risk are pulling at the loop.

RISK CALCULATION

Reserve freezes changed the risk calculation

Holding dollars can now look like exposure to another state’s policy decisions.

In 2022, roughly $300 billion in Russian central-bank reserves were frozen.

CONCEPTUAL SHIFT · NOT A MEASURED ALLOCATION FORECAST

Legacy

USD-heavy reserves

→ Diversification

Gold · non-G7 currencies · RMB · other hard or alternative assets

The event changed the perceived cost of concentration.

ALTERNATIVE RAILS

New rails are forming around the dollar

China, BRICS members, and energy exporters are building ways to settle more trade locally.

Petroyuan

Yuan-denominated crude contracts and a yuan-to-gold conversion link support non-dollar energy settlement.

Bilateral clearing

Local-currency swaps and direct settlement reduce dependence on correspondent banks.

Parallel networks

CIPS, SPFS, and other payment mechanisms offer alternatives to traditional SWIFT pathways.

LONG-RUN STRUCTURE

The energy transition weakens the old anchor

As energy trade shifts beyond hydrocarbons, fewer transactions are automatically tied to dollar settlement.

The point is directional: a lower fossil-fuel share reduces the long-run volume of energy trade that feeds the petrodollar loop.

No unsupported forecast implied.