MONEY MORNING

The Three Looming Blows to the Dollar

The U.S. dollar is in the crosshairs of *three* schemes to dethrone it as the world's reserve currency. China and OPEC are hatching two plans, but the third is coming from a very unlikely source: the U.S. government. This report shows you these plans – and how to protect – and grow – your wealth, even as the dollar fades…

By William Patalon III, Executive Editor, *Money Morning*

In four short months, the dollar's value has sunk 11.2% on the New York Exchange. In fact, it just recently hit its lowest level of 2009 against six major currencies, including the Euro, the British pound and the Swiss franc.

Unfortunately, this may be just the beginning.

Thanks to the bailouts and stimulus packages, the U.S. money supply has grown by over 110% in the last year. It's no secret that inflation is on the horizon.

But inflation isn't the whole story. China is already hatching a plan to torpedo the dollar – and that's not the only attack. OPEC is launching an assault of their own. But, the most surprising thing is that the third attack is coming from within the U.S. government itself.

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This free report explains these three schemes to take down the dollar. And, we'll show you the best ways to grow your wealth… even as the dollar crumbles.

Plan 1: Growing Opposition from Oil Producing Countries

OPEC nations have berated the U.S. dollar for years. Because oil is priced in dollars, nations need to convert their currency to dollars before they can buy oil.

As a result, oil producing nations have accumulated large dollar reserves. Dollar reserves that erode in value when the dollar falls. For a long time, this opposition to the dollar has been largely ignored.

But more countries seem to be joining the anti-dollar chorus.

At the last meeting of the G-20, Russia, China and others repeatedly called for an alternative to the dollar as the world's main currency reserve. Hu Xiaolian, deputy director of China's central bank, said the dollar's position as global currency reserve allows the U.S. to borrow cheaply abroad. In fact, he argued this spurred the credit boom that led to the global financial crisis.

Russia Prime Minister Vladimir Putin recently said the U.S.'s rising debt poses a global risk. He also called for a new global reserve currency.

This growing dissent has culminated in a new plan to dethrone the dollar for good.

Finance ministers and central bank governors from China, Russia, Japan, Brazil, and Middle Eastern oil producers met to discuss plans to stop using the U.S. dollar for oil trade, *The Independent* reported.

The dollar would be replaced by a basket of currencies that includes the Japanese yen, Chinese yuan, the euro, gold, and a new unified currency that would be shared by nations in the Gulf Cooperation Council (GCC). The nations in the GCC include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). Together, these Gulf nations hold more than $2 trillion in U.S. dollar reserves.

"The United States would be mistaken to take for granted the dollar's place as the world's predominant reserve currency. Looking forward, there will increasingly be other options to the dollar," said World Bank President Robert Zoellick in a speech to Johns Hopkins University's School for Advanced International Studies.

Plan 2: China is Torpedoing the Dollar

China is also hatching a plan of its own.

China officials aren't shy about wanting to move the global currency peg away from the dollar. But China's currency, the yuan, doesn't have the liquidity to replace the dollar.

So, they've already started a more dynamic plan to replace the dollar: currency swaps.

Instead of buying directly from trading partners, China has been setting up swap agreements. In these agreements, the yuan is used instead of the dollar to pay for goods and services. So far, China has set up currency swaps with Argentina, South Korea, Hong Kong, Indonesia and Malaysia.

Most alarmingly, China and Russia have agreed to expand use of their currencies in bilateral trade. China and Brazil are discussing similar trade plans.

As they build a larger network of swap agreements (close to $200 billion in June alone), China can trade directly with their trading partners without ever having to put their currency on the open market – with no need to settle in dollars.

The countries that participate in these swap agreements can use their yuan to buy goods and services in China and its trade partners. Think of these as billion-dollar gift certificates that can only be used by China's trading partners.

China will likely continue to extend these swap agreements to as many countries as they can. And, one day, the world will wake up and realize China has created a global marketplace for their currency without playing by the rules.

Plan 3: The U.S. Is Deliberately Weakening the Dollar

The United States isn't the only country with a falling currency. The same is true for India, Brazil, South Africa, Mexico, Singapore, Switzerland and a host of Eastern European countries. Even Russian banks have recommended the government devalue the ruble by as much as 30%.

But what's most amazing about this is that many of these countries are *intentionally* devaluing their currencies. For the U.S., a lower dollar value means it's cheaper to pay back U.S. debt.

And we all know that the U.S. is seriously in debt. Could devaluation be far behind?

A devalued currency makes our goods cheaper overseas. Cheaper goods mean stronger exports. Stronger exports mean more jobs.

You get the idea…

It's a selfish game, a global "race to the bottom." And it basically amounts to making the global economy seem healthier than it actually is.

And, this attack has already begun. In the past year, the U.S. government has:

- The Federal Reserve lowered the Federal Funds rate to 0.00%-0.25%
- The Fed has injected more than $2 trillion into the financial system, expanding credit through increased loans to banks to provide liquidity.
- It's created the Commercial Paper Funding Facility – which holds $109.2 billion in short-term IOUs issued by corporations.
- It's created the Term Asset-Backed Securities Loan Facility (TALF) – which has lent $25 billion to investors to buy securities tied to consumer and business loans.
- And the central bank itself has pledged to buy $1.75 trillion in mortgage-backed securities, Treasury notes, and federal housing agency bonds.

What else will the U.S. government do to drive down the value of its debt?

How to Protect Your Portfolio

So how do you protect your portfolio against the falling dollar?

The first thing you can do is buy the euro. The euro is the largest currency after the greenback. And, as Europe rallies out of recession, the euro will rally as well.

The simplest way to get into the euro is to buy the **CurrencyShares Euro Trust (NYSE Arca: FXE).** This exchange-traded fund (ETF) trades continuously in the New York Stock Exchange and is very liquid. The fund is structured to allow us a simple, cost-effective means of gaining investment benefits similar to those of holding the euro.

Another way to protect your portfolio is with gold.

One way to stock up is to buy gold outright. This can be either in bars, or though the gold-linked, ETF **SPDR Gold Shares (NYSE: GLD)**. Today, GLD itself holds more than 1,000 tons of gold, and has a market capitalization of $33 billion.

If you want to be more opportunistic, look at gold miners.

The **Market Vectors Gold Miners ETF (NYSE: GDX)** offers both company and geographic diversification, while including substantial leverage to the price of gold. Market Vectors is composed chiefly of major gold miners. It is based on the AMEX Gold BUGS Index (HUI), which represents a portfolio of 15 major gold mining companies that do not hedge their gold production beyond a year and a half.

Another play is **Barrick Gold Corporation (NYSE:ABX)**, the world's largest gold miner. With lots of liquidity, it draws considerable interest, in particular from big money institutional investors. ABX carries more risk than the previous options, as you have exposure to a single company. But this gold mining behemoth is sure to pay off big as gold rises.

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