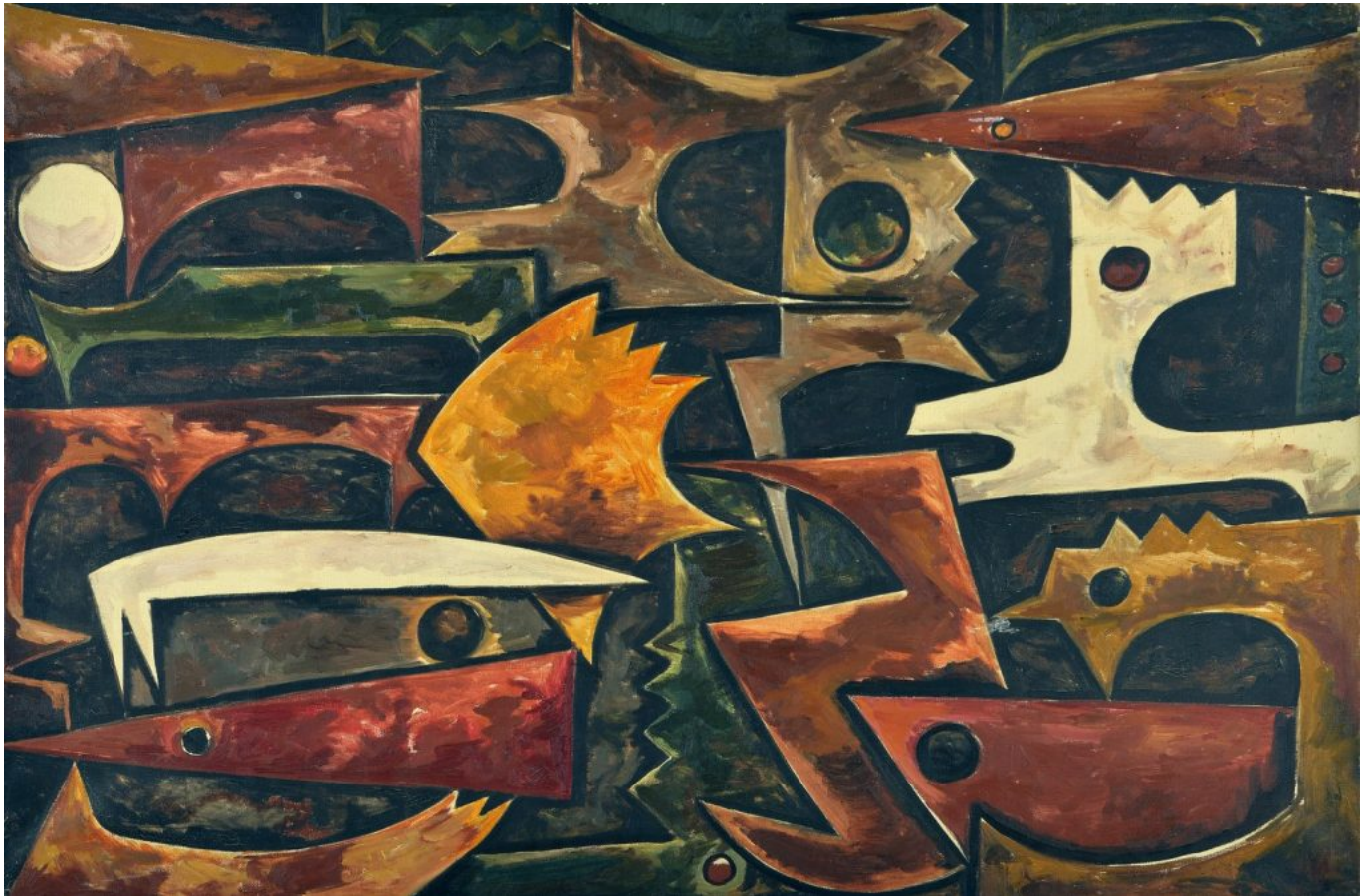


A Primer on the Petrodollar and the War on Iran: The Sixteenth Newsletter (2026)



Bahman Mohasses (Iran), *Untitled*, 1968.

Dear friends,

Greetings from the desk of **Tricontinental: Institute for Social Research**.

As you and I worry about how war and inflation will impact our families and nations, bond traders are fixated on the numbers on their screens, calculating what might happen to seemingly arcane financial instruments. Their job is to protect the treasure of the wealthy. For the past fifty years, the relative stability of the US dollar – above all as embodied in US Treasury securities – has rested in part on what is called the ‘petrodollar’ system.

When petroleum prices are relatively stable, the costs of production and transport are more predictable, inflation is easier to contain, and the prices of bonds and other financial assets are less likely to swing wildly. In such conditions, the wealthy can multiply their paper wealth with greater confidence. Despite the existence of the Organisation of the Petroleum Exporting Countries (OPEC) oil cartel since 1960, the United States continues to shape the terms on which much of the world's petroleum is shipped, priced, and paid for through its monopoly on violence – by securing key chokepoints and client states with its bases and fleets, and by using sanctions to make oil sales involving targeted states or firms harder to insure, finance, transport, and settle financially. Coups and wars also serve to discipline states that seek too much control over their own resources or wish to move outside this dollar-centred order.

Inflation – a sustained increase in prices over a period of time – is the enemy of financial wealth, as it depreciates the purchasing power of financial assets. Since the world economy is dependent on energy derived from oil, a rise in oil prices leads to a rise in the price of all other commodities and the overall cost of production and transport, lowering the value of bonds and other financial assets that depend on low inflation. Holders of financial wealth therefore tend to favour policies that curb inflation through austerity, restrictive fiscal policy, and by keeping the prices of oil – and therefore costs of production, including wages – down. The wealthy prefer holding assets that are stable relative to the prices of commodities and wages, which is why the US dollar has been their currency of preference for holding wealth and denominating major debts and contracts. By offshoring production to poorer countries, the US has kept wage levels and inflation low at home and maintained the purchasing power of the US dollar. Although there have been moments of crisis, no other currency has come close to replacing the primacy of the US dollar, since no other state combines the military reach, sanctions power, alliance networks, and financial depth required to command the pricing of key commodities like oil.

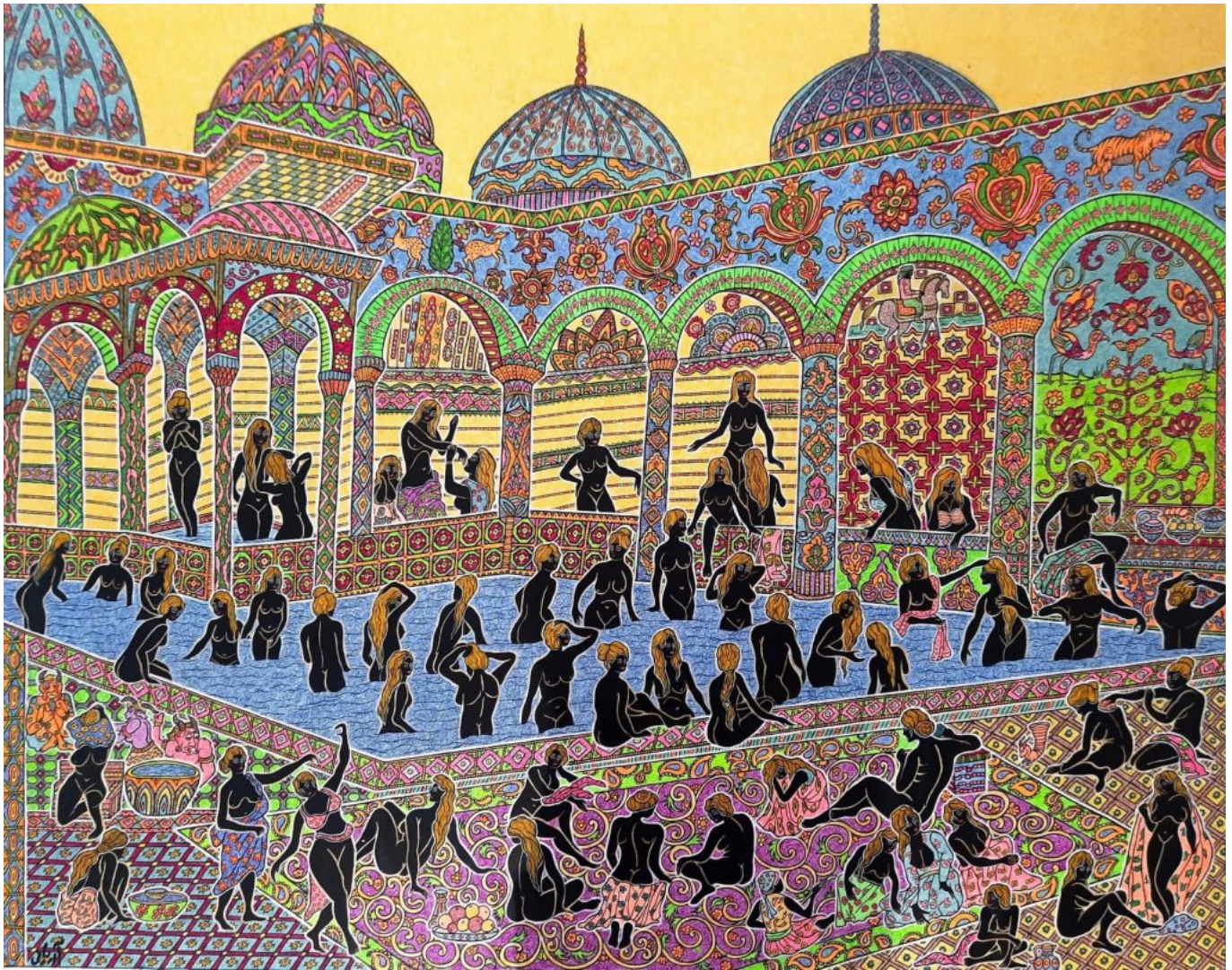
Bond traders and their clients are now worried that Iran has already shown it can restrict passage through the Strait of Hormuz and thereby challenge Washington's ability to police the movement of the oil that transits that chokepoint – more than a fifth of the world's total. In 2025, roughly **21 million barrels** a day transited the strait at an average price of **\$69 a barrel**, totalling around \$530 billion per year. The **global oil market** is priced between \$2–3 trillion per year. A significant share of this enormous hoard has traditionally been reinvested into US Treasury bonds and dollar-based financial assets. If Washington can no longer guarantee the terms under which that oil moves and, worse, if more of the proceeds are going to be held in non-dollar currencies (such as the Chinese yuan, which is the currency of settlement that Iran prefers), this will provoke great turbulence in the dollar-denominated bond market which is the heart of the global financial system.



Zhao Dewei / 赵德伟 (China), *Night Market*, 2013.

Those of you who are not specialists on the subject may be wondering: what exactly is ‘the bond market’? What is a ‘dollar-denominated bond’? What is the ‘petrodollar’, or indeed, the ‘petroyuan’? How does this entire system work? Financial markets are conceptually simple but operationally complex, often appearing opaque because they are laden with jargon and because specialised actors seem to be interpreting and acting on the basis of abstract expectations and relative prices.

This newsletter is a primer on some of the key concepts needed to understand the global financial system in the context of the illegal war waged by the United States and Israel against Iran. For the specialist, the answers to the questions that follow may be too simplistic while for the general reader, some conceptual questions may not be fully answered. That is the limit of any primer, so forgive us in advance.



Mohammad Ariyaei (Iran), *Garden of Angels*, 2023.

1. **What are bonds?** Bonds are a category of debt security – a tradable financial instrument. A bond is best understood as a claim (or IOU) on a future stream of payments. When a bond is first issued, it is a loan made by an investor to a borrower, usually a government or corporation. In return, the borrower promises to pay interest at regular intervals (called coupons) and to repay the original sum (called the principal) at a set future date (called maturity). For example, if a government issues a 10-year bond for \$1,000 at 4% interest, the buyer gives the government \$1,000 upfront, receives \$40 a year in interest, and gets the \$1,000 back after ten years. If the bondholder does not want to wait until the end, they can sell the bond to someone else in a secondary market. Put simply: bonds are a form of interest-bearing or fictitious capital: legal claims on future profits or tax revenues rather than ownership of productive assets themselves. In contrast to bonds, stocks represent ownership shares in a company. Shareholders may receive dividends (which are not guaranteed), and the value of their shares may rise or fall according to the company's performance, potentially becoming worthless. Bonds typically offer lower returns with lower risk than stocks, while stocks carry higher risk but greater potential returns.
2. **What is the bond market?** The bond market is where governments and corporations issue and trade bonds. There is no single marketplace, since the bond market is decentralised. Most bonds are traded directly

between banks, institutional investors, and individual investors through major financial centres such as New York, London, Tokyo, Hong Kong, and Frankfurt. The dollar bond market consists of bonds issued in US dollars – mainly US Treasuries and other dollar-denominated bonds issued by corporations and by governments outside the United States. US Treasuries are bonds issued by the US government. They include bills (short-term debt that mature in under a year), notes (medium-term debt that mature in two to ten years), and bonds (long-term debt that mature in twenty or thirty years). Central banks, commercial banks, pension funds, insurers, corporations, and other investors hold these bonds because they are among the most liquid and widely accepted financial assets in the world. A significant share of global dollar surpluses – including some oil-export surpluses, which we will get to – has historically been recycled into these bonds. This mechanism helps finance the US government's debt (currently at **almost** \$39 trillion) through purchases of US Treasuries while reinforcing global demand for the US dollar as the world reserve currency – the most universally accepted currency for invoicing trade, settling payments, and holding reserves and wealth.



Marcos Grigorian (Iran), *Dizy Abqousht #3* (Traditional Iranian Meal #3), 1979.

3. **What is the petrodollar system?** As mentioned earlier, the world oil market amounts to about \$2–3 trillion a year. So, where do the profits from all those oil sales go? After the 1973–1974 oil shock, and especially through the arrangements Washington built with Saudi Arabia and other Gulf monarchies, most global oil trade came to be invoiced and settled in dollars. This meant that oil-importing countries needed dollars to buy oil, while oil-exporting countries accumulated large dollar surpluses. Oil-exporting states, central banks, and sovereign funds then reinvested a significant share of those surpluses into dollar-denominated assets. This recycling of oil revenues into dollar-based financial instruments links energy markets to financial markets, sustains demand for dollar-denominated bonds, helps keep US borrowing costs lower than they

would otherwise be, and reinforces the US dollar's status as the world reserve currency. A key part of this process has been the Eurodollar market – the offshore market in US dollars, where dollars are deposited and lent outside the United States – which helps channel oil surpluses into global financial markets. This entire system could be called the Oil-Dollar-Wall Street complex. The United States has weaponised the petrodollar system to sanction countries that do not cooperate with US foreign policy on political grounds. The US Treasury Department has restricted targeted countries from accessing dollar-based finance, forcing compliance with US-dominated markets. Countries that resist, like Iran, have sought alternatives to the dollar oil trade; this is why Iran has said that countries that pay in Chinese yuan can travel safely through the Strait of Hormuz. The Oil-Dollar-Wall Street complex sustains US power (using sanctions) even as it pushes countries to pursue diversification, risk management, and alternative currency arrangements.



Zahra Zeinali (Iran), *Untitled #5*, 2024.

4. **If oil profits are no longer held in dollars, would this impact the dollar bond market?** If oil revenues are no longer held in dollar-denominated assets, global demand for dollar assets – especially US Treasury bonds – could decline. This could reduce foreign purchases of US Treasuries, raise US borrowing costs, depreciate the value of the US dollar, and weaken the dollar's role as world reserve currency. But this would not be a simple or immediate process. The overall impact of such a process would depend on how quickly, and widely, alternative currencies replace dollar-based oil trade. In the short term, there will be disruption rather than a smooth transition or an immediate collapse of dollar dominance.



Charles Hossein Zenderoudi (Iran), *Zamin Larzeh* (Earthquake), 1971.

5. **What is the petroyuan?** The petroyuan refers to oil trade that is priced in US dollars and settled in Chinese yuan. It **emerged** in 2018, when the Shanghai International Energy Exchange launched its yuan-dominated crude oil futures market. The petroyuan is estimated to be a small share – no more than 5% – of global oil trade. Despite the emergence of the petroyuan, it cannot overtake the petrodollar because the yuan is not fully convertible. Due to Chinese government regulations, the yuan cannot be freely exchanged with other

currencies at market rates, limiting its use in global transactions. US financial markets are more liquid – meaning dollar assets can easily be converted into cash – because of the large deficit that the US government runs to ensure the flow of dollars to the global economy. Entrenched financial systems, geopolitical alliances, and global institutions still favour the US dollar, making large-scale transition to a yuan-based oil trade slow and constrained. While many Belt and Road Initiative countries have adopted the yuan in their transactions, the Chinese government is primarily interested in using its currency to support domestic economic growth and facilitate trade. China is not interested in providing a stable and liquid store of wealth for international financiers, nor does it desire the deindustrialisation and domestic and international polarisation that full currency convertibility would entail.



Iran Darroudi (Iran), *Eshgh Khamoush Shodeh* (Love Has Been Silenced), 2008.

We hope the above primer has helped explain some of the more arcane parts of the present conjuncture. These concepts and processes are important to understand because Iran has linked yuan-denominated oil trade to safe passage through the Strait of Hormuz as a leverage against the United States. By controlling a chokepoint carrying major global oil flows, Iran can bypass sanctions, undermine the petrodollar system, and strengthen ties with China. While this may not in itself destroy the petrodollar system, it inflicts upon the US a significant cost for its unwillingness to come to a grand bargain and end an almost fifty-year conflict.

Warmly,

Vijay