Weekly Economic Briefing

Issued Every Saturday

Corporate Planning Department - Economics

December 24, 2005

Commentary **Why does Saudi Arabia need the WTO?** *"Without WTO, in today's globalized world, you are out of the race. With WTO, you are guaranteed a place at the starting line (although, there are no guarantees that you will make it to the finishing line)."* The most important reason is that without the WTO the Kingdom's *strategy of economic diversification* could be at peril. In its pursuit to diversify the economy away from crude oil, the Kingdom has emphasized development of some sectors, based on the country's comparative advantage like petrochemicals and related products, aluminum, fertilizer, other minerals, and cement. In addition, Saudi Arabia has 934 "*national industries*" that are protected from competition through higher import tariffs than the GCC common rates (12-20% vs. 0%-5%). Without WTO membership, any country can impose any restriction on Saudi exports or on Saudi investments (real or financial) in that country. There would be no commitments to anything by anyone. Rules and trade restrictions can be arbitrary and changed anytime. With WTO, everyone will play by the same rules. From the perspective of traders, businesses and investors, transparency and predictability of foreign trade and investment is a key advantage. Everyone knows exactly what to expect. There will be no sudden change of rules, no arbitrary customs orders, no sudden post-shipment inspections, no arbitrary technical, environmental or health-related restrictions. Every major change has to be notified in advance and aggrieved parties can appeal or ask for compensation. And, if anyone breaks the rules, there is an orderly and transparent procedure to address and solve disputes. Trade disputes under the WTO are now fought over the negotiating table instead of in the battlefield. In the past, it was not uncommon for nations to gain trading advantages or solve trade disputes through wars (imperialism, colonialism, mercantilism, etc) *Multilateralism* is another key benefit of the WTO, magnifying its potency many-fold. Under the WTO, there is one set of rules for everyone, and only one set of (rules-bound) negotiations. To replicate the WTO on a bilateral basis, Saudi Arabia (or any country) would have needed to reach 148 separate bilateral agreements. Today, joining the WTO is not a question of choice anymore but a necessity. The WTO is the world's most influential economic "club", accounting for over 97 percent of global trade. Until now, Saudi Arabia, the world's largest oil producer, was the only GCC country outside the WTO. In a rapidly globalizing world, it is better for the Kingdom to globalize voluntarily than to be dragged into it. In the short run it will involve some pain for some sectors, but, the impact will not be overnight and the pain can be mitigated by being prepared. In the long run, WTO-bred competition will allow world-class local industries to develop, lower prices, increase quality and widen consumer choice. Also, time was running out for the Kingdom to join the WTO under present rules. The ongoing Doha Rounds of talks is meant to expand the scope of the WTO, and Saudi accession later may have had to deal with many new areas of negotiations.

OIL **Brent Future: $56.69** **OPEC Basket: $51.98** **US WTI: $58.23**

Oil prices continue to trend downwards, albeit at a slow pace. US WTI is down $12.60/brl off its peak of $70.86/brl reached last August, Brent crude is down $11.18 off its peak of $67.88, while OPEC basket is down $9.40 from its peak of $61.37 over the same time. This period has seen only minor fluctuations around this basic downtrend, unlike in previous bouts of declines when sudden geopolitical or weather-related factors caused prices to spike up sharply. This week's fall in crude prices were due to a rise in oil inventories, a fall in OPEC exports and warmer-than-usual weather in the US. US crude inventories rose 1.3 million barrels to 322.5 million barrels last week, and are now 35.5 million barrels higher than a year ago, while crude imports dropped 570,000 bpd to 9.9 million bpd, according to the EIA. The OPEC President reiterated that the cartel would have to consider cutting production at its late-January meeting if prices keep falling.

FOREX

FOREX	Current	Week Ago	End 2004
$ / EURO	1.187	1.201	1.356
YEN / EURO	138.0	139.0	136.2
YEN / $	116.3	115.7	102.6
$ / GBP	1.733	1.773	1.920
Swiss / $	1.312	1.290	1.140

The dollar recovered with force from its massive hemorrhage of last week against the euro, the yen, the Swiss franc and the GB pound sterling. Rate gap was again in the fore as market expectations of at least two more US Fed interest rate hikes pushed the dollar to its biggest weekly gain against the euro since Nov. 4. The Yen also gave back some of its record weekly gain against the dollar the week before. The dollar is poised for its first annual advance against the euro and the yen in 4 years. The dollar's gains against the British pound sterling and the Swiss Franc was also equally impressive. A surge in housing starts, an upward revision in a measure of US consumer confidence, strong US GDP growth plus the record falls in CPI and PPI inflation all meant strong US economic fundamentals. Thus, the dollar's interest rate advantage over other major currencies is expected to rise next year.

INTEREST RATES

INTEREST RATES	Current	Week Ago	End 2004
US3mth	4.46	4.50	2.56
US10yr	4.37	4.44	4.23
Euro3mth	2.49	2.48	2.18
Euro10y	3.33	3.35	3.68
UK3mth	4.64	4.65	4.89
UK10yr	4.18	4.24	4.54
SR3mth	4.95	4.95	2.61
SR5yr	4.72	4.68	4.03

Despite a surge in new housing starts, a huge drop in new home sales caused US 10-year treasuries yields to push to their lowest level in more than two month. It was almost even with 2-year rates, thus making for a flat treasury yield curve. Short-term money market rates (e.g., the 3-month Libor) now stands above the 10-yr yield for two weeks in a row. US new home sales fell 11% in November, the biggest monthly drop in 11 years. European benchmark bond yields, on the other hand, rose amid signs of quickening economic growth in the euro zone. Short-term money market rates remained essentially unchanged across the currencies in this report.

GLOBAL STOCK MARKETS

	Current	Week Ago	End 2004	YTD Chng
US Dow Jones	10883	10876	10783	0.9%
US NASDAQ	2249	2252	2175	3.4%
DE DAX	5419	5354	4256	27.3%
UK FTSE100	5595	5532	4814	16.2%
FR CAC40	4758	4704	3821	24.5%
SW SSMI	7498	7491	5693	31.7%
JP Nikkei	15941	15173	11489	38.8%
HK Hang Seng	15184	15030	14230	6.7%
IN BSE Sensex	9257	9284	6603	40.2%
BR Bovespa	33331	33292	26196	27.2%

The sustained drop in some regional highfliers in recent weeks highlights the ever-present danger of a correction in the Saudi market anytime, particularly in an environment of weakening oil prices. Abu Dhabi, Doha and Amman are off 14%, 17% and 10%, respectively, off their recent peaks. The Tadawul has been struggling at the 17,000-mark. Increased shifting of money around the region and the globe in search of better returns, new local/regional IPOs and rising global interest rates are other factors that can pull the local markets off their high-perched saddles anytime. Europe, Japan and emerging markets are now on a roll, showing double-digit growth. Japan's Nikkei shot past the 14,000 & the 15,000-mark in 2 weeks and is set to cross the 16,000-mark soon. London's FTSE100 reached the 5,600-mark for the first time since Aug. 2001. India's Sensex has been above the 9,000-mark for three weeks while Brazil's Bovespa climbed above the 33,000-mark for the first time ever.

Selected ECONOMIC INDICATORS

Due Date:	Economic indicator	Latest Actual	Consensus forecast	Previous Actual
28 Dec, Wed	US Consumer confidence, Dec	n/a	102	98.9
29 Dec, Thu	US Existing home sales, Nov	n/a	7 mill.	7.09 mill.
30 Dec, Fri	US Chicago PMI, Dec	n/a	60	61.7
21 Dec, Wed	US GDP-final, Q3	4.1%	4.3%	4.3%
23 Dec, Fri	US New home sales, Nov	1245K	1300K	1404K
01 Dec, Thu	KSA, Short-term loans, **Oct**	-SR371 mil.		+SR10 bil.
01 Dec, Thu	KSA, Medium-term loans **Oct**	+SR1.1 bil.		+SR1.3 bil.
01 Dec, Thu	KSA, Long-term loans, **Oct**	+SR5 bil.		+SR3.4 bil.
01 Dec, Thu	KSA, Loans to pub.sctr, **Oct**	-SR270 mil.		+SR20 mil.

REGIONAL STOCK MARKETS

	Current	Week Ago	End 2004	YTD Chng
Abu Dhabi	4984	5251	3071	62%
Bahrain	2222	2221	1774	25%
Kuwait	11399	11429	6410	78%
Muscat	4845	4741	3375	44%
Doha	10550	11537	6494	62%
Dubai FM	1004	1095	-	-
Egypt CMA	2155	2153	1221	76%
Amman	8296	8275	4246	95%
Beirut BLOM	1269	1120	637	99%
Saudi Arabia	16793	16988	8206	105%

For enquiries or to add your name to the mailing list contact: Khan Zahid, Ph.D., Chief Economist, khan.zahid@riyadbank.com, or visit our website: www.riyadbank.com. **Riyad bank, P.O.Box 22622, Riyadh 11416, KSA Tel: 4013030**