
Weekly Market Summary

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US Congress Move Against Saudi Arabia Risks Backfiring Soon!!

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Last Wednesday September 28th, the US Congress (both the House & Senate) voted overwhelmingly to override a veto by President Obama for the first time, passing into law a bill ("JASTA" – *Justice Against Sponsors of Terrorism Act*) that would allow the families of those killed in the September 11, 2001 terrorist attacks to sue the government of Saudi Arabia for any role in the plot (effectively removing its immunity - as well as that of other foreign countries - to US lawsuits). Sponsors of the bill timed its passage, in the wake of the 15th anniversary of the 9/11 events and before an election, to maximize their chances of getting it through!

The override comes at an already sensitive moment in America's relations with the Kingdom. The Saudi government has vigorously denied that it had any part in the September 11 attacks, and the commission investigating the plot found "*no evidence that the Saudi government as an institution or senior Saudi officials individually funded*" Al Qaeda, the terror group that carried out the attacks (though it left open the possibility that some Saudi officials may have played roles).

Still, there were swift complications. Within hours of their vote, nearly 30 senators signed a letter expressing some reservations about the potential consequences of the law, including the prospect that the United States could face lawsuits in foreign courts as a result of important military or intelligence activities. That is consistent with views expressed lately by Defense Secretary Ashton B. Carter and Gen. Joseph F. Dunford Jr., the chairman of the Joint Chiefs of Staff, who wrote letters to Congress warning of the dangers of overriding the veto. John O. Brennan, the C.I.A. director, released his own statement saying, "*any legislation that affects sovereign immunity should take into account the associated risk to our national security*".

The new law, enacted over the fierce objections of the White House, immediately alters the legal landscape. American courts could seize Saudi assets to pay for any judgment obtained by the September 11 families, while Saudi officials have warned they might need to sell off hundreds of billions of dollars in holdings in the United States to avoid such an outcome, though it remains unclear whether the Kingdom will make good on its US asset liquidation warnings. Some economists have said that such a sell-off would do far more damage to Saudi Arabia's economy than America's. A Saudi foreign ministry official said the erosion of sovereign immunity would have a "*negative impact on all nations,*" including the US. In remarks published late on Thursday on the state news agency, the official called on the US Congress to "*take the necessary steps to correct this legislation in order to avoid the serious unintended consequences that may ensue.*"

More worrying are the implications of an EU warning: That other nations would see an erosion of the principal of sovereign immunity in the US as a precedent and amend their own laws accordingly. Potentially this opens up a Pandora's box of lawsuits across the globe. As Mr. Obama stressed, the bill exposes America to retaliation - by rendering US servicemen and officials, working abroad, vulnerable to class action suits as well as greatly hamper Washington's ability to pursue foreign policy objectives.

Bill Impact on Saudi Arabia

- The Saudi Riyal weakened the most since May, hitting a low of 3.7590 against the US Dollar on Thursday morning (up from 3.7500/10 earlier this week) but later settled close to 3.7550. USD/SAR 12-month forward points rose to a high of 625 on the same morning (from 400 points on Monday), but drifted lower into the close towards the 400-500 points range.
- The TADAWUL All Share Index rallied sharply on Thursday, closing 1.61% up on the day. Still, that leaves the Saudi equity market down 5% for the week, with a fall on Wednesday to within 1% of a so-called bear market and heading for its worst month since January.
- The Saudi economy grew by just 1.5% in the first quarter of 2016 compared with the year before, its slowest rate since 2013. And whilst the oil sector managed to grow during the same period by 5.1% year-over-year, the non-oil sector shrank by 0.7%, its weakest reading in 5 years. Moreover, output in the construction sector shrank by 1.9% year-over-year in July. Heightened uncertainty following yesterday's passage of JASTA could lead to a loss of attractiveness and weigh on investor/business confidence, resulting in further deceleration in economic activity.
- Saudi Arabia's interbank offered rate - or SAIBOR - has nearly tripled in past year, to the current 2.35% from roughly 0.87%, due to a liquidity squeeze in the market resulting from lower prices. Future movements in SAIBOR will reflect easing (or tightening) market conditions, should the Saudi government opt to repatriate some of the funds invested abroad (or otherwise if foreign investments inside Saudi reduces).
- The Kingdom maintains an arsenal of tools to retaliate with, including curtailing official contacts, pulling billions of dollars from the U.S. economy, and persuading its close allies in the Gulf Cooperation Council to scale back counterterrorism cooperation, investments and U.S. access to important regional air bases. Official data shows net foreign assets at the Saudi central bank (SAMA) hovering around a healthy \$555 billion, though down 18% compared with the year before and the lowest level since February 2012.
- The bill could threaten a delay to Saudi Arabia's first international bond sale (previously expected to take place in coming weeks). If the bond sale is delayed, then that could hurt those corporates that have been waiting for payments by the government, and would result in some companies having difficulty meeting their obligations.

It is not so much that there is a worry that the Kingdom will be found responsible!! It is that courts might freeze those assets for however many years it takes for the whole process to rumble through the courts. In order to get those assets out of the reach of the American courts, Saudi might have to not just sell those Treasuries or other securities, they would also have to move the money out of US dollars!

Bill Impact on the United States

- President Obama has clearly acknowledged that Congress made a "**mistake**" by overriding his veto and pushing through a bill that allows legal action against Saudi Arabia over the 9/11 attacks. He said the bill would set a "**dangerous precedent**" for individuals around the world to sue the US government!
- White House spokesperson Josh Earnest also argued that the Senate bill "could put the United States and our taxpayers and our service members and our diplomats at significant risk if other countries were to adopt a similar law." Already the Dutch parliament has confirmed that JASTA is a "*gross and unwarranted breach of Dutch sovereignty*", and many more countries will soon retaliate with their own versions of JASTA and force the US into their courts for sponsoring fighting in Afghanistan, Irak, Syria and many other states! At a stretch, one might imagine British victims of IRA bombings suing Washington for its historic failure to prevent Irish terrorists from fundraising in the US.
- Saudi Arabia could now consider unpegging the USD dollar from the Saudi Riyal. They also might decide to no longer denominate the price of oil in dollars. These actions, if followed by other GCC and Arab countries, would undermine the USD's position as the world's reserve currency. Saudi threats to dump the dollar may ring hollow today; But the arrogant, extraterritorial enforcement of US laws surely risks incentivizing countries to look elsewhere for a reserve currency.
- The US also needs Saudi Arabia as a political and strategic partner in the region to resolve the Syrian conflict, combat the Islamic State, and bring a "cold peace" to the region with its adversary Iran. Without Saudi's support, the U.S. would face far greater challenges in dealing with Turkey and Russia - whose interests in the region and in Syria in particular, [differ from](#) Washington's (even if expressed otherwise!).
- The potential damage to US interests and influence go further still. Outside America, this bill risks being perceived as an extension of the kind of judicial imperialism that has seen all manner of US agencies extract hundreds of billions of dollars in fines from foreign companies operating in faraway places using the dollar.

In summary, as one of the world's largest oil exporters with the biggest economy in the Gulf, Saudi Arabia surely has other business partners to choose from in Europe and Asia (in other words, "America is no longer the only game in town!"). And whilst no one knows now how the Kingdom might respond to the latest override of President Obama's veto, it is very clear that the eight-decade long US-Saudi relationship is now "entering into a new & unclear phase"!

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