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IN THIS EDITION ...

Global markets have been volatile over the past few months, but Saudi investors remain optimistic, as evident from the Saudi Tadawul rising 3.8 per cent since the start of the year.

The market has been moving higher on prospects of a domestic economic recovery, higher oil prices and reforms in the non-oil sector start to pay off.

The country's Capital Market Authority has further stimulated investor sentiment with a ruling that qualified foreign investors could potentially own up to 49% of listed Saudi companies. Coupled with global index compiler MSCI putting Saudi Arabia, which currently stands alone from other market indexes, on a watchlist for a potential upgrade to emerging market status in 2018, and FTSE Russell announcing that Saudi is close to meeting promotion criteria, Tadawul could end up with a strong performance as business and investor sentiment improves.

The International Monetary Fund (IMF) is also upbeat on the Saudi economy, raising its outlook by 0.5% this year to 1.6% and another 0.6% for 2019, as the non-oil sector starts to gain momentum and flex its muscle.

In addition, there is the crude oil rally, which is paying dividends for Saudi Arabia and its OPEC and non-OPEC partners in a form of sustained rally that remains steady without being exuberant and staying close to fundamentals.

Various catalysts are collectively accelerating economic growth in the country, which should also help Saudi consumers absorb the 5% value added tax (VAT) that was implemented in January. While the VAT is expected to raise inflation and dampen consumer sentiment in the short term, over time it is beneficial for the wider economy and in line with global standards where sales tax are a part of life.

Saudi authorities are just getting started. With a number of economic reforms on the way and reform expected in the regulatory environment, we are beginning to see glimpses of what the Saudi economy is going to look like in 2030.

ECONOMIC TRENDS

Growth forecast for Saudi Arabia has been positive, thanks to a commodity revival and the government's push for a sustainable post-oil future.

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FINANCE

By dramatically increasing the foreign ownership ceiling, regulators hope overseas investors will be lured to the kingdom's equity market.

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OIL AND GAS

Saudi and other oil exporters will have a chance to beef up their coffers as petrodollar revenues start to pour in amid improving supply-demand dynamics.

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POWER

Developing alternative energy sources is not only vital to the kingdom's diversification quest, but also critical to meeting domestic power needs.

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MANUFACTURING

The expansive industrial complex will be home to various companies, ensuring a more reliable supply chain for the country's thriving manufacturing sector.

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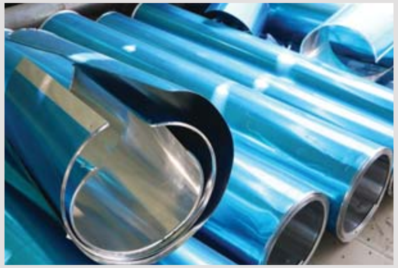

COMMODITIES

Consumption from both developed and emerging economies have helped base and precious metals stave off sluggish growth.

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SAUDI ECONOMY SHIFTS UP A GEAR AS OIL PRICES RECOVER

The International Monetary Fund (IMF) has raised its forecast for the kingdom by 0.5% in 2018, as the country's economic turnaround gains momentum.

The IMF's latest World Economic Outlook report expects the Saudi economy to grow 1.6% this year, compared to 1.1% in a previous forecast, citing that "stronger oil prices are helping a recovery in domestic demand in oil exporters, including Saudi Arabia."

The institution also raised its country forecast for 2019 by 0.6% to 2.2% as the Saudi economy springs into action after a few years of muted growth.

Indeed, the country's GDP contracted in 2017 by 0.74% to SAR 2.6 trillion, according to latest data from the General Authority for Statistics (GAS).

While the mining and quarrying sector, which includes crude petroleum and natural gas, fell by 3.47%, other sectors held up.

Manufacturing grew 1.30%, electricity and water rose 1.26%, while transport, storage and communications expanded 1.94%. Petroleum refining grew 2.35%, while finance, insurance, real estate and business services sectors increased 2.20% during the year, GAS data shows.

Overall, the oil sector fell 2.97% in 2017, while non-oil sector grew 1.01%, with strong showing from the government sector, which expanded 1.72%, and private sector, which rose 0.71% at constant prices.

The IMF believes that reforms by Saudi authorities, especially in the non-oil sector, will unlock wealth, job creation, and investment opportunities.

"Estimates suggest that a combination of reforms to deepen financial markets, increase trade openness, enhance worker skills, improve the business environment, and increase the female labour force participation rate could raise non-oil growth by two percentage points per annum over the longer-term relative to a no-reform scenario," the IMF said in its report on The Economic Outlook and Policy Challenges in the GCC countries.

"Where fiscal space is available, fiscal policy can be used to support the implementation of reforms to boost private sector growth and employment."

THE SAUDI NARRATIVE

Buoyed by the enthusiastic response by foreign investors to the Future Investment Initiative event, Saudi authorities are now taking their message abroad to high profile events such as Davos in Switzerland.

"We have a strong and resilient economy, strong reserves and a low deficit percentage to allow us to withstand external shocks," Mohammed Al Jadaan, Saudi's minister of finance, said at one of the panels, which included Country Dialogue Session and a discussion on Building Saudi Arabia's Future Economy, during the recently concluded Davos event.

He told international audience that the kingdom is investing in the future, with targeted spending that supports economic growth. For instance, total expenditure of SAR 926 billion is up 12% from 2016, with spending on education, health and social development, and municipal services totalling SAR 410 billion or around 44% of 2017 government spending.

The Saudi Arabian General Investment Authority (SAGIA) notes that it drastically reduced the number of days to issue investment licenses – from two days and five hours (53 hours) to three hours and 59 minutes – by restructuring the procedures, reducing the required documents and training its employees to process applications more efficiently.

"The restructured processes include issuing, amending and renewing investment licenses," said Ibrahim S Al-Suwail, deputy governor for investors' services and consultancy.

SAGIA, which is charged with attracting and processing foreign investments in the country, said it granted 17 licenses to foreign enterprises over the first two weeks of January 2018 alone.

CONSUMER SENTIMENT

Saudi consumer sentiment pulled back as the value added tax (VAT) was implemented on January 1. While the tax may crimp sentiment in the short-term, it is expected to benefit the economy over the longer term.

Markit, which tracks Saudi purchasing managers index (PMI) every month, noted that slowdown in private sector growth was recorded at the start of 2018, but business confidence reached an eight-month high.

"Survey respondents commented on softer rises in new business intakes following the VAT introduction in January. However, reports from non-oil businesses suggested that the impact on sales was likely to prove transitory, with part of the slowdown simply reflecting a natural payback following strong order flows prior to the policy implementation," Markit said.

With private sector firms continuing to experience resilient demand fundamentals, staff hiring picked up to its strongest since August 2016 and business optimism reached an eight-month high, the business intelligence firm stated.

Businesses and consumers are expected to shake off the impacts of VAT, as the economy is poised to leap ahead amid a strong push to implement Saudi Vision 2030 goals.

CMA RULE MAKES INVESTING IN SAUDI FIRMS EVEN MORE ATTRACTIVE

In a bold move, Saudi Arabia's Capital Markets Authority (CMA) took further measures to open up the market to qualified foreign investors (QFI), allowing them to invest up to 49% – from an earlier proposal of just 5% – in Saudi companies.

"The maximum proportion of the shares of any issuer whose shares are listed or convertible debt instrument of the issuer that may be owned by all foreign investors (in all categories, whether residents or non-residents) in aggregate is 49%," CMA said in a January statement.

The new rules aim to set out the procedures, requirements and conditions for QFIs to invest in listed securities, and to specify their obligations.
The regulator also reduced the level of assets under management, or the amount custody investors must have, to SAR 1.875 billion from SAR 3.75 billion.

The changes have caught the eye of some of the world's largest financial institutions eager to participate in the opportunities ahead. US investment bank Citigroup has received a license from the CMA to provide a full range of investment banking, debt and equity capital markets, and securities research capabilities to its local and international institutional clients.

In 2017, Goldman Sachs received an equity dealing licence, as trading picks up on the Tadawul exchange.

Other banks have been licensed to open full branches in Saudi Arabia, such as Japan's Bank of Tokyo-Mitsubishi, which has played a significant role in underwriting Saudi's recent sovereign bond issuance. France's BNP Paribas and the Industrial and Commercial Bank of China are among international banks that already have local branches.

The arrival of new entrants is vital as the government aims to expand Saudi's economy, and international institutions can help channel funds from around the world to finance the country's ambitious large-scale projects.

FAST-IMPROVING LIQUIDITY

The changes come as Saudi banks gear up for a new round of economic growth. Financial institutions' liquidity has improved as the economic turnaround takes root and the authorities' efforts to revamp the economy work their way into the system.

"Most of the public-sector deposits that were drained from the banking system in 2016 in response to falling oil prices have since returned and the state has cleared the vast majority of its overdue payments to contractors," according to Fitch Ratings.

Bank's liquidity coverage ratios remain more than 200%, well above global peers, while funding costs have fallen back towards the very low levels to which most Saudi banks are historically accustomed. The ratings agency noted Saudi banks are among the best capitalised globally, with a sector Fitch Core Capital ratio of 17.2%.

However, the ratings agency expects a rise in non-performing loans as credit demand remains muted.

Saudi Arabia's banking assets reached SAR 2.3 billion by the end of December, a 2.2% increase over 2016, according to latest available data from the Saudi Arabian Monetary Authority.

Bank deposits hit SAR 1.62 billion by the end of the year, a marginal 0.13% gain from the start of the year, recovering after a dip in deposits mid-year, to finish strongly.

Breakdown of deposits showed that demand deposits rose 2.67% during the year, with demand deposits from government entities soaring 73.73%. However, demand deposits from business and individuals dipped 2.13%

Meanwhile, time and savings deposits fell 8.9% during the year, with both business and individuals (down 8.75%) and government entities (down 9%) contracting in 2017.

Bank claims on the private sector and government entities in 2017 rose 3.8% to SAR 1.69 billion. While claims on the private sector fell 0.8% to SAR 1.39 billion, claims on government entities offset that with a 3.4% gain over 12 months.

Saudi bank earnings for the year may also surprise on the upside as the non-oil economy improves and the hydrocarbons sector has also been boosted by a strong revival in oil prices, especially in the fourth quarter of last year.

Meanwhile, consumer sentiment has notably improved with the number of ATM transactions rising 7.3% in 2017 compared to 2016. Point-of-sales transactions surged 9.7% during the period to cross SAR 200 billion for the first time ever. However, ATM cash withdrawals dipped 3.3% in 2017 compared to the previous year.

OIL PRODUCERS MAKE GAINS AS CRUDE TAKES BULLISH STANCE

The Organisation of the Petroleum Exporting Countries (OPEC) can look back with satisfaction at a commendable effort to stabilise crude oil prices, but there is much more work still to be done.

In January, the OPEC/Non-OPEC Joint Ministerial Monitoring Committee (JMMC) said the group and its allies achieved a record-breaking conformity level of 129% with their voluntary production adjustments. The monthly average conformity level for the first year of the Declaration of Co-operation was a remarkable 107%.

The parties, comprising OPEC and allies such as Russia and Oman, had pledged to adjust 1.8 million barrels per day (bpd) since December 2016, and are expected to maintain these levels until at least the end of 2018.

"During the first half of 2017 we faced considerable challenges in bringing down inventories due to structural and seasonal factors," Khalid A. Al-Falih, Saudi Arabia's minister of energy, industry and mineral resources, and chairman of the JMMC, told delegates at an event in Muscat, Oman in January.

"But by now, from an overhang in the market of around 340 million barrels of oil, we have eliminated more than 220 million barrels, while between June and December last year, floating storage dropped by nearly 50 million barrels. As a result, we are moving ever closer towards a balanced market."

Indeed, recent data confirmed that global oil demand growth will continue on a positive trajectory in 2018, buoyed by the strong performance of the global economy, OPEC said in a statement.

"This stellar performance by participating countries in 2017 launches the new year on an extremely positive footing, preparing the path for further successes in 2018," the organisation added.

OIL MARKET EQUILIBRIUM

The International Energy Agency (IEA) agrees, noting that global crude oil balances began to tighten in the fourth quarter of 2017, a result of higher than expected refinery runs, lower Venezuelan oil production, and some impact from the closure of major pipelines in December.

"In 4Q17, both OECD crude stocks and Chinese implied balances showed declines. These synchronised crude stock draws in 4Q17 by the world's largest importers at least partly explain the oil price rally," the IEA said in its January report.

"The simultaneous draws of OECD stocks and the Chinese implied crude oil balance were the first such occurrence since 3Q14, and also the largest for as long as our Chinese historical series allows us to see."

Indeed, oil prices have been rallying since the fourth quarter and continue to edge close to USD 70 per barrel. So much so that Goldman Sachs, Wall Street's most accurate forecaster of crude oil prices, expects oil prices to rise above USD 80 in six months.

The bank's three, six and 12-month Brent oil price forecasts were raised to USD 75, USD 82.50 and USD 75 a barrel, respectively, from USD 62 previously.

"We expect that the shale response, OPEC's eventual ramp-up and higher non-OPEC production will all bring prices lower sequentially, with our 2020 Brent forecast at USD 60," the bank said.

At the same time, global oil demand growth for 2018 is mixed. Oil consumption in China grew by 650,000 bpd in 2017, but is expected to expand by an additional 360,000 bpd this year. Meanwhile, India, another major growth market for oil exporters, will see oil demand rising 295,000 bpd this year, compared to 120,000 bpd in 2017, according to the IEA.

Oil is also facing rising competition from natural gas, with the IEA estimates showing as many as 540,000 bpd of oil being displaced by natural gas, in countries such as Iraq, Pakistan, Egypt and Indonesia alone.

BREAKEVEN PRICES

As oil prices fall, major oil exporters are also bringing down their breakeven prices.

Saudi Arabia's external breakeven price for oil stands at USD 45 per barrel in 2018, one of the lowest among its regional peers, according to a report by the Institute of International Finance (IIF). Among other Gulf states, the UAE's external breakeven price stands at USD 44, while Kuwait is at USD 52, Oman at USD 87, and Bahrain at USD 54.

"The fiscal consolidation efforts in the past three years, mostly in the form of cut in capital expenditures, led to lower imports. As a result, the GCC weighted average external breakeven price declined to USD 49/bbl in 2017. This, combined with the recent modest recovery in oil prices, have put the external and fiscal positions on a more sustainable footing," the IIF said.

Iraq's breakeven price stands at USD 54 this year, while Russia's breakeven is at USD 44.

RECORD-BREAKING BID FOR SAUDI ARABIA'S FIRST SOLAR PROJECT

The first large-scale utility project contract of the Renewable Energy Project Development Office (REPDO) of Saudi Arabia's Ministry of Energy, Industry and Mineral Resources' has been notable for a couple of reasons.

First, it marked the start of REPDO's first solar PV project, and second, the winning bid by Saudi Arabia's ACWA Power came in at a new world record tariff of 8.781 halalas per kilowatt-hour (US cents 2.3417/kWh).

"The project is expected to involve a total private sector capital investment of about USD 300 million and will create job opportunities for more than 400 individuals, as Saudi Arabia takes its first step on the road to energy diversification and renewable energy leadership," said Khalid Al Falih, minister of energy, industry and mineral resources in January during the project's launch.

The 300-megawatt power project, which is being developed in Sakaka, Al-Jouf in the northern region, is the National Renewable Energy Programme's first step to ultimately generating 3.45 gigawatts (GW) of clean energy by 2020 under the National Transformation Programme (NTP), and 9.5GW by 2023, as part of the Saudi Vision 2030 initiative.

ACWA secured the 25-year power purchase contract after stiff competition from consortiums of eight local and international bidders, in a transparent process.

ONE IN MANY

The significance of the Sakaka solar PV project lies in it being the first of a series of renewable energy projects in Saudi Arabia, giving a strong kick-off to this vital sector in the near future, and driving the localisation of the power generation industry in the kingdom, according to Mohammad bin Abdullah Abunayyan, chairman of ACWA Power.

"So, our team has harnessed our expertise to provide the lowest possible tariff worldwide, as well as increasing the local content and training the Saudi capabilities and enabling the industrial and service sectors within the supply chains," Abunayyan said.

Meanwhile, REPDO also closed bids for the 400-megawatt (MW) Dumat al-Jandal wind power project in January 2018.

The second of two utility scale projects in Al-Jouf province, will entertain bids that guarantee 30% local content target to support the development of a domestic renewable energy value chain. In September, around 25 international and regional bidders visited the site to get a better appreciation and assessment of the kingdom's first utility-scale wind power.

Renewable energy will also be powering the country's desalination plants in the near future.

King Abdullah Economic City (KAEC) signed a contract with Metito Saudi Ltd to design and construct a seawater desalination plant powered by solar energy, valued at SAR 220.4 million.

When completed by the first quarter of 2020, the project will have the capacity to produce 30,000 cubic metres (cbm) of drinking water per day, expandable to 60,000 cbm per day.

POWER MARKET OFFERS OPPORTUNITY

Saudi Arabia's utilities market is in the midst of a dramatic change, which will not only boost the efficiency of the sector, but also bring down costs and burdens on the government. In addition, the sector also offers massive opportunity to attract private and international investors, and technical expertise, while creating jobs.

But in the short term, the kingdom has to raise electricity prices as part of a plan to reduce energy subsidies.

In January, the government raised electricity prices across the board. For residences, consumption of between one and 6,000 KW/h per month will cost 18 halalas per KW/h, rising to 30 halalas for consumption above 6,000 KW/h, data from Saudi Electricity Company shows.

Previously tariffs stood at 5 halalas for consumption between one and 2,000 KW/h a month and 10 halalas for 2,001 and 4,000 Kw/h. Those in the 4,001 to 6,000 KW/h consumption category will see prices slightly decrease from a current rate of 20 halalas.

In the commercial sector, prices in the one to 6,000 KW/h category rose to 20 halalas per KW/h and 30 halalas for consumption above 6,000 KW/h.

Agricultural, non-profit and charitable organisations will have prices of 16 halalas per KW/h for one to 6,000 KW/h of consumption per month and 20 halalas for consumption above 6,000 KW/h.

Private healthcare providers, private schools and education institutes will have prices of 21 halalas per KW/h, while prices for industrial use

will be 18 halalas per KW/h and government use 32 halalas per Kw/h.

Learning from the experience of other countries and with careful market design, Saudi Arabia would benefit from restructuring its power sector in the long term, according to a study by King Abdullah Petroleum Studies and Research Centre (KAPSARC).

A capacity market would assist operators in managing competition and influencing private investment decisions in the liberalised market, thereby supporting the Vision 2030 objectives.

Indeed, KAPSARC recommends raising current administered fuel prices to improve the efficiency and costs of generating power in Saudi Arabia.

"Meanwhile, reform to retail tariffs, charging consumers the efficient long-run cost of electricity and the inclusion of a wholesale energy market with congestion charges on transmission will contribute to improved consumption efficiency," according to a report co-written by KAPSARC researchers Betrand Rioux, Fernando Oliveira, Axel Pierru and Nader Al Kathiri.

RAS AL KHAIR AT CENTRE OF SAUDI'S MANUFACTURING HUB AGENDA

The Ras Al Khair development is emerging as Saudi Arabia's new industrial heartland, which is set to transform the country's manufacturing sector.

Located on the Arabian Gulf near Jubail industrial city, Ras Al Khair was once a sandy cape south of Jannah island and Al-Musallameyyah. But its fortunes shifted in 2011, when metals giant Ma'aden built an integrated plant for the production of fertilisers and chemicals.

Since then, Saudi Aramco has been spearheading the industrial development of the area with the grand ambition to generate about USD 17 billion of the kingdom's GDP, import substitution for maritime products and services by up to USD 12 billion, and create more than 80,000 direct and indirect jobs by 2030.

The project is part of Aramco's overarching strategy to transform itself into an industrial and manufacturing conglomerate, beyond crude oil and gas production and refineries.

The industrial city's key operations are expected to start by the end of 2018, with the complex reaching its full production capacity by 2022.

To this effect, Aramco signed two agreements with the Royal Commission for Jubail and Yanbu (RCJY) to allocate industrial locations for Saudi Aramco to set up two industrial projects at Ras Al Khair Industrial City in December.

MEGA-INDUSTRIAL COMPLEX TO RISE

"Upon its commissioning, Ras Al Khair will be a mega-industrial complex, comprising three vital economic sectors: mining; construction and maintenance of large ships ... and manufacturing, which will be fed by aluminium, iron and petrochemical feedstock, and which will open new horizons for manufacturing in the kingdom," Prince Saud bin Naif Al Saud, governor of the Eastern Province told The Oxford Business Group in a report.

The first project will be developed as a manufacturing facility for onshore drilling rigs and related equipment spanning an area of 500,000 square meters (sqm).

The second location, spread over an area of 300,000 sqm, will be developed as a casting and forging facility to service the maritime industry and the manufacturing of equipment related to the oil and gas supply chain.

"These projects will support the growth and localisation of the supply chain related to the energy sector and help enhance the speed of supply and reduce associated costs for Saudi Aramco," said Fathi Al-Saleem, manager of the Maritime Yard Department.

"The projects are in line with the objective of our In-Kingdom Total Value Add (IKTVA) programme, which is to maximise local content in manufactured goods and services in Saudi Arabia, up to 70% by the year 2021."

MARITIME JV

Aramco followed up this announcement with another landmark deal in December, involving international maritime companies. The company said it is teaming up with UAE-based Lamprell Plc, the National Shipping Company of Saudi Arabia (or Bahri) and South Korea's Hyundai Heavy Industries Co. Ltd to launch the International Maritime Industries (IMI) joint venture. When fully operational in 2022, the integrated maritime yard will be one of the largest full-service maritime facilities in the Middle East.

"The nearly 12-million-sqm facility will be the largest in the region in terms of production capacity and scale, offering an unprecedented mix of products and services," Aramco said.

The project will help Aramco and its partners meet their manufacturing and maintenance, repair and operations requirements for offshore oil and gas rigs, offshore support vessels, and commercial vessels, including very large crude carriers (VLCC).

"What is unique about IMI is the powerful synergy of manufacturing and operational excellence delivered by four established global and regional entities in the energy and maritime industries," said Abdallah I. Al-Saadan, chairman of the JV's board of managers and Saudi Aramco's senior vice president of finance, strategy and development.

IMI's order book already boasts more than 20 rigs and 52 ships, which will keep it busy until at least the next decade.

MANUFACTURING A BOON TO ECONOMY

Manufacturing emerged as a real bright spot in the Saudi economy last year, rising 1.30% in 2017 on the back of various government initiatives to boost the sector.

The sector has already made an impression, with exports in the third quarter of 2017 rising 10.4% compared to the same period last year and 3.9% higher from the second quarter, according to latest available data from the General Authority for Statistics.

Among the top performers in the non-oil industrial exports, plastics and rubber grew nearly 25%, while base metals surged 23.9%. In a sign that the manufacturing sector was gearing up for more activity in the coming years, the kingdom's machinery imports was the biggest import item in the third quarter and one of the few items that rose during the period, recording an increase of 1.9%.

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COMMODITIES START 2018 ON A HIGH NOTE AMID STRONG DEMAND

Global mining companies are basking in the industry's robust performance, as base and precious metal prices perk up, boosting their bottom lines.

Copper, zinc, nickel and coking coal prices jumped 7%, 9%, 10%, and 8%, respectively, in the fourth quarter of 2017, offset by lower iron ore prices, which fell 8% during the period. While copper prices pared back a bit, other commodities, such as tin (up 9.8%), nickel (up 7.9%), and zinc (up 7.7%) have climbed this year.

Commodity price gains were recorded amid a strong global economic turnaround across North America, Europe and Asia, with around 84% of the major purchasing managers' index (PMI) in developed economies expanding or staying neutral in December.

The more optimistic outlook around global growth and supply-demand dynamics has also sharply boosted base metals' prospects.

Growth in emerging economies of Asia, which are key drivers of commodities, is especially heartening news for global miners.

Emerging and developing Asian economies will grow at around 6.5% over 2018 to 2019, broadly the same pace as in 2017, according to the International Monetary Fund (IMF).

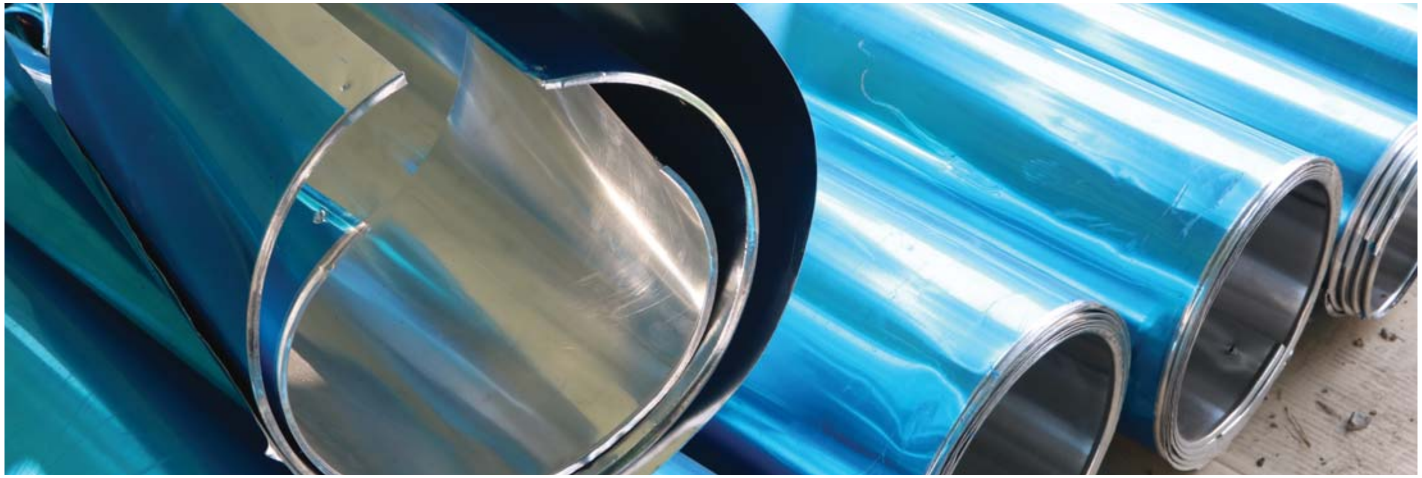
"The region continues to account for over half of world growth. Growth is expected to moderate gradually in China (though with a slight upward revision to the forecast for 2018 and 2019 relative to the fall forecasts, reflecting stronger external demand), pick up in India, and remain broadly stable in the ASEAN-5 region," the IMF said in its monthly report.

Supply shortages, thanks to years of underinvestment by miners, are also leading to inventory shortfalls and supply shortages.

Inventory levels for zinc are at critical levels, while those for copper continually make "higher lows" through the last quarter of 2017 and into 2018 as the looming supply deficit comes more into focus.

Meanwhile, the outlook for coking coal and iron ore is more muted in the near term, as restocking ahead of the Chinese Lunar New Year winds down and there have been no significant weather-related events impacting production.

However, prices have been much stronger than expected driven by changing dynamics in the steel market. Coming into 2018, the global steel and iron ore markets also have reason to be confident. Prices for the commodities skyrocketed toward the end of 2017 and have maintained elevated levels so far this year.



PRECIOUS METAL

Gold prices, boosted by a weaker dollar, headed for a third consecutive monthly gain, up 3% in January, the biggest monthly increase since August 2017.

Another factor supporting the price of gold has been heightened geopolitical risk, which has boosted safe-haven demand. This is evident in the close relationship between gold and the Japanese yen, which is often seen as a safe-haven currency.

However, gold faces pressure as the American greenback is unlikely to stay depressed amid an anticipated interest rate hike by the Federal Reserve.

"We think that the recent strength in prices can be largely attributed to dollar depreciation. There tends to be an inverse relationship between commodities prices and the value of the US currency," said London-based Capital Economics in a note to clients. "But in the case of gold, this inverse relationship is even more accentuated as gold and the dollar can at times be considered substitutes."

Indeed, the "trade-weighted" gold price, a measure of the value of gold based on the currency movements of its main consumers, suggests that dollar weakness can explain about 50% of the gains in the price of gold since the beginning of 2017, according to Caroline Bains, chief commodities economist at Capital Economics.

The Federal Reserve is expected to raise interest rates this year, which should crimp appetite in gold and even reverse some of its gains.

"We still look for three Fed rate hikes this year (in line with the FOMC's median projection), following 2017's pattern (March, June, December)," Bank of Montreal said in a report.

However, the Fed has also seen new leadership with the retirement of Janet Yellen and the election of Jerome Powell as its new governor, and may lead to a change of direction.

MA'ADEN FINANCIAL RESULTS

Saudi Arabia's Ma'aden, the region's largest non-oil commodity firm, was also buoyed by the rise in metals and minerals. Company sales jumped 28% in 2017 on the back of increasing prices of all products, with the exception of ammonia.

The company posted a net profit of SAR 714.84 million in 2017 versus a loss of SAR 10.74 million in 2016. Gross profit jumped 94.6% to SAR 3.93 billion.

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