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IN THIS EDITION ...

The rollout of Saudi Vision 2030 programme has been off to a strong start, making its mark on the kingdom's economy.

While still in the early stages of development, the programme has already compelled global investors to sit up and take notice of the significant changes taking place in various sectors of the economy.

The Quality of Life Programme, which, at its heart, is focused on raising the living standards and quality of life of Saudi nationals, is the latest initiative that should spark a slew of business and investment opportunities in the country.

The International Monetary Fund's (IMF) latest report on the country lauds the government's various efforts.

"Considerable progress is being made to improve the business climate. Recent efforts have focused on the legal system and business licensing and regulation," the IMF said in its May report.

"The public procurement law that is being updated has a key role to play in strengthening anti-corruption policies. The privatisation/PPP programme, which was recently approved, should be accelerated."

It is also evident in the latest quarterly data, which noted that non-oil revenues has jumped during the period as the government looks to reduce its reliance on crude oil revenues.

Trade data also shows a big jump in non-oil exports, while non-oil imports are more subdued as authorities push to use domestic products to satisfy the requirements of the local industry.

The external account should be further buttressed by gently expanding oil production and by rising export volumes of aluminium, phosphates and petrochemicals (the latter boosted by the ramping-up of production at the giant Sadara integrated chemical plant), which should ensure that the trade balance continues to post large surpluses over the next few years.

Activity data remains mixed with loan growth contraction in the first quarter, but a rebound was seen in point-of-sales data in March. Still, higher spending should help non-oil activity recover. Government social spending should also support domestic confidence and consumption.

As non-oil fiscal revenue reforms appear to be on track, analysts are also expecting higher oil revenues in the coming quarters, which should keep the budget deficit anchored.

ECONOMIC TRENDS

Economic reforms have given the non-oil sector vast room for growth in the first quarter, with the performance seen persisting in line with Vision 2030.

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VISION 2030

Several projects are underway, highlighting the huge potentials in major sectors of the kingdom's economy.

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REAL ESTATE

Regulators have implemented amendments to the new real estate investment trust framework in a bid to attract more investment in the property market.

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TRADE

Latest export and import data have given the kingdom's economy fresh impetus, especially as the government pushes its diversification targets.

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SME

The government is pulling no punches in ensuring that SMEs receive the support they need to grow and contribute to economy.

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COMMODITIES

While oil steadily recovers, gold had been lacklustre and metals were in bullish territory amid a brewing global trade war.

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ROBUST NON-OIL REVENUES SET STRONG Q1 FOR SAUDI

Saudi Arabia's non-oil revenues soared in the first three months of 2018, as economic diversification initiatives by the government starts to bear fruit.

"Taxes on goods and services grew more than four times during the quarter, compared to the same period last year, as the government rolled out value added taxes and other levies, such as the harmful product tax. Revenues from the segment hit SAR 22.6 billion during the quarter, compared to SAR 5.6 billion the year before," according to the Ministry of Finance.

Overall, non-oil revenues surged 63% during the period, rising to SAR 52.3 billion compared to SAR 32 billion previously, suggesting early success in the country's Vision 2030 programme.

Oil revenues grew a more modest 2% during the quarter to nearly SAR 114 billion, as higher crude prices were offset by restrained output by Saudi Arabia as part of the Organisation of Petroleum Exporting Countries' (OPEC) strategy to cut oil production. Oil revenue figures were also impacted as the ministry switched to quarterly dividends.

Overall, revenues grew 15% in the first quarter to SAR 166.3 billion, and are in line with projections of the Fiscal Balance Programme that set the country's fiscal guidelines.

The results underscore the fact "that the Kingdom of Saudi Arabia has made significant progress in implementing economic and structural reforms, particularly in light of the positive results of the first quarterly report of the performance of the general budget for the year 2018," said Mohammed Al-Jadaan, the minister of finance, in a statement.

IMPACT OF REFORMS

On the expenditure side, total spending hit SAR 200.5 billion, an increase of 18% over the same quarter of the previous year, as the government raised spending to drive economic growth and increased social benefits.

Deficit for the year reached SAR 34.3 billion, or about 18% of the expected annual deficit.

"The fiscal figures for the first quarter of this year reflect rapid and significant progress in economic reform to help achieve the medium-term Fiscal Balance Programme (FBP) goals for 2023, particularly in light of the strong non-oil revenues growth, and the sustained pace of spending efficiency," Al-Jadaan said.

He also noted that the government aims to maintain spending in a balanced manner throughout the fiscal year and reduce seasonal expenditure, in order to boost economic growth rates.

The International Monetary Fund agrees with the Ministry of Finance's prognosis, noting that the growth is expected to pick up this year and over the medium term as reforms take hold.

"The primary challenges for the government going forward are to sustain the implementation of the bold structural changes that are underway, meet the medium-term fiscal targets it has set, and resist the temptation to re-expand government spending in line with higher oil prices," Tim Callen, an IMF executive, said in a statement.

The economy will also see greater contribution from the non-oil sector, thanks to a slew of reforms over the past year or so.

The updated FBP shows the 'taxes on goods and services' are set to rise 82% year on year to SAR 85 billion for the full year. VAT is expected to generate SAR 23 billion, excise tax is forecast to generate SAR 9 billion, and expat levies SAR 28 billion.

MULTI-BILLION-DOLLAR DEBT ISSUE

In April, Saudi Arabia raised USD 11 billion in international bond issue, making it one of the biggest emerging market debt issuers since it started borrowing internationally in 2016 to finance a budget deficit.
The fourth international bond, issued in tranches of seven, 12 and 31 years, attracted orders upward of USD 52 billion. The bond followed March's USD 16 billion syndicated loan refinancing, which expanded the original facility by USD 6 billion.

Meanwhile, the Ministry of Finance said it raised USD 1.3 billion from the sale of sukuks in three tranches maturing in five, seven and 10 years. Saudi Arabia has borrowed SAR 18 billion (USD 4.8 billion) domestically so far this year with monthly issues of riyal-denominated Islamic bonds, and plans to raise about SAR 60 to SAR 70 billion in total in 2018, Fahad al-Saif, the president of the kingdom's debt management office told Reuters.

The debt management office also recently secured approval from the Capital Market Authority in April to list and trade Saudi riyal-denominated government debt instruments (bonds and sukuk) on the Tadawul.

"The listing of government debt instruments is an important step towards increasing transparency under a supervisory framework that provides disclosure to investors," said Minister Al-Jadaan, noting that the move will contribute to ensuring fair pricing of debt instruments listed on the secondary markets.

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FULL STEAM AHEAD ON SAUDI'S VISION 2030 PLANS

Saudi Arabia has been rolling out major projects as part of its Vision 2030 programme, which is set to transform its economy.

In April, the country unveiled the Privatisation Programme, Delivery Plan 2020, to strengthen the private sector's role by unlocking state-owned assets for investment, privatising selected government services, improving the quality of services and reducing government spending.

The privatisation programme aims to generate as much as USD 11 billion in non-oil revenues and create up to 12,000 jobs, according to a document. All told, more than 100 privatisation initiatives have been identified so far across 10 ministries.

"The privatisation programme, which targeted various service sectors such as energy, water, transportation, telecommunications, petrochemicals and financial sector, is based on three basic pillars: laying the legal/regulatory foundations; laying the institutional foundations; and directing the main programme initiatives," according to a government statement.

The government seeks to set up a National Centre for Privatisation and PPP (NCP), which will work on developing or proposing frameworks that enable and govern privatisation transactions.

The initiative targets 14 public-private partnership (PPP) investments worth SAR 24 billion to SAR 28 billion, and includes the corporatisation of Saudi ports and the privatisation of the production sector at the Saudi Saline Water Conversion Corp (SWCC) and the Ras Al Khair desalination and power plant.

QUALITY OF LIFE

The government has also unveiled the Quality of Life Programme as a key plank of the Saudi Vision 2030 initiative.

The SAR 130 billion programme aims to contribute to the development and diversification of the national economy through the establishment of special areas, the reconstruction of economic cities, and the development of sports, entertainment, culture, and arts, according to the government.

The development of cinema centres, theme parks, sports stadiums, family entertainment centres, theatres, zoos and botanical gardens, and museums have strong retail real estate component in which most investors would be keen to get involved.

The government also aims to include at least three Saudi cities in the world's 100 most liveable cities, which would require the development of world-class infrastructure with affordable housing, easily accessible recreational and retail centres, and a strong transportation network including roads and rail.

Private sector engagement is a key priority for the programme, and will depend on four pillars to guarantee maximum private sector engagement, according to the programme.

This would involve:

(1) improving public sector participation in fields where private sector participation is low;
(2) providing financial incentives to make up for foregone profits in 53 sectors;
(3) providing all necessary non-financial enablers to mitigate investment risks; and
(4) managing private sector participation effectively in collaboration with SAGIA, which has already selected over 200 international investors.

In addition, the launch of smart cities such as NEOM and King Abdullah Economic City is expected to boost demand for commercial and residential spaces.

QUICK ROLLOUT

The Vision 2030 programme, while still at an early stage of being rolled out – with many key pillars being defined or recently announced – is already having an impact on the Saudi economy. It has certainly made global investors take notice and place the kingdom on their radar screens as a number of new opportunities come on stream.

The Privatisation Programme and Quality of Life initiative add to the transformative projects announced, including the National Transformation Plan, Financial Sector Development Programme, Fiscal Balance Programme, the Public Investment Fund Programme, as well as six more to be unveiled, according to the Vision Realisation Programme.

The other programmes expected to be announced include: Enriching the Hajj and Umrah Experience, Saudi Character Enrichment Programme, National Companies Promotion Programme, The Housing Programme, National Industrial Development and Logistics Programme, and Strategic Partnerships Programme.

Major companies such as Public Investment Fund, Saudi Aramco, Saudi

Arabian Basic Industries, and Saudi Arabian General Investment Authority are leading the way, while the ministries are also focused on transforming their mandated sectors.

In early June, King Salman bin Abdulaziz Al Saud issued a series of royal decrees that signalled sustained commitment to the Vision 2030 economic reform plan and to build a more effective institutional framework to meet the economy's long-term needs.

Some of the most notable decrees include the appointment of Ahmed bin Sulaiman al Rajihi as labour minister, especially as the government is looking to improve productivity and skillsets of the Saudi labour force. In addition, the appointment of two competent executives as assistant energy ministers to oversee mineral resources and industry – both big themes of Vision 2030 – reflects the effort to align organisational change with policy reform.

Social reforms will likewise remain an essential part of the reform effort. The creation of a culture ministry, the appointment of a new minister for religious affairs, and the establishment of an independent authority to manage Makkah and the holy sites signal further reforms.

The culture minister, Prince Badr bin Abdullah bin Farhan al Saud will also push proposals for bolstering tourism and entertainment. And the creation of a separate authority to oversee the holy Islamic sites will help fast-track key infrastructure developments needed for pilgrims.

REITS FUEL SAUDI'S REAL ESTATE MOMENTUM

The Saudi Real Estate Investment Trust (REIT) market continues to expand as demand for real estate capital in the kingdom grows.

Since the Capital Market Authority approved the REIT framework in 2016, more than 12 investment trusts have been listed on the exchange with a combined value of USD 2 billion.

CMA further fine-tuned the REIT law in the first quarter of 2018 with proposed amendments to raise the minimum capital for new fund to SAR 500 million, from SAR 100 million. It also raised the minimum unitholders from the public to 200 from 500, and required that the assets acquired by the REIT must generate net rental revenues in the last three years.

Currently, more than 50% of REITs in the country are focused on one city, and around 67% are focused on a variety of segments including retail, residential, commercial and industrial real estate.

"In 2018, we expect more REITs to be listed given the number of approvals that are currently in the pipeline," said Raya Majadalani, research manager at Knight Frank, a real estate consultancy. "While the vast majority of existing REITs are non-thematic, we see the emergence of more thematic REITs as an opportunity for investors."

The development of REIT is indicative of the transformative changes taking place in Saudi Arabia's real estate market. While the past two years have seen a subdued real estate environment across major cities, the changing demographics, growing economy and the major changes being implemented by the government will see exponential growth in the sector over the medium term.

QUARTERLY REPORT

Saudi Arabia's residential real estate price index dipped 0.7% in the first quarter of 2018, compared to the last quarter of 2017, according to General Authority for Statistics data. While plot prices fell 0.7%, apartments declined by 0.6%, and houses by 0.9%.

Meanwhile, commercial real estate price index slid 0.5% during the period, while agriculture price index was down 0.1%.

In Riyadh, rents fell 5.1% in the first three months of 2018, compared to the same period last year, while the value of apartments declined 3.2%. Villa rents shrank 5.1%, while villa selling prices contracted by 6%, according to data from real estate consultant Jones Lang LaSalle.

However, investors are seeing the current weakness in valuation as an opportunity to boost their portfolio. The Ministry of Justice data shows the number of apartments sold in Riyadh rose 15% during the quarter, relative to last year.

In addition, the "introduction of the new Ejar unified contract facilitates the ability to collect rent and should strengthen demand from investors, as the residential sectors become a more investable grade asset across Saudi," according to Jones Lang LaSalle's quarterly report on Riyadh.

Rents in Jeddah fell 4.7% during the first quarter, compared to the same period last year, while valuations of apartments have fallen 5.6% during the period. Similarly, villa rents declined 2.8%, while valuations contracted around 4% during the period.

The period of weakness should dissipate with the string of economic developments across the country, leading to increased business activities, which would also bode well for the real estate sector. The

Quality of Life programme, unveiled as part of the Saudi Vision 2030 initiative, has a strong component related to real estate residential, retail and commercial properties.

AFFORDABLE HOUSING

The kingdom's long-term need for affordable housing also remains intact, and is a key focus of the Vision 2030 plan, which aims to ensure 60% of Saudis have affordable housing by 2020.

The housing minister said there are plans to build 1 million houses in five years with an investment of over USD 100 billion, mainly through public-private partnerships. Deals have been signed with South Korean and Chinese firms, while US companies have also expressed interest.

Around 500,000 Saudis are on a waiting list for the Saudi Real Estate Development Fund (REDF), a Ministry of Housing unit that offers Saudis interest-free loans to buy state-backed houses, which cost around SAR 650,000.

The ministry launched a number of projects to narrow that waiting list down. Earlier this year, the Ministry of Housing handed over housing projects to qualified developers to start construction on 45 projects, featuring 21,000 units. This is part of the sakani programme, which aims to allocate 280,000 residential units to citizens across Saudi Arabia.

Other key developments announced this year include seven projects featuring 13,831 houses, apartments and villas in Riyadh, as well as six new projects featuring a total of 14,873 housing units in Riyadh, Jeddah, Makkah and Madinah to meet the demands of these heavily populated cities, the ministry said.

Meanwhile, Saudi Real Estate Refinance Company, a unit of Public Investment Fund, signed deals with three mortgage companies this year to provide refinancing facilities to expand the financing choices for Saudi citizens.

CASTING A WIDE TRADE NET

Saudi Arabia's exports are growing at a rapid pace — not just in the crude oil sector, but also in the non-oil sector.

Latest data from the General Authority of Statistics shows non-oil merchandise exports rose 3.6% to SAR 17.3 billion in March, compared to the same month in 2017.

Four of the kingdom's five biggest export products also increased during the month, a reflection of the government's efforts to boost trade flows with several countries. Plastics and rubber, chemical products, base metals, machinery and mechanical appliances saw a double-digit growth during the month, as the Saudi government and private sector actively sought new markets.

While exports to the UAE – the country's number one non-oil export market- dropped 27.7% in March, while shipments to China – Saudi Arabia's second largest market- soared 52.5%.

At the same time, total merchandise imports to the country hit SAR 373 billion during the period, a decline of 10%, compared to March 2017. Merchandise imports posted a month-on-month drop of 3.7%, from the February 2018 figure.

The new set of data comes after strong trade results in 2017. Fulsome data released by the GAStat indicated Saudi Arabia enjoyed a great year in trade.

Total merchandise exports hit SAR 831 billion last year compared to SAR 688.4 billion in 2016, a stellar 20.8% increase.

ROBUST TRADE

Oil exports reached SAR 638.4 billion during the year, a 25% increase over the previous year, on the back of improved crude oil prices.

Meanwhile, non-oil exports increased 8.9% to SAR 193.4 billion. The share of non-oil exports in total merchandise exports, however, decreased from 25.8% in 2016 to 23.3% in 2017.

Of the non-oil exports, plastics and rubber were Saudi Arabia's biggest products, with a value of SAR 64.8 billion, making up a third of total non-oil exports. Chemical products accounted for 27.7% of outgoing trade, or SAR 53.5 billion, while vehicles and associated transport equipment made up SAR 17.7 billion, or 9.2% of the total.

UAE was Saudi Arabia's main destination for non-oil exports, accounting for SAR 30.2 billion, or 15.6% of the total. It was followed by China, which saw Saudi shipments of SAR 23.31 billion, or 12% of total, and Singapore with SAR 11.5 billion, or 6%.

Imports fell 4% in 2017 compared to the same period a year ago, as the economy focused on utilising domestic products and cutting back on imports.

China was the main source of imports last year, with SAR 76.9 billion in imports, or 15.3% of the country's total imports basket. The United States, which accounted for 13.5% of all imports, shopped SAR 68 billion to the kingdom, while the UAE made up 6.5%, or SAR 32.8 billion.

GROWING TRADE FLOWS

Saudi authorities have been pushing to expand trade ties with a number of countries.

His Royal Highness Prince Mohammed bin Salman bin Abdulaziz, the crown prince, vice president of the Council of Ministers and minister of defence, visited the United Kingdom in March to boost trade and investment ties with its traditional ally.

According to a joint communique, the two countries committed to a long-term partnership to support Vision 2030, with the Public Investment Fund identifying opportunities in the UK, as British companies seek Vision 2030 opportunities in the areas of education, financial and investment services, culture and entertainment, healthcare services and life sciences, technology and renewable energy.

"Taken together, these opportunities are expected to amount up to USD 100 billion over a 10-year period, from which PIF will aim to target direct investments amounting to USD 30 billion," according to the communique.

Khalid bin Abdulaziz Al-Faleh, minister of energy, industry and mineral resources, also visited South Korea in March to boost trade ties in industry energy and mining sectors, especially in light of the opportunities presented by Saudi Vision 2030.

The meeting was attended by Dr. Faisal Al-Sugair, chairman of the Saudi Centre for Strategic Partnerships, and senior government officials.

As a member of the G20, South Korea is among the world's largest vehicles manufacturers as it exports more than 60% of its industry, ranking third worldwide in vessels industry and maritime transport, and fourth in the electronics and pharmaceutical industries.

"Such industries stimulate us to work with South Korea and seek enhancing investment opportunities between the two countries in what would contribute to the transfer of Korean knowledge and recruiting Korean technologies to the kingdom," Al-Faleh said to Saudi Press Agency.
The two governments are also collaborating in the fields of energy, industry and mineral resources.

Meanwhile, a Finnish delegation met recently with members of the Council of Saudi Chambers to review economic co-operation, investment and trade partnerships opportunities in the kingdom. Their fields of interest include technology and innovation projects. and ways of benefiting from innovative solutions and new technologies in developing promising economic sectors.

The focus on new markets, and bolstering ties with established partners, will result in a surge in Saudi trade flows.

SAUDI HAS BIG PLANS FOR ITS SMALL BUSINESSES

The powerful economic alliance of Saudi Arabia and the United Arab Emirates unveiled in June, had a strong component on small and medium enterprises (SMEs). The 175 joint projects and 20 memorandum of understanding focused on economy, trade, defence and innovation that should be a big boost for Saudi and UAE SMEs.

The centrepiece was the establishment of a joint investment fund to invest in SMEs of the emerging industrial sectors in partnership with the private sector, facilitating trade flows between the region's two economic powerhouses.

The undertakings also seek to explore investment opportunities through the establishment of a dedicated office to facilitate economic activities, and the creation of a unified electronic portal linking the two countries to follow-up challenges facing the common customs and markets.

The agreements included the establishment of the Saudi-Emirati Investment Fund for Renewable Energy to attract large and start-up companies, and support them in funding research and development projects.

Supporting SMEs with investment, joint ventures and easing cross-border trade should boost the sector. In recent months, the Saudi government has signed a raft of deals with the United Kingdom and Egypt, both of which have strong SME components, also speaks to the importance given to the sector.

FUNDING INITIATIVES

The launch of four key initiatives to support SMEs at the end of last year underscores the government's efforts to raise the private sector's profile. The initiative aims to create a SAR 2.8 billion investment fund for emerging enterprises, as well as indirect financing of SAR1.6 billion.

The aim is to alleviate the financial burdens of SMEs in the early years of their development, facilitate their business start-up, enhance their chances of sustainability and thus increase their contribution to GDP.

By providing financial assistance, the projects also hope to stimulate SMEs to generate new job opportunities for Saudi citizens in line with SME sector performance indicators in Vision 2030. The move is significant to raise the GDP contribution of SMEs in the kingdom from 20% to 35%.

This first initiative is expected to benefit a large number of new and distributed SMEs in more than 11 sectors, which will be able to

reimburse selected fees over the years 2018-2021. Registration will be available to companies established between 2016 and 2020.

Reimbursable government fees include, but are not limited to: full refund of the registration fee of the trademark, municipal licenses, commercial register, Saudi post, licenses of various commercial activities, and 80% of the financial remuneration for expatriate labour.

The second initiative was focused on raising the capital of Kafalah, The SMEs Loan Guarantee Program, designed to support SMEs by taking the risk of investing parties if the invested companies fail. A budget of SAR 800 million has been allocated to this initiative.

The third initiative is indirect funding, which has a SAR 1.6 billion budget to provide different funding channels to investment institutions, excluding banks that can provide low-cost loans to SMEs.

The fourth programme is a venture capital fund targeting start-ups, with allocation of SAR 2.8 billion, aimed at bridging the investment gap and encouraging more SME investments.

SUPPLY CHAIN CENTRE

Building on these initiatives, Saleh Bin Ibrahim Al-Rasheed, governor of the General Authority for Small and Medium Enterprises, or Monshaat, launched a supply chain centre in co-operation with the Ministry of Defence, Ministry of Energy, Industry and Mineral Resources, Local Content and Private Sector Development, Saudi Industrial Cities and Technology Zones Authority and King Abdulaziz City for Science and Technology.

The supply chain centre, to be managed by Monshaat, will help SMEs secure the necessary assistance from various parties.

The centre aims to provide a slew of services to SMEs in the spare parts industry in co-operation with the relevant bodies, including: support in engineering and technical consultancy; support in developing modern digital means of production; consultation in registering suppliers with the public and private sectors; SME production techniques and production plans; in addition to participating in supply negotiations and contracts.

The services will include the development of a digital platform for engineering designs, supply and demand, support for the development of reverse engineering in the spare parts industry, awareness raising of standards and quality, conformity assessment procedures, standards and calibration, preparation and development of training programmes, capital and credit financing and guarantees for enterprises.

Monshaat also signed a joint agreement with King Abdullah Economic City with a capital of SAR 75 million. The agreement provides for the establishment of a capital fund to finance entrepreneurs and owners of small and medium enterprises operating in King Abdullah Economic City, in addition to generating more jobs at those facilities.

KAFALAH PROGRAMME

Latest available data shows the Kafalah programme approved 3,390 guarantees in contrast with 4,007 guarantees in the preceding year, a decline of 15% during 2016.
The approved guarantees benefited 1,711 SMEs compared to 1,643 SMEs in the preceding year-- an increase of 4%. The value of these guarantees totalled SAR 1,828 million compared to SAR 1,820 million in the preceding year, representing a growth of 0.4%.

Credits provided by Kafalah's participating commercial banks to SMEs during the year reached SAR 3,557 million, compared to SAR 3,723 million the year before, a decrease of approximately 4%.

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COMMODITIES PUSH THROUGH DESPITE HEADWINDS

Commodities continue to move ahead despite global trade headwinds and a strengthening US dollar.

Brent crude oil ended 3% higher in May, giving back some of its gains in the month, but are up nearly 18% year to date, as global inventories declined.

OECD commercial stocks declined counter-seasonally by 26.8 million barrels (mb) to 2,819 mb, their lowest level since March 2015 and 214 mb below year-ago levels. In the process, they fell one million barrels below the five-year average.

Overall, stocks in the region during the first quarter declined by 38.4 mb, coming in stark contrast to the last five years when they averaged 44.9 mb during the same quarter, according to the International Energy Agency.

While oil markets are concerned about lower production from Venezuela and Iran, key oil exporters are also eager to find balance between oil prices that are fair to producers as well as consumers.

GOLD DEMAND AND PRICES

Gold prices have failed to gain traction despite geopolitical tensions in many parts of the world. Often considered a safe haven, especially in times of global political and economic concerns, the precious metal has been subdued over the past year.

Gold was trading at USD 1,299 per ounce by the end of May, just short of the psychologically important USD 1,300 mark. The metal has fallen 1.56% year to date amid a slowdown in demand.

"Gold demand of 973.5t was the lowest Q1 since 2008. The main cause was a fall in investment demand for gold bars and gold-backed ETFs, partly due to range-bound gold prices," according to the World Gold Council (WGC).

The gold trade group noted that exchange-traded funds saw a fifth consecutive quarter of inflows, especially in light of rising interest rates on the one hand and a sharp spike in stock market volatility on the other.

"Global jewellery demand was roughly flat at 487.7t. China was buoyed by holiday spending and the supportive economic backdrop improved US demand. By contrast, Indian consumers were discouraged by rising local gold prices," the WGC said.

However, central banks added 116.5 tonnes to their global official reserves in the first quarter, the highest total in four years.

Ma'aden, Saudi Arabia's largest mining company, also posted stellar results on the back of a 69% jump in gold production to 118,000 ounces during the first quarter.

"Ramp-up of our most recent mega-project, the Wa'ad Al Shamal Phosphate project, is progressing well and we are now looking forward to progressing our next phase of growth with our largest ever gold mine, the Mansourah-Massarah project," said Ma'aden president and CEO, Eng. Khalid Al Mudaifer.

US TARIFFS

Aluminium and steel prices have jumped after the United States imposed trade tariffs on a number of countries.

Washington announced it is imposing tariffs on steel and aluminium imported from the European Union, Canada, and Mexico. The EU said it would take immediate steps to retaliate, while Mexico vowed to impose duties on everything from US flat steel to cheese. Canada's government said it will impose tariffs on as much as USD 12.8 billion of US steel, aluminium and other products.

The US government has also launched a national security investigation into automobile imports. While American sanctions on Russia including Rusal, the world's largest aluminium producer, would also restrict supply and boost prices.

Tensions on the aluminium market continue, as China and Japan are still subject to the aluminium and steel tariffs introduced earlier this year and as the tariff exemption deadline for other countries is drawing near.

Fears of a serious aluminium deficit as a result of these sanctions caused aluminium prices to shoot up to a peak of USD 2,540 per metric tonne.

Meanwhile, other base metals are enjoying a rally after years of lacklustre growth.

Fitch Ratings has raised iron ore price forecast for the year after the metal enjoyed a strong start to the year, with the actual price averaging USD 74 per tonne for the first three months.

The trend of falling hot metal production from China will be a

constraining factor on prices over the medium to long term. The agency also expects the copper market to be roughly balanced to a small surplus over the next two years, but increasing deficits thereafter.

"The growth in electric vehicles – although remaining a relatively low percentage of overall copper demand – will be an important contributory factor," Fitch said.

The agency said nickel price revisions reflect its view that the market will stay in deficit until 2022, with decreasing stocks over the period.

As with copper, electric vehicle demand will be a factor. Fitch forecasts nickel demand from batteries to be around 221,000 tonnes in 2022, up from an estimated 106,000 tonnes in 2017.

"This growth will cause the battery sector's share of total nickel demand to rise to over 8%," Fitch said.

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