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IN THIS EDITION ...

The latest prognosis from the International Monetary Fund (IMF) and the World Bank all point in the same direction: the Saudi economy is trending higher.

The past few months have seen a conspicuous surge in contract agreements, memorandum of understandings and multi-billion-dollar deals as the kingdom prepares to write the next chapter of its growth story via the Vision 2030 programme.

The IMF expects the Saudi economy to stay the course, rising 1.7% in 2018 and 1.9% in 2019, amid recovering oil prices and economic reforms. While the GDP contracted in the fourth quarter of 2017, latest data from the Saudi Arabian Monetary Agency show bank credit to businesses surged in the first quarter of 2018. Cash withdrawals also jumped, quarter on quarter, underscoring rising economic activity.

Saudi Arabia's C-suite agrees and is bullish about the economic prospects, according to the latest survey by the Oxford Business Group, which found that around 70% of chief executive officers in the kingdom expect local business conditions in the next 12 months to improve. Of these, close to 18% were "very positive".

While virtually every sector of the Saudi economy is in the midst of a transformational drive, the power and utilities sector is among the leaders as the Ministry of Energy and the Saudi Electricity Corporation set up deals to boost capacity.

The landmark memorandum of understanding with Softbank Vision Fund to develop the New Solar Energy Plan 2030 is the kind of ambitious strategy that will move the needle for the Saudi economy and create international interest.

Saudi authorities are also mindful that these high profile deals will benefit the local economy by enabling small and medium enterprises, and creating sustainable, high-tech jobs. More developments will come as the Saudi government steps up its efforts to bolster national economic progress.

ECONOMIC TRENDS

Latest infrastructure and social reforms have been designed to make the country a more desirable place to live in for nationals and expatriates

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FINANCE

Authorities hope to nurture the country's nascent financial technology sector with new regulatory policies and fresh investment.

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OIL AND GAS

Despite the success of its output cut policy, the oil trade bloc is determined to keep global crude supplies in check so as to maintain balance in the market.

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POWER

The country's utilities sector will undergo a significant transformation as it uses clean energy to power homes and industries.

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SME

The government is pinning its hopes on small businesses to further bolster the country's non-oil sector and attract private investors

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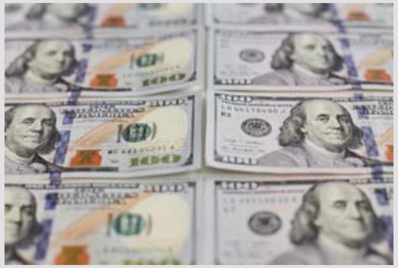

CURRENCY

Speculations that strong macro factors will eventually drive the Federal Reserve to raise rates have given the greenback fresh impetus.

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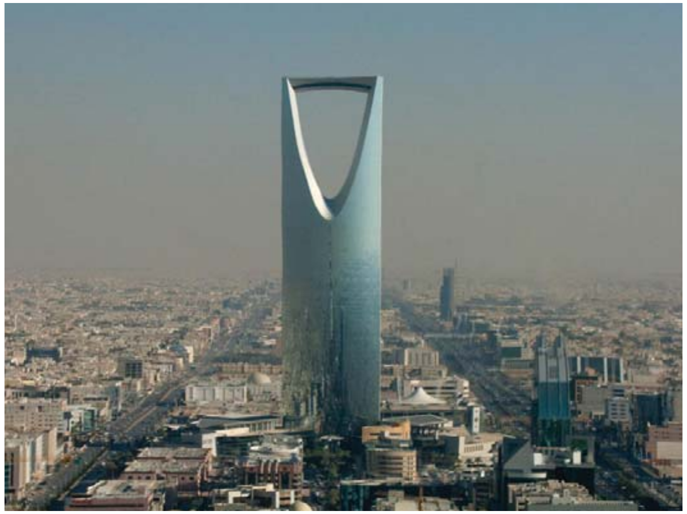
QUALITY OF LIFE PROGRAM TO ENGAGE SAUDI CITIZENS



The Council of Economic Affairs and Development recently introduced the Quality of Life Programme 2020, which focuses on making Saudi Arabia "a top living destination for both Saudi citizens and residents".

The programme is set to boost economic activity, as the government and the private sector build the infrastructure to support projects geared toward improving quality of life in the country. It is also expected to have a direct impact on various sectors including infrastructure and transportation, housing urban design and environment, healthcare, and education.

The government will directly invest SAR 50.9 billion in the programme, with the private sector contributing SAR 23.7 billion by 2020. The country-wide initiative aims to raise the quality of life in Saudi cities, leading to their inclusion in the list of 100 best cities in the world, and the upgrade of services and infrastructure.

"The programme seeks to improve the quality of life and provide attractive investment opportunities, and will require changes to the laws to support investment in the sectors related to the Quality of Life Programme 2020," according to the council.
The initiative will also promote sports activities in the community and achieve excellence in several sports worldwide. "It aims to diversify entertainment opportunities to meet the needs of the people, and to contribute to arts and culture," the council added.

BOOSTING CONSUMER SENTIMENT

Creating out-of-home entertainment will stimulate consumer spending and open up the Saudi economy.
To build the infrastructure for entertainment and cultural development, the government aims to launch a film sector in Saudi Arabia, with 45 cinemas, that are expected to see 3.6 million yearly visits throughout the country. The government is also envisioning the development of three theme parks, which will attract an additional 1 million visitors; as well as cultural sites, including the development of 16 theatres, art galleries and libraries.

Some of the key initiatives include:

- Increasing the participation in sports by mobilising the Saudi population to exercise on a weekly basis;
- Becoming regional leaders in Summer Olympic participation; Reaching accessible sports infrastructure offering levels of most liveable countries;
- Matching international engagement levels for culture and arts;
- Aspiring for city cultural and artistic activities to compare to the top 10 worldwide culture hubs;
- Making the kingdom a regional hub for culture and arts through infrastructure development;
- Reaching levels of population engagement in entertainment of most liveable countries;
- Providing entertainment offerings comparable to most liveable countries;
- Making the kingdom a global hub for entertainment by building pioneering venues;
- Maintaining expenditure levels on food and beverages; and becoming a global reference point for food and beverage with leading, high-quality offering.

The Quality of Life programme highlights the softer side of Saudi Arabia and will go a long way in encouraging Saudi citizens and expatriates to participate in the country's Vision 2030 agenda.

BUSINESS CONFIDENCE SPIKES

Saudi Arabia's first quarter fiscal report shows total revenue surged 15% to SAR 166.2 billion, compared to the same period in 2017, primarily led by non-oil revenues, according to the Ministry of Finance.

Value added tax, levy and taxes on tobacco and sugary drinks contributed to the increase in non-oil revenue, in addition to higher tax and zakat collections. Oil revenue edged up 2%, year on year, to reach SAR 114 billion in the first quarter of 2018, as oil prices jumped 16.5% during the period.

Government spending in the first three months of the year was also strong, rising 18% to SAR 200.6 billion, or around 20.5% of the SAR 978 billion total spending for 2018.

The International Monetary Fund (IMF) is supportive of the growth story unfolding in the kingdom. The fund expects economic activity to expand 1.7% this year, further rising to 1.9% in 2019, as economic reforms take root.

"The (economic) pickup is now anticipated to be faster in Saudi Arabia," the IMF said in its latest regional report.

According to Saudi Arabian Monetary Authority data, the country's GDP contracted 1.18% in the fourth quarter of 2017. But a low government debt ratio, relatively large financial buffers, and mobilisation of additional non-hydrocarbon revenues, combined with partial recovery in oil prices, should put fiscal positions on a more sustainable footing.

In addition to the fiscal reforms of the past three years, authorities are embarking on a drive to overhaul the Saudi economy, including updating laws, with the view to improve the business environment. The World Bank ranks Saudi 96th out of 190 countries in ease of doing business.

In February, the cabinet approved the bankruptcy law, which would make the kingdom more attractive to investors. This follows a decision by Saudi regulators in January to allow qualified foreign institutions to own up to 49% of listed securities, as the kingdom opens up its stock market.

To stimulate the private sector, improve productivity, and reduce the fiscal burden of supporting inefficient enterprises, authorities plan to privatise some state-owned enterprises and work on public-private partnership (PPP) programmes.

Implementation of Vision 2030 will help regain competitiveness by implementing deep structural reforms, including steps to build a new, more diverse growth model.

SAUDI ARABIA IS GEARING UP FOR A FINTECH BOOM

Fintech has arrived in Saudi Arabia. Financial technology innovation is sweeping across the global banking industry, presenting tremendous opportunities and challenges for the financial services industry.

In May, the Saudi Arabian Monetary Authority (SAMA) launched the FintechSaudi initiative to support the fintech ecosystem and position the kingdom as a fintech hub to nurture banks, investors, companies, colleges, and state institutions that support financial inclusion and digital transactions.

SAMA is leveraging this initiative to promote the development of small and medium enterprises (SMEs), help diversify the economy, and create jobs in line with Saudi Vision 2030.

Key objectives include launching the first version of the country's fintech system; educating individuals and inspiring them to develop their knowledge and skills in fintech; and supporting local banks, international fintech companies, and partners to establish diverse fintech activities.

"Although ATMs, credit cards, online banking services and cellular phones are all products that use fintech, today we are witnessing tangible progress in the fintech field," said Dr Ahmed bin Abdulkarim Alkholifey, governor of SAMA.

"This progress is driven by the growth in the use of big data and smart phones, the increase in demand for financial services that suit consumers' personal aspirations, and the appearance of new technical trends such as artificial intelligence and blockchain, which will lead to a major shift in the provision of fintech services."

FintechSaudi's partner banks include all major Saudi financial institutions, such as SABB, and a host of other partners including IBM, Microsoft Ernst & Young, Thomson Reuters, Deloitte, and local innovative institutes such as King Abdullah University of Science and Technology, Raed Ventures, Prince Sultan University, and Al Yamamah University.

Saudi Arabia is hoping to participate in the global fintech revolution that has generated billions of dollars in investments and created new opportunities for banks and technology companies. Management consultancy KPMG International estimates global fintech funding stood at over USD 31 billion last year, bringing the total global investment in the fintech sector over the past three years to USD 122 billion.

The move towards innovative sectors is vital as Saudi Arabia marches ahead to transform its economy and create new sectors.

In May, SAMA also sought the views of experts and stakeholders on the draft rules for licensing branches of foreign insurance and/or reinsurance companies, as it continues to attract financial service institutions.

"This step comes in line with the importance of insurance sector in strengthening the national economy and the economic development the kingdom is witnessing, under Vision 2030," SAMA said.

FINANCIAL INDICATORS

SAMA's foreign exchange reserves grew by USD 6.1 billion, month on month, to reach USD 493.4 billion in March, reversing a decline of almost USD 9 billion in the previous two months. The increase can be attributed to the rise in foreign securities and bank deposits during the month.

As economic activity picks up, the banking sector's loans rose by roughly half a percentage point, compared to the previous quarter, with notable increases in building and construction, commerce, agriculture and fishing, as well as mining and quarrying. However, loans posted a year-on-year decline of nearly 1%.

Consumer loans also edged lower by 0.65% during the first quarter of 2018 compared to the previous quarter, as consumers paused on spending. Private sector exports financed through commercial banks also contracted just over 5%, while private sector imports fell by 5.6% in the first three months of 2018.

Saudi banks continue to remain among the region's most fiscally sound institutions. Return on assets at the end of last year stood at 2%, which is higher than the 1.8% achieved in 2016. Return on equity rose to 12.9% in 2017, compared to 12.6% in 2016. Meanwhile, regulatory Tier 1 capital to risk-weighted assets stood at 18.3%.

"Stable profitability and moderate loan growth will reinforce banks' already strong capital adequacy," according to ratings agency Moody's Investors Service. The ratings agency said it expects an average tangible common equity (TCE) ratio of around 17.8% by the end of 2019, up from 16.8% in September 2017.

Moody's also expects Saudi banks to remain the most profitable in the GCC region, with strong margins as rising interest, moderately high credit growth, higher fee income, and low operating costs outweigh rising provisions.

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OPEC PUSHES AHEAD WITH OIL PRICE STABILITY GOALS

The International Energy Agency (IEA) may have called it "mission accomplished", but Saudi Arabia and its allies at the Organization of the Petroleum Exporting Countries (OPEC) know there is a long way to go before oil prices stabilise.

"With markets expected to tighten, it is possible that when we publish OECD stocks data in the next month or two, they will have reached or even fallen below the five-year average target," the IEA said in its latest monthly forecast.

"It is not for us to declare on behalf of the Vienna agreement countries that it is 'mission accomplished', but if our outlook is accurate, it certainly looks very much like it."

Even so, Saudi Arabia and its allies can pause to appreciate how far they have come from below USD 30 prices per barrel to USD 75. With global oil demand set to accelerate, the prospects of a price surge seem brighter.

OPEC's latest report noted that world oil demand growth in 2018 has been revised higher by 30,000 barrels per day (bpd), to 1.63 million bpd.

"This mainly reflects the positive momentum in the OECD in the 1Q18 on the back of better-than-expected data, and supported by development in industrial activities, colder-than-anticipated weather and strong mining activities in the OECD Americas and the OECD Asia Pacific," OPEC said in its report.

The United States' decision to withdraw from a multi-country deal with Iran over the Islamic republic's nuclear enrichment programme, which was struck in 2015, and its threat to slap strict economic sanctions on Tehran could also shake up the oil market and push prices even higher. Brent crude prices rose more than 2% to a 3.5-year high of USD 76.87 per barrel after Washington's move.

ARAMCO'S BUSY MONTHS

Saudi Aramco has been on an impressive run, signing off on major contracts and collaborating with domestic and major international partners to fulfil its mandate of becoming an energy industrial giant.

In late April, Saudi Aramco and Saudi Arabian Basic Industries Corp. (SABIC) announced the awarding of a crude oil-to-chemicals project management and front-end engineering and design (FEED) contract to KBR Inc, an American engineering, procurement, and construction company.

Aramco also signed a memorandum of understanding with Total ASA of France to build a giant petrochemical complex in Jubail. The complex will be integrated downstream of the SATORP refinery, a joint venture between Saudi Aramco (with a 62.5% stake) and Total (37.5%) in Jubail. The refinery will raise its capacity from 400,000 bpd at its start-up in 2014 to 440,000 bpd today.

The complex will also be home to a mixed-feed steam cracker (50% ethane and refinery off-gas) with a capacity of 1.5 million tonnes per year of ethylene and related high-added-value petrochemical units. It will represent an investment of around USD 5 billion, with the two partners looking to award the FEED contract in the third quarter of 2018.

"In total, USD 9 billion will be invested, creating 8,000 local direct and indirect jobs. The project will produce more than 2.7 million metric tonnes of high value chemicals," the companies said.

Also in April, Aramco signed an MoU with Ratnagiri Refinery and Petrochemicals Ltd., a consortium of Indian oil companies, including The Indian Oil Corporation Ltd. (IOCl), Bharat Petroleum Corporation Ltd. (BPCL), and Hindustan Petroleum Corporation Ltd. (HPCL).

The MoU seeks to jointly develop and build an integrated mega refinery and petrochemicals complex at Ratnagiri, in the Indian state of Maharashtra. Saudi Aramco said it may also seek to include a strategic partner to co-invest in the project. The refinery will have the capacity to process 1.2 million barrels of crude oil per day.

INVESTMENT POURS IN PETROCHEMICALS

Meanwhile, Motiva Enterprises LLC, a wholly-owned downstream oil and gas subsidiary of Aramco, signed MoUs valued at around USD 8 billion to USD 10 billion with US companies Honeywell UOP LLC and TechnipFMC Plc., in the presence of crown prince Mohammed bin Salman.

The agreement with TechnipFMC Plc aims to evaluate mixed-feed ethylene production technologies in the US, while the second MoU will allow Motiva to examine the use of UOP LLC's aromatics extraction and production technologies for benzene and paraxylene for development of a potential complex along the US Gulf Coast.

Given Aramco's global ambitions, the company also formed two joint ventures with Petroliam Nasional Berhad (Petronas), the national oil company of Malaysia, to develop the Refinery and Petrochemical Integrated Development (RAPID) project.

As part of the agreement, Aramco will supply 50% of the refinery's crude feedstock requirements with the option of increasing it to 70%. Meanwhile natural gas, power and other utilities will be supplied by Petronas and its affiliates.

Currently 87% completed, the RAPID project is on track for refinery start-up in the first quarter of 2019.

This string of developments is vital as Aramco expands its global footprint and transforms itself into an industrial giant.

THOMSON REUTERS™

SUN SHINES ON SAUDI'S RENEWABLE ENERGY GOALS

Saudi Arabia is aiming to establish itself as a major renewable energy player with the launch of an agreement with Softbank Vision Fund LP to develop the world's largest solar project of its type.

In March, the Public Investment Fund (PIF) signed a non-binding memorandum of understanding (MoU) with Softbank Vision Fund LP (SBVF) to create the New Solar Energy Plan 2030, following the launch of the concept in October 2017. PIF and SBVF said they intend to complete due diligence by the end of May 2018.

"The key components of the New Solar Energy Plan will be the establishment of an electricity generation company in Saudi Arabia," PIF said.

If the two parties decide to proceed, they will commission the first of two solar generation projects in the kingdom with 3 gigawatts (GW) and 4.2 GW of capacity, respectively, by 2019. By 2030, the plan envisions the parties to manufacture and develop solar panels in Saudi Arabia for solar power generation, with a capacity of between 150 GW and 200 GW.

The project could turn into a significant stimulant for the economy, as it commits the parties to explore the manufacturing and development of energy storage systems; the establishment of joint ventures for research and development; the production of solar panels with a capacity of 200 GW in the country; and the creation of an environment where the kingdom could emerge as a formidable exporter of power and solar panels globally.

PIF and SBVF also pledged to identify opportunities to develop solar and battery manufacturing facilities in Saudi Arabia. Crucially, the projects are expected to create as many as 100,000 direct and indirect jobs in the kingdom and contribute USD 40 billion to the GDP over the next decade, according to a company statement.

The renewable project is part of the overarching Saudi Vision 2030 programme, which aims to develop a number of non-oil sectors to spur economic growth. The project also aims to localise a significant portion of the renewable energy value chain in the Saudi economy, through research and development, and manufacturing.

SBVF is one of the world's largest private equity funds and counts PIF, Japan's SoftBank Group, UAE's Mubadala, Apple Inc, Foxconn, Qualcomm Inc. and Sharp Corp as its limited partners.

CLEAN ENERGY REVOLUTION

A number of other power projects are also under way in Saudi. In February, 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.

The seawater treatment and desalination plant will start with a capacity to produce 30,000 cubic metres (cbm) of drinking water per day, which is expandable to 60,000 cbm per day. The project also seeks to attract investors.

"This is vital to KAEC's water security and is consistent with the kingdom's Vision 2030 for sustainable conservation of natural resources, water and clean energy use," said Ahmed bin Ibrahim Linjawy, deputy chief executive officer at KAEC.

"The plant will also establish greater confidence between investors and the city, which continues to implement major projects to develop its infrastructure in all its different sectors, and will attract more investors to invest and gain a footing in KAEC, knowing their water needs for industrial and commercial use is sustainably secured."

The Arab Petroleum Investment Corporation (Apicorp) believes Saudi Arabia is leading the region in raising its power capacity by 2022.

"Estimated capacity stood at around 82 GW in 2017, with SEC representing around 60 GW, but we estimate that in order to meet rising demand, the country will need to invest around USD 21 billion, which will increase capacity to 92 GW," Apicorp noted.

Other major Saudi power projects include the 2.6 GW Shuqaiq plant and the 1.4 GW Waad al-Shamal plant. The Ministry of Energy also awarded the first large-scale solar project to be developed in Sakaka with a capacity of 300 megawatts (MW).

The SEC has been tapping domestic and international markets to finance its expansion plans, and signed a USD 1.75 billion international syndicated loan in August last year to help finance capital expenditure plans. In 2016, SEC also signed a USD 1.5 billion five-year financing from Industrial and Commercial Bank of China (ICBC), one of the largest loans ever extended by a Chinese bank in the GCC region.

NUCLEAR AMBITIONS

In April this year, a US Civil Nuclear Energy Task team visited Saudi Arabia to discuss the prospects of co-operation in "the use of nuclear energy for civil purposes", according to Saudi Press Agency.

The delegation included major US companies specialising in many nuclear-related sectors, senior officials of the Nuclear Energy Institute, and companies working in the atomic energy sector.

Reforms in the power sector come at a vital time for the Saudi power and utilities sector, which has seen rising electricity costs.

The Saudi Electricity Company said last December it was increasing domestic electricity tariffs from SAR 0.05 per kilowatt-hour (kWh) to SAR 0.18/kWh for residential consumption levels below 6,000kWh/month. Residential consumption levels above 6,000kWh/month remained at SAR 0.30/kWh.

ECONOMIC SPOTLIGHT SHINES ON SAUDI SMES

Small and medium enterprises (SMEs) are becoming vehicles of major opportunities in Saudi Arabia. With the focus on developing new Saudi corporations and developing an innovation economy, authorities are naturally looking at the thousands of existing SMEs but also nurturing a new wave of tech-savvy and nimble companies.

While the SME space has a long way to go, regionally Saudi digital start-ups have a head start. The kingdom was home to 38 start-up deals last year, taking the overall tech deals in the country to 148 over the past five years, according to the latest report by ArabNet.

Those 38 deals generated USD 38 million in 2017, a 375% jump over the previous year, which saw USD 8 million worth of deals signed off between start-ups and investors, ArabNet data shows.

"Saudi Arabia is attracting more venture dollars with a significant increase in the value of deals," said ArabNet, which tracks start-up investments across the Middle East and North Africa (MENA) region.

The kingdom is also home to a number of corporate investors eager to participate in the SME space, with 19% of regional corporate investors based out of the country, the ArabNet research noted. Only the UAE is home to more SME-focused corporate investors in the region.

START-UPS SECURE INVESTMENT

Last year, Saudi Arabia saw one of the region's biggest start-up deals when PayTabs secured 20 million in investment. Among the investors in the Series B round was Saudi Aramco's Wa'ed fund. The payment processing company said it plans to use the funds in building a presence in more than 20 markets over the next two years.

The investment will support PayTabs' expansion in the MENA region, Southeast Asia, India, and several countries within Africa and Europe. Additionally, PayTabs will invest in new product developments, such as digital payments to support their current and future customers. PayTabs will also engage in key strategic acquisitions to further expand its portfolio of products and services.

"Furthermore, PayTabs' investment will be a significant contributor to local economic growth while also helping to potentially create 4000+ direct and indirect opportunities globally within the next two years," the company said.

Apart from PayTabs, a number of other Saudi start-ups have also secured strong funding and are on an exponential growth path. These include: Uturn (USD 10 million in total funding), Telfaz11 (USD 9 million), Morni (USD 4.3 million), Dokkanafkar (USD 2 million), Saferoad (USD 1.86 million), Smart Control (USD 1.6 million) and Orderme (USD 1.5 million).

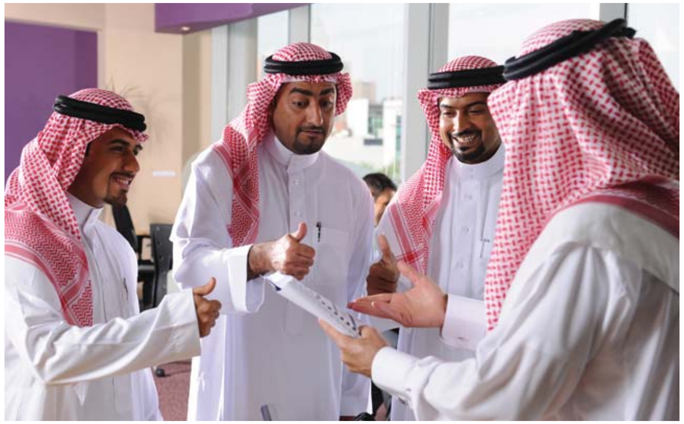
BIG FIRMS EXTEND HAND TO SMES

Saudi Aramco, the country's largest company, is keen to lift the prospects of smaller enterprises. Through its entrepreneurship centre, Wa'ed, Aramco has supported more than 100 SMEs.

The Wa'ed Centre has provided assistance to 13 industrial oil and gas projects, 14 healthcare projects, six education projects, around three projects in the entertainment and industrial services, three in the food processing field, and several others in the technology, energy and manufacturing sectors.

Aramco also recently signed a memorandum of understanding with Saudi Arabian General Investment Authority (Sagia) to support entrepreneurial projects and offer governmental services to Saudi and non-Saudi investors and entrepreneurs in the kingdom.

Apart from Aramco, Saudi Telecom's STC Ventures is also looking to find the next Saudi champion. Along with its partners, the fund has already invested in start-ups such as Careem, the transportation technology company, and aims to support the development of innovative technology companies in Saudi Arabia and the wider region. It is also funding globally minded international companies seeking capital and access to the region.



Major Saudi companies are also collaborating with educational institutes to support small businesses. SABB recently joined hands with King Abdullah University of Science and Technology (KAUST) to create the TAQADAM startup accelerator programme.

A panel of experts short-listed 30 initiatives for the TAQADAM program from 160 ideas across 13 universities, suggesting strong participation from across the country. Each team received financial support and access to expertise to hone their skills in various workshops over six months. The programme then selected six teams of entrepreneurs "as champions of the first version of the program," culminating with a grand prize, which led to additional funding, mentorship and advisory to turn the entrepreneurs' ideas into projects, according to a bank statement.

Bader Al Saloum, deputy general manager commercial banking and supervisor of the SABB SME Initiative, noted that TAQADAM is one of "SABB's major initiatives in support of the Kingdom's Vision 2030," and part of the bank's aspiration to support the development of the SME sector.

Other Saudi blue-chip companies are also looking to get involved, although some are taking a more indirect route.

Last October, the Public Investment Fund announced a SAR 4 billion Fund of Funds to boost the SME sector. Aligned with the Saudi Vision 2030 goal, the PIF will invest in venture capital and private equity funds targeting the SME sector. The fund aims to facilitate the growth of the private sector and raise its contribution to national GDP, create job opportunities, promote innovation, and increase exports.

"The Fund of Funds' vital role will be reflected in its contributions to national GDP, estimated to be around SAR 400 million by the end of 2020, and the provision of more than 2,600 jobs," PIF said. "Its contribution to GDP is expected to increase to SAR 8.6 billion by the end of 2027, creating around 58,000 jobs."

Saudi Arabia is already home to a number of private corporations that have built up over decades and are considered national champions able to compete with international and regional players. That experience is advantageous as these corporations look to nurture the next set of emerging companies required for Saudi Arabia to remain competitive in the global economy.

US DOLLAR KEEPS GROWTH MOMENTUM GOING

The US Federal Reserve decided to keep its powder dry in April, leaving interest rates unchanged at 1.5% to 1.75%, as it pursued a dual mandate of fostering price stability and maximum employment.

"The committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run," the Federal Open Market Committee (FOMC) said in a statement. "However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data."

But higher interest rates in the US would likely come as early as June, which would impact emerging market economies, according to analysts. Federal funds futures FFM8 FFN8 implied that traders saw a 100% chance the Fed will raise overnight costs for banks to borrow excess reserves from one another by a quarter point to 1.75-2.00% in June, according to Reuters.

"Fed funds futures FFU8 suggested traders priced in about a 71% of another quarter point hike in September," Reuters said.

In anticipation, the US Dollar Index, which measures the greenback against a basket of major currencies, is up 0.21% for the year, reversing a decline early this year and rising 3% over the past three months. Although the latest FOMC meeting gave the market reprieve, the dollar's trajectory is once again on the list of key concerns for investors.

"While emerging market assets have weathered higher US yields relatively well in recent months, higher yields plus a stronger dollar have now combined forces to create a much less welcoming environment," said the Institute of International Finance (IIF).

"Indeed, the recent resurgence in the dollar has wiped out year-to-date gains from carry trade strategies, with high-yielding currencies such as the Turkish lira, Argentine peso, Russian rouble and Brazilian real posting large losses in recent weeks."

The American greenback's new-found strength, if it continues, would pose a particular threat to local currency emerging markets, where investors have until recently been content with less compensation for taking on local currency risk. Indeed, with both consensus forecasts and futures markets still positioned for a softer dollar into 2019, further USD strength could upset quite a few apple carts.

ECB AND BoE TO MAINTAIN MONETARY EASING

Meanwhile, the European Central Bank (ECB) also left its policy measures intact and avoided any exit signals. Its latest statement suggested previous policy guidance on continuing bond purchases until the end of September "or beyond, if necessary" noting that it "sees a sustained adjustment in the path of inflation consistent with its inflation aim".

The ECB reiterated that it aims to reinvest maturing principal payments "for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary."

The euro fell close to its weakest level since January to USD 1.2058, not far from the USD 1.2055 it recorded in April, and is down by a third of a percent against the US dollar this year.

The Bank of England is also expected to maintain interest rates amid uncertainty over Brexit talks with the European Union, and slow growth prospects. The European Commission expects the UK's economy to lag behind the EU and the United States, rising 1.5% in 2018 and 1.2% in 2019.

"Business investment is forecast to remain weak while uncertainty persists, in addition net trade is expected to moderate," the EU said. "Although the labour market is expected to remain tight, inflation should ease as the impact of sterling's 2016 depreciation fades."

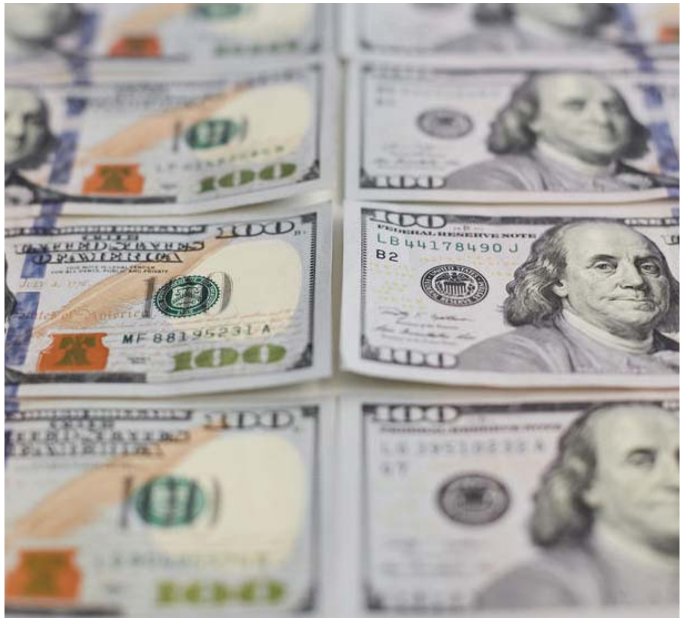
The pound is steadily giving up its gains against the US dollar by 0.14% year to date, and falling more than 4% over the past three months.

SAUDI BONDS

Saudi Arabia tapped the debt market once again to address its deficit, which has been shrinking.

The Ministry of Finance said it had issued a sixth domestic sukuk as part of its SAR-denominated Islamic bond programme. The issuance size was set at SAR 5 billion, in three tranches.

In addition, the ministry also said it had placed another international issuance as part of its Global Medium-Term Note Programme. The total amount of the third issuance was USD 11 billion consisting of three tranches of notes as follows: USD 4.5 billion seven-year notes maturing in 2025; USD 3 billion 12-year notes maturing in 2030; and USD 3.5 billion 31-year notes maturing in 2049.



"The issuance received significant interest from international investors, with the order book peaking at USD 52 billion," the ministry said.

While Saudi Arabia did not follow steps taken by the US Federal Reserve in hiking rates, it did raise its repo rate in March from 200 basis points (bps) to 225 bps and the reverse repo rate from 150 bps to 175 bps with immediate effect to ensure "monetary stability in the evolving domestic and international monetary conditions".

As such Saibor, a benchmark that prices Saudi loans, has been steadily rising against the global Libor benchmark to ensure monetary stability.

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