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IN THIS EDITION ...

Saudi Arabia and China are creating a trade corridor of their own, with a string of new initiatives and agreements, which are expected to take their trading and investment partnership to a new level.

Government officials from both countries signed more than 60 deals – with a combined value of USD 70 billion – in Jeddah in August. During his official visit to the kingdom, China's Vice Premier Zhang Gaoli, and Saudi Crown Prince Mohammed bin Salman bin Abdulaziz, who is also deputy premier and minister of defence, discussed aspects of joint co-operation between the two countries, particularly in areas of political, security, commercial, energy, investment, cultural and technical fields.

Saudi Arabia also signed a memorandum of understanding to develop desalination projects in the kingdom using high-temperature and gas-chilled reactors. The deal was signed by Saudi Company for Development and Technical Investment, and the Chinese nuclear engineering company Zu Bin, according to a statement by the Saudi Press Agency.

Saudi Arabia also sees China as a new funding source for various projects.

"One of our main objectives is to diversify the funding basis of Saudi Arabia," Mohammed al-Tuwaijri, vice minister of economy and planning, told a Saudi-Chinese conference in Jeddah. "We will do that through access to investors or bodies of liquidity in the markets. China is by far one of the top markets. We will also access other technical markets in terms of unique funding opportunities, private placements, panda bonds and others."

The groundwork of the renewed push to forge closer ties with China were laid by Saudi King Salman bin Abdulaziz Al Saud during his landmark trip to the country and other Asian nations, as the kingdom looks to cast its net wider for trade and investment.

Meanwhile, the Saudi economy is showing signs of improvement with strong stock market performance in August and an uptick in business sentiment.

Markit's latest purchasing managers' index (PMI) shows the non-oil private sector improving, with sharp expansions in new orders and output. Moreover, international demand for Saudi Arabian products and services picked up, as highlighted by a renewed increase in new export orders.

"Growth of staffing levels was sustained during August, as companies responded to greater capacity pressures by taking on extra staff," Markit said.

ECONOMIC TRENDS

Upbeat revenues track government's effort to diversify the economy, as the country faces up to a post-oil future.

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FINANCE

Saudi banks managed to increase operating income in tough economic environment, underscoring the central bank's prognosis that the banks remain resilient and strong.

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OIL AND GAS

Hurricane Harvey shuts down Houston refineries, but Saudi Arabia and OPEC stay positive as global oil demand will likely surge.

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TRANSPORTATION

The government has expressed its commitment to allow foreign private investors to operate existing airports or develop new facilities across the country.

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CURRENCY

Euro's performance versus the US dollar would influence ECB's decision to taper monetary stimulus, while the Fed is looking at another rate hike this year.

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COMMODITY

Industrial and precious metals were on solid footing in August, prompting a sigh of relief from investors after months of price slump.

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SAUDI'S FISCAL HEALTH SPURS CONFIDENCE

Saudi Arabia's fiscal performance continues to improve, as the government steers the country into a new economic direction.

The second quarter of 2017 saw the government's year-on-year revenues jumping 6% to SAR 163.9 billion, taking overall revenues for the first half to SAR 308 billion, a 29% jump over the previous year, according to latest data from the Ministry of Finance.

Mohammed Al-Jadaan, Saudi Arabia's minister of finance, said the update presents clear evidence of progress towards achieving fiscal balance by 2020, and shows progress towards goals set out in both the National Transformation Plan (NTP) and Vision 2030.

"Whilst economic challenges remain, we are confident in achieving our fiscal deficit projections for 2017, " the minister said in a statement.

Oil revenues jumped 28% in the first half to around SAR 101 billion, on the back of improved oil prices during the period.

Equally crucial, the government managed to further cut expenditure by 2% during the period to SAR 308 billion. Just around 46% of the budget expenditure in the first half was focused on social areas, such as education, health and social development and municipal services, underscoring the government's commitment to ensure key social services remain well-funded.

The deficit for the first half of 2017 was SAR 72.728 billion, or 51% of projected annual deficit. The International Monetary Fund (IMF) expects the fiscal deficit to narrow substantially in the coming years.

"It is expected to decline from 17.2% of GDP in 2016 to 9.3% of GDP in 2017 and to just under 1% of GDP by 2022," the IMF said. "The deficit is expected to continue to be financed by a combination of asset drawdowns and domestic and international borrowing."

Meanwhile, the current account balance is also expected to move into a small surplus in 2017 as oil export revenues increase and import growth and remittance outflows remain relatively subdued, the IMF noted.

The second half of the year should reflect the implementation of a number of revenue-raising measures, including excise duties on tobacco and soft drinks, and the payment of the expatriate dependents' fee, both of which came into effect in July, according to the Economist Intelligence Unit. The monthly dependents' fee was introduced at SAR 100 per dependent this year, but will rise to reach SAR 400 per month by 2020.

VAT ROLL OUT

To further boost government revenues, the country's Shura Council approved the draft value-added tax (VAT) law, the latest stage in the implementation of the new tax, which will be launched at the start of 2018.

The progress of the legislation puts Saudi Arabia ahead of most other Gulf countries, all of which are expected to introduce the new tax in co-ordination.

The Shura Council recommended that before the VAT comes into force and raise prices for consumers, the government should implement the citizens' account programme, a scheme to provide cash payments to lower-income Saudis.

The standard VAT rate is 5%. However, in accordance with the GCC VAT treaty and Article 10 of the KSA VAT law, certain goods and services will be subject to zero rate or will be exempted from the VAT. This will be determined in the KSA Draft VAT Implementing Regulations.

"Although many large businesses have initiated studies to determine the impact of VAT on their operations, there is still a large section of the business community waiting for the enactment of the law in order to commit financial budgets for VAT-readiness projects," according to management consultancy Ernst & Young.

NEW MEASURES

The kingdom's construction projects also continue to grow apace. Saudi Arabia was the only country in the GCC that saw construction projects accelerate – rising to USD 15.8 billion in the first six months of the year, a 12% jump over the same period last year.

The country is also hoping to attract more investments with a string of new initiatives. The government said it will allow foreign investors to secure 100% ownership in health and education sector.

"We are opening up education centres to have ownership 100 percent, all types of education even from primary school. This is something new for Saudi," Ibrahim Al-Omar, governor of the Saudi Arabian General Investment Authority (SAGIA), told Reuters.

The health ministry will "just be a regulator and not a service provider anymore," Al-Oman noted, which would open up USD 180 billion of investment opportunities in the healthcare sector over the next five years.

The government is also looking to raise investment in renewable energy and has issued a regulatory framework for electricity consumers to operate their own, small-scale solar power generating systems and export unused power to the national grid.

The Renewable Energy Project Development Office (REPDO) of the Kingdom of Saudi Arabia's Ministry of Energy, Industry and Mineral Resources recently released the request for proposals for its first utility-scale wind power project within the National Renewable Energy Program (NREP).

SAUDI BANKS REMAIN FISCALLY SOUND

Despite a few tough years, the Saudi financial services sector remains robust and remain well-capitalised, according to the latest prognosis by the banking regulator.

The Saudi Arabia Monetary Agency's Financial Stability Report highlights the underlying strengths of the sector and its ability to navigate through muted economic growth.

"Although the banking growth potential is correlated with the sluggish economic growth, the soundness of the sector remains intact," SAMA said in its report. Bank assets grew by only 2.1% during 2016, a marked decrease from the previous year's growth of 4% in the previous year.

The report states the banking sector remains robust despite a slowdown in economic activity, noting that despite the overall variation in the level of risk and asset quality among sectors, asset quality remains high and risk is contained.

"While there has been an increase in the Non-Performing Loan (NPL) Ratio for the majority of corporate sectors (except for agriculture, and others) the increase has been insignificant," the bank stated.

Furthermore, given the concentration of bank credit to commerce, and to a limited extent, construction, it follows that they have the highest NPL rates across all sectors. The concern is somewhat alleviated by the fact that total NPLs in the banking system have only marginally increased to 1.4 percent, which is remarkably low given the economic slowdown, the bank said.

In addition, the central bank's stress test results using three stress scenarios suggest that the banking sector remain well capitalized under large shocks. One of these scenarios included oil prices falling to USD 25 per barrel and recover modestly to USD 40 by 2019.

"Banks capital adequacy ratios are still comfortably above the Basel requirement of 8 percent and, more importantly, above SAMA's threshold of a 12 percent of a minimum CAR (capital adequacy ratios) requirement," the bank noted.

SAMA notes that as the economic climate continues to moderate, banks have been shifting to lower risk assets, which serves to contain any undue risk in their exposures.

"The soundness of the banking system grows ever more important as the country embarks on a long-term economic diversification strategy as envisioned by Vision 2030, and SAMA will continue to build on its overarching regulatory framework to ensure the stability and success of

the vision."

BANK CREDIT

The consolidated balance sheets of the banking sector rose 1.6% year-on-year and 1.1% quarter-on-quarter to SAR 2,293 billion, according to data gleaned from company results. Total loans accounted for 72.7% of total assets, whereas deposits formed 71.3% of total liabilities. The banking sector's balance sheet grew at a 10-year CAGR of 10.5%.

Bank profits at the end of 2016 fell to SAR 35.8 billion, a decline of 8.2% growth relative to the preceding year.

"Slowing growth in system wide loans proved to be a strain on profit opportunities, coupled with the increase in provision charges, and interest expense," Saudi Arabian Monetary Agency said in a report. "The split between the components of gross income remain relatively similar to the previous year, but with Net Interest Income increasing its share as other sources of income decreased."

Saudi Arabian Monetary Agency data shows bank credit to the economy stood at SAR 1,411,548 at the end of the second quarter, compared to SAR 1,435,839 in the same period in 2016, a decline of 1.7%.

Most of the sectors saw a dip in bank credit during the period, with lending to building and construction falling 9.53%, manufacturing and processing down 5.87%, and finance down 15.9%.

On the plus side, lending to agriculture and fishing edged 2.87% higher, electricity, water, gas and health services credit soared 14.9%, and transport and communications saw a 4.86% jump.

In a sign that the economy has slowed down, consumer loans during the second quarter remained subdued, compared to the same period last year.

Total loans dipped a fraction by 0.83% during the second quarter compared to last year, although credit card loans rose 3% during the corresponding quarter.

"Credit and deposit growth are weak and are only expected to recover gradually. Interbank interest rates, which spiked higher during 2016, have fallen, and liquidity in the banking system is at adequate levels. Non-performing loans (NPLs) increased slightly to 1.4 percent, but remain low," according to the International Monetary Fund.

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STRONG CHINESE OIL DEMAND LIFTS PROSPECTS FOR SAUDI AND OPEC

Saudi-China's oil trade reached another milestone when the Saudi Arabian Oil Co. (Aramco) shipped its first-ever cargo of Arabian crude to China National Offshore Oil Corporation's (CNOOC) flagship Huizhou refinery in South China.

The refinery recently undertook a 200,000-barrel-per-day (bpd) expansion that was configured to process sour Arab Gulf grades, and Aramco's Arab medium crude oil as a preferred choice for the plant's baseload.

"CNOOC is the last of China's three large national oil companies to join Saudi Aramco's customer family," Aramco said in a statement.

"The new crude sales agreement with CNOOC highlights that China is at the front and centre of our downstream strategy and that we continue to be China's most reliable supplier," said Nabil A. Al-Nuaim, president and CEO of Aramco Asia. "Aramco Asia will continue to support Chinese and other Asian refiners to have access to reliable Saudi crude."

Meanwhile, Dow Chemical, one of the world's largest petrochemical companies showed increased confidence in Saudi Arabia, as it announced a non-binding memorandum of understanding with Aramco to buy another 15% of the Sadara Chemical Company. Dow currently owns 35% of the company with Aramco holding the rest of the equity.

"Increasing our equity stake in this iconic joint venture is a powerful example of our strategic partnership with Saudi Aramco and is yet another accelerator in Dow's long-term growth strategy designed to capture growing consumer-led demand in our key end-markets of transportation, infrastructure, packaging, and consumer products in developing regions," Andrew Liveris, Dow's chairman and CEO, said in a statement.

HARVEY IMPACT AND OIL DEMAND

In a sign that the fundamentals of the oil market have changed dramatically, the storms in the US Gulf Coast did not lead to a strong surge in oil prices.

As storms shut down almost a quarter of the refineries around the Houston area, oil prices were primarily range-bound, and even fell. However, gasoline prices in the US jumped as high as 7%.

US Gulf of Mexico operators closed approximately 236,000 bpd of crude oil output, equal to around 13% of total Gulf of Mexico production. In addition, about 0.57 billion cubic feet per day of natural gas output was shut in, or about 18% of Gulf production.

The storms pushed oil prices to fall nearly 6% in August, erasing the 4% gain in July.

But the Organization of Petroleum Exporting Countries (OPEC) is expecting oil demand to rise in the latter half part of the year and in 2018.

"World oil demand growth in 2017 now stands at 1.37 million bpd following an upward revision of 100,000 bpd due to better-than-expected performance from the OECD region in the 2Q17, " OPEC said in its latest report.

Total oil demand is now pegged at 96.5 million bpd, this year. In 2018, world oil demand is projected to grow by 1.28 million bpd from 2017 levels, marginally higher from OPEC's previous estimate. This means that total oil consumption is anticipated to hit a new record high of 97.8 million bpd in 2018, thanks to growth in key economies of India and China.

"The overall outlook for the Chinese oil demand for 2017 and 2018 is positive with risks remaining skewed to the upside, mainly as a result of the projected economic growth in combination with a flourishing petrochemical industry and upside potentials in the country's transportation sector," OPEC said.

Demand outlook in the Middle East is also set to rise this year, as the economies shrug off sluggish growth, although some factors that may curb oil demand in the region in 2017 are domestic petroleum product retail prices, fuel substitution.

"For 2017, Middle East oil demand is forecast to grow by 110,000 bpd, while oil demand in 2018 is projected to increase by 100,000 bpd," OPEC estimates.

CRUDE OIL PRODUCTION

Meanwhile, OPEC producers' output rose to 32.86 million bpd in July, compared to 32.69 million in June, with Libyan production accounting for the biggest jump in production.

The North African country raised production by 154,000 bpd to just over 1 million bpd in July. Nigeria expanded its production by 34,300 to 1.74 million bpd, while Saudi Arabia also pumped 31,800 bpd more in the month to take its overall output to 10.06 million bpd.

OPEC's Joint Ministerial Monitoring Committee (JMCC) is also set to meet on 22 September to discuss the cuts orchestrated by OPEC and non-OPEC members until March 2018. While analysts don't expect any major moves at the meeting, the discussions would likely offer a clue on the group's thinking as it draws up plans for 2018 and whether it will extend the output cuts beyond March.

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AIRPORT PRIVATISATION PLANS IN SAUDI ARABIA HITS FRESH HIGH

Saudi Arabia's ambition to divest from its airports gained momentum after a senior government official announced plans to transfer ownership of all its airports to its main sovereign wealth fund, the Public Investment Fund, as part of a drive to privatise them, according to Reuters.

"The process of establishing companies will continue for all airports, and the civil aviation holding company in the future will be 100% owned by the Public Investment Fund," Mohammed al-Shetwey, aide to the president for financial affairs of the General Authority for Civil Aviation (GACA), told Reuters.

The head of GACA, Abdul Hakim Al-Tamimi, has also confirmed to Aleqtesadiah newspaper that all Saudi airports will be privatised this year.

Saudi Arabia is currently in the middle of a new wave of construction, expansion and renovation of a number of airports. The government is planning to leverage the country's unique strategic location and existing strengths to become a global transportation hub connecting the continents of Asia, Africa and Europe.

In April, Singapore-based Changi Airports International (CAI) Company won the license to operate Jeddah New King Abdulaziz International Airport, for 20 years. GACA also approved changing Dammam-based King Fahd International Airport into a stockholding company.

In June, the minister of transport and chairman of GACA, Sulaiman Al-Hamdan signed a number of contracts with local and international companies to develop five airports.

The contract to develop and operate the new Taif International Airport was signed with Asyad Holding Group, in collaboration with Consolidated Contractors Co. and Munich Airport.

Qassim's Prince Naif bin Abdul Aziz Airport, Hail International Airport and Yanbu's Prince Abdul Mohsin bin Abdul Aziz Airport were awarded to a consortium of Turkish TAV Airports Holding Co. and Al-Rajhi Holding Group.

INCREASING PRIVATE SECTOR PARTICIPATION

In a statement to the Saudi Press Agency, transportation minister Al-Hamdan said that the signing of these contracts comes within GACA's strategy of expanding the private sector's role in airport projects

and increasing investment opportunities to provide services of international standards to passengers. The contracts for the Taif, Qassim, Yanbu and Hail airports are on a build-operate-transfer scheme.

The aviation agency has been laying the groundwork of privatisation of airports with upgrades and restructuring. Based on the decision of the Council of Ministers that transformed the civil aviation into a public body, the commission has developed comprehensive strategic plans to achieve a self-sustaining and progressive self-financing system, with total dependence on its revenues and investments.

According to GACA's 2017 annual report, the board approved last year the implementation of the Prince Nayef Bin Abdul Aziz Airport development project in Qassim and Airport Hail, and transferred the assets of Riyadh Airport and its employees and obligations to Riyadh Airports Company.

It also established the responsibilities and powers between the GACA and the Saudi Civil Aviation Holding.

AVIATION SECTOR SOARS

The transformative changes come at a time of rapid growth in passenger traffic. GACA's annual report shows the number of passengers at the kingdom's airports last year grew 4.2% over 2015, with 85.3 million passengers passing through. The number of flights at Saudi airports reached 708,819 in 2016, an increase of 6.9%.

Since 2000, air traffic has grown substantially, especially with an increase of international and domestic flights. During the past 15 years, air traffic has grown 7.3% per year and 12.3% in the past five years alone.

The domestic and international passenger travel in Saudi Arabia is increasing by 10% compounded annual growth rate in the last six years with total travel expected to surpass 140 million by 2022, according to estimates by Report Buyer, a global research house.

Meanwhile, Saudia's low-cost carrier Flyadeal is set to start operations on September 23 – the Kingdom's National Day.

"The launch of flyadeal is essential to contributing to the continued growth in air travel in Saudi Arabia and beyond," Saleh bin Nasser Al-Jasser, director general of Saudi Arabian Airlines Corp.

"Saudi Arabia and the region at large, has a very young and digitally savvy population, who has an increasing thirst for low-fare travel domestically and across the region. Flyadeal plans to serve and grow this significant segment of air travel," said the new budget airline's CEO, Con Korfiatis.

The low-cost airline will help serve the wider market, and support links to smaller cities.

"The regional market has been severely underserved in the past, with limited frequency and capacity because of poor facilities and the lack of incentive to operate these 'thin', low-yielding routes," according to ICF, a global consulting and technology services provider.

END TO QUANTITATIVE EASING AT CENTRAL BANKS' PRIORITY LIST

The European Central Bank (ECB) appears close to a decision to unwind its loose monetary policy, but remains concerned about the euro's strength.

ECB president Mario Draghi confirmed that "the bulk" of the decision on quantitative easing post-December would likely come on 26 October. He made it clear that the euro exchange rate would play an important role in the decision on the future monetary policy stance, but he declined to comment on specific FX levels.

The euro has posted year-to-date gains of 14.3% against the US dollar to reach 1.2033. But Draghi's pronouncement "leaves markets guessing at what point the ECB considers the strong euro becomes a genuine headwind for growth," according to BNP Paribas.

"The new ECB staff projections on the other hand show that an exogenous shock, which would move the EUR-USD to 1.31 in 2019 would, compared to the base scenario of an unchanged exchange rate, have a negative growth impact of 0.3% next year and the year after, and lower inflation with respectively 0.4% and 0.5%," the international bank wrote in its weekly note published on 8 September.

The ECB has raised its 2017 growth forecast to 2.2% (from 1.9%), but kept its projection for 2018 and 2019 unchanged at 1.8% and 1.7%, respectively. The inflation forecast was cut by less than anticipated to 1.2% for 2018 and 1.5% for 2019.

Draghi reiterated that a very substantial degree of monetary policy accommodation remained warranted and he stressed – perhaps more clearly than before – that interest rates would go up only well after the end of the quantitative easing programme, which some analysts believe will be in 2019 at the earliest.

The Eurozone economy has been booming, with growth averaging at about 2.3% over the last three quarters, roughly double the estimate trend pace of growth. Job growth has been strong, and the breadth of the recovery across nations and industries has been impressive. This is largely why the ECB is contemplating the removal of some monetary accommodation, which is likely to start with a steady reduction in asset purchases next year.

FED RATE HIKE

In the US, the Federal Reserve is expected to raise interest rates at least once this year, even as it contemplates the impact of the hurricane season on the Gulf Coast, which could rein in economic growth.

According to the Fed's "Beige Book", published eight times a year and which typically offer clues on the economy, businesses were generally optimistic, with transitory complications as a result of Hurricane Harvey noted as being substantial roadblocks during the quarter for those located along the Gulf Coast. Importantly, the manufacturing and construction sectors appear to be gaining momentum alongside the consumer segment, with investment likely to follow.

The upbeat tone of the Beige Book indicates that economic growth has gained momentum halfway through the third quarter. Although Hurricane Harvey is expected to shave off around 0.4 percentage points off growth in the third quarter, according to CIBC Capital Markets, a rebound in the fourth quarter is expected to leave the second half of the year largely unchanged on balance.

The US dollar index has lost nearly 10% this year against a basket of currencies, and there might be more weakness if the Federal Reserve holds off on interest rate increases.

While the economy remains strong, much of the economic reforms including healthcare changes, tax cuts and infrastructure spending has not materialised to date.

BREXIT WOES AND GEOPOLITICAL RISKS

In the UK, the Bank of England (BoE) is holding fire before the British government carries on further discussions with the European Union on Brexit. The British pound has gained nearly 7% against the US dollar this year.

However, the pound has fallen dramatically against the euro after a surprise decline in inflation rate. The lower inflation figures will embolden BoE to take a more cautious stance on tightening monetary policy and reduce the chance of an early interest rate hike. The sterling has fallen just over 7% against the euro to 1.097 over the past year.

In Japan, GDP growth for the second quarter was revised sharply lower from 4% initially to 2.5%, with business spending reassessed in the wake of a soft capex report. Despite the subdued figures, the yen remains sharply up against the USD, rising nearly 8%, year to date. However, geopolitical tensions with North Korea will likely cap any gains for the rest of the year, unless the tensions with its neighbour across the sea subside.

The Chinese currency yuan (CNY) has also risen 6.7% against the US dollar, year to date, but analysts believe the currency surge may not last.

While there are enough domestic drivers of CNY, "we note upside risks to dollar emanating on three fronts: a) very dovish Fed, b) likelihood of ECB indirectly expressing some discomfort with EUR strength, and c) large geopolitical risk premium priced in the Japanese yen," said UBS analysts.

COMMODITIES REBOUND ON WEAK DOLLAR AND GEOPOLITICAL RISKS

After faring poorly in the first few months of 2017, commodities suddenly came back to life in August. Metal and mineral prices surged 8.2% during the month, while precious metals also powered ahead, gaining 4%.

Early this year, commodity prices were stagnant despite the global economy showing signs of improvement. But the tide has turned for the commodity complex in recent months with the price of industrial metals rebounding.

The London Metal Exchange (LME) index of industrial metal prices jumped by more than 15% since mid-June, reaching a peak not seen since September 2014.

“This increase was supported by widespread gains in metals prices. With the global economic expansion getting stronger and advanced economies reporting impressive growth in the second quarter, investor sentiment towards industrial metals has suddenly become much more bullish,” according to financial association DesJardins Group.

The recent upswing seems to also have been fuelled by the rising interest of speculators, which could keep high volatility in prices in the short term. Encouraging signs on Chinese demand, promising investment outlooks in several countries, and a decline in inventories recorded by the LME for several base metals offer more solid support for the recent price hikes, DesJardins Group said.

FALLING US DOLLAR

S&P Dow Jones Indices noted that August 2017 was the first August on record that all metals posted gains. It was also the first month every metal gained since September 2016. As a result, the S&P GSCI All Metals Total Return increased by 7.3% in August, posting its best August since 1995. Year to date, the all metals index is up 19% and is on pace to have its best year since 2009, as well as its third best year on record.

“Since commodities are priced in US dollars and industrial metals is one of the most economically sensitive sectors, it moves oppositely from the falling dollar, rising on average 2.3% for every 1% the dollar drops,” S&P said. “The dollar fell 9.3%, year to date, through August, so if the sector is moving as it has historically, its sensitivity to the falling dollar accounts for most of 2017’s gain. Lead and copper are most sensitive to the dollar’s drop, rising on average 6.2%, and 3.5%, respectively, for every 1% the dollar falls.”

Aluminium has advanced 46.6% from its bottom in November 2015, and is now trading at a four-year high after rising 10.6% in August alone. Copper expanded by a hefty 56.4% from its bottom and hit a three-year high price of USD 3.08 per pound. Nickel, another industrial metal star performer, also stayed firm as it recorded more than a two-year high and a 15.5% surge in August alone. Zinc soared 12.7% during the month and is at a 10-year high.

GOLD KEEPS ITS LUSTER

Precious metal, especially gold, has also been buoyed by a declining US dollar and geopolitical tensions, particularly surrounding North Korea.

Gold prices stood at USD 1,345.10 per ounce, and may be further boosted as central bankers remain ambiguous about the future direction of interest rates.

“For instance, the probability inferred by bond prices now suggests that the next US rate hike is likely to occur in June 2018 (when the probability first exceeds 50%) compared to March 2018,” according to Metals Focus, which tracks commodities.

The yellow metal then received another boost from growing geopolitical tensions over North Korea’s intercontinental ballistic missile tests, which rekindled safe haven demand. However, it is worth remembering that premiums brought about by geopolitical risks tend to unwind quickly.

Capital Economics has revised its end-2017 forecast to USD 1,200 per ounce to reflect heightened global risks, but noted that the gold could pull back because of three reasons.

“First, we think that markets are underestimating the scale of Fed tightening. Second, the unwinding of QE in the US could be negative for gold. Third, the gold market might be overreacting to geopolitical risks. Indeed, bond market volatility has been declining over the past few months and is now well below the 80 level, which generally signals extreme complacency,” Capital Economics said.

Other indicators also don’t point to a huge upswing in gold prices. According to the World Gold Council (WGC), exchange-traded funds saw a dramatic slowdown in holdings. In addition, jewellery demand strengthened from a weak 2016, but fell short of the long-term average.

“Central banks continued to buy, but at a more modest pace than in recent years,” the WGC said.

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