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IN THIS EDITION ...

There is renewed economic optimism in Saudi Arabia, thanks to a stimulus package and a growth-oriented budget for 2018.

The kingdom's bold strategy to reduce oil output, along with its counterparts in the Organisation of the Petroleum Exporting Countries (OPEC) and a number of allies, is already bearing fruit, with Brent crude prices crossing the USD 60-per-barrel mark. Although oil markets remain vulnerable, the move has put a floor in oil prices, and given commodity exporters some semblance of stability.

In addition, internal economic reforms in Saudi are moving to a higher gear. Budget 2018 contains a number of investment projects, such as a 13.8% increase in government capital expenditure.

"This increase in government expenditure aims to implement current reforms as well as future economic reforms that focus on encouraging investment, raising investors' confidence, privatisation, stimulating directed capital spending on vital projects based on economic contribution, developing new sectors, boosting productivity, and other initiatives aimed at achieving the Saudi Vision 2030," according to the budget statement unveiled by the Ministry of Finance.

The initiative provides a favourable base effect for real growth in 2018, which will be supported largely by non-oil activity, such as in services and manufacturing. Private consumption should also pick after the government restored some of the public sector worker benefits that were shelved in 2016 and early 2017.

Other sectors expected to benefit from the budget include healthcare, which has already seen a number of high profile international companies swooping in to pick up strategic assets. This will only accelerate as the government's heavy allocation to the sector rolls out and global players see the prospects ahead.

Finally, the value added tax (VAT) unveiled at the start of 2018 is a critical piece of the non-oil revenue puzzle, which the government aims to channel to provide job-creating investments and capital developments.

All in, while 2017 was the year of transition, 2018 could prove to be a year that puts a spotlight on the economy's transformation.

ECONOMIC TRENDS

After implementing cost-saving targets and embarking on a long-term economic transformation plan, the kingdom is hoping to stay on steady ground.

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HEALTHCARE

Financial allocation to the sector continues to increase, as the Saudi government aims to provide quality services to its people.

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OIL AND GAS

Crude exporters are heaving a sigh of relief, as the oil output freeze helps to propel prices following years of lacklustre levels.

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2018 BUDGET

Non-oil sector and private sector partnership are seen playing a major role in propping up national economy in the foreseeable future.

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CURRENCY

As rival currencies outperform the greenback, global central banks are also eyeing higher interest rates, putting an end to low-cost borrowing.

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COMMODITIES

Industrial and precious metals are basking on their newfound glory with upbeat outlook, leaving their gloomy days behind.

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UPBEAT MOOD DRIVES SAUDI PROSPECTS FOR 2018

The Ministry of Economy and Planning (MEP) said Saudi's GDP for 2017 is anticipated to fall 0.5%, but will be lifted around 2.7% annually for the next three years, as fiscal reforms start to bear fruit.

Although the kingdom's economy is seen contracting in 2017, its macro fundamentals remain on solid footing, even after nearly three years of fiscal austerity and a transformational reform programme.

Non-oil GDP is projected to inch up by 1.5%1 in 2017 (compared to actual growth rate of 0.6% in the first half of 2017), driven by the growth in some sectors of the economy, such as manufacturing and services, and despite lower expansion in sectors like building and construction.

To a great degree, 2017 has been a year of transition for the Saudi economy, as the government looked past short-term pain to focus on long-term gains. This was evident as actual total government expenditures last year exceeded the budget by 4% to SAR 926 billion, or 36% of GDP and around 11.6% higher versus 2016.

MEP has attributed the increase in spending to new programmes and payments to private sector contractors, apart from the retroactive payment of allowances to the public sector.

HIGHER GOVERNMENT SPENDING

An increase in spending for the expansion of Al-Masjid an-Nabawī (Prophet's Mosque), also added to the costs, while social benefits surged 20.4%, as the government helped ease a decrease in subsidies and new levies on its citizens.

Capital expenditure rose by nearly 3.6% despite the decline in spending on the use of goods and services by 11.7% from the budget estimates.

The government also exceeded expenditure in the education sector (14% higher), public administration (up 13%), health and social development (up 11%), military spending (up 17%), and security and regional administration (up 14%).

At the same time, revenues climbed during the year, the ministry's forecast shows, buoyed by the government's unveiling of higher visa and municipality fees, expat levies, and excise tax on products such as tobacco, soft drinks and energy drinks.

"Total revenue is expected to increase by 34% to SAR 696 billion in 2017 compared with the previous year," the ministry said. "The increase is due to higher oil prices, which contributed to an increase of 32% in oil revenues and the implementation of many reforms, which contributed to an increase of 38% in non-oil revenues. Total revenue is expected to be 1% higher than budget estimates."

ECONOMY GAINS MOMENTUM

As reforms take hold, a number of economic indicators showed improvement in the third quarter of 2017, especially in private consumption. Point-of-sales (POS) transactions, for example, recorded a year-on-year increase of 9.8% in the third quarter of the year, from an average of 5.7% in the first half of 2017.

"On the other hand, ATM withdrawals recorded a YOY fall of 2.2% in the third quarter compared to an average decline of 5.6% in the first half of the year," according to Saudi Arabian Monetary Authority (SAMA) data.

The Ministry of Finance, in a statement marking the release of the 2018 budget, noted that "corporate profits improved during the third quarter YOY in some sectors, such as petrochemicals and banking".

The latest purchasing managers' index (PMI), tallied by Markit, also showed that economic sentiment among the private sector held up, ending 2017 on a positive note. The Markit data for December noted "a sharp improvement" in business conditions.

"Despite the rate of expansion softening fractionally in the latest survey, the pace of growth remained above the average registered throughout the year," Markit said. "Strong increases in both output and new orders contributed to the upturn. On the price front, input cost inflation accelerated to a 16-month high."

STIMULUS PACKAGE

Apart from a growth-oriented budget for 2018, which focuses on accelerating economic activity and reining in fiscal deficit, the Saudi government also unveiled an economic stimulus programme for the new year.

In mid-December, the Ministry of Commerce and Investment said it is launching a stimulus plan featuring 17 initiatives valued at SAR 200 billion "over the upcoming four years, aiming at enhancing the competitiveness of a number of national sectors of the economy and providing employment opportunities for Saudi male and female youth."

Some of the measures include a SAR 21.3 billion allocation for residential housing loans; a SAR 10 billion fund to support economic projects; and SAR 1.5 billion to support distressed companies. A separate SAR 2.8 billion budget will also be launched to fund small and medium enterprises (SMEs), while the government adjusts the fees it charges for services to save SMEs SAR 7 billion.

A number of supportive initiatives will be launched by the end of the first quarter of 2018, according to the Minister of Commerce and Investment.

NEW SAUDI BUDGET GIVES HEALTHCARE A BOOST

The Saudi healthcare sector has received another shot in the arm with an 11% increase in allocation in the latest budget unveiled by the government.

A total of SAR 147 billion has been set aside for healthcare and social development in the 2018 budget, from SAR 133 billion in 2017, as the government prioritises providing accessible and quality healthcare services to Saudis. Healthcare received the third-highest allocation, next only to military and education.

This year's budget, announced by the Ministry of Finance, will ensure the completion of construction of hospitals and primary healthcare centres across the country. According to the statement, 36 new hospitals with a total capacity of 8,950 beds and two medical cities with a total capacity of 2,350 beds are currently under development in the country.

"During the current fiscal year, a new hospital with a capacity of 100 beds was delivered. The number of hospitals handed over during 2016-2018 will stand at 25 hospitals or 58% of the total planned number for the five years (2016-2020) with a total capacity of 5,150 beds or 52% of the total planned number for the aforementioned period (2016-2020)," the ministry outlined in its 2018 budget statement.

The budget statement also noted that SAR 33 billion of the budget is focused on the Saudi Vision 2030 programme, to fulfil key strategic objectives such as raising the contribution of private sector spending in the healthcare sector from 25% to 35% by 2020.

As part of the initiative, the Saudi Arabian General Investment Authority (SAGIA) said last year it would open up healthcare companies to 100% foreign ownership.

PRIVATE SECTOR PROSPECTS

Given Saudi Arabia's profile as a strong emerging economy with a major push to expand and raise healthcare facilities, international and regional private sector companies are looking to position themselves to capture growing opportunities.

"The Saudi vision represents a structural shift in the Saudi healthcare sector, creating major new opportunities for private sector development," said Eng. Ibrahim Albuloushi, country head of KSA at Jones Lang LaSalle.

Indeed, the Saudi healthcare market is expected to expand to USD 27.4 billion by 2020, as population grows at an annual rate of 2.55% to reach 35.4 million.

SAGIA noted there are major investment opportunities available worth USD 42 billion by 2019.

"Currently, however, 65% of the total healthcare expenditure is spent on importing goods. This creates a significant opportunity for private companies to invest in the localisation of the healthcare system for up to USD 27 billion by manufacturing medical products and pharmaceuticals, and service provisioning," said SAGIA.

"To catalyse this localisation process, the government will commit partial annual purchasing volumes for medical products and some pharmaceuticals and will expand the service provisioning by growing the system infrastructure (e.g., number of beds from 40,000 to 73,000)."

GLOBAL INVESTORS ON THE LOOKOUT

Foreign investors are paying heed. In January 2018, France's Air Liquide Co., which services more than 15,000 hospitals worldwide, said it is acquiring the respiratory division of Thimar Al Jazirah Company (TAC) to mark its entry in the kingdom's home healthcare market.

TAC is a key player in Saudi Arabia's pharmaceutical, medical and dental industries and specialises in the distribution of respiratory equipment and sleep disorder diagnostic services for patients suffering from respiratory conditions, such as sleep apnoea, ventilation, and chronic respiratory failure.

"TAC is the main player in this field in Saudi Arabia, serving over 1,400 patients at home throughout the country. The Home Healthcare division of TAC generated a revenue of over EUR 5.5 million in 2016," Air Liquide said.

Meanwhile, UAE-based NMC Health Plc said it has acquired the outstanding minority stakes in As Salama Hospital for USD 45 million. The company also completed the purchase of a 60% stake in Al Qadhi Hospital in Najran and a 100% stake in Al Rashid Hospital in Ha'il, for an aggregate consideration of USD 40 million, the company announced in September 2017.

And in an effort to digitise service offerings to Saudi citizens, the Ministry of Health (MOH) recently launched an e-health app to facilitate access to visual medical consultations on smartphones.

"In so doing, MOH seeks to employ cutting-edge technologies to enhance effective communication with service beneficiaries, and to provide them with the needed specialised medical consultations," the ministry said.

The first stage of the new app will cover the Northern Borders, Asir, Tabuk, Jazan, Najran and Al-Jouf Health Affairs. The service is designed to enable audio-video communication, while connecting patients directly to a healthcare specialist, the ministry said.

GLOBAL OIL MARKETS BASK IN THREE-YEAR HIGH

Oil markets have surged ahead to their highest level in three years, as Saudi Arabia and its allies moved strategically over the past year to drain excess inventories by curbing supply.

The US WTI hit USD 62.80 per barrel in early January, its highest level since December 2014, while Brent crude prices stood at USD 68.74 a barrel, its best performance since May 2015, according to Reuters data.

With the rebalancing of oil market well and truly underway, the end of the brutal oil cycle is finally in sight, Mohammad Sanusi Barkindo, OPEC secretary general, told delegates at a conference in Beijing in December. However, he warned that "sustainable oil market stability is crucial to attract the level of investment necessary for future demand growth".

The International Energy Agency (IEA) noted that production from OPEC's 14 members was down 1.3 million barrels per day (mbpd) from a year ago, when Middle East producers pumped at record levels. The largest year-on-year (y-o-y) declines were posted by Saudi Arabia (670,000 bpd), Venezuela (280,000 bpd), the UAE (250,000) and Iraq (230,000 bpd). Libyan output was up 390,000 bpd year on year, while Nigerian flows were up 110,000 bpd.

"As for the market balances, the call on OPEC crude drops to 32.9 mbpd in 4Q17, but is more than 500 kb/d above November output – suggesting a continued draw down in inventories. However, the requirement falls further in the first quarter of 2018 – to 32.2 mbpd. The average call on OPEC for 2018 is 32.5 mbpd, roughly 100,000 bpd above average production in 2017 of around 32.4 mbpd."

SHALE MAKES A COMEBACK

But the higher prices are also bringing back shale producers from the United States.

The US Department of Energy's unit, the Energy Information Administration, said the country's crude oil production averaged an estimated 9.3 million bpd in 2017 and is set to soar.

"US crude oil production is forecast to average 10.3 [mbpd] in 2018, which would mark the highest annual average production in US history, surpassing the previous record of 9.6 [mbpd] set in 1970," the EIA said. The agency also forecasts production to increase to an average of 10.8 mbpd in 2019 and to surpass 11 mbpd in November 2019.

On the demand side, the OPEC secretary general said there are further positive signs for the global oil market, as OPEC predicts global oil demand growth to rise, with the 2017 forecast having been revised up by nearly 400,000 bpd since the beginning of the year to now stand at 1.53 mbpd.

"For 2018, the encouraging dynamic is set to continue with a forecast of 1.51 mbpd," he said.

The IEA, which has a near identical global demand forecast for 2018, believes China's oil demand will rise 385,000 bpd in 2018, to 12.83 mbpd, while Indian consumption will accelerate by 320,000 bpd to just under 5 mbpd.

ARAMCO'S INDUSTRIAL EXPANSION

In December, Saudi Aramco awarded AZMEEL Contracting Company a contract to build three temporary construction facilities as part of the company's gas compression programme in Haradh and Hawiyah.

The company also awarded US oilfield services giant Schlumberger two lump sum contracts to provide drilling rigs and services for up to 146 gas wells and up to 128 oil wells over the next three years.

Aramco is expanding its industrial base with agreements to build two new projects at Ras Al-Khair Industrial City.

The first project will be a manufacturing facility for onshore drilling rigs and related equipment on an area of 500,000 square metres (sqm). The second project will develop a casting and forging facility over an area of 300,000 sqm. The new casting and forging facility will serve the maritime industry and the manufacturing of equipment related to the oil and gas supply chain, the company said.

Aramco added that agreements with a combined value of USD 4.5 billion have been signed in recent months with several service contractors for oil and gas megaprojects designed to enhance the company's energy sustainability, diversify the Saudi economy, expand gas production, and localise domestic content.

At the iktva SMEs Forum & Exhibition in Dhahran, Saudi Aramco CEO Amin Naseer said the company has already identified 140 SME development opportunities across 10 industrial segments, worth around SAR 60 billion, as part of a SAR 1 trillion investment strategy.

"These opportunities include growth within the chemicals conversion parks at Sadara on the Arabian Gulf and PetroRabigh on the Red Sea coast," the CEO said, noting that it would create more than 40,000 new jobs, and potentially add around SAR 30 billion to the kingdom's annual GDP.

"Most of all, we want 70% of those SAR 1 trillion I mentioned earlier to be spent locally," Naseer pointed out.

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2018 BUDGET TO KICK-START ECONOMIC GROWTH

The latest Saudi budget has been crafted to accelerate economic growth, while adhering to the Vision 2030 programme set out by the government over the past year.

The economic stimulus and reform drive should boost the economy with growth rates of 2.7% each in 2018 and 2019, and 2.8% in 2020, according to the ministry's forecast. The government also expects non-oil GDP to be a key driver, with growth rates exceeding 3% in each of the next three years.

Authorities have outlined several measures that could invigorate economic performance in 2018:

(1) launching a package of measures to stimulate investments;
(2) paying arrears to the private sector within 60 days from the receipt of fully completed orders by the ministry;
(3) promoting investment through facilitating procedures;
(4) improving government services;
(5) launching projects in construction, tourism, culture and entertainment sectors;
(6) initiating privatisation programmes to create new opportunities for private sector investments and employment generation; and
(7) developing a framework for public-private partnerships (PPP).

The slew of measures should boost economic growth and spur investor confidence in the private sector.

BUDGET DEFICIT

The 2018 budget, announced on December 19, has set planned expenditures at SAR 978 billion, around 5.6% higher than what was allotted for in 2017.

As in previous years, the education sector remained a key priority, receiving SAR 192 billion. The amount, however, is a 15.8% drop from last year.

Military expenditure secured the biggest allocation at SAR 210 billion, which is 6.3% less than what was set aside in 2017. The third highest allocation was for health and social development, which was granted SAR 147 billion, a 10.5% jump from the previous year.

Spending on infrastructure and transportation will increase by 86% following declines in 2015 and 2016. The budget includes apportionments for a SAR 21 billion programme to expand roads, ports, railways, airports, housing, communications and information technology, postal services, as well as the industrial cities of Jubail and Yanbu, Ras Al-Khair Industrial Mining, and Jazan City for primary and downstream industries.

But the biggest increase in allocation is economic and resource programmes, which will secure SAR 105 billion this year, a 169.2% increase over 2017, as the government pushes ahead with plans to implement a series of programmes related to Saudi Vision 2030.

According to the Ministry of Finance, the projects include sanitation services provision, dam construction, wells drilling, power and utility upgrade and expansion, renewable energy promotion, desalination plants, and infrastructure development for industrial cities.

FISCAL REFORMS

The ministry also expects the budget deficit to reach 8.9% of nominal GDP in 2017, a major contraction from the 12.8% deficit recorded in 2016. In addition, the fiscal situation is anticipated to improve further as the budget deficit narrows to 7.3% of nominal GDP in 2018.

"Total revenues are estimated to climb 12.6% in 2018 budget compared to 2017, while non-oil revenue is estimated to increase by 14% as the government will continue to implement the reforms outlined by the Fiscal Balance Program in 2018," the budget statement said.

These reforms include the implementation of a 5% VAT in January in accordance with the Unified VAT agreement of GCC states, and a new round of energy price reform, with the eventual goal of benchmarking domestic energy prices to international standards.

Additional measures earmarked in the budget include a second round of expat levy, and other initiatives and reforms to explore alternative sources of non-oil revenue. The budget also aims to rationalise and raise the efficiency of government expenditure.

"At the same time, 2018 budget will see an increase in government expenditure by 5.6% compared to 2017 on the back of a 13.6% increase in government investment (capital expenditure) to fund the Vision's projects and initiatives, including infrastructure development, to stimulate economic growth and generate more jobs," the statement said.

Indeed, the unemployment rate remained flat at 12.3% last year compared to 2016, and authorities are seeking to bring the figure down

to 10.6% by 2020 "with the support of economic growth, expat levy, substitution plans and multiple initiatives."

KEY SECTORS

The Ministry of Finance expects sectors such as manufacturing, building and construction, mining, financial services, insurance, real estate, business services, and telecommunication, to be key drivers of economic growth in 2018 as the private sector gears up to develop new projects.

The Ministry of Economy and Planning is also anticipating the growth rates of private investment and consumption to be positive in 2018.

"Given the critical role of the private sector in achieving Vision 2030, private investment is expected to record a positive growth of 3.3% in 2018 and 3.5% in 2020, following a significant decline in 2017. On the other hand, private consumption is projected to record a modest growth rate of 0.4% in 2018 before rising to 2% in 2020," according to the budget statement.

USD ENDS 2017 NOT WITH A BANG BUT A WHIMPER

Of all the asset classes, the US dollar was the most bearish in 2017.

In fact, last year had been the worst year for US dollar against major currencies since 2003. USD-denominated assets became even more popular with international investors, as most major currencies climbed against the American greenback. That could change, as the U.S. tax reform is already boosting sentiment among corporations and boosting the dollar, with a number of major companies including Apple Inc. announcing repatriation of funds from abroad and investing in the U.S.

Many firms will likely have increased available cash as a result of the new tax law, according to Standard & Poor's. "While some will almost certainly use this cash to reduce their overall debt, most newly available funds will be used for stock buybacks, increased dividends, mergers and acquisitions, and increased capital investments."

With companies such as Google, Starbucks, Amazon looking to move funds back into the U.S., this would boost the U.S. dollar.

In comparison, the dollar's biggest rival, the euro, was the biggest gainer among major players, jumping 14% against the greenback over the past 12 months on prospects of the European Central Bank (ECB) raising interest rates at some point in 2018.

The expected degree of divergence in G3 (US, EU and Japan) monetary policy next year is one of the hottest topics in 2018, according to the Institute of International Finance (IIF).

"While market pricing has been little changed (Fed rates) or tilted more dovish (ECB rates), December has seen some speculation about a more hawkish slant to US and Euro area central bank policy next year," the IIF said.

The institute also noted that the futures-implied probability of three US rate hikes in 2018 has increased to about 20% over the past few weeks, from 5% in September, with four hikes now also in the running.

"Similarly, a small but vocal minority of analysts see the ECB moving more quickly on unwinding QE, perhaps moving away from negative policy rates by the end of 2018 (a boon for the region's banks and insurers)."

The Japanese yen, which eked out a modest 4% gain against the US dollar in 2017, is expected to remain weak as Bank of Japan (BoJ) is not expected to tighten monetary policy.

BoJ governor Haruhiko Kuroda, who will see his five-year term end in April 2018 unless he is reappointed by prime minister Shinzo Abe, is expected to maintain efforts to reflate the economy as part of the so-called "Abenomics" programme.

A key question this year for developed economies is whether inflation will rebound in 2018 even as fiscal stimulus shifts the Fed onto a faster rate-hiking trajectory.

"We are not convinced," the IIF said. "We examine the inflation outlook in the U.S., the Eurozone and Japan, and conclude that the outlook should remain benign for the foreseeable future. As a result, we see continued downside risk to the Fed's inflation forecast, with even greater downside risk to European Central Bank (ECB) and Bank of Japan (BoJ) forecasts. The inflation picture should therefore remain benign."

CENTRAL BANKS EYE RATE HIKE

Indeed, other G7 members, including the European Union, the United Kingdom, and Canada are also considering raising their interest rates. This suggests that the era of low interest rates may finally be over, which could have consequences for global capital markets.

The Bank of England raised interest rates last November for the first time since 2007. The Bank of Canada, meanwhile, hiked its interest rates twice last year, and is poised to raise them again on the back of strong job growth and Canada's strong economic performance compared with other industrialised nations.

Among emerging market currencies, the Chinese yuan has been rising above its fair value against the US dollar, which is mostly a function of the latter's weakness rather than the former's strength.

In India, analysts expect the Reserve Bank of India (RBI) to maintain interest rates even as inflation rate climbs. A Reuters poll of more than 30 economists found that annual consumer inflation has surged to a 13-month high of 4.88% in November from October's 3.58%.

"There is a risk that this upward trajectory may continue in the near term," RBI said in a statement.

But Rupa Rege Nitsure, group chief economist at Larsen & Toubro, told Reuters that the RBI will likely hold fire – for now.

"Interest rates will remain stable for some time before they (the RBI) start hiking them because industrial growth is still weak," Nitsure told Reuters. "Recovery is happening in a few sectors, but it has not spread to all sectors and private investment sentiment also remains low."

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ROBUST ECONOMY TO DRIVE COMMODITIES' GROWTH SPURT

After a few subdued years, commodity prices enjoyed a stellar year in 2017, as global economy rebounded.

The S&P GSCI Index, a key benchmark focused on the most liquid commodity futures, rose 5.8% in 2017, reversing a 15% drop in the first half of the year.

Industrial metals rallied in December to end 2017 on a positive note, as prices were bolstered by a combination of robust Chinese activity and an environmental crackdown on Chinese industrial plants.

The recent rally is consistent with the uptick in China's Caixin manufacturing PMI for December, but investor sentiment more generally has been favourable. The S&P GSCI Industrial Metals Index reached its highest level in nearly five years and is now up by almost 56% since its 2016 nadir.

For the year, palladium shone the most among metals, rising 54% on constrained supply and rising demand from the automotive sector.

"In 2018, we expect palladium prices to decline as well because most of the positive news is reflected in the price," according to Dutch bank ABN-AMRO. "We expect weakness in other precious metal prices to weigh on palladium as well. A continuation of Fed rate hikes, a modest rise in US Treasury yields and the US dollar will probably result in modest price weakness in gold, silver and platinum."

POSITIVE FOR GCC

Aluminium was also among the best performing metals, rising 34% for the year, boosting production volumes for Saudi Arabia and other Gulf states that are building their smelter capacity.

Gulf smelters produced 417,000 metric tonnes (mt) of aluminium in November 2017, close to its all-time high of 454,000 mt achieved in March 2017, according to data from The International Aluminium Institute.

Rising global demand and plant closures in China is set to further boost demand for aluminium. The World Bank noted that the combined closures could affect 10% of capacity in China, which produces 60% of the world's aluminium.

Other notable gainers were copper (up 32%), zinc (28%), lead (25%) and nickel (24%), as the global manufacturing sector perked up after a few years of lacklustre economic growth.

Gold prices also surged 13.55% during 2017, and its trajectory in the New Year is uncertain.

"Gold prices are projected to drop 1% on expected higher US interest rates," according to the World Bank. "Silver prices are seen slipping slightly as well. Platinum is expected to strengthen 4% on advancing catalyst demand and tightening mine supply."

PEDAL TO THE METAL

Despite a decent start to 2018, precious metal prices are expected to be subdued over the next few months.

"On the back of weak investment demand, we forecast gold prices to fall further to USD 1,150 an ounce by the end of 2018," according to business intelligence firm Morningstar. "Nevertheless, we still believe gold has a promising future, and we forecast a nominal gold price of USD 1,300 per ounce by 2020. We expect that in the long term, Chinese and Indian jewellery demand will fill the gap left by waning investor demand. However, the rise of consumer demand will take time, which suggests prices are at risk of falling the short term."

Despite precious metals' woes, the commodities markets have shown greater confidence. Macroeconomic indicators, such as global PMI, has reported an upswing in manufacturing – particularly in China and the Euro area – while optimism around capital expenditures (capex) has also been growing.

A recent survey of US CEOs indicated that expectations for capital expenditures are at their highest level since 2011: almost 50% of chief executives expect to increase capex, while only 6% anticipate reducing capex over the next six months.

Investment bank Schroder Investment Management North America Inc. expects 2018 to be positive for base metals where potential supply impacts are greatest: aluminium, for example, is likely to see a major downshift in supply growth rates.

"Nickel has also likely reached a bullish long-term inflection point. Conversely, copper and iron ore are the most exposed to potential demand slowdowns next year," the bank said.

The upbeat outlook should boost prospects in emerging markets, including GCC economies.

"As emerging market equities storm ahead in early 2018, it is worth

re-evaluating traditional correlations between emerging market equities and commodity prices," according to the Institute of International Finance (IIF).

"For most of 2017, this correlation was declining, but it has rebounded notably in recent months as commodity prices began to rise. Additional advances in commodity prices – assuming sustained demand from China despite the slowdown in credit growth – could give a further lift to emerging market equities this year," the institute added.

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