In this file photo taken on Aug 11, 2017 an employee of an Indian jewellery store arranges gold jewellery in a display at a stall in the Asia Jewels Fair 2017, in Bangalore. The appetite for gold has dropped with results for the trimester dropping by 7%. (AFP)

## gold hits lowest first-quarter demand in decade: WGC

Global gold demand hit the lowest first-quarter level in a decade as low price growth took the shine off investment appetite, industry body the World Gold Council said Thursday.

Global annual demand sank seven percent to 974 tonnes in the first three months of 2018, the WGC said in a performance report on the precious metal.

That was the weakest first-quarter level since the same portion of 2008 and compared with 1,047 tonnes in the first quarter of 2017.

The WGC said the "main cause was a fall in investment demand" as gold prices limited gains.

Gold, seen as a safe haven investment in times of economic turbulence, saw its price struggle faced with uncertainty over the health of the United States economy.

"There are mixed signals on the US economy and no clear direction on the gold price," WGC spokesman John Mulligan told AFP.

The main two drivers of gold market are investment buying and jewellery.

In the first quarter, investment demand collapsed by almost a third to 287 tonnes compared with a year earlier.

Jewellery demand was stable at about 488 tonnes, as Chinese growth partly compensated for weaker Indian demand.

Gold prices put on 2.5 percent during the quarter to finish at $1,341.24 per ounce. It traded at $1,309.95 on Thursday. (AFP)

**Market** Movements 03-05-2018

| | | | Change | Closing pts |
|---|---|---|---|---|
| AUSTRALIA | - | All Ordinaries | +50.30 | 6,187.00 |

| | | | Change | Closing pts |
|---|---|---|---|---|
| JAPAN | - | Nikkei | -35.75 | 22,472.78 |
| GERMANY | - | DAX | -112.10 | 12,690.15 |
| FRANCE | - | CAC 40 | -27.56 | 5,501.66 |
| EUROPE | - | Euro Stoxx 50 | -24.67 | 3,529.12 |
| S. KOREA | - | KRX 100 | -26.99 | 5,149.58 |
| PHILIPPINES | - | All Shares | -96.60 | 4,602.48 |
| INDIA | - | Sensex | -73.28 | 35,103.14 |

# Business

# Slumping economy overhangs Saudi reforms

## Top officials, businessmen meet

**RIYADH, May 3, (RTRS): A slump in Saudi Arabia's economy cast a shadow over ambitious plans for reform this week as top officials met businessmen to discuss freeing the kingdom from its dependence on oil exports.**

At a conference with hundreds of foreign and local bankers and potential investors, ministers said privatizations and partnerships between the government and private companies to build infrastructure projects would begin within months.

They pointed to major successes since Crown Prince Mohammed bin Salman launched the reform program in April 2016. A huge state budget deficit, which threatened the stability of the currency, is shrinking. Foreign portfolio funds are pouring into the country after a revamp of the stock market.

But data released during the conference showed the private sector, which the reform program assumes will create hundreds of thousands of jobs and play a much bigger role in the economy in the next decade, is struggling.

A monthly survey of companies' purchasing managers, published on Thursday, found growth in private business activity slowed in April to its lowest since the survey started in August 2009. New orders shrank for the first time in the survey's history, suggesting there is little new business on the way.

Bank lending to the private sector shrank from a year earlier in March for the 13th straight month, according to central bank data released on Monday; banks are awash in funds, but private firms see little point in borrowing to invest.

Car sales shrank an estimated 24 percent in 2017. Estimates for this year have not yet been published but businessmen said they had seen little or no pick-up in sales, despite initial hopes that the lifting of a ban on women driving, expected to take effect in coming months, would trigger a mini-boom.

The main problem, businessmen say, is part of the reform program itself: austerity measures designed to cut the budget deficit, including 5 percent value-added tax imposed in January, higher domestic fuel prices, and rising fees which companies must pay to hire foreign workers.

"The reforms were supposed to help the private sector but in the short term at least, there's been the opposite effect," said one frustrated Saudi businessman who, like others, declined to be quoted publicly for fear of appearing to oppose the reforms.

Many businessmen said the rising fees for foreign workers were the biggest single burden on them, making it uneconomic in some cases to keep employing foreigners — even though it can be hard or impossible to find trained Saudis to replace them.

The fees are encouraging an exodus of foreigners from Saudi Arabia, hurting consumer demand. The number of foreigners employed in the kingdom dropped by over 277,000 to 10.42 million between the third and fourth quarters of last year, according to official data released this week.

"It wouldn't be surprising if the number decreased by a million in 12 months," said a top executive at a big Saudi company in the retail industry.

At the end of last year, the government said it would spend more to support the economy and relax its austerity drive, aiming to balance its budget by 2023 instead of 2020.

But while authorities are launching a string of development projects — such as a multi-billion dollar resort area near Riyadh, for which ground-breaking occurred on Saturday — little money seems to be reaching the private sector so far. Some firms complain the government is several months late paying its bills to them.

In private, one Saudi official worried the austerity component of the reforms might still be too strong compared to the growth component.

"The fiscal reforms have succeeded, but in the long run it's counter-productive if you stifle the private sector," he said.

Mazen al-Sudairi, head of research at Al Rajhi Capital, said recent data was positive in some ways. He noted that while unemployment among Saudi citizens was almost 13 percent, over 100,000 Saudis obtained jobs in the fourth quarter, suggesting Saudis were moving into some of the jobs vacated by foreigners.

Al Rajhi calculations show the spending power of 70 percent of Saudi households is fully shielded from the austerity steps by a government scheme of cash handouts to compensate them.

That implies most of the slump in consumer spending is due to the exodus of foreigners and their falling real incomes — a result which may be acceptable to the government as it manages the tricky domestic politics of the reform program.

## Saudi banks give reality check on country's economic health

RIYADH, May 3, (RTRS): Saudi Arabia's banks are preparing for muted lending growth this year, providing a reality check on the state of the country's economy and government efforts to stimulate growth.

Saudi Arabia unveiled its Vision 2030 plan in 2016 to transform the countrys economy, which is still suffering the after effects of the slump in oil prices, recession and austerity measures to cut the state deficit.

Vision 2030 is in the future, but were dealing with the reality of now, said one senior Saudi banker. Were having to be more careful and client demand is weak anyway.

The International Monetary Fund is expecting the Saudi economy to grow 1.8 percent this year, but some local bankers worry their assets are shrinking as loans get repaid but new borrowing opportunities dry up.

The banks also complain that they have seen little benefit so far from the government's 72 billion riyals ($19.20 billion) stimulus plan, announced last year to kick-start the economy.

The expectation is that the rebound in credit growth will be delayed until the end of 2018, said Olivier Panis, senior credit officer of EMEA financial institutions at Moody's.

There's still a lack of confidence from investors about when economic growth will start again and when some of the big projects will be implemented.

Three of the four local banks to report first-quarter earnings so far this quarter, including the two largest National Commercial Bank and Al Rajhi Bank, have revealed shrinking loan growth, setting a gloomy tone to the earnings season.

The Saudi banks subdued outlook contrasts with the enthusiasm of international banks which are keen to muscle into the Arab worlds largest economy as it prepares to transform industries ranging from energy to entertainment.

More than a dozen foreign banks have already licenses to operate branches in the country. Citi (C.N) is considering seeking a full license and Credit Suisse (CSGN.S) is seeking one.

Credit expansion in the country contracted by 1 percent last year as the economy slipped into recession, the first since 2009. Credit growth for the first quarter was 0.5 percent.

In retail banking, cuts in government energy subsidies have hit consumer spending. Also, the weak economy led to hundreds of thousands of expatriate workers leaving the country over the past year, also denting demand for consumer credit and loans.

Among the banks corporate customers, appetite for credit also remains weak. Contractors and other companies serving the government are often still waiting to be paid although the government has taken steps to speed up the process.

## Trade deficit narrows in March on record exports

# US services sector growth slackens again in April

WASHINGTON, May 3, (AFP): The US services sector slowed again in April amid concerns that trade tensions will press prices higher and about the lack of skilled workers, according to a survey released Thursday.

Despite the modest slowdown, all 18 industries of the services sector, a key driver of the world's largest economy, reported continued growth, the Institute for Supply Management said in a monthly report.

ISM's Non-Manufacturing Index fell two percentage points to 56.8 percent last month, falling below analyst expectations and marking the third straight decline.

And while the reading remained above the 50 percent benchmark that separates growth from contraction, it fell below the average for the past 12 months of 57.6 percent.

Among the three major components of the index, the employment index dropped three points from the prior month and business activity fell 1.5 points.

And while new orders rose slightly, supplier deliveries fell four points, as companies reported rising prices, partly as a result of a shortage of truck drivers, which created backlogs.

The US trade deficit narrowed in March for the first time in seven months as exports reached the highest level on record, the Commerce Department reported Thursday.

The drop in the trade gap could point to higher growth in the first quarter than previously expected and comes as President Donald Trump pursues a fraught two-front trade confrontation with the European Union and China.

Rising exports of petroleum, which has seen prices increase recently, and of agricultural staples, combined with a steep drop in imports sent the monthly US trade deficit plunging to $49 billion, a 15.2% drop from February, the biggest decrease in more than two years.

However, the deficit was still up 18.5 percent in the first quarter compared to the same period last year, at $25.5 billion.

"These data confirm ... that exports rebounded at the end of Q1 and imports fell sharply, starting to reverse the surge which followed the hurricanes last summer, when wholesalers and retailers had to rebuild inventory very quickly," Ian Shepherdson of Pantheon Macroeconomics said in a client note.

US exports of goods and services hit $208.5 billion, a new record, driven upwards by mounting exports of crude oil and other fuels as well as civilian aircraft and crops like soybeans, on which China has threatened to impose tariffs in response to punitive US duties on Chinese goods.

On the import said, Americans paid less to foreign companies for the licensing of intellectual property, and bought fewer foreign-made televisions, semiconductors and computers, helping drive US imports down 1.8 percent for the month to $257.5 billion.

Imports of foreign autos, however, hit a record $31.3 billion.

The goods deficit with China fell 11.5 percent from February to $25.8 billion, not seasonally adjusted.

Tourists visit the Azadi Tower in the capital Tehran on April 19, 2018. On April 15, the central bank banned foreign exchange bureaus 'until further notice' from buying or selling foreign currency, leaving banks alone to carry out such transactions. But in practice, they refuse to do so, according to numerous testimonies. (AFP)

## All exchange bureaus barred from dealing in foreign currency

# Iran currency crunch hits foreign tourists

TABRIZ, May 3, (AFP): Newly arrived in the city of Tabriz in northwestern Iran, Cornelis Vamoorschot wanted to change his euros into rials, but quickly realised it wouldn't be a simple task.

"We wanted to change at the bank, but the banks accept neither euros or dollars. We came to the foreign exchange bureau, but they had no money," said the Dutch tourist, enchanted by the city's brick bazaar, despite the inconvenience.

Iran's central bank on April 15 forbade "until further notice" all exchange bureaus from dealing in foreign currency, leaving banks as the sole authorised buyers and sellers. But in practice, banks are now often refusing to trade.

Iran only began to emerge from years of isolation thanks to the signing of a 2015 nuclear accord with the US, major European powers, Russia and China — a freeze to its nuclear programme was agreed in exchange for easing sanctions.

But intense market pressure on the local currency, exacerbated by threats by US President Donald Trump to withdraw from the nuclear deal unilaterally, saw Iran on April 10 terminate the rial's free float and peg it to the US dollar.

Before the fix, the local currency had lost around a third of its value in six months, to trade at 58,650 to the dollar.

The rate was set at 42,000 rials per dollar, a benchmark now meant to be used for all foreign currency transactions.

So with one euro trading at 1.20 dollars, the official Iranian market rate for the euro is 50,400 rials.

Eventually, tourist Vamoorschot, who works as a project manager for Rotterdam city hall, pitched up at a tourist office.

He gave his euros to someone who disappeared for a while and came back with rials.

While waiting, he was served tea and in the end "they gave a good rate," he added — he received 71,000 rials for each of his euros.

### Weakness

This rate reflects the rial's continued weakness on the black market since the fixed exchange rate came into force.

'Everywhere is closed' -

If the inability to change money "persists, it will definitely create problems," said Ahmad Zarrabi, manager of a travel agency in Tabriz.

Even before the new foreign currency rules, carrying out transactions in Iran was already a challenge for foreign visitors.

Lingering US financial sanctions against the country mean credit cards can't be used, so tourists have to pay for everything in liquid cash.

Western visitors mainly come from Germany, France, Britain, Italy and Holland, but only numbered in the tens of thousands between March and October 2017, according to official Iranian figures. Over the same period, 650,000 mainly Shiite tourists came from neighbouring Iraq.

The cash crunch isn't isolated to provincial towns and cities. It is also affecting the capital, Tehran.

Tourists visiting key attractions including the city's Grand Bazaar and the Palace of Golestan also said they were finding it hard to get their hands on local currency.

"Everywhere is closed, the banks are closed, (the foreign exchange bureaus) are shut and so we are not able to change money," said Simona, a German tourist.

"For us it's a small problem, but I think for people who sell things it's a bigger problem because we would like to buy something but it's not possible," she added.

While tourists seek rials, Iranians need to find foreign currency ahead of travelling abroad. Sometimes, this translates into a happy co-incidence.

"We had no problems because we have Iranian friends who took care of everything for us," said Catherine, a French tourist.

Simona also eventually found a solution.

"Our guide brought us to a man on a corner and we changed money in the street, not at the bank. It was not very good," she said.

But as ever in situations where money controls come into force, hustlers find a way to exploit and profit from the situation.

"We came with rials, they came with euros," another Iranian tour guide said with a smile after a transaction with tourists, while dodging a question about the rate.

## CB fails to tame price rise

# Turkish inflation surges in April; lira hits record low

ISTANBUL, May 3, (RTRS): Turkish consumer price inflation jumped more than expected in April, data showed on Thursday, sending the lira to a record low on concern about the central bank's failure to rein in prices.

Inflation climbed to almost 11 percent year-on-year, stoked by the lira's fall of some 10 percent against the dollar this year. Double-digit inflation is Turkey's most pressing economic problem, and a growing worry for President Tayyip Erdogan and his ruling AK Party as they head into elections on June 24.

Erdogan, a self-described "enemy of interest rates", has repeatedly called for lower borrowing costs to fuel loan growth and boost the economy. The central bank's reluctance to tighten has exacerbated concerns that it is under political pressure.

"Inflation is high, inflation could accelerate, the central bank is behind the curve," said Guillaume Tresca, a senior emerging markets strategist at Credit Agricole. "They don't have enough room to manoeuvre due to some political pressure ahead of the elections."

The consumer price index climbed 1.87 percent month-on-month, the Turkish Statistical Institute said, above a Reuters poll forecast of 1.6 percent, for a rise of 10.85 percent year-on-year. Core inflation, which excludes volatile food and energy prices, was 12.24 percent year-on-year.

Sentiment toward Turkish assets had already been hit this week, after Standard & Poor's cut Turkey's sovereign rating further into junk territory and a survey showed manufacturing contracted last month.

The S&P move, and the government's announcement of a $6 billion incentive package of debt restructuring and social reforms ahead of the election, "reignited market concerns about the overheated economy at a time when inflation is rising", said Piotr Matys, a London-based Rabobank strategist.

The lira, one of the worst-performing emerging market currencies this year, weakened to a record low of 4.2487 against the dollar, from Wednesday's close of 4.1785. It was at 4.1990 at 1257 GMT.

The main share index dipped 0.35 percent and the yield on the benchmark 10-year bond rose to 13.25 percent from 12.93 percent on Wednesday. The cost of insuring Turkish debt against default also rose.

"The underlying fundamental problems have not been resolved, otherwise we would be loading up the boat with Turkish lira bonds," said Viktor Szabo, portfolio manager at Standard Life Aberdeen.

"Let's face it, these guys are not going to default. The only issue is what level the lira will be at when you do get repaid."

June's vote, originally slated for November 2019, means Erdogan is heading into an election just when the economy appears to have peaked, not months after.

Turkey's most popular, and divisive, politician, Erdogan is admired by millions for championing the pious Muslim working classes and delivering airports, hospitals and schools during a period of strong economic growth.

The economy is expected to expand 4.1 percent this year, a Reuters poll showed last month, well below both the 7.4 percent expansion in 2017 and the government's target of 5.5 percent.

"Turkey's economy is overheating," S&P warned in its downgrade this week. "We believe the Turkish government will continue to push the economy, accepting the buildup of imbalances until parliamentary/presidential elections."

# Saudi moves to tempt more foreign insurers

RIYADH, May 3, (RTRS): Saudi Arabia has published draft rules for foreign insurers and reinsurers wanting to establish branches in the kingdom, in the latest attempt by the government to woo international investment.

Currently, there are no foreign branches of foreign insurers in the kingdom, with such companies instead having to establish fully capitalised subsidiaries or own a limited share of local insurance businesses.

But it was unclear from the draft, released this week, whether foreign insurers setting up branches would be required to have a local partner, with industry sources saying they would seek clarity on this point.

Until now, the central bank, which regulates the insurance industry, has closely controlled the number of licences in the market, with the regulator planning tougher rules for existing insurers as part of a drive to create a smaller number of stronger market players.

At present, there are more than 30 insurance firms in operation serving a population in excess of 30 million people.

But industry insurance sources said allowing more foreign entrants would help to boost competitiveness.

The insurance sector has come under pressure after the economy slipped into recession last year, with health insurance suffering in particular as expatriates have left the kingdom and hospital costs have risen. The economy should return to growth this year, but industry margins remain under pressure.

Saudi Arabia is seeking to tempt foreign entrants across industries as it embarks on a massive overhaul of its economy to diversify away from a reliance on oil revenues.