

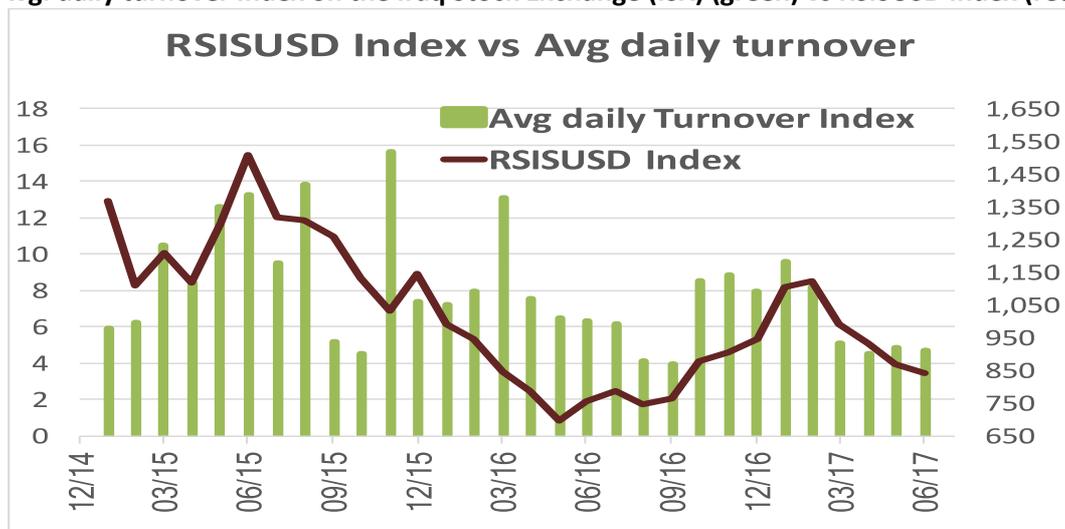
## A review of the Iraqi Equity Market for June 2017

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The equity market, as measured by the RSISUSD index, ended an Eid-shortened month on June 22<sup>nd</sup>, down -3.5% following the pattern set during the last few months, i.e. continued declines on low turnover (see chart below). The pace of the decline, however, decelerated somewhat from those of the last three months in which it was down -11.7%, -5.8% and -6.7 respectively. However, unlike the last few months, the index spent most of the time in marginally positive territory with the declines taking place during the last week driven by heightened concerns of large scale foreign selling.

Avg. daily turnover Index on the Iraq Stock Exchange (ISX) (green) vs RSISUSD Index (red)



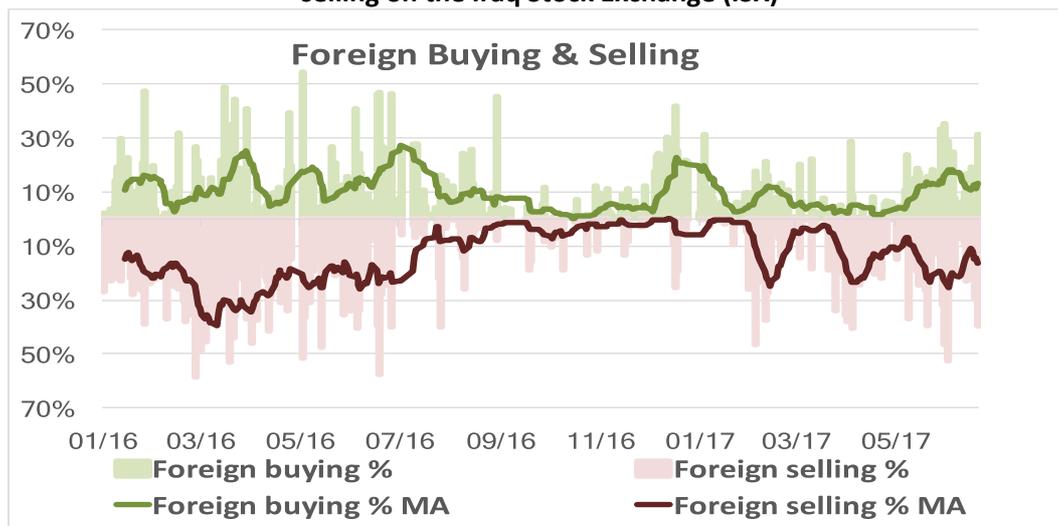
(Source: Iraq Stock Exchange (ISX), Rabee Securities, AFC)

(Note: Regular trading and excludes transactions by insiders/strategic holders whether local or foreign)

The effects of these fears were magnified during the last trading week before the Eid and summer holidays, in particular, one of the bluest chip banks bore the brunt of selling declining -9.5% for the month on the back of declines of -5.3% and -17.8% for the last two months respectively. Towards the end of June, the bank released its 2016 annual report with the board proposing a dividend, which would be equal to a 7.5% yield based on the closing price for the month. With local liquidity in the early phases of recovery and still scarce, anticipation of continued foreign selling exerted an amplified negative effect on the overall market as concerns of a replay of the early part of 2016 came to the forefront.

As is often the case when markets are dominated by fears, real or otherwise, market participants tend to focus exclusively on them and their implications and ignore all other developments. Over the last three months, the local participants at the Iraq Stock Exchange (ISX)'s obsessive focus has been on significantly increased foreign selling as a percentage of all selling while at the same time they tended to ignore the developing build-up of foreign buying which has been increasing at the same time. The chart below shows daily foreign buying and selling as a percentage of respective totals going back to 2016 overlaid by 10 day moving averages of these percentages.

**Foreign buying (green) as a percentage of all buying and Foreign selling (red) as a percentage of all selling on the Iraq Stock Exchange (ISX)**



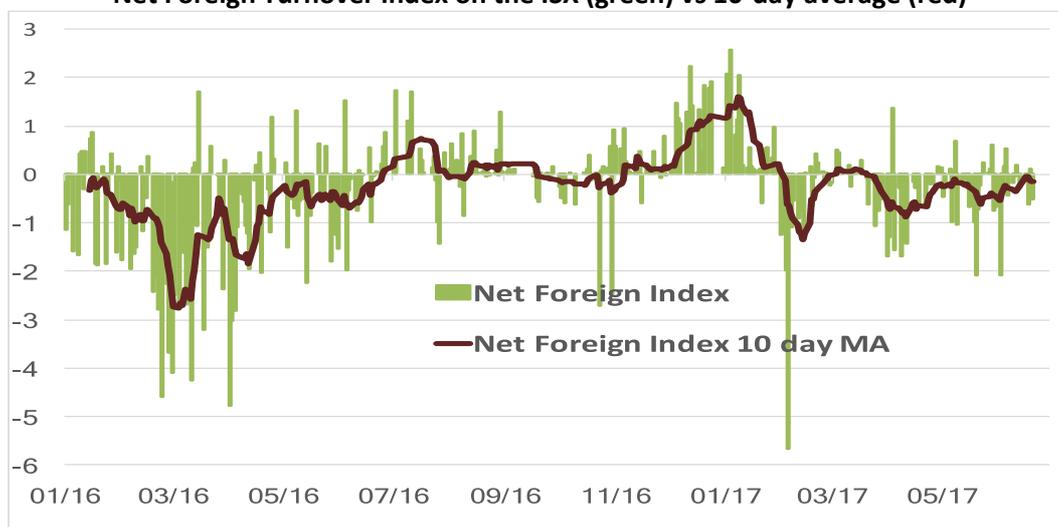
(Source: Iraq Stock Exchange (ISX), AFC)

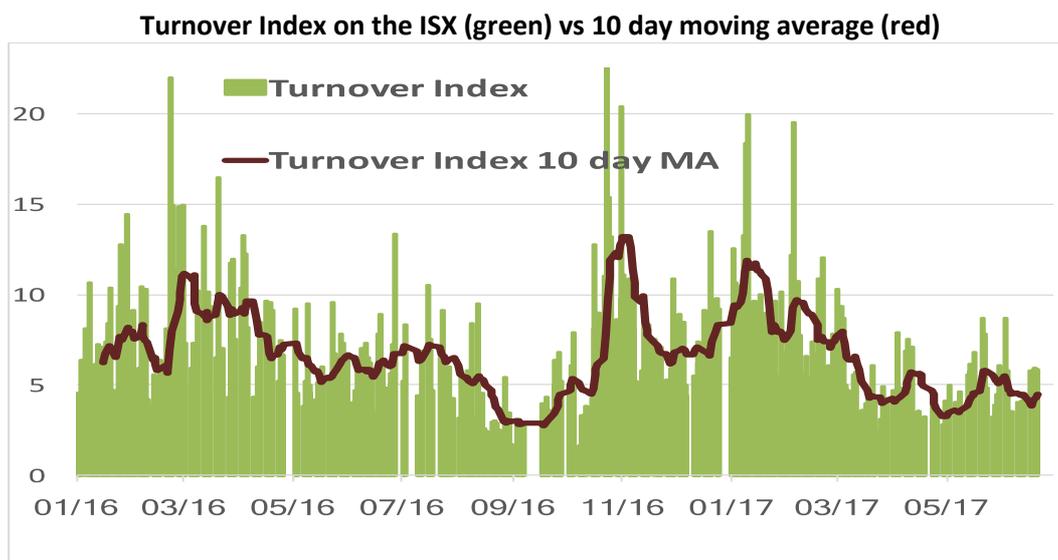
(Note: Regular trading and excludes transactions by insiders/strategic holders whether local or foreign, MA's are 10-day moving averages)

At first glance, the last three-months of foreign selling seem similar to those of the first terrible six months of 2016 and as such confirm the market's fears. Yet, a close examination reveals that the two periods differ in three crucial ways that are being overlooked: -

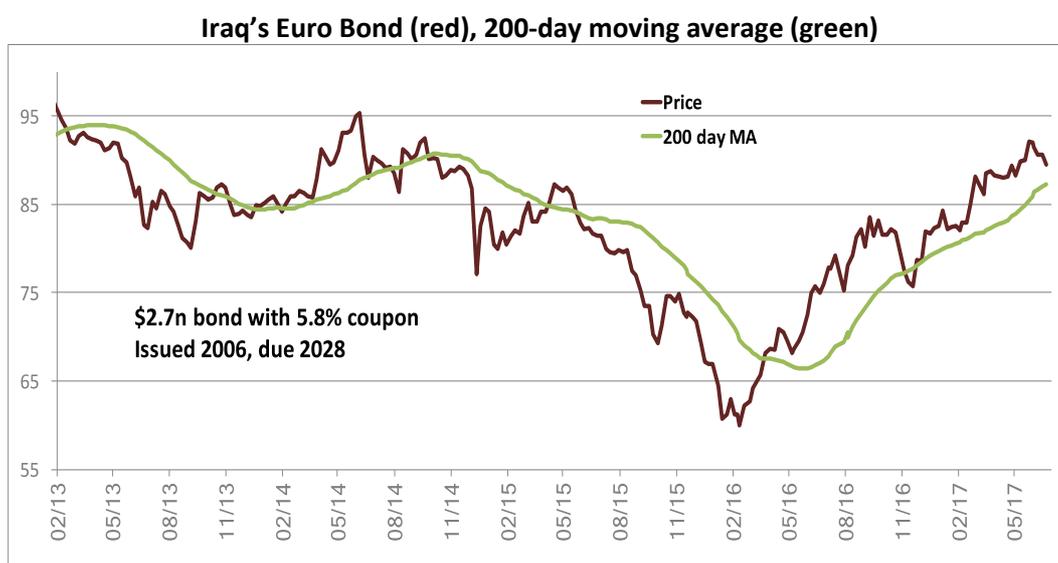
- Current selling is not as persistent and wide spread as that of early 2016, indicating redemptions but not the wholesale portfolio selling of 2016 as is implied by the different bulges of light red lines in the chart above;
- Moreover, the net effect, i.e. current net foreign selling is very different from that of early 2016 as then selling overwhelmed buying, while the recent trend in net selling has been decreasing from negative to almost neutral as buying has been picking up as can be seen from the chart below;
- Finally, current turnover is meaningfully less than that of early 2016 as can be seen from the second chart below and as such the low liquidity tends to magnify the negative effects of any selling.

**Net Foreign Turnover index on the ISX (green) vs 10-day average (red)**





The recent foreign behaviour, real or perceived, on the ISX is in sharp contrast to that of Iraq's Euro Dollar Bond (*USD 2.7 billion, issued 2006, due 2028 with a 5.8% coupon*) which continues to trade at heights last seen in early 2014 (see chart below) indicating a positive view of Iraq. As the bond trades internationally and institutionally, it is not subject to the same liquidity constraints or fears of the local equity market, and therefore it is a much better indicator of foreign interest in Iraq or just as importantly a high foreign confidence in Iraq's sovereign rating. This underpins the assumption that Iraq's rehabilitation in the eyes of foreign institutional investors continues and logically should lead to accelerated FDI's and eventually equity inflows into the Iraqi equity market. Worth noting that as discussed in [May's update in "Iraq Business News"](#) that the equity market had reasserted its historic correlation with Iraq's Euro Dollar Bond from mid-2016 into February 2017, after diverging from it for most of 2016 with the scarce local liquidity being a major factor as discussed in more detail then.



The liberation of Mosul should be followed by the reconstruction of the city and the liberated areas which would be the theme for the Iraq investment story over the next few years. While the government is targeting about USD 100 billion for the reconstruction of the liberated third of the country and seeking international aid/loans for this endeavour, the reconstruction effort is led by the local population acting on their own accord. Reports from Mosul and Ramadi show local rebuilding starting with clearing the wreckage of war, re-installing basic services, repairing and rebuilding of homes, businesses re-opening and all efforts at return to normality but crucially it is coupled with accelerated foreign aid led by the UN as this [article on shows](#). The sense of a determined return to normality can be felt in the images of cafés and restaurants teeming with life in Mosul especially in the last few days of Ramadan and the start of Eid while the last sounds of war were deafening in the remaining ISIS pockets in Mosul's old city.

*Disclaimer*

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