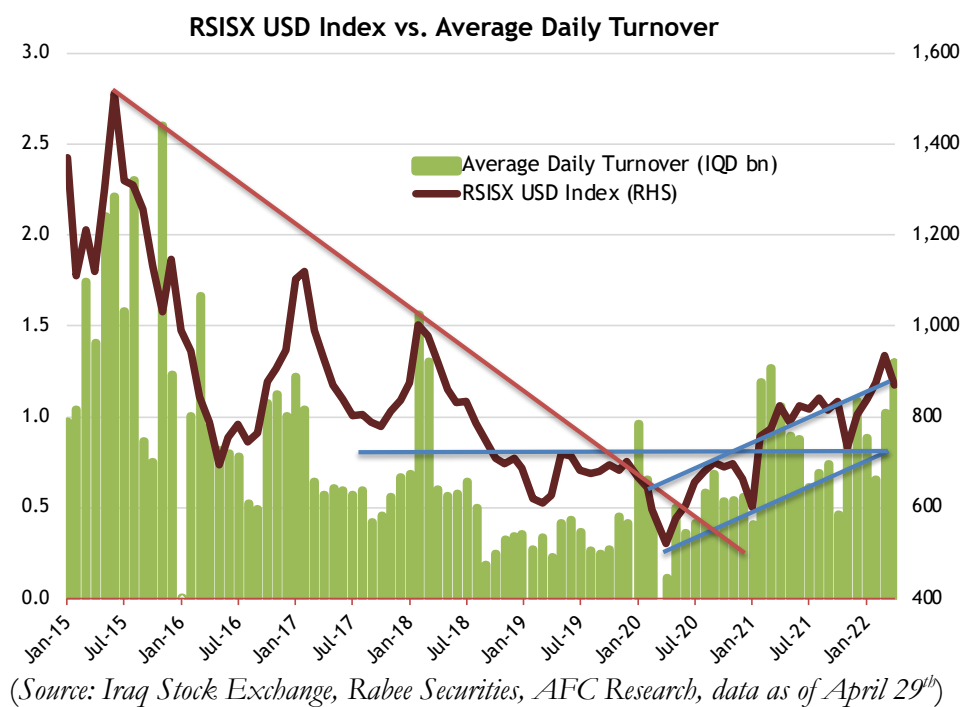


## “Ramadan & Profit Taking”

Ahmed Tabaqchali, May 10<sup>th</sup>, 2022

The market, as measured by the Rabee Securities RSISX USD Index, declined by 7.0% for the month, and up of 8.2% for the year.

The market’s strong gain of 27.8%, from [November 2021](#) to the end of March 2022, was an excuse for profit-taking during the fasting month of Ramadan which coincided with April 2022. The market’s technical picture is still intact as can be seen from the chart below showing that the RSISX USD Index has pulled back to the upper end of its two-year uptrend – an uptrend that ended a brutal multi-year bear market. A much healthier picture than that of most markets worldwide. This underscores its attractive risk-reward profile and diversification benefits versus these markets, especially considering that Iraq’s economy, unlike most economies worldwide, is a significant beneficiary of the high oil price environment, in place over the last 18 months and solidified following the invasion of Ukraine.



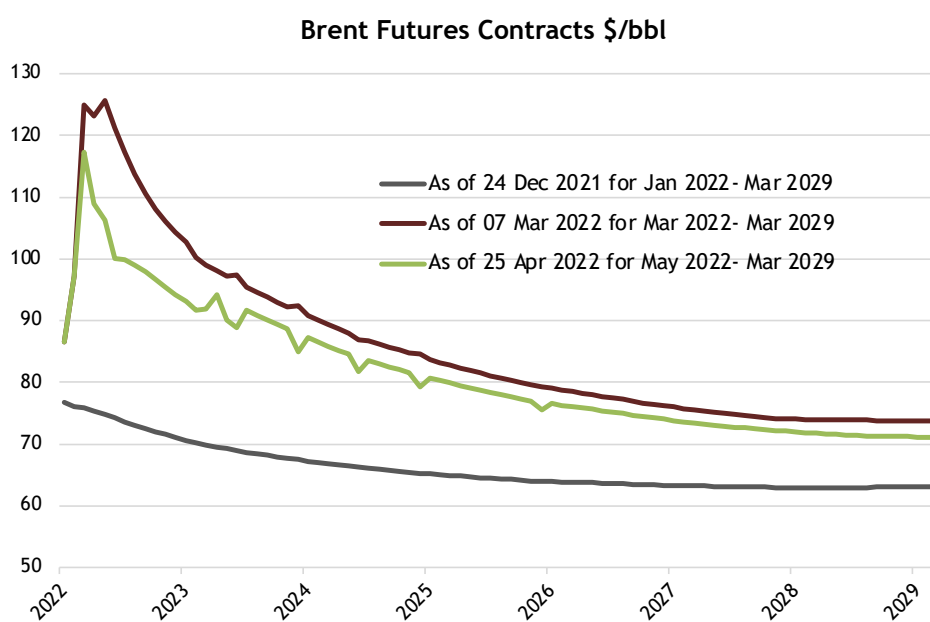
Among the index's constituents, the best performing was National Chemical and Plastics Industries (INCP) up 9.9%, followed by Al-Mansour Pharmaceutical Industries (IMAP) up 3.1%, and Asiacell (TASC) up 1.3%. All other constituents were down with the worst performer being the National Bank of Iraq (BNOI) down 19.4% – BNOI’s impressive multi-year growth was covered in last month’s [“The Opportunity in Retail Banking”](#). Other decliners were the Commercial Bank of Iraq (BCOI) down 11.1%, the Bank of Baghdad (BBOB) down 6.8%, Baghdad Soft Drinks (IBSD) down 4.1%, Al Mansour Bank (BMNS) down 3.9%, Al-Kindi of Veterinary Vaccines and Drugs (IKLV) down 1.3%, and Kharkh Tour Amusement City (SKTA) down 1.1%. Al-Kindi of Veterinary Vaccines and Drugs (IKLV) replaced Gulf Commercial Bank (BGUC) in the latest index rebalance on 3<sup>rd</sup> April 2022 by Rabee Securities as part of their regular index rebalancing.

### Iraq is a massive beneficiary of high oil prices

As argued here in [“Oil and the Economy”](#) the changed geopolitical landscape, as a consequence of the invasion of Ukraine, will have significant consequences for the supply and demand of oil, which in turn will be transformational for Iraq, its economy and equity market over the next few years.

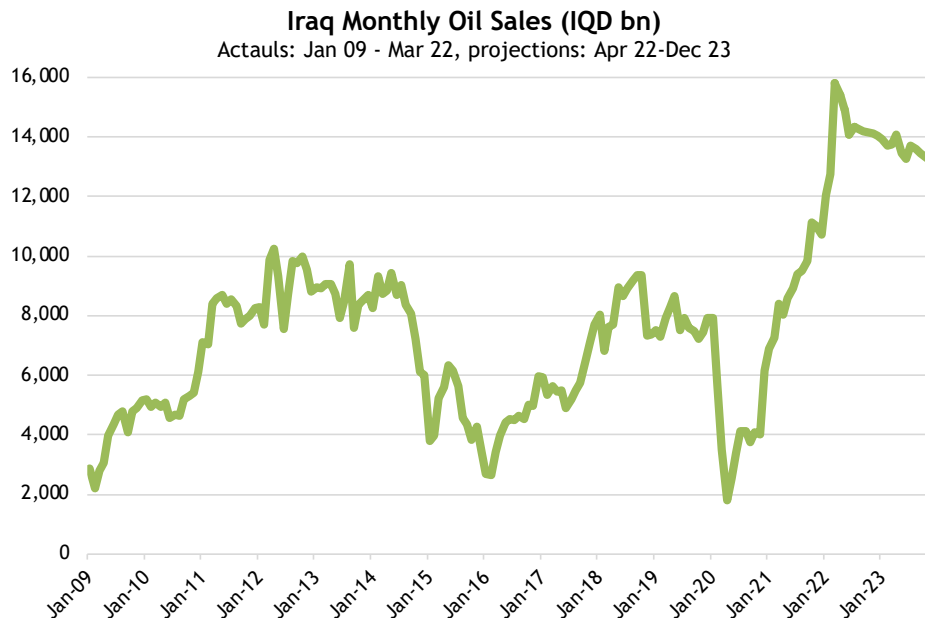
Reflecting these changed oil supply-demand dynamics, future oil price expectations, as measured by Brent crude futures contracts, continue to be high (green line in chart below), but moderating from the unsustainable highs in the immediate aftermath of the invasion (maroon line in chart below). This in combination with similarly sharply increasing food prices, will inhibit future world economic growth, as articulated by the IMF in its latest “[World Economic Outlook](#)” in which it lowered the outlook for both 2022 and 2023 world economic growth to an increase of 3.6% following an estimated increase of 6.1% in 2021. In spite of slowing world economic growth from the effects of high commodity prices, demand for oil will outstrip supply in the medium term, given the need by Western governments to ensure energy security, and end dependence on Russian oil.

Consequently, these lowered expectations for future oil prices, even if they moderate further, would still be significantly higher than those at the end of last year (grey line in chart below) – which were used in the “[Iraq’ Outlook for 2022](#)”, arguing then that “oil prices at these levels are positive for the country’s financial position in that they will provide governments, current and upcoming, with the wherewithal to continue with current expansionary economic policies that will also allow for the accumulation of budget surpluses.”



*(Source: Investing.com, data as of April 25<sup>th</sup>)*

A sense of the expected government’s surpluses can be seen by considering that Iraq’s oil export sales could be USD117bn, and USD110bn in 2022 and 2023, should Brent crude prices average USD100/bbl and USD90/bbl for 2022 and 2023 (chart below). Contrasting these with 2021’s budget expenditures of about USD75bn, gives a scale of the fiscal space available for the government to pursue expansionary budgets, as well as to mitigate the effects of rising food prices on the economy. To this end, the government is proposing a USD17bn “Emergency Food Security Support” bill under review by Parliament – which should have similar positive effects on the economy to those achieved by the economic support measures undertaken by governments worldwide in 2020 during the worst of the COVID-19 crisis.



(Source: Ministry of Oil, AFC Research. Projections are based on assumptions of average Iraqi oil price at a 3.5/bbl discount to Brent crude as given by future contracts in the prior chart, and unwinding of the OPEC+ deal by end of 2022)

Iraq's equity market in the meantime is in the process of emerging from a multi-year bear market, in which it discounted all conceivable negatives that dwarf, by orders of magnitude, those that other global markets are in the process of discounting. The Rabee Securities RSISX USD Index's 68.0% decline from its 2014 peak to the end of 2020 includes back-to-back declines of 5.4% in 2020, 1.3% in 2019, 15.0% in 2018, 11.8% in 2017, 17.3% in 2016, 22.7% in 2015, and 25.4% in 2014. Clearly, the market's year to date gain of 7.9%, coming on the back of a +21.4% return in 2021, represents a break from the past in that the market has established a sustainable up-trend as seen from the first chart. However, the index by the end of April 2022 is still 57.9% below the peak in 2014 – underscoring the potential catch-up upside for the equity market as it begins to fully appreciate the economic implications of a sustained period of high oil prices.

Iraq's value proposition is compelling as its economy is a huge beneficiary of the high crude oil price environment, while its equity market is in the very early stages of emerging from a multi-year bear market, and as such its risk-reward profile is very attractive against most global markets (chart below).

### Normalized five year returns for the RSISUSD Index vs MSCI World Index, MSCI Emerging Markets Index and MSCI Frontier Markets Index



*(Source: Bloomberg, data as of April 27<sup>th</sup>)*

*Disclaimer*

*Abmed Tabaqchali's comments, opinions and analyses are personal views and are intended to be for informational purposes and general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any fund or security or to adopt any investment strategy. It does not constitute legal or tax or investment advice. The information provided in this material is compiled from sources that are believed to be reliable, but no guarantee is made of its correctness, is rendered as at publication date and may change without notice and it is not intended as a complete analysis of every material fact regarding Iraq, the region, market or investment.*