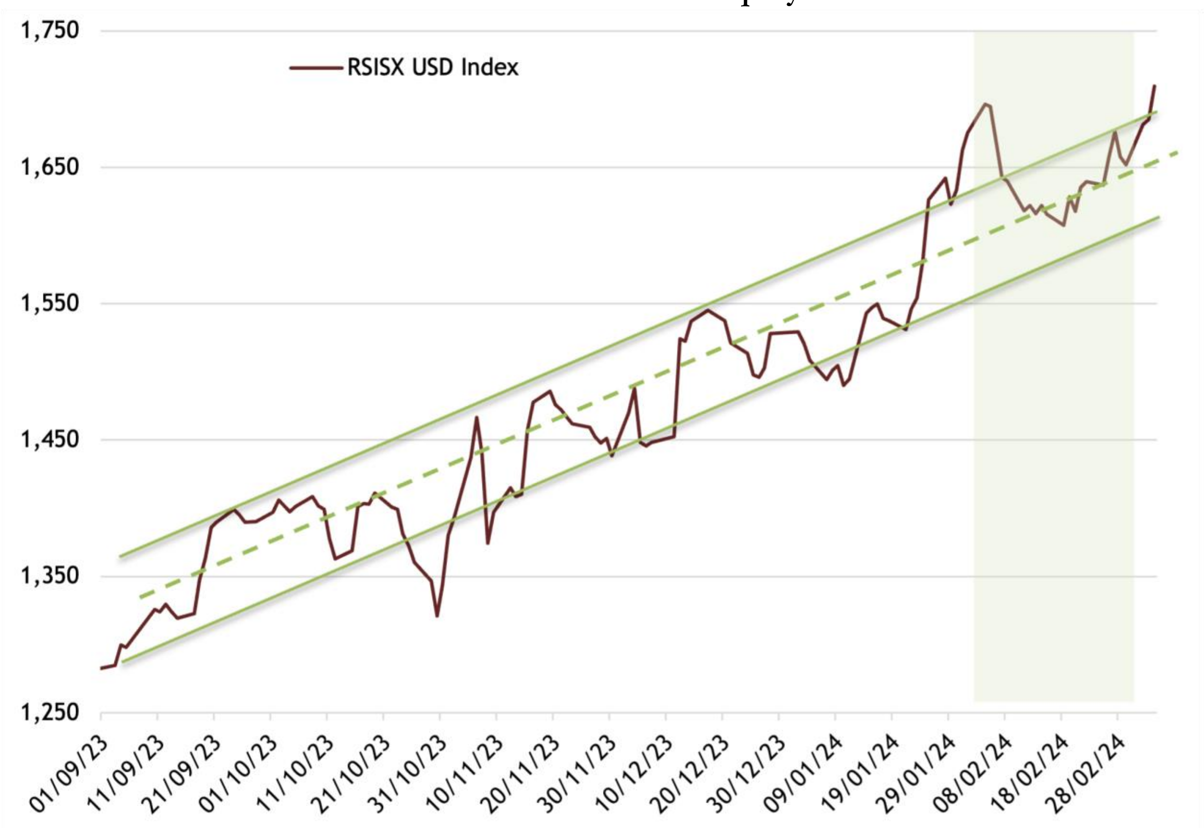
## "Markets Continue to Look Through Tensions"

**Ahmed Tabaqchali, March 6h, 2024**

The market, as measured by the Rabee Securities U. S. Dollar Equity Index (RSISX USD Index), was down 0.6% for the month, and up 8.1% for the year. Over the month, the unfolding of the events in the Middle East supported the markets' discounting of a contained regional conflict, as discussed last month in "Markets Look Through Escalating Tensions". Within Iraq, both the stock and currency markets continued to discount the dynamics that were driving the transformation of the economy, and that were already in place prior to the onset of the conflict in early October 2023. Whereas globally, oil markets continued to discount a contained conflict, even though near-term expectations rose marginally over the month.

For the stock market, these dynamics were the expansionary 2023 budget, the continued growth in the money circulating in the economy, and the developments that promise to accelerate the adoption of banking and bring about a transformation of the sector and its role in the economy. The RSISX USD Index's 0.6% decline for the month, was the first month-on-month decline since the October's month-on-month 3.4% decline. Similar to then, this month's decline was following a 3-month 23.8% rally, and in the same manner as then, it traded at lower levels for most of the month before recovering most of the lost ground (green shaded area, chart below), with the recovery continuing into the first few days of March.

**Rabee Securities U.S. Dollar Equity Index**




(*Source: Iraq Stock Exchange, Rabee Securities, AFC Research, data as of March 5th*)

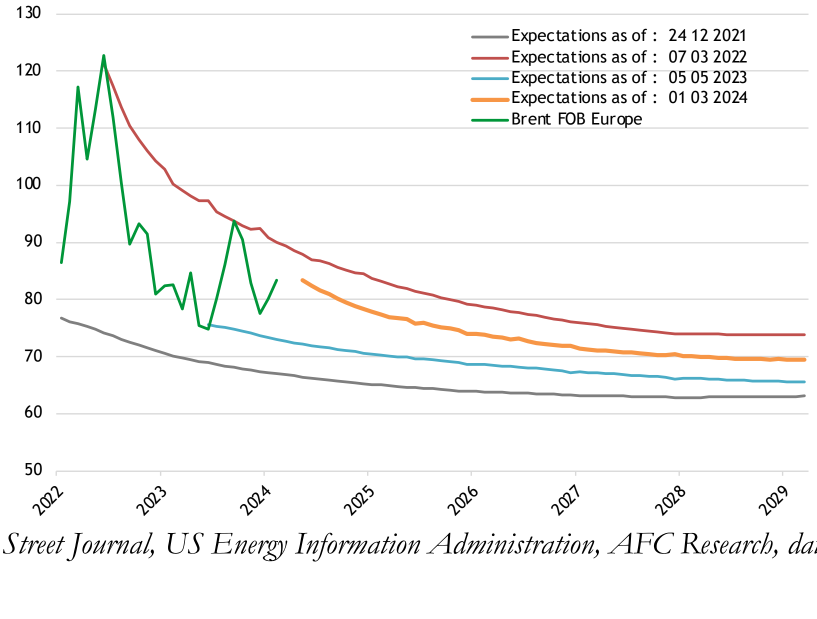
For the currency market, the dynamics were driven by the Central Bank of Iraq's (CBI) latest procedural requirements for its provisioning of U.S. dollars for cross-border transfers introduced in mid-November 2022, which led to a dollar supply-demand mismatch and consequently to the depreciation of the parallel market price of the Iraqi dinar versus the dollar (*). After bottoming in early November, the parallel market price of the Iraqi dinar versus the dollar appreciated by 9.4% by the end of February– with the parallel market price of the dinar increasing modesty month-month in February (maroon shaded area, chart below). Similarly to the stock market, the dinar continued its modest increase versus the dollar in the first few days of March.

**Dinar Parallel Market Exchange Rate versus the Dollar**


*(Source: Iraqi Central Statistical Organization, Iraqi Foreign Exchange Houses, Asia Frontier Capital Research, data as March 5th)*

Finally, current oil market expectations, as measured by Brent crude futures contracts as of March 1st (yellow line-chart below), are still near the middle of a range bound on the upper end by supply fears following the invasion of Ukraine (red line-chart below), and in the lower end, by those at the end of 2021 (grey line-chart below). Thus, while marginally higher than a month ago, are still discounting a contained conflict, as discussed here a few months ago in "[Assessing the Risks of a Wider Middle East Conflict]".

**Market Expectations for Future Oil Prices**
As measured by Brent Futures Contacts (USD per barrel)




*(Source: Wall Street Journal, US Energy Information Administration, AFC Research, data as March 1st)*

The Iraqi equity market, while beginning to discount the positive developments discussed in "What Next after a Gangbuster Year ???", is in the early phases of emerging from a brutal seven-year bear market in which RSISUSD index was down 66.6% during these years. Moreover, even after the stellar returns of 2023 and the strong start to 2024 it is, by end of February, 20.2% below the all-time high achieved in early 2014 before the onset of the bear market. Risks to the Iraq story remain a factor given its history of conflict, extreme leverage to volatile oil prices, as well as the continued risks of an actual widening of the current Middle East conflict. However, both fundamentally and technically, the risk-reward profile of the market remains very attractive compared with most global markets.

**(*) Background to the currency's upheaval**

The currency's upheaval was reviewed in prior market newsletters in: "Currency Upheavals Disrupt Market Activity" in January 2023; "Market Begins to Discount Currency Upheavals" in February 2023; "Dinar Revalued Upwards, Market Shrugs" in March 2023; "Tag Ends of Currency Upheaval Sparks Market Rally" in May 2023; and "Market Takes a Breather, While the Currency Stabilises" in June 2023. Further reviews on these and related issues are at: "Iraq needs to address the economy's structural imbalances to halt the dinar's volatility" in February 2023; "What's Happening with the Dinar?" in February 2023; and in "The Dinar, and the Conundrum over the Dollar and Iran" in August 2023.