"Trading Volumes Support Market's Uptrend"

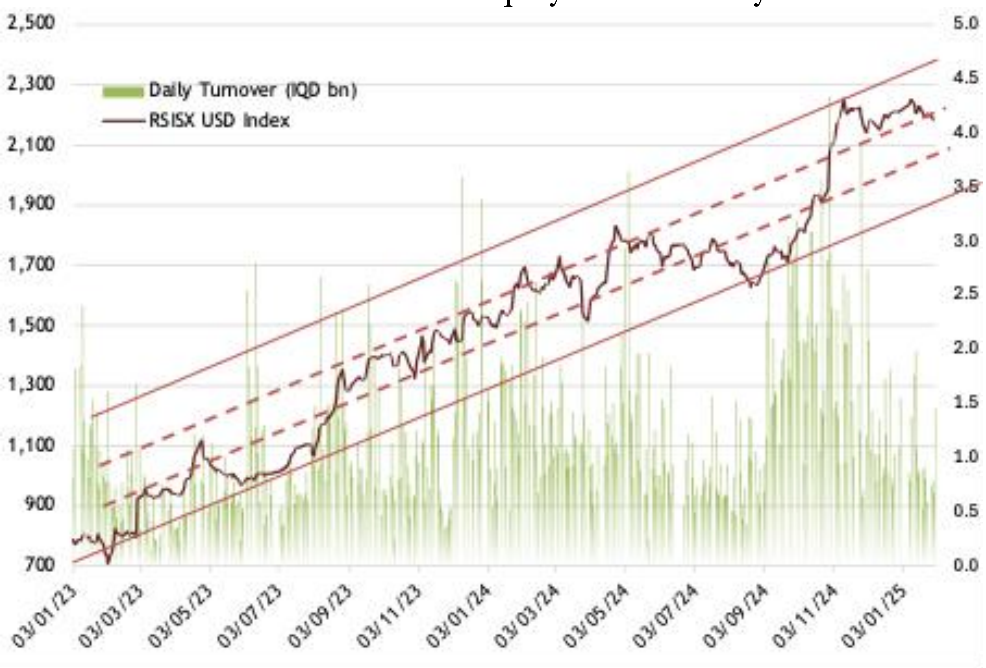
Ahmed Tabaqchali, February 7th, 2025

The market, as measured by the Rabee Securities U. S. Dollar Equity Index (RSISX USD Index), continued with the process of consolidating its gains that started in December, following a blistering 35.9% rally since late August, and spent the month in a tight range of + 1.8% and -1.4% around its year-end 2024 close, closing the month down 1.4%

While this consolidation could continue over the next few weeks, the market's technical picture continues to be positive, and the likely consolidation or pullback should be within its multi-month uptrend as much as the prior consolidations and pullbacks have done over the prior months (chart below). This is based on two observations derived from technical analysis of trading volumes during this multi-month uptrend. Basically, technical analysis maintains that trading volumes are an important component of analysing a market's price trend, whether it's an uptrend or downtrend, in that they reflect the extent of market participation, such that high trading volumes support the market's trend, with the reverse for low trading volumes.

The first observation is that the market's annual trading volumes support its multi-year uptrend, in that it was accompanied by meaningful increases in the annual average daily turnover –with year-over-year increases of 39.4% and 9.8% in 2024 and 2023, respectively (note: turnover is adjusted for pre-arranged block trades whether during market hours or in the special after-market session*). The second observation follows from drilling down into the daily trading turnovers as they display a similar pattern of trading volumes supporting the market overall up-trend. This is because daily trading turnovers were relatively high and increasing while prices were up trending, and relatively low and decreasing during the market's consolidations and pullbacks within the overall uptrend (chart below).

Rabee Securities U.S. Dollar Equity Index vs Daily Turnover



(*Source: Iraq Stock Exchange, Rabee Securities, AFC Research, daily data as of January 30th*)

Crucially, high or low trading volumes are relative to the market's average trading volumes, and therefore, any analysis of trading volumes and price trends is subjective, especially considering the limitations of technical analysis in frontier markets with low trading volumes such as Iraq's nascent market. Consequently, the observations made here are considered tools to complement the fundamentals driving the market's performance that were discussed most recently in the outlook for 2025 in "[What Next After Two Gangbuster Years]?".

The equity market, as measured by the Rabee Securities U. S. Dollar Equity Index (RSISX USD Index), having surpassed its 2014 peak by 5.3%, has the potential to rally further reflecting the powerful dynamics discussed here over the last few months. However, significant risks remain given Iraq's recent history of conflict, extreme leverage to volatile oil prices, as well as the risk that the widening of the current Middle East conflict will not be contained and evolve to destabilise the region –even though the temporary ceasefire in Gaza, Lebanon and the developments in Syria lowered the likelihood of a widening, yet risks remain that these will not hold or that other negative developments take place.

Note:

(*) Daily market turnover is first adjusted by removing the block, pre-arranged trades conducted during the special session following the regular trading session; subsequently, it is adjusted further by removing high-volume trades during regular market hours that show a pattern consistent with those of pre-arranged trades. High-volume trades are defined as those that are significantly higher than a given stock's average daily turnover; and as such are subjective. Moreover, trading volumes, and trading turnovers are used interchangeably here, and defined as the values of trading turnovers in Iraqi Dinars (IQD).