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EEC WEEKLY -for Middle East

Key Highlights

- Oil prices kept a pace of rising towards \$59 per barrel on Monday. It gives a volatile picture though. This rise occurred from a slowdown in US drilling.
- The minutes of the US FOMC meeting did not sharply changed the sentiment in global financial markets. The statement after the FOMC meeting on March 18 was just an exact summary of the minutes which were released on last Wednesday. Consequently, market sentiment did not turn out negative. The focus will yet be on the data coming from the Asia and the USA.
- Moody's did not revised Turkey's rating outlook on Friday. April 10 was the scheduled date for Moody's to revise Turkey's rating and outlook. There was no statement coming from Moody's on that date. Later on, the rating agency clarified the situation by denoting that they do not release any statement on the revision date if they do not change the outlook or the rating of the country. This has eased tension in the Turkish local markets. Yet, the politics is on top of the agenda.
- Despite oil prices Gulf markets are also mostly up and Egypt continued its bounce from three-month lows. Yet some markets are down because of the high oil prices. For example Qatar's bourse fell on Monday in early trade. On Monday most other stock markets in the region edged slightly down or were little changed.
- Turkey's Prime Minister Davutoglu indicated that the economic chief Ali Babacan would not be a minister following June 7 elections but that he could play a role in economic management from outside the cabinet. We do not rate this news positive because we believe that the management in Turkey needs a "de jure" power. We believe taking ministerial position from Babacan would fade away his power in economic management in the long term.

EGYPT

While most Gulf markets were narrowly mixed, the Dubai markets rose. Moody's upgraded Egypt rating to B3 with a stable outlook. Egypt's rating changed on improving macroeconomic performance, reduction in external

vulnerabilities, ongoing commitment to fiscal and economic reform.

Inflation accelerated in Egypt after the government slashed subsidies last summer, pushing up fuel prices as much as 78 per cent. Egypt's urban consumer inflation rose to 11.5 per cent in March from 10.6 per cent the previous month. Core annual inflation also ticked up to 7.2 per cent from 7.15 per cent in February.

The Central Bank of Egypt sees tackling inflation as its main priority and kept interest rates on hold in February. Also, the bank kept the pound steady at 7.53 per dollar at a foreign exchange auction last week, while the currency remained stable on the black market. The bank previously imposed a cap on the amount of dollars that can be deposited in banks. The limit discourages use of the black market. On the other side, the Central Bank of Egypt said that foreign currency reserves fell to \$15.29 billion at the end of March from \$15.46 billion the previous month. Reserves stood at about \$36 billion before the 2011 revolt.

IRAQ

The Central Bank of Iraq (CBI) announced at the end of last week taking new action to stop the continuous decline of the dinar against the dollar since late last year. It has decided to double the share of banking companies of the dollar in auctions of selling foreign exchange. Iraq's Kurdistan region received a \$455million budget payment from Baghdad for March, proof the national government honors a deal over the Kurd's oil policies. Baghdad cut the budget payments in January 2014 over the semi-autonomous region's plans to export its oil through Turkey.

Iraq is discussing its financial situation with the IMF but has made no decision to request emergency assistance. The Finance Minister said that Iraq is not bankrupt but they have several cash flow problems due to low oil prices. He has previously said that Iraq plans to raise \$1.8 billion this year by using SDR at the IMF which would be different than an emergency loan programme.

QATAR

Qatar's bourse fell in early trade on Monday after the Gulf International Services said weak oil prices were starting to hurt its drilling rig business.

TURKEY

Political risks are rising in the country ahead of the general elections on June 7. The USD/TRY hit highest level on record above 2.65 today with lower EUR/USD parity and the political risks. There is rising demand for the US dollar in the country with confidence declining in the Turkish lira. International credit rating agency Moody's did not make any announcement about the outlook of the country on Friday despite that day was the outlook revision day of the country. The agency kept rating and outlook of the country stable.

There are some speculations about the new economic team in the country after general elections. If Finance Minister Simsek shuffled to another post former Finance Ministry Undersecretary Naci Agbal could replace him. PM Davutoglu's economic adviser Nur Gunay, Deputy PM Numan Kurtulmus and Economy Minister Zeybekci are also strong candidates for the new cabinet.

The Treasury has begun marketing a US-dollar denominated benchmark sized April 2026 bond over 10-year Treasuries.

ISRAEL

The Palestinian Authority said it had received a \$100 million loan from Qatar to help pay civil servant salaries and alleviate an economic crisis triggered by a row with Israel over taxes. We will watch inflation and growth data in Israel this week.

SAUDI ARABIA

Saudi Arabia's stock market rose despite rise in oil prices. One reasons maybe the anticipated release of the Capital Market Authority's final rules for opening the market to direct foreign investment. The rules are expected to be published by the end of April and the market to be opened by the end of Ramadhan in mid-July.

Saudi Arabia trimmed oil supply to some Asian buyers like Japan and South Korea since March. The move has come even after Saudi Arabia's output hit a record in March.

Saudi Arabia's imports rose 1.6 per cent from a year earlier in February while non-oil exports dropped 19.9 per cent on a year-on-year basis. Non-oil exports traditionally account for 12 per cent of the overall exports of Saudi Arabia.

Separately, Saudi oil adviser says it is too early to say what OPEC will do in June. They will decide when they meet in June.

What to follow this week?

| DATA | DATE | EXPECTATION | PREVIOUS |
|---|----------|----------------|---------------|
| Egypt | 13 Apr | Easter Holiday | |
| Turkey Unemployment (Jan) | 15 April | | 10.9% |
| Turkey Budget Balance | 15 April | | -2,36 billion |
| Israel Inflation (CPI, Mar, yoy) | 15 Apr | -0.8% | -1.0% |
| Israel Inflation (CPI, Mar, mom) | 15 Apr | 0.4% | -0.7% |
| Israel Growth rate (4th quarter, qoq) | 16 April | 6.8% | 6.8% |
| Turkey Inflation Expectations | 17 April | | 6.98% |

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