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Ekinci Economics Consulting

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Key Highlights

- Long-awaited Fed decision gave a boost to the markets mainly because of the certainty that there will be no rate hike up until at least June. The markets are now pricing a rate hike decision by the Fed in September. Consequently Iraq stock exchange rose 14.8 per cent in a week, Saudi stock exchange rose above 2 per cent, and Israel stock exchange rose above 4 per cent in a week. Yet we saw slight declines in Abu Dhabi and Egypt's indices because of internal issues. Turkey stock exchange, Bourse Istanbul, rose further by 7.7 per cent thanks to subsequent positive news.

- The Central Bank of Turkey rebuilt its credibility by keeping interest rates stable despite political pressure to ease monetary policy. Moreover, international credit rating agency Fitch did not change the country's current investment grade rating with stable outlook.

- We expect further gains in Turkish markets.

- In Israel, the Prime Minister Netanyahu's rightwing Likud party scored an unexpected election victory on March 17, taking 30 of the parliament's 120 seats, compared with 24 for its closest rival the center-left Zionist Union.

EGYPT

The National Bank of Egypt, the country's largest state-owned bank, will issue a dollar-denominated bond in international debt markets by the end of June. This is in order to diversify its sources of foreign currency. The exact size of the issue is not clear yet but it can be on the range of previous issuance in August 2010 when it was valued at $600 million. The aim is the diversification of the hard currency for the bank. Thirteen international financial institutions will be invited to compete to arrange the bond issue. A successful deal is expected to encourage a number of Egyptian banks and companies which face a shortage of hard currency and have been shut out of the international debt markets since 2011.

The markets in the Egypt did not rise as much as other developing markets after Fed decision. The Central Bank in Egypt kept the pound steady at 7.53 to US dollar at a foreign exchange auction on Sunday while the domestic currency weakened on the black market. The bank is trying to wipe out black-market trading.

On the macroeconomic front the current account deficit in Egypt widened to US$2.9 billion in the last quarter of 2014 from US$1.4 billion in the same period the previous year. The deficit stood at US$4.3 billion in the first half of the fiscal year which began on July 1, compared with a deficit of US$866 million in the same period a year before. This deficit was driven by a wider trade gap. On the other side tourism has slowly begun to recover despite tension in North Sinai.

The Finance Ministry said that they expect greater investment and ongoing fiscal reforms to boost economic growth in the 2015/15 fiscal year to 4.5-5 per cent and shrink its budget to 9.5-10 per cent of gross domestic product.

IRAQ

Iraq is considering an international issue of US$5 billion worth of five-year US dollar denominated bonds help cover its budget deficit. It will also soon start paying some debts to foreign oil companies.

The Kurdistan region in Iraq received a US420 million budget payment from Baghdad on Thursday. This was a long-awaited transfer of funds that puts a bilateral oil export agreement back on track.

QATAR

Despite cheaper oil Qatar is proceeding with planned economic development projects related to health, education, infrastructure, transportation including rail. These are the projects related to 2022 World Cup. There are increasing expectations that despite low oil prices Qatar would continue running a budget surplus in 2015 and 2016.

Qatar will remain fully committed to its currency peg to the US dollar. This was reiterated by its central bank governor al-Thani saying they will not repeat reviewing their currency policy. This has been their policy for years. The governor declined to elaborate on the reasons for Qatar sticking its peg.

The inflation rate for February in Qatar came out at 0.1 per cent on a monthly basis. However the authority did not provide year-earlier comparisons for the new index. The weighting of housing and utility costs dropped to 22 per cent from 32 per cent with the new computational model. Because housing rents in Qatar have been rising sharply this may have the effect of lowering the overall inflation rate. Housing and utility costs rose 0.7 per cent from the previous month while food and beverage cost increased 0.2 per cent.

TURKEY

The Central Bank of Turkey kept interest rates unchanged saying it will keep the monetary policy tight until inflation outlook improves despite political pressures. The main policy rate of Turkey is still at 7.5 per cent. The bank regularly holds meeting with economists following its official monetary policy meeting. These meetings with economists take place closed to the press. The bank signaled at this meeting that they are still hopeful for 7 per cent inflation at the end of the year because of lower foreign exchange pass-through effect. According to the bank’s research the pass-through effect declined to 8 per cent in Turkey.

At its regular review, the international credit rating agency Fitch affirmed Turkey’s investment grade rating ate BBB- with outlook stable.

Fed decision, increasing credibility of the central bank and Fitch decision gave boost to the local markets in Turkey. We expect this positive sentiment to continue this week. The Bourse Istanbul already rose almost 8 per cent last week. We expect further increase in the index towards above 85.000 in this week and the following.

ISRAEL

Prime Minister Netanyahu’s rightwing Likud party scored an unexpected election victory on March 17. In Israel, it is not necessarily the leader of the largest party who forms the next government and becomes the premier, but the one who can form a working coalition with a majority of at least 61, in this case Netanyahu. Although the election results were out on Thursday, the official numbers will only be published on March 25. There will be a coalition government.

The bank of Israel is expected to leave short-term interest rates stable this week after a surprise reduction a month ago to 0.1 per cent from 0.25 per cent. The Israel currency shekel fell considerably in the last days. Stocks rose and shekel fell after Netanyahu's election win. Along with the rates decision the Bank of Israel is expected to publish updated 2015 and 2016 growth estimates. Growth is forecast at 3.2 per cent in 2015 after the economy expanded 2.8 per cent last year. Another concern for the central bank has been persistent deflation. The annual inflation rate was -1.0 per cent in February, its lowest since May 2007. The average inflation for the next 12 months is expected at 0.8 per cent according to Bank of Israel poll in February.

The PMI index in February fell 4.6 points in Israel to 48.7 from 53.3 in January.

SAUDI ARABIA

Saudi Arabia's markets rebounded further on Sunday. On a separate note the Saudi Arabia's OPEC governor said it would be difficult for oil to reach a price range of $100-$120 per barrel again, adding Saudi Arabia had no political motives in oil policy. OPEC will not take sole responsibility for propping up the oil price. The capital market authority announced it will open the stock market to direct investment by foreign institutions in the first half of this year.

What to follow this week?

DATA	DATE	EXPECTATION	PREVIOUS
Israel Industrial Output (Jan, mom)	22 Mar	-1.2% (announced)	0.8%
Turkey Consumer Confidence (Mar)	15 Mar	68.5	68.1
Israel Interest Rate Decision	16 Mar	0.1%	0.1%
Turkey Capacity Utilization	16 Mar	7.25%	72.8%
Turkey Manufacturing Confidence	17 Mar		103.4
Turkey Foreign Arrivals (yoy)	18 Mar		9.08%

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