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## EEC WEEKLY -for Middle East

### Key Highlights

- Yemen clash created high tension mainly in emerging markets last week. This can dominate the political agenda this week as well. Saudi Arabia has sent its warplanes into Yemen to hammer an Iranian-backed Shiite militia. In Iraq, forces armed and trained by Iran have been battling a Sunni militia that received fighters and money from Saudi Arabia. Thus the US administration is grappling with a new crisis: the Middle East's longest-running cold war may be about to turn hot.
- The tension in the Middle East was followed by an upswing in oil prices. The crude markets jumped by about 5 per cent on Thursday, the biggest daily gain in a month. Yemen is not a major oil producer; the impact on oil prices may be short-lived depending on the developments. Air strike in Yemen led by Saudi Arabia is said to continue until Yemeni President Abd-Rabbu Mansour Hadi is able to rule the country.
- Middle East stock markets have stabilized on Sunday after brief selloffs because of military conflict in Yemen. On Sunday Saudi index rose 1.9 per cent, Dubai index added 0.9 per cent, Abu Dhabi index stayed stable, Egypt index gained 0.1 per cent, Kuwait index rose 1.6 per cent. Yet the intervention in Yemen may be protracted, the operation could last five or six months.
- In Turkey, the elections are due on June 7 but the political parties should give their MP lists for elections before April 7. The HDP has a risky election strategy. First time HDP will enter to the elections as a party and not as independent candidates. If their vote base stays below the 10 per cent threshold they will lose all power in the Parliament. We wonder whether HDP will insist on entering to the elections as a party and not as independent candidates.
- While conflicts intensify in Yemen and Libya, the civil war in Syria enters its fifth year. The Arab summit in Egypt this week final communique called for "coordination, efforts and steps to establish a unified Arab force" to intervene countries such as Yemen.

## **EGYPT**

Egypt's Central Bank kept the pound steady at 7.53 pounds to the dollar at a foreign exchange auction on Sunday, the domestic currency strengthened on the black market. The central bank has kept the official rate steady for more than a month after letting the pound weaken in an attempt to wipe-out the black market.

The National Bank of Egypt will issue dollar-denominated bond on international debt markets by the end of June in order to diversify its sources of foreign currency.

## **IRAQ**

Iraq's oil minister Mehdi predicted world oil prices could reach \$70 a barrel by the end of 2015 and played down the impact of the emerging conflict in Yemen on prices. Slump in oil prices has slashed government revenue in Iraq. Oil revenues in Iraq rose up during last February. The revenues reached \$3.4bn compared to January revenues of \$3.2bn. Iraq supports OPEC's policy of defending group's market share by keeping oil production steady.

## **QATAR**

Qatar Investment Authority is partly financing Swiss travel retailer Dufry's 1.3 billion euro purchase of a majority stake in smaller Italian rival World Duty Free. The group that controls World Duty Free will sell its 50.1 per cent stake in the group to Dufry.

The international credit rating agency S&P said that Qatar's AA/A-1+ rating is affirmed on medium term growth expectations, the outlook is stable. The S&P projects economic growth in Qatar to average around 4 per cent annually in 2015-2018. S&P also assume that Qatar's oil production will decline.

Qatar's bourse said that the stock exchange will treat investors from Gulf Cooperation Council countries as local citizens when calculating whether foreign ownership in listed companies has reached permissible limits. The move will in effect allow foreign investors (from Gulf) to hold bigger stakes in listed Qatari companies, most of which have ceilings on total foreign ownership of 25 or 49 per cent. However the decision is expected to have little

impact on investment flows since foreign ownership limits for most stocks are far from being used up.

## **TURKEY**

Turkey's parliament overwhelmingly passed a security law on Friday to broaden police powers and allow the use of firearms against demonstrators, deepening fears of crackdowns on dissent ahead of parliamentary elections. The legislation comes at a sensitive time given difficult talks to end three decades of Kurdish insurgency. The Kurds say the security law could be used to target them. Parliament also passed a law that would allow government to restrict access to websites deemed to threaten lives, public order or people's freedom. The main opposition party CHP said it would launch a constitutional court challenge to the security law before the June 7 elections. The legislation could be an attempt to win nationalist voters opposed to peace process. If the Kurdish minority party HDP cannot pass the 10 per cent threshold in the elections then there will be a lot of tension in southeastern Turkey. Unfortunately, the government will be very brutal in response; this bill will help them do that.

The Economy Minister Zeybekci said Turkey's economic growth in the first quarter will not be negative, adding that the economy grew 2.8-3 per cent in 2014. The actual growth rate in Turkey will be announced this week on Tuesday.

The international credit rating agency Moody's gave a negative outlook on Turkey's banking sector for the second straight year on Wednesday, citing subdued economic growth and currency volatility.

The rating agency Fitch urged Turkey's next government to focus too much on spurring economic growth after June general elections.

## **ISRAEL**

Israel said on Friday that it would release millions of dollars of tax income to the Palestinian Authority, three months after freezing the payments in protest at unilateral Palestinian moves towards statehood. PM Netanyahu's office said the funds would be sent for humanitarian reasons and in line with Israel's

interests. The move may be seen as a bid to rebuild bridges particularly with the White House which criticized Netanyahu's comments about Palestinians. Israel stopped the monthly transfer of \$130 million of tax and customs duties that it collects on behalf of the Palestinian Authority in January after the organization applied to join the International Criminal Court. Since then, \$500 million has been withheld prompting the Palestinian Authority to cut most of its employees' salaries by 40 per cent and resort to an emergency budget. With a deficit already at around 15 per cent of GDP and tax transfers accounting for two-third of income, the budget is falling into a deeper hole every month. Unemployment stands at 25 per cent and output is set to contract this year, sharply increasing the threat of instability and violence.

The governor of Bank of Israel said that they are studying expansionary steps taken by other central banks such as quantitative easing and will implement similar measures if needed.

The President of Israel Investment Advisors said that investors in Israeli stocks are bullish after the country's election because the nature of the new coalition is in favor of reform.

## **SAUDI ARABIA**

Saudi Arabia has made no decision about whether to send ground troops into Yemen but is keeping its options open. Yemen's chaos may further complicate efforts by world powers to convince Tehran to scale back its nuclear research programme in return for easing economic sanctions. The deadline to reach a framework agreement expires on Tuesday.

Saudi Arabia's campaign to stop the Houtis from ruling over Yemen could define its role in the Middle East for years and shape its regional struggle with the rebels' ally Iran.

The country has begun drawing down its foreign currency reserves for the first time since 2009 to cover a record state budget deficit caused by the plunge in oil prices. Tens of billions of dollars of Saudi money may be withdrawn from western, mainly US, banks and financial markets this year as the world's biggest oil exporter copes with a sharp reduction in its revenues. The central bank's net foreign assets fell 1.4 per cent from a year earlier in February to \$707 billion. It was the first year-on-year drop since February 2010 when Saudi Arabia was affected by the global financial crisis. Moreover, Saudi

Arabia's growth in bank lending to the private sector slowed to an annual rate of 11.4 per cent in February, the slowest rate since December 2011.

### United Arab Emirates

Bourse Dubai sold its 17.4 per cent stake in London Stock Exchange at 2,250 pence per share. The proceeds from the stake sale would be used for general business purposes.

Bank lending in the United Arab Emirates grew 7.8 per cent from a year earlier in February, slowing from 8 per cent in January.

The Central Bank of United Arab Emirates said it was making it easier for Islamic banks to access its special lending facility by expanding the range of collateral they can use. From April 1, Islamic banks which account for roughly a quarter of banking assets in UAE will be allowed to use sharia-compliant securities other than central bank-issued Islamic certificates of deposits to borrow overnight from the central bank's Collateralised Murabaha Facility.

### What to follow this week?

DATA	DATE	EXPECTATION	PREVIOUS
Turkey GDP (Q4, yoy)	31 Mar	2.0%	1.7%
Turkey Trade Balance (Feb)	31 Mar	-4.38billion	-4.31billion
Turkey Exports (Mar)	01 Apr		10.5billion
Israel Holiday	<b>03 Apr</b>		
Turkey Inflation (CPI, Mar, yoy)	03 Apr	7.2%	7.6%
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