



Moshir Caravansary, Yazd Province, Iran

Market Overview _____ **2**

The Tehran Stock Exchange (TSE) started the month negative but the downward trend did not last throughout the month, and the main index performed positively in the second half of September. Following the political atmosphere entering into a calmer phase, much more of the liquidity in the country was invested into the stock market. The TSE All-Share Index grew by 12.2% in September and the 2013 year-to-date performance of the market was 77% by the end of the month

Country Overview _____ **6**

Negotiations over Iran's Nuclear Program, the 5+1 Group Meeting in Geneva and President Rouhani's Speech at Tehran University will be discussed in this section.

Economy _____ **8**

The falling trend in the country's liquidity growth, Iran's foreign trade in the first half of the current year and an overview of the country's automotive production in the first six months of 1392 are covered in this section.

The Tehran Stock Exchange (TSE) started the month off on a low note, mainly due to political instability in the region; however, the downward trend did not last throughout the month and the index recorded an exceptional performance in the second half of September. The main driver behind the change in market sentiment was the news about Syria; a place where the diplomatic interplay and the resistance of public opinion against military interference prevented the break of war in the Middle East. Following the political atmosphere entering into a calmer phase, much of the liquidity was invested into the stock market. This led to heavy stock offerings along with buying queues for many stocks. Many investors are far more confident in the Iranian capital market following the results of the 11th presidential election. Investors are hopeful that the policies of the new government will result in the capital market being better able to prove its potential to absorb large amounts of capital and will start playing a greater economic role in terms of creating financing opportunities.

Furthermore, given the stated intentions of the government's new diplomatic team to improve Iran's diplomatic relations with the global community (which was reinforced by actions taken at the United Nations) and the European Court's verdict to lift sanction on the Iran Shipping Lines (IRISL) and a few other institutions, the market absorbed a new wave of liquidity in the second half of September. In addition, optimism regarding the possibility of opening Lines of Credit (LC) via banks and the possibility of SWIFT becoming accessible again for Iranian banking transactions (not officially accredited yet) triggered new interest in shares of the banking sector. On 27th of September, and after 35 years, the first conversation between the Presidents of the Islamic Republic of Iran and the US took place. Given all of this news, the TSE All-Share Index moved up by 12.2% in September and the 2013 year-to-date performance of the market stood at 77% at the end of the month. Meanwhile, the sharp rise in daily trade volumes has led to the average trade volumes surpassing 5 trillion Rials.

Nonetheless, although the general market sentiment is in favour of the buyers, some strong

sellers were at the opposite end of the spectrum and find the current price levels attractive enough to sell their shares. Additionally, given that we are on the threshold of the release of six month corporate earnings reports, equity investors lack up-to-date information regarding the real performance of companies.

Some of the key events and sectors of the market will be examined below:

Effect of exchange rate fluctuations on the stock market

Following the steep devaluation of the Rial in 2012, the bearish sentiment hit the stock market and investors became more cautious in their equity holdings. However, as of last September, market analysts took a more optimistic view on the weakness of the Rial and witnessed its positive effect on the profitability of companies. As a result, the bearish sentiment of the stock market began to change and a new phase of accelerated boom was opened up to the stock market. Since then, the TSE's market capitalization has grown 2.5 fold with the TSE All-Share Index recording a 150% rise in value. Furthermore, the TSE's market capitalization in terms of US dollars had dropped to less than USD 40 billion during the peak of the crisis, but has now regained its value and was valued at approximately USD 100 billion. With data indicating serious economic stagnation at the national level, this boom cannot be attributed to economic growth or efficiency. Thus, the most plausible reason can be found in the appreciation of the dollar against the Rial, which has been enhancing the profitability of institutions in Rial terms. The influx of buyers can also be explained in the same light. Buyers have been rushing to buy shares of these institutions in order to maintain the value of their assets. Nonetheless, with the political horizon clearing and the volatile exchange rate settling, the expectation of further rises in the value of the dollar is limited.

Currently, capital market analysts hold optimistic views on the six month earnings reports of exporting companies. In general, analysts expect a positive performance and an upward earnings adjustment

on the part of exporting companies. Nevertheless, it is noteworthy that the current value of the dollar is 10% lower compared to its average value in the first six months of this year. As such, there is still much scepticism surrounding forecasts on the future performance of these companies.

With the prospect of a stable exchange rate, the shares of some of the most prominent exporting groups, such as basic metals, faced widespread fortune on one hand, and ambivalence of investors on the other hand. Even with a 10% growth rate, the basic metal sector grew by less than the average growth rate of the market or some of the leading industries in the market.

Petrochemical Industry

Despite its positive performance in 2013, the petrochemical industry has failed to satisfy its shareholders. At the same time as discussions regarding the increase of feedstock prices were taking place, shares of companies in this sector suffered a relative downturn shortly after their impressive growth last autumn. Since then, the industry has been lagging behind other sectors in terms of its comparative growth. However, in September 2013, the petrochemical sector was favoured by investors once again and the sector index surged by 27%, making it the star performer of the month. The majority of shares in the petrochemical industry have been trading with a P/E (Price to Earnings ratio) of 5, one unit below the average P/E of the market which is at 6. In other words, shares of petrochemical companies are trading at lower prices compared to their profitability. In addition, even with the current exchange rate stability, petrochemical companies will likely be exposed to positive earnings forecasts adjustments in their six month corporate earnings reports that will be released by the end of October. This is yet another factor justifying the appeal of petrochemical shares. However, the pricing of feedstock is a vital factor that remains unclear. Should the old prices of gas and liquid feedstock remain the basis for future pricing, the outlook for the profitability of this sector is very positive. That being said, given the current price of products and the rise in the exchange rate, such a scenario

seems implausible. Now, the expectations are directed towards the new government and oil ministry to resolve this ambiguity overshadowing the petrochemical industry. Perhaps, enacting a logical rise in the price of feedstock can help alleviate this situation and help shares of this industry benefit from the positive environment of the market in a way that better reflects the industry's fundamental potential.

Automobile Industry

The shares of automobile manufacturers suffered an average fall of 10% in the first half of September. However, this was followed by a speedy recovery and the sector index finished the month with an overall growth of 6%. The fundamental justification for such volatility in this sector is rooted in the general market environment, the exit of some short-term investors (who held a relatively large proportion of shares in the industry) from the equity market, and finally the uncertainties in regards to government's pricing policies. Automobile manufacturers have faced two major problems during the challenging conditions of the past two years. On one hand, they were confronted by a 60% drop in car production and on the other hand, they had to deal with illogical and often-delayed governmental instructions in regards to pricing of their products. However, with the new government taking charge, and with the relative stabilization of foreign exchange movements and the prices of raw materials, the production rate in this industry improved to some extent. In fact, the production rate of Iran Khodro rose from 600 cars in the difficult days of this spring to 2000 cars in September; this is almost close to its rate before the crisis. With the recent announcement of the minister of industry in regards to the government officially removing itself from setting pricing, shareholders hope soon to see the coupling of price liberalization with a rise in production volumes. With this, they expect shares to rise and hope to see the rejuvenation of this chief industry after two years of decline.

Initial Public Offerings

The shares of the world's biggest olefin production unit (Jam Petrochemical Company) were finally

offered on the Farabourse market (over-the-counter) on 28th September. The IPO helped the OTC's total market capitalization surpass USD 25 billion. With a market capitalisation of USD 2.4 billion and a P/E of 4.5, this IPO resulted in significant investor interest. However, despite its production capacity of 1.6 million tonnes (1.32 million tonnes of Ethylene and 300,000 tonnes of Propylene), the production volume of this unit has been consistently below its potential level (60% to 70% of its full capacity). The reason behind this has been feedstock deficiencies (particularly gas), which itself has been due to delays in the utilization of the South Pars gas field phases. According to reports, this company has been performing on average with only 67% of its full capacity and earned a profit of USD 300 million. Nonetheless, managers of the company believe that utilizing the full production capacity will improve the company's profit to up to USD 1 billion. Jam predicts a profit of USD 533 million in 1392 assuming the company produces at 75% of its full capacity. With minor deviations in its budget forecast, this scenario seems more or less achievable.

Overall, the stock market witnessed a decline in the first half of September and ended the month in a boom, helping the market index to leap by 12.2%.

Performance of TSE All-Share Index (September)



Market Statistics	
Average P/E	6.7
Trade Volume (\$ Billion)	1.9
Trade Value Monthly Change (%)	- 26
Market Cap (\$ Billion)	129

Top 5 Traded by Value

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Bandar Abbas Oil Refining Co.	208	11
2	Persian Gulf Petrochemical Industry	86	5
3	Iran Power Plant Projects Management Co.	82	4
4	Isfahan Oil Refining Co.	78	4
5	Tamin Petrochemical Co.	71	4

Top 5 Companies by Market Cap

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	12,405	10
2	Bandar Abbas Oil Refining Co.	7,277	6
3	Isfahan Mobarakeh Steel Co.	5,563	4
4	National Iranian Copper Industries Co.	5,537	4
5	Isfahan Oil Refining Co.	5,020	4

All figures quoted in USD in this Newsletter are calculated based on the Central Bank of Iran's official USD/IRR exchange rate of 24790, as at 30 September 2013. Due to Central Bank's revision on the official exchange rate of the Rial, their equivalent value in USD has reduced dramatically.

Negotiations over Iran's Nuclear Program-5+1 Group Meeting in Geneva

In October, the most recent talks between Iran and the P5+1 (also known as the E3+3: Germany, France, United Kingdom, Russia, China, United States) regarding Iran's nuclear programme took place in Geneva. This was the first time since President Rouhani came to office that the delegations were meeting to discuss ways of resolving this issue.

According to reports, the talks ended on a hopeful and positive note with Iranian officials as well as the E3+3 signalling their willingness to negotiate. For the first time, the relevant parties were able to release a joint statement at the end of the discussions where the meetings were described as "substantive and forward-looking". According to diplomats involved, the tone and general atmosphere of this round of talks differed to a great extent from the atmosphere of previous negotiations under the former President, Mr. Ahmadinejad. An American official who has been involved in these negotiations for the past two years stated that the most recent talks have been the most "intense, detailed, straight-forward, candid conversations with the Iranian delegation" they've ever had. Members of the Iranian delegation also held one on one talks with their American counterparts on Tuesday night in a continuation of recent diplomatic contacts between the two states.

Reports indicate that the Iranian delegation made a Power Point presentation titled "Closing an Unnecessary Crisis, Opening New Horizons" in which a detailed and comprehensive roadmap to resolving the issue was proposed. The diplomats from both sides agreed to keep the discussions secret; nevertheless, media speculation and unconfirmed reports have surfaced regarding details of the proposed plan. The Iranian Foreign Minister, Mohammad Javad Zarif, who attended the talks while suffering from extreme discomfort due to back pain, presented Iran's case during the morning session of the first day of the talks. Reports suggest that Mr. Zarif's backache was a topic of common concern between the diplomats present who offered him sympathy and advice for his condition which helped break the ice.

More discussions followed from Mr. Zarif's deputy, Mr. Araqchi in the afternoon session and the second day of the talks. The European Union's High Representative of the Union for Foreign Affairs and Security Policy, Catherine Ashton, and Mr. Zarif released the joint statement during a press conference after the talks were over. The statement included the date of the next round of talks which are due to be held on the 7th and 8th of November in Geneva.

From the words of Western officials, it can be interpreted that these talks were conducted on a much more serious and substantial level, leading to an Iranian official saying that both sides could reach an agreement within the next six months. That being said, all parties have stressed that the issues at hand are complicated and solving them cannot be done in haste. It seems that both sides are taking these negotiations more seriously and are considering possible solutions in order to break the impasse.

Western countries have in the past decade accused Iran of pursuing military objectives in its drive for nuclear technology; however, Iran has always maintained that its nuclear programme is exclusively for peaceful purposes. The P5+1 is seeking guarantees from Iran to prove the peaceful nature of its nuclear objectives, while Iran stresses that the economic sanctions which have been placed on Iran are illegal as it has not broken its obligations under the Nuclear Non-Proliferation Treaty (NPT) and is simply requesting the recognition of its rights under the NPT which includes the right to enrich uranium.

These high level talks which took place show signs of a positive shift in regards to the improved prospects for some of Iran's diplomatic relations. After this meeting, Iran's official news agency announced that Iran and Britain have formally decided to appoint charge d'affaires and resume direct diplomatic links between the two countries. British officials have held a number of one on one meetings with Iranian officials since Mr. Rouhani's trip to New York, which included a meeting between Mr. Zarif and the British Foreign Minister, Mr. William Hague.

Rouhani's Speech at Tehran University

In late September, President Rouhani attended Tehran University and delivered a speech during a ceremony for the beginning of the new academic year. This is the first time Mr. Rouhani has spoken to academics and students at Tehran University as President, and the content of his speech was in line with his campaign promises regarding a push towards further openness and freedom in universities and society as a whole.

Mr. Rouhani reiterated his belief in the responsibilities of students and academia in the sphere of science and confirmed his support for an attitude of criticism from students of higher academic institutions on all matters including domestic and foreign policy, environmental policy and economics. The President continued to state that one of the prerequisites for research and scientific achievement is academic freedom, whereby academia and members of faculty are free to criticize and express their views without repercussions. Mr. Rouhani went on to say that his administration will not tolerate any pressure from different factions within universities and all matters should follow the rule of law.

President Rouhani criticized previous policies towards faculty in universities and warned against sending professors and instructors into early retirement as was done during the previous administration. He mentioned that the securitization of universities will only lead to discord and asked the different security organizations to trust the academia and students and let them express their ideas freely as they only have the country's interests at heart.

Mr. Rouhani also touched on the subject of foreign policy during his speech and mentioned that globalization is today's reality where borders no longer have the same effect as they did in the past. He restated his government's commitment to having constructive relations with the international community and praised the Iranian nation's role in pursuing these ideals by bringing about a change through voting in the country's presidential election which were held in June.

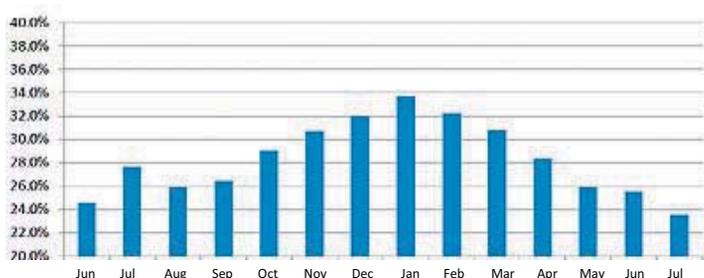
Analysts are observing the government's policies in regards to higher education institutions where a large number of Mr. Rouhani's supporters lie. During his election campaign, Mr. Rouhani had promised a freer environment in universities and the de-securitization of academic institutions. Mr. Rouhani's choice for the Ministry of "Science, Research and Technology" was not able to receive a vote of confidence from the Iranian Parliament and a caretaker was appointed by the President until another candidate is introduced to the Parliament for this position. According to the Iranian Constitution, the President has a period of 90 days to introduce another candidate for a ministerial role, should any of his nominations fail to receive a vote of confidence by the Parliament.

The President has named Mr. Reza Faraji-Dana as his candidate to take over the Ministry of Science, Research and Technology. Mr. Faraji-Dana is an electrical engineer who received his BS in Electrical Engineering from Tehran University and his MS and PhD from the University of Waterloo in Canada in the same field. Mr. Faraji-Dana has held many academic posts in the past, including the role of Head of Tehran University. The vote-of-confidence session for determining the remaining ministries, including the Ministry of Science, Research and Technology, was held on the 27th of October during which Mr. Faraji-Dana became Mr. Rouhani's Minister of Science, Research and Technology.

Descending trend of liquidity growth

According to the monthly statistical report published by the Central Bank of Iran (CBI), the country's liquidity levels increased by 1.3% in July 2013 compared to the preceding month. In other words, another 60 trillion Rials has been added to the economy, bringing the total money supply by the end of July to approximately 4,790 trillion Rials. However, the country has been experiencing a decline in its monthly liquidity growth since the beginning of the current Iranian calendar year. As shown in the figure below, cash levels grew by 1.3% and 1.4% in June and May respectively.

**Annualized Liquidity Growth Rate
(May 2012-July 2013)**



Dramatic escalation in state spending and the creation of state-sponsored loan programs to finance various government projects such as the Subsidies Reform Plan, the Small-Business Incentive scheme, and the Mehr Housing Development scheme are the most important factors that triggered Iran's excessive liquidity growth. The implementation of the subsidies reform plan and the monthly cash handouts to Iranian citizens has influenced Iran's liquidity levels. In addition, the Iranian banking system has been pressured by the government to lend large sums of money to industries in order to promote domestic production. The lending amount often exceeded the bank's reserves, resulting in hefty borrowing from the CBI. The Mehr housing development scheme accounts for nearly 39.6% of the country's money supply. Furthermore, the mounting pressures of international sanctions targeting the Iranian financial system and the country's trade balance, and restricting Iranian access to foreign reserves, along with the devaluation of the Iranian currency are among the chief contributing causes towards the high growth rate of the money supply in Iran.

However, Rouhani's economic team and the CBI officials are determined to take some serious actions to control the country's liquidity growth. The development of stricter liquidity regulations imposed by the Central Bank has resulted in a decline in the country's liquidity growth since 2013. Based on the report published by the CBI, the average monthly growth rate of money supply has dropped from 3% in the first half of the Iranian calendar year 1391 to 2% in the second half of the same year. The descending trend has continued in the first four months of 1392. According to some analysts, the country's cash levels will reach to around 5,310 trillion Rials if the average monthly liquidity rate remains at around 1.3% in the coming months.

Iran's foreign trade overview in the first half of this year

According to the Customs Administrations report, in the first half of the Iranian calendar year 1392 (starting on March 2013) Iran's total non-oil exports (including gas condensate) amounted to 17.9 billion dollars. The main exported products during this period comprised of 4.47% uncondensed iron ore and its concentrates (USD 652 million), 4.17% urea (USD 609 million) and 3.83% methanol (USD 559 million). The main destinations of exports were China (USD 3,085 million), Iraq (USD 2,868 million), United Arab Emirates (USD 1,762 million), Afghanistan (USD 1,246 million) and India (USD 1,217 million). With the exceptions of China and India, the value of exports has fallen in the first six months of 1392 compared to the same period last year. This is while the volume of exports has increased in all cases except Afghanistan.

The country's total imports were valued at 19.9 billion dollars in the first half of the current year. The main imported products comprised of 6.47% rice (USD 1,289 million), 3.79% soya meal (USD 755 million), 2.53% corn (USD 505 million), 2.24% wheat (USD 447 million) and 1.86% automotive products (USD 371 million). A substantial increase has also been witnessed in the volume of imported medicine, which shows a rise of 33.53% in the first six months of 1392. The top five exporters to Iran were United Arab Emirates (USD 4,006 million), China (USD 3,742 million), India (USD 1,937 million), Republic of Korea (USD 1,744 million) and Turkey (USD 1,724 million).

Iran's foreign trades in the first half of 1392

	First half of 1392			First half of 1391			% Change		
	Ton (000)	Value		Ton (000)	Value		Ton (000)	Value	
		IRR(bln)	USD (m)		IRR(bln)	USD (m)		IRR	USD
Non-oil Export	41,659	444,640	17,972	38,077	254,934	20,799	9.41	74.41	-13.59
Import	13,241	488,902	19,935	19,263	326,150	26,720	-31.26	49.9	-25.4

With non-oil exports standing at USD 17.9 billion and imports standing at USD 19.9 billion, the non-oil trade balance has been running a deficit of USD 2 billion in the first half of 1392 according to the report published by Customs Administration. In dollar terms, the country's total value of exports (including gas condensate) and imports fell by 13.59% and 25.40% respectively in the first six months of this year compared to the same period last year. According to a report released by the Central Bank of Iran, the value of non-oil exports and imports in 1391 were USD 41.3 billion and 53.3 billion respectively. This shows a non-oil trade balance deficit of USD 12 billion in 1391.

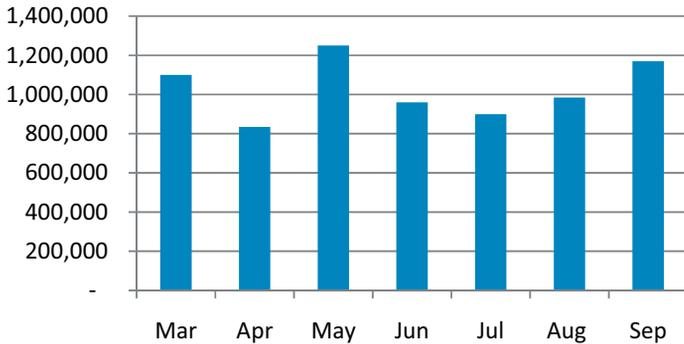
It is indicated that the decline in the value of the trade balance was not singly due to a decline in export volumes or an increase in import volumes. Figures show that both imports and non-oil exports declined in 1391 compared to 1390. More specifically, the total value of non-oil exports and imports declined by 6% and 14% respectively. However, such a downward trend was not visible across the board. In fact, more detailed analyses of these figures show differing trends in both import and export values. While the import of oil and oil products dropped by 54%, the import of non-oil products dropped merely by 10.6%. Thus, it seems that the sharp rise in the cost of imported products (a two to three-fold increase) has not come as a discouragement to importers. Similarly, the value of oil exports had a decline of

42.2%, while the value of non-oil exports had a growth of 12.2%.

Further analysis linked the decline in oil exports to international restrictions on financial transactions, and the rise in non-oil exports to the depreciation of Rial. With the Rial depreciating, Iranian goods became available at a lower cost, naturally creating a greater demand for them. However, many believe that with international sanctions having been tightened in the last couple of years, the procurement and distribution of manufactured goods would be severely affected. Adding to that is the rising rate of inflation, which would make the cost advantage of Iranian goods obsolete. This in fact has happened in 1392.

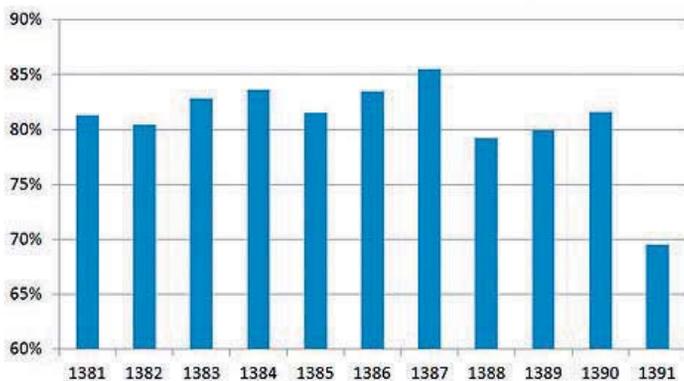
The average export of crude oil dropped to 1.02 million barrels per day (bpd) in the first six months of the year (figure below). According to the Financial Times, this drop came as Iran's main clients, China, India, Japan, South Korea and Turkey cut their imports to a total of 750,000 bpd in April. This was down more than 30% compared to the previous month. This drop continued in May and forced Iran to store crude in tankers offshore and as a result, limit its production as it filled up the available space. The biggest drop in imports came from Japan with a 97% reduction in its import of Iranian crude in April 2013 compared to the same time last year. India also reduced its imports of Iranian crude to its lowest levels on record, buying just 117,000 bpd, a 56% cut from the same month a year ago.

Iran's oil Export in the First Half of 1392



The real volume of oil exports had a 42% decline amounting to USD 68 billion in 1391. This is reflected in the ratio of oil exports to total exports, which declined from 82% to 70% in the same year (See figure below). With sanctions by the US and the European Union tightening, Iranian oil exports came to near a standstill in the summer of 1391. The most effective drive behind this was the EU ban on all Iranian petroleum imports as well as the imposition of insurance and reinsurance bans by European P&I Clubs effective on Tir 1391 (July 2012). With this ban taking effect, European insurers underwrote insurance policies for 95% of the global tanker fleet. This insurance ban took its toll particularly on Iranian oil exports as the lack of adequate insurance impeded the sales of Iranian crude to all of its customers, including those in Asia. As a result, Iranian exports dropped to less than 1.0 million bpd in Tir (July) as Japanese, Chinese, Korean, and Indian buyers swarmed to find insurance alternatives.

Shares of Oil Exports to Total Exports



Car production drops in the first half of 2013

According to the Ministry of Industry, Mines and Trade, the number of vehicles manufactured in the first half of 2013 has slipped to 359,670 units, indicating a 36.5% drop compared to the same period of the previous year. The country's car production stood at 1,648,505 and 1,155,125 units in 2011 and 2012 respectively.

The production cut during 2013 will downgrade Iran's position on the OICA (Organisation Internationale des Constructeurs d'Automobiles) list of the largest global auto manufacturers. Iran had the 18th and 13th spot in 2012 and 2011 respectively. During the past two years the automobile manufacturers have been unable to hit full production capacity due to the imposed international sanctions and the pricing controls implemented by the government. Iran Khodro and SAIPA (the largest automakers in the Middle East and Central Asia) are manufacturing 50% below their production capacity. The capital-intensive nature of this industry is such that recreating the production capacity (replacement value) of these companies would itself cost 10 times their market capitalization.

As a direct result of the sharp decline in car production, the country's car exports fell by nearly 90% during the first half of 2013 to 1,456 units.

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Turquoise publishes this electronic newsletter, *Iran Investment Monthly*, with the aim of keeping its recipients updated on the latest macroeconomic developments in Iran, providing an in-depth analysis of the Tehran Stock Exchange as well as introducing new financial products and private equity opportunities to potential investors.

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