Iran Investment Monthly

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Tochal mount is a mountain in the Alborz range, adjacent to metropolitan Tehran. Tochal ski resort is located at 7th station, ranks 5th highest ski resort in the world (3850m)

Market Overview 2

The Tehran Stock Exchange ended the month of November with a 0.5% fall by its main index leading to a year to date performance of -9%. The continued rout in the global commodities and oil markets were contributing factors towards the negative atmosphere in the market this month. On the upside, trading volumes reached $643 million in November showing a 32% increase in comparison to the past month. With an increase of 2.8%, Pharmaceuticals were the best performing group in terms of market cap amongst the 10 largest industries. This jump can be traced back to optimism towards the removal of sanctions which may potentially lead to lower transaction costs and eventual better outlook for trade.

Country Highlights 5

The most recent and important news about the country will be mentioned in this section.

Economy 6

This issue reviews Iran's government fiscal balance and current account outlook in light of lower oil prices along with statistical survey on GDP breakdown by Iran's provinces released by Statistical Center of Iran.

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The Tehran Stock Exchange ended the month of November with a 0.5% fall by its main index leading to a year to date performance of -9%. The continued rout in the global commodities and oil markets were contributing factors towards the negative atmosphere in the market this month. On the upside, trading volumes reached $643 million in November showing a 32% increase in comparison to the past month. In addition, the Central Bank of Iran introduced details of a new stimulus package which includes a variety of economic policies. This package is designed to tackle the domestic economic recession by providing consumer finance for the purchase of automobiles and household goods at subsidized interest rates. The plan is expected to stimulate growth through liquidity expansion at around $2 billion by the Central Bank.

As another important measure, the Central Bank will reduce the reserve requirement ratio (RRR) from 13% to 10% depending on the financial strength of each depository institution. This has had an easing effect on the tightened liquidity situation leading real interest rates to an unprecedented level of 10%.

Key sectors are discussed below:

Pharmaceuticals

With an increase of 2.8%, Pharmaceuticals were the best performing group in terms of market cap amongst the 10 largest industries. This jump can be traced back to optimism towards the removal of sanctions which may potentially lead to lower transaction costs and eventual better outlook for trade.

The sector is highly dependent on imports due to the fact that domestic medicine producers obtain more than 50% of their raw material from overseas. The Ministry of Health has given permission to pharmaceutical companies allowing them to increase their selling prices. Medicine prices are expected to rise gradually by 10% to 15% on average before the end of the Iranian year in late March. This positive news was met with investor enthusiasm leading to an increase in pharmaceutical stock prices. Pharmaceuticals have been recognized as the only positive performers since the bear market started in 2013.

Automakers

In late November, the government kicked off its stimulus package by offering a 4 year loan of $8000 for each vehicle with a subsidized interest rate of 16%. The plan was extremely well received with 110,000 individuals registering for the loan with a total value of $700 million. Policymakers believed that this would help automakers sell some of the piled up cars which have been accumulating due to lack of demand in the recent months. This plan is predicted to have a positive impact on the January performance reports of this sector.

Mining

November proved to be a bad month for mining companies as the index fell down 6.5%. In terms of market cap, this was the worst performing sector amongst the 10 largest industries on the market. Mining has lost 36% in value in 2015 recording its worst historical annual performance. Iron ore companies which account for more than 90% of the sector's weight, suffered from significant losses in this month as concerns over China's economy have been intensifying.

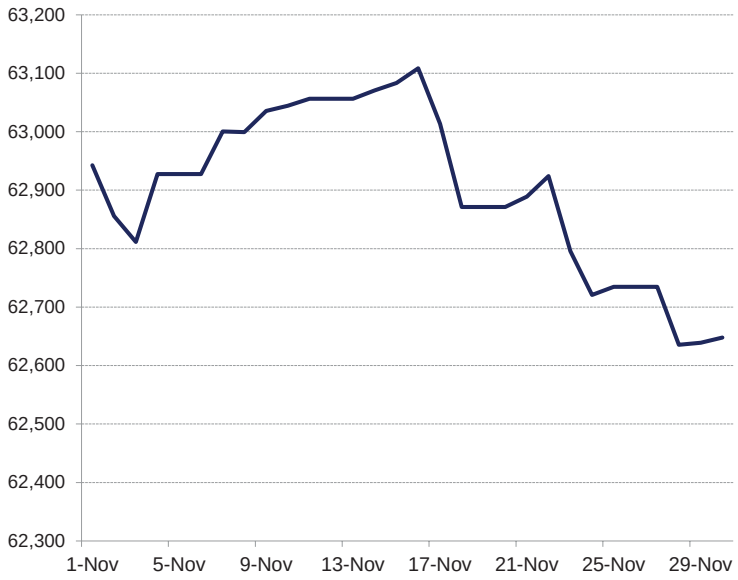
Moreover, domestic Iron ore prices have fallen by more than 30% this year while analysts anticipate a 50% contraction in the overall profitability compared to last year. As Iron ore prices in Iran are tied to steel prices, any improvement in this sector is dependent on the steel market. The steel market is currently suffering from the lack of demand in infrastructure development as a result of government budget restrictions.

Banks

With inflation down from 45% to 10% within two years, real interest rates and bank deposit rates are now 10% and 20% respectively. This has put a lot of pressure on the banking sector which is now suffering from negative interest margins according to the Turquoise database. Iran's Money

& Credit Council who dictates the rates, held a meeting in November without reaching a conclusion on rate cuts. The majority of council members believe that decrease in rates will not take place through pressure and fundamental reforms will have a much better chance in sustaining real interest rates. In order to combat the liquidity shortage, the council has decided to decrease the reserve requirement ratio (RRR) from 13% to a number between 10% to 13% taking into consideration the financial soundness of each bank. Another step taken was the reduction of the interbank rates and the easing of liquidity constraints through expansion of financial resources by the CBI. As a result, from the 28% recorded in August, interbank interest rates dropped to 21.5% in the second half of November. These measures are expected to have a gradual downward effect on the final interest rates in the coming months. This being said, listed banks ignored this positive news in November and the sector index recorded loss of 4.9% in value.

Performance of TSE All-Share Index (November)



Market Statistics (November)	
Average P/E	5.7
Trade Value ($ Billion)	0.6
Trade Value Monthly Change (%)	31.8
Market Cap ($ Billion)	90.0

Top 5 Traded by Value (November)

Rank	Company Name	Turnover Value ($Million)	% of Total Turnover
1	Iran Khodro	41	6
2	Mellat Bank	27	4
3	Polyacryl Iran Public Corporation	26	4
4	Pasargad Bank	21	3
5	Azarab Industries Co.	16	2

Top 5 Companies by Market Cap (November)

Rank	Company Name	Market Cap ($Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	8,853	10
2	Mobile Communications of Iran	3,847	4
3	Parsian Oil & Gas	3,582	4
4	Telecommunication Co. of Iran	3,495	4
5	Tamin Petrochemical Co.	3,159	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 30,086 as at 30 November 2015

Due to Central Bank's revision on the official exchange rate of the Rial, TSE's market capitalization and trading value in USD have reduced dramatically.

➢ The International Atomic Energy Agency's Board of Governors met on December 15 in order to close Iran's nuclear dossier at the agency and end more than a decade of investigations into alleged military dimensions in its nuclear programme. Despite a report published by the head of the agency, and his renewed statements about the agency's inability to reconstruct all Iranian nuclear activities, the 35 nation board unanimously voted to end the probe on examining allegations on potential past military dimensions (PMD) in Iran's nuclear activities. Iran which has stated its nuclear programme has been purely peaceful, agreed to limit some aspects of its nuclear programme in return for lifting of UN, US, and EU sanctions that were placed on the country due to its nuclear activities. The July 14 accord, reached between Iran and the EU3+3 and termed the Joint Comprehensive Plan of Action (JCPOA), envisioned the closing of the so called PMD file at the IAEA. According to the Iranian foreign minister, Javad Zarif who welcomed IAEA's latest act, the closing of Iran's PMD file will nullify 12 previous resolutions which had been issued against Iran by the agency in the past decade. The move by the IAEA board of governors on December 15 paves the way for the full implementation of the JCPOA and Iran has stated that in a matter of two to three weeks, it will complete all its obligations under the deal. According to the accord, lifting of sanctions will simultaneously occur with verification of Iranian compliance by the IAEA. The Iranian president, Hassan Rouhani, also stated in a televised speech that the sanctions against Iran will be lifted in January.

➢ The US Congress has applied changes to its visa waiver program with 38 nations in order to prevent visa-free travel to the US by people who have visited Iran, Iraq, Syria and Sudan in the past five years, or hold nationalities from these states. This move has caused criticism by civil rights activists, European Union diplomats and Iranians who see this move as discriminatory. The Iranian foreign minister has called this move absurd and has stated that it goes against provisions of the nuclear agreement reached in July. The Iranian deputy foreign minister, Abbas Araghchi, has also stated this move will certainly affects economic, tourist, cultural and scientific exchanges with Iran and deemed it to be a breach of the Joint Comprehensive Plan of Action. In a letter to Javad Zarif, the US Secretary of State, John Kerry, has stated that the US is fully committed to the nuclear deal and has notified his Iranian counterpart about the US government's ability to waive visa conditions which would hurt legitimate Iranian business interests.

➢ Relations between Iran and Turkey have faced challenges in recent weeks as the sides differ on how the Syrian conflict should be resolved. The recent downing of a Russian jet by the Turkish military has made relations more difficult as strategic differences on Syria have once again been highlighted by this incident. Iran and Russia both support the Syrian government, headed by President Bashar Al-Assad, whereas Turkey and some other regional countries demanded for the removal of Mr. Assad. The Iranian vice president, Eshaq Jahangiri met with the Turkish president Recep Teyyip Erdogan on the sidelines of a conference in Turkmenistan to discuss the recent events. The Iranian VP told the Turkish President that Iran does not wish to see increased tensions in the region and is ready to mediate between Turkey and Russia.

➢ The registration process for the upcoming elections of the Iranian Parliament and Assembly of Experts have took place in the month of December. These two elections are planned to be held on February 26 and according to the latest statements, more than 800 and 8000 applicants have signed up as candidates for the Assembly of Experts and the Iranian Parliament respectively. According to the Iranian constitution the Assembly of Experts, consisting of 88 members, is the body which is responsible for the selection of the Iranian Supreme Leader. Members of the Assembly of Experts are elected to the post by the Iranian people every 8 years. On the other hand, members for the 290 seat parliament are elected for a four year term. After the registration process is complete, the Iranian Guardian Council will review the applicants and publish a list of eligible candidates who can run in the elections.

1. Government fiscal balance and Iran's current account outlook in light of lower oil prices

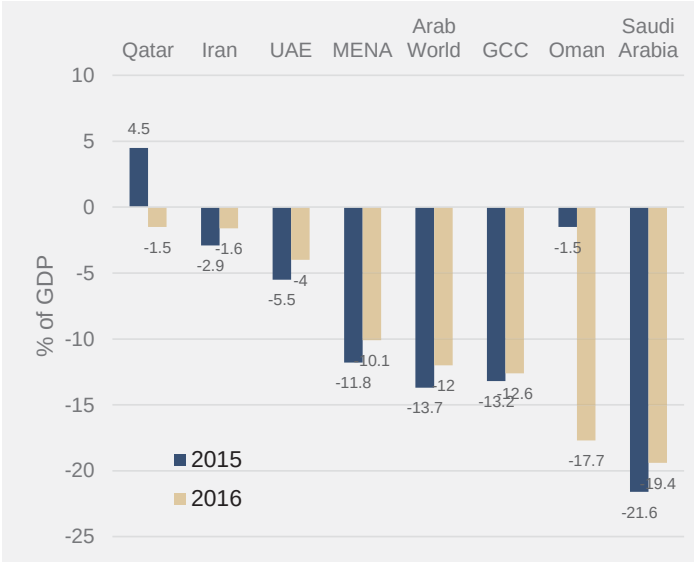
Oil prices are expected to increase modestly over the medium term to be at an average $50 a barrel in 2016 and gradually go up to about $63 by 2020. (Baseline scenario, World Economic Outlook IMF, October 2015). The gloomy outlook of oil prices has led to a substantial deterioration in the fiscal balances of oil exporting countries. Lost revenues are expected to amount to 13% of GDP in Arab States of the Persian Gulf. The projected fiscal adjustment in Iran is expected be less painful due to several measures that were implemented by the Iranian government.

Initially, sanctions pushed Iran to reduce its reliance on oil revenues. In 2014/15 , the share of oil industry stood at 15% of Iran's nominal GDP, the lowest in 22 years. Another measure was one-quarter to one-third of oil revenues were invested in The National Development Fund allowing the government to borrow during difficult times from the fund. Furthermore, the budget of the current year was carefully planned in order not to impose inflationary pressures on the economy, allowing the authorities to cut inflation from an average of 34% to 11% in two years.

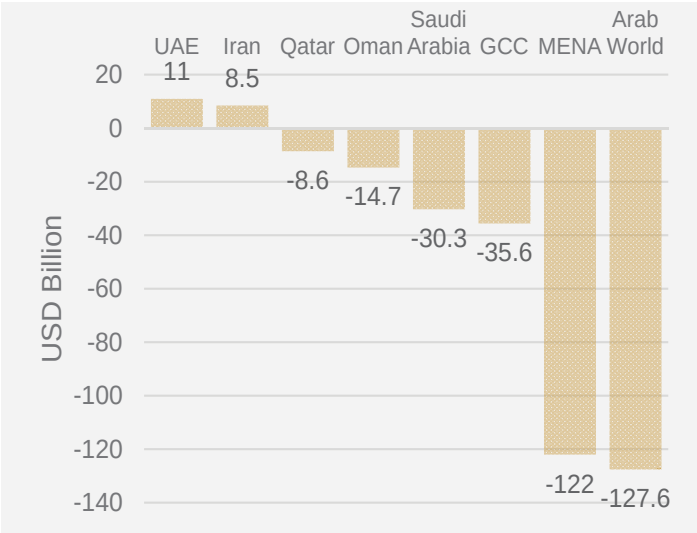
Most oil exporting countries will see their current account balance fall. IMF forecasts GCC countries' current account to contract from a surplus of 15% of GDP in 2014 to a deficit in 2015 and 2016. Iran's current account and fiscal balance outlook is expected to improve gradually (Figure 1).

Two opposing factors will shape Iran's current account outlook in the short to medium term: First, in line with the investment ramp-up and ease of trade in the oil and gas sectors, oil production is expected to grow by about 500k barrels per day (mbpd) in 2016. Higher oil exports will improve the current account in spite of the oil price declines. The second factor is higher investment in other industries and an increase of spending power in private sector. Also a decline in the risk premium and cost of trade in light of sanctions being removed will boost imports and potentially will influence the current account movements (figure 2&3).

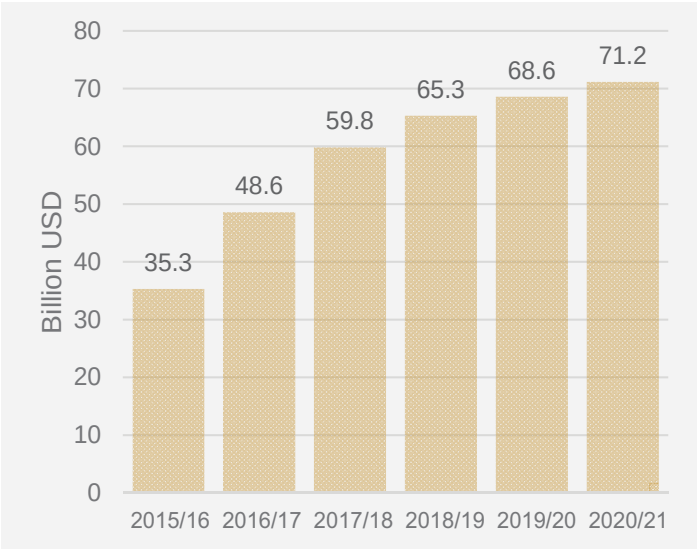
1.General Government Fiscal Balance



2. 2016:Current Account Balance (USD Billion)

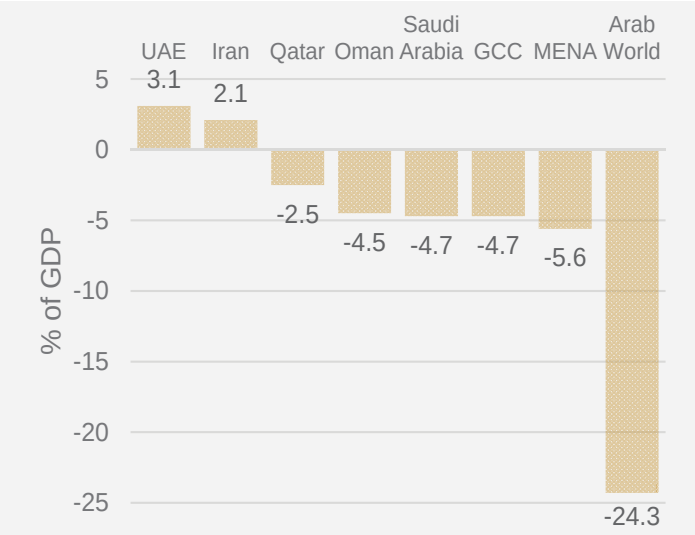


3. Total Oil & Gas Export



Source: IMF – December 2015

4. 2016:Current Account Balance (in % of GDP)



Source: IMF – December 2015

2.Review on GDP statistics by provinces on Iran Issued by Statistical Centre of Iran

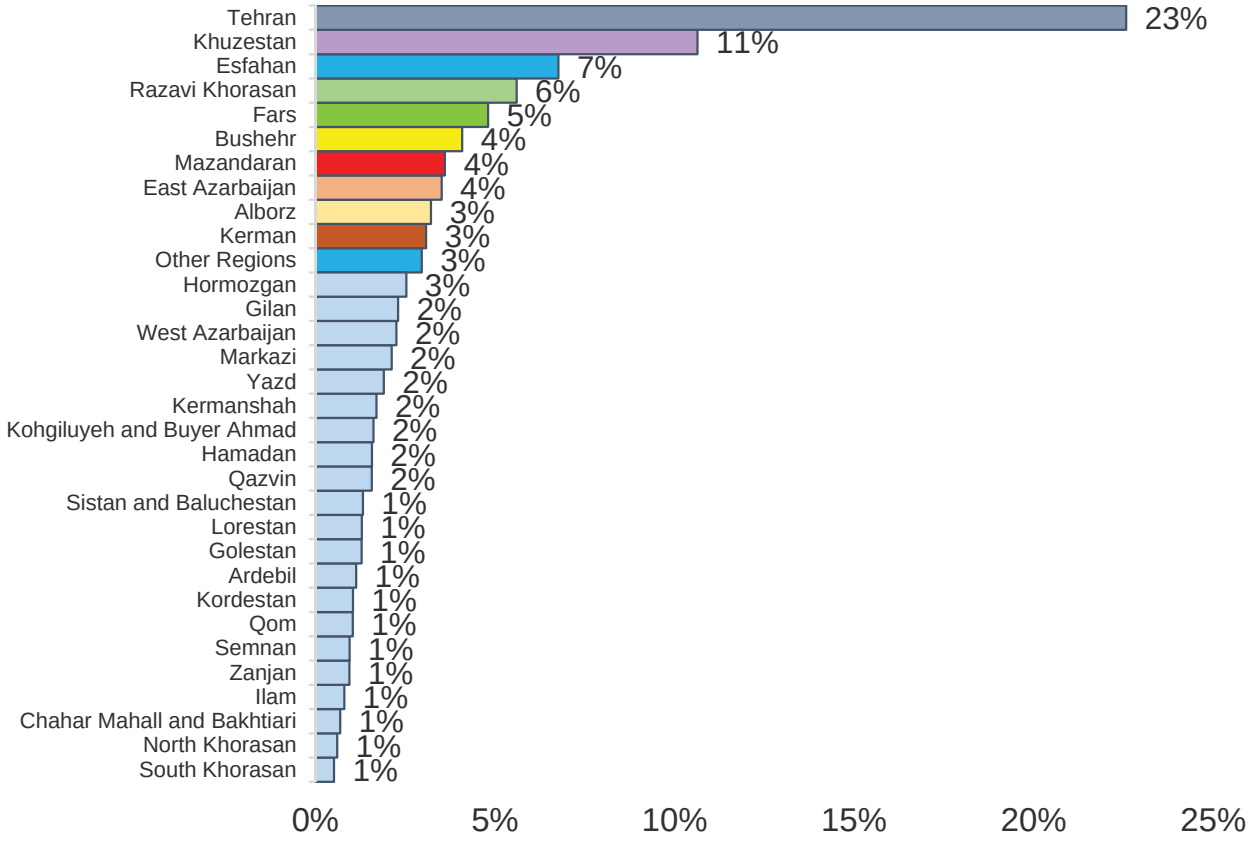
Following Tehran which has 23% share in the national economy; Khuzestan Province is the second largest contributor adding 11% of total domestic product. Khuzestan is located in the south west of Iran where many of oil and gas fields companies and refineries are located. This province is also among top five provinces in agriculture and fishing, education, transport and financial activities.

Third province is Esfahan with 7% share in the GDP. Esfahan is known as a tourism and industrial hub of Iran. Many of the major manufacturers such as steel factories, refineries, power plants, and petrochemicals are based in Esfahan. This province is among top five provinces in education, medical services, utilities, construction, hotels and restaurants, transport and financial activities.

Fourth province is Khorasan Razavi with a share of 6% in the GDP. City of Mashhad in this province is a large and growing city thanks to its religious tourism, agriculture (a major producer of saffron and other fruits), and retail sectors.

Following figures highlight the major contributors to the GDP in detail.

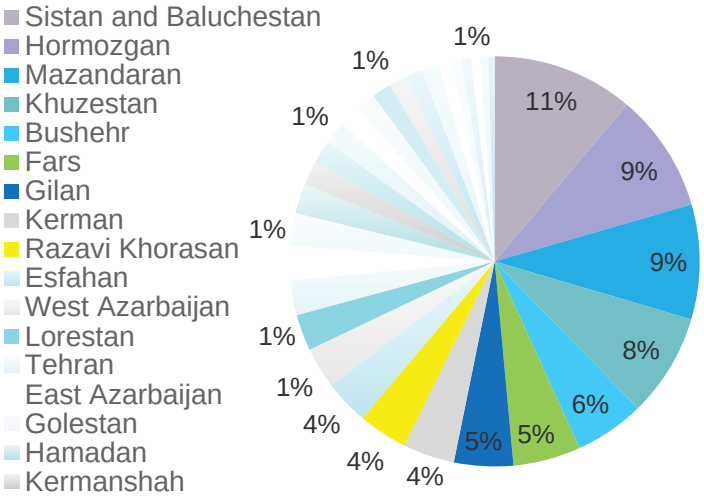
GDP Breakdown by Provinces of Iran



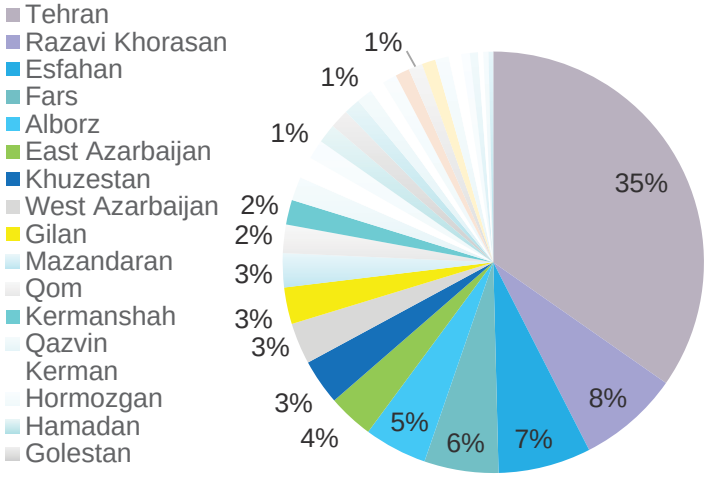
Source: Statistical Center of Iran

Top provinces contribution in GDP sectors

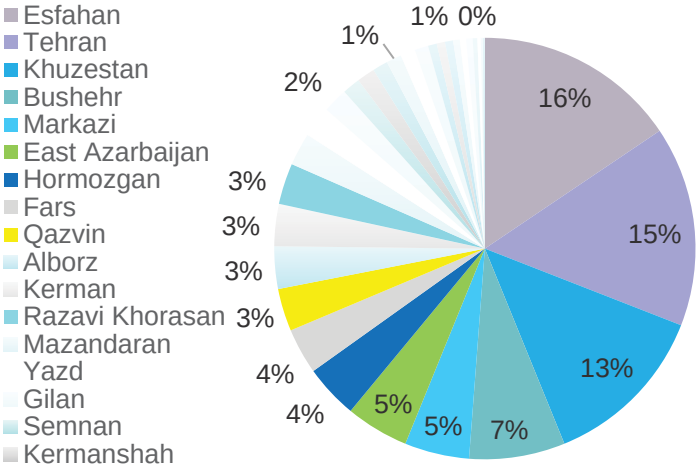
Agriculture, Fishing & Food Supply



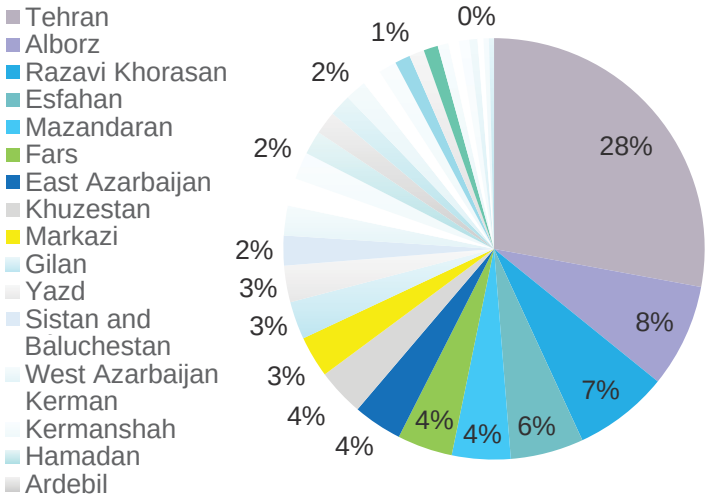
Construction & Propoerty



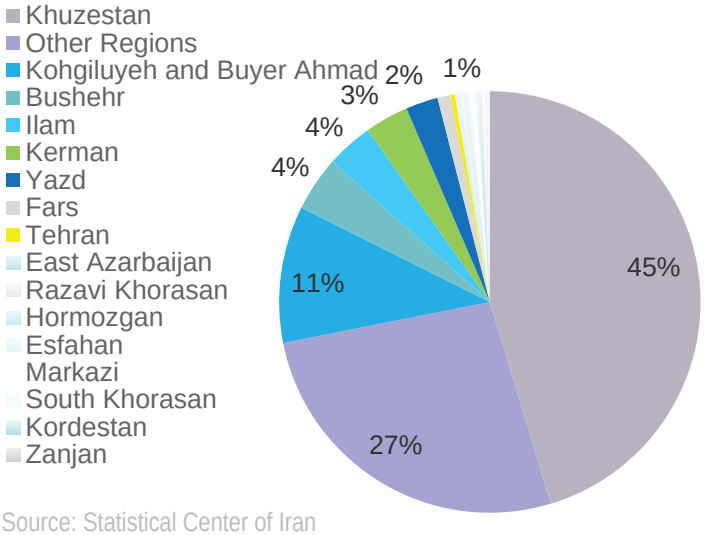
Industries



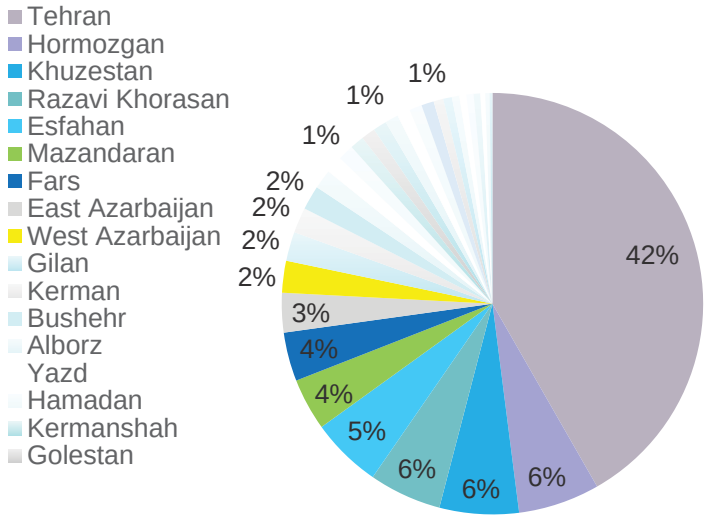
Retail



Mining

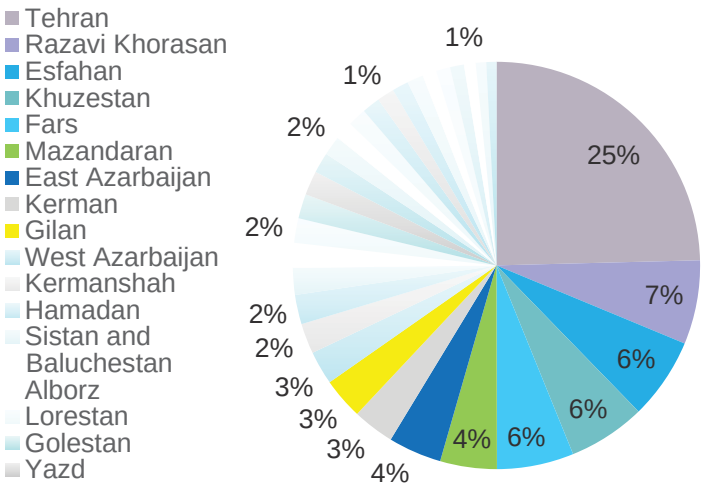


Transport, Storage & Telecommunication

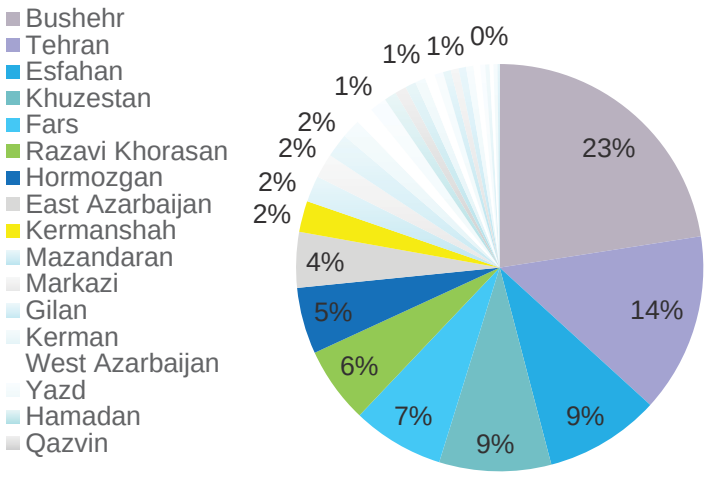


Source: Statistical Center of Iran

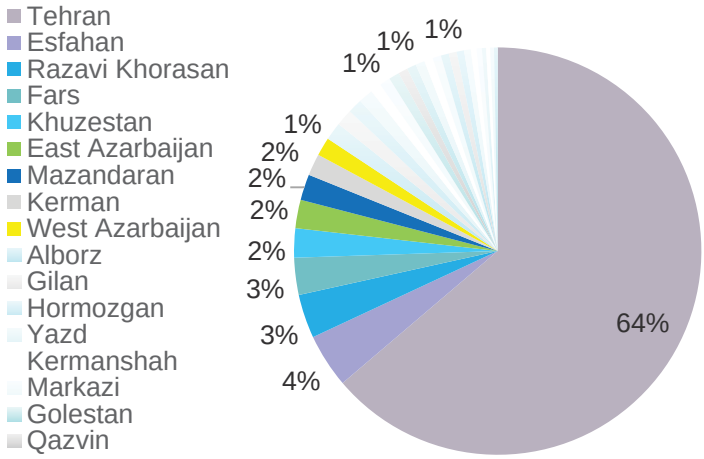
Health & Medical



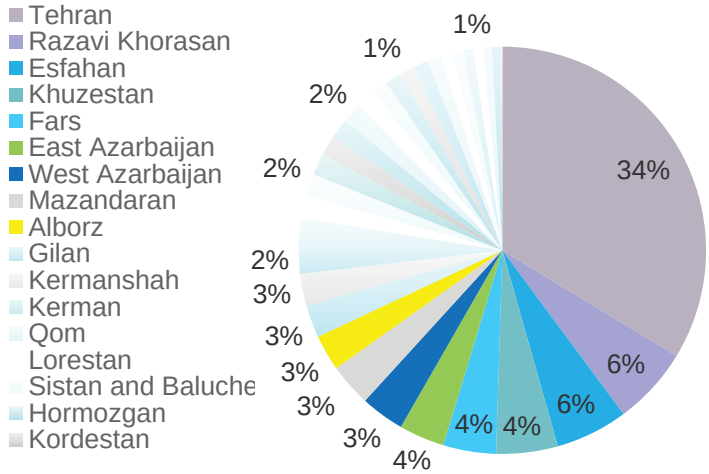
Utilities



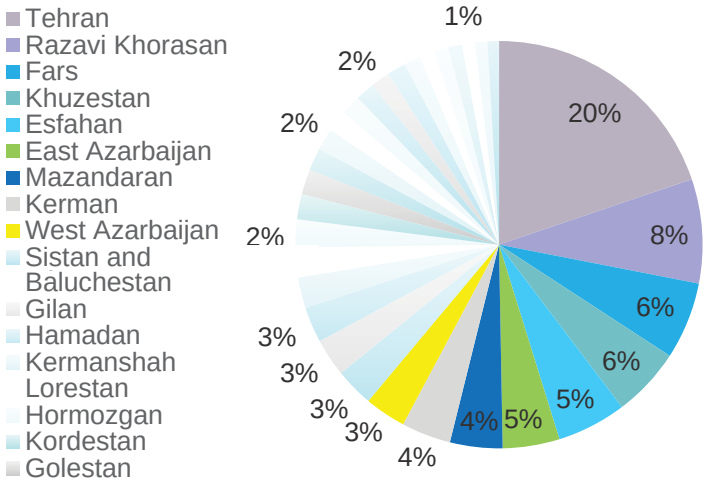
Financial Intermediates & Banking Sector



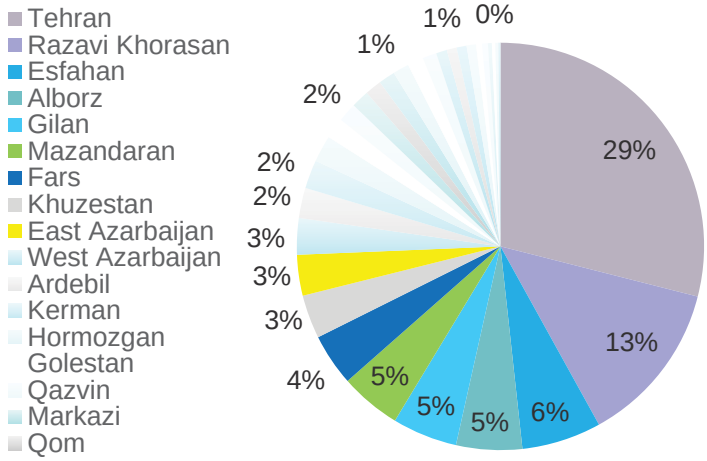
Other Services



Education



Hotel & Restaurant



Source: Statistical Center of Iran

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