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Orumirh salt lake, West Azarbaijan province, northwestern Iran

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The Tehran Stock Exchange (TSE) experienced a 5% decrease during the month of January; this came after a year of consistently positive performance in 2013. The recent price correction will help bring current valuations of stocks to more restrained levels. Valuations had been significantly stretched due to the excess liquidity injected into the stock market by individuals, particularly in the last quarter of 2013. The market P/E ratio which at its peak on January 2nd reached 8.5 has declined to less than 8 and the average price of shares has quickly moved towards more reasonable levels.

Meanwhile, in the last week of January, the next year's budget plan was reviewed by the parliament. The budget plan is one of the most influential drivers of the stock market's performance. During the month of February, analysts will be observing closely the parliament discussions in relation to the budget plan and the government's revenue and cost outlook for the coming Iranian calendar year. Of particular interest are some ambiguities in the market such as potential levies imposed on mining and petrochemical feedstock prices, and also the implementation of the subsidies reform plan.

We will now examine in detail a few individual sectors as well as some important developments in the market.

Quarterly company earnings reports

During the month of January and depending on their fiscal year, most listed companies released their third quarter earnings reports. Earnings reported this time did not significantly change the previously reported forecasts of the total market profits, and the figure still stands at around $17 billion. This was released at a time when many investors, excited by the current positive atmosphere in the market and in the country as a whole, expected strong quarterly performance which could result in positive adjustments to the earnings of listed companies. However, this news showed that even though the political climate and international relations has improved over the last few months, it still has not had a significant impact on the profitability of listed companies. As stated, one of the reasons behind the price correction phase that the market experienced during the month of January was the lower-than-expected earnings results reported during the month. The sector that reported the worst results, with a 70% quarterly drop in earnings compared to the previous quarter, was the housing and construction sector. This huge plunge in earnings is the result of the stagnation that the country's property sector has been going through over the last several months. The sector's index fell by 22% during January which made it the worst performing industry on the market. Most export-oriented companies, especially in the metals and mining sectors, which had been hurt by the appreciation of Iranian Rial over the last six months, also reported poor results. Auto-producers and banks also reported lower-than-expected earnings over the course of the autumn, with their industry indices falling by 5% and 4.6% respectively. The only sector that positively surprised the market and beat expectations in its earnings report was the pharmaceuticals sector. This is mainly due to price increases that they recently benefited from when the government raised the ceiling on its price controls. The pharmaceuticals index was the best performer amongst all industries on the market, and the sector as a whole enjoyed a 24% rise in companies' quarterly earnings in the autumn in comparison to the summer. With relatively poor autumn performances for most sectors in comparison to the market expectations, it is likely that most companies will release cautious and conservative profitability forecasts for next Iranian year (beginning 21 March) within the next few weeks.

Petrochemical

The different committees within the Iranian parliament have approved a new price of 13 cents per cubic meter for the natural gas feedstock of petrochemical companies in reviewing the government's draft budget for the next Iranian year starting from March 21st. While previous rumors suggested the proposition of a fixed price for natural gas, the committees were linking the cost of the natural gas feedstock to the performance of the petrochemical companies which use this commodity in their production processes. The budget review committee had included a comment that the natural gas feedstock prices should be such that the IRRE of these petrochemical companies not exceed 25 percent. Aside from the lack of clarity of this comment, it was also unclear how such a policy would be implemented for different companies. Overall, the stocks of petrochemical firms experienced difficult days, especially in the last two weeks of January. This resulted in the petrochemical sector index to fall by 4.5% on the Tehran Stock Exchange. This was the worst monthly performance of this sector in the last 12 months.

Iron Ore Production

The stocks of companies which are exposed to global prices have seen a gradual reduction in profitability due to the strengthening of the Rial against foreign currencies. In accordance with this trend, iron ore producers have reduced their anticipated income by an average of 6% for this year. The main reason behind this has been the reduction of the price of steel ingots offered on the Iran Mercantile Exchange to which the price of iron ore is pegged.

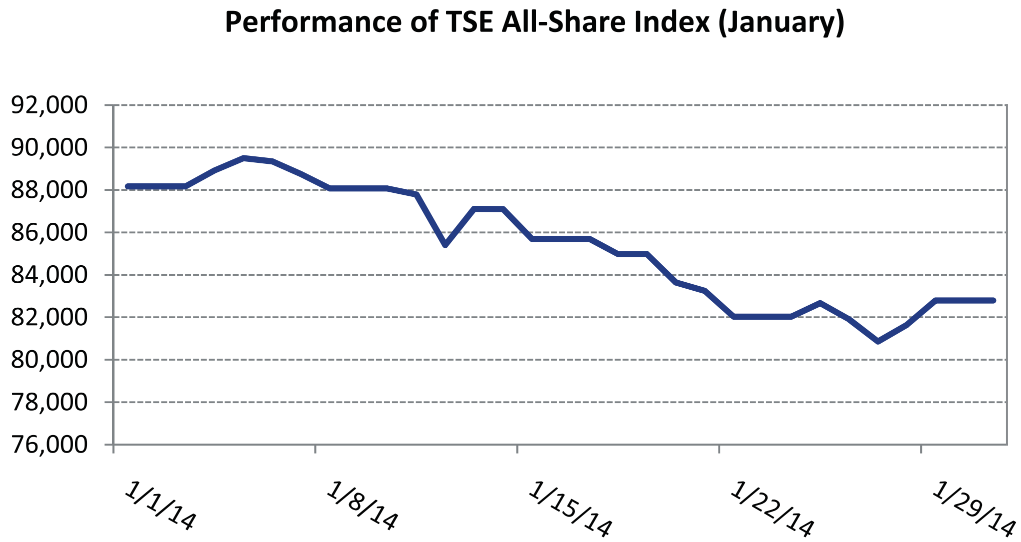
Aside from the above mentioned factors, the decision in regards to increasing excavation duties of iron ore companies to 30% of the sale price of concentrates was passed and approved by the parliamentary committees. As a result of this decision, the profitability of iron ore companies will decrease by an average of 10% during next year in comparison to this year's figures. These factors resulted in a 12% drop in the index of iron ore companies on the Tehran stock exchange during January which placed this sector amongst the worst performing sectors of the market. Considering the above mentioned figures, the profitability of iron ore companies will be faced with challenges in the short term given the higher excavation duties and lower sale prices; however, development projects place these companies in the category of stocks with growth potential in the long term.

Base Metals

The slowdown of the past 6 months or so in many industries has taken its toll on demand for basic metals. Even an average decline of 20% in the price of metals has failed to stimulate demand. For example, the average price of steel products on the Iran Mercantile Exchange (IME) has fallen by around 12% over the past 3 months. Nonetheless, major steel producers were only able to sell half of their supplies on the IME. Consequently, stock prices of most companies in this sector experienced price declines. Khouzestan Steel, Iran's second largest producer, was down 21% this past month. Similarly, stock prices of National Iranian Copper Industries Co (NICIC) and Iran Aluminum Co (IRALCO) fell by 15% and 24% respectively. IRALCO was the worst performer of this sector.

Reduced demand and declines in the prices of base metals have put significant pressure on the revenues and the profit margins of companies in this sector. Latest earnings reports reveal that net profits of the companies in this sector have, on average, fallen by 10% in the fourth quarter of 2013 in comparison to the previous quarter.

Overall, the sector index lost 11.6% of its value in January.



Market Statistics	
Average P/E	7.5
Trade Volume ($ Billion)	3
Trade Value Monthly Change (%)	- 33
Market Cap ($ Billion)	163

Top 5 Traded by Value

Rank	Company Name	Turnover Value ($Million)	% of Total Turnover
1	Isfahan Oil Refining Co.	300	10
2	Iran Khodro Industrila Group	158	5
3	Power Plant Project Management Co.	150	5
4	Tamin Petrochemical Co.	136	5
5	Saderat Bank	105	3

Top 5 Companies by Market Cap

Rank	Company Name	Market Cap ($Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	16,782	10
2	Bandar Abbas Oil Refining Co.	7,749	5
3	Persian Oil and Gas Development Co.	7,247	4
4	Isfahan Mobarakeh Steel Co.	6,449	4
5	Tamin Petrochemical Co.	6,230	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 31 January 2014

Due to Central Bank's revision on the official exchange rate of the Rial, their equivalent value in USD has reduced dramatically.

President Rouhani speaks at the World Economic Forum

President Hassan Rouhani attended the World Economic Forum's Annual Meeting in Davos, Switzerland which took place between 22nd and 24th of January 2014. Mr. Rouhani was the first Iranian President to visit Davos in a decade, the last being Mr. Khatami in 2004.

President Rouhani's speech was hugely anticipated by the attendees and event organizers who were keenly waiting to hear the new government's vision and hopes for Iran and its relations with the world. Mr. Rouhani said that his government wishes to build stronger and closer relationships with the rest of the international community. The President's slogan in terms of his approach to unlock the country's potential was coined as "prudent moderation".

During his address, the President stated that if normal economic ties are reinstated and sanctions are lifted, there is no reason why Iran shouldn't become one of the world's top 10 largest economies within the next 30 years. He argued that having a vigorous foreign policy will help towards economic advancement. The President was very clear in saying that countries will not gain anything by isolating themselves and that Iran plans to rebuild its relationship with business leaders.

Regarding Iran's energy sector, the President stated that he has spoken to international oil firms and plans to develop new fields and expand production, both of which has been affected adversely by the sanctions. Mr. Rouhani's oil minister, Mr. Namdar-Zanganeh, accompanied the President to Davos in order to advance the negotiations regarding a newly structured oil contract and further investment by multinational energy companies.

On the Middle East and Syria, the President explained his stance saying that he is a believer of "free and fair elections". Following this, Mr. Rouhani maintained that Iran's nuclear ambitions are peaceful and that Tehran will continue its peaceful nuclear program under the supervision of the International Atomic Energy Agency (IAEA). He said that he is confident that a permanent deal will be reached.

Iran's readiness to engage with countries on issues including joint business ventures and environmental policy has led to interest from foreigners. Business and political delegations from Europe are planning to come to Iran in order to explore potential possibilities. During the past month, a large French delegation consisting of business leaders and directors of some of France's largest companies came to Iran and met with business representatives. Other delegations from Germany and Italy are also planning to visit Iran in order to explore possibilities of doing business in Iran.

Turkish Prime Minister's Visit to Tehran

The Turkish Prime Minister, Recep Tayyip Erdogan, arrived on Tehran on January 28 for a two day official visit in order to discuss regional and bilateral issues and initiate the setting up of a high level cooperation council between Turkey and Iran. According to media reports, Mr. Erdogan was accompanied by his foreign, economic and energy ministers. In the two day visit, Mr. Erdogan met with the Iranian Supreme Leader, Ayatollah Khamenei, President Hassan Rouhani, and Vice-President, Eshaq Jahangiri. The trip came after a number of recent encounters by high level Iranian and Turkish officials after the coming to office of President Rouhani. Mr. Rouhani and Mr. Erdogan, as well as the Iranian and Turkish Foreign Ministers, had met on the sidelines of the United Nations General Assembly in September. Since then, the Iranian Foreign Minister also travelled to Turkey and the Turkish Foreign Minister visited Iran. Mr. Rouhani is also due to travel to Turkey in the near future.

Relations between Turkey and Iran improved after Mr. Erdogan became Prime Minister; however, the two parties' relationship had a set back with the civil war in Syria. The Turkish Prime Minister vehemently supported the Syrian opposition fighters while Iran has supported the Syrian President, Bashar Assad. More than two years after the start of the Syrian conflict and with the threat of terrorism becoming more significant, this rift has become less evident. The November agreement between Iran and the P5+1 has opened new opportunities for further expansion of trade between the two neighbours and the two sides are eager to increase economic and energy ties. Trade between Iran and Turkey stood at $22 billion in 2012 and was slightly reduced to $20 billion in 2013 due to sanctions. However, the two sides are planning to increase trade to $30 billion by 2015.

Turkey is an importer of natural gas and oil from Iran and Turkish officials are keen to increase the level of energy imports. Turkey depends fully on imports for its natural gas needs and Iran is one of the major suppliers of this energy product to Turkey.

Oil market responds to Iran's Oil export

Twelve months after sanctions took effect in January 2013, Iran resumed submission of its oil-export reports to the Joint Organization Data Initiative (JODI) last month. Based on the figures Iran submitted to JODI, its oil exports reached 1.5 million barrels per day (mbpd) in December. However, the International Energy Agency (IEA) recently announced that Iran's oil exports have been 1.07 mbpd on average in 2013. Regardless of this discrepancy, IEA's estimates confirm that Iran's oil exports have increased by 50,000 bpd in December compared to November. According to the monthly report published by OPEC, Iran's oil production has been in the vicinity of 2.73 mbpd in December. However, Iran's official reports claim a production of 3.2 mbpd in the same month.

In any case, expectations of Iran and Libya increasing their exports have led analysts to predict a drop of 5% in oil prices in 2014. For example, Brent crude is expected to sell at $103 per barrel in the named period. In addition, concurrent with the easing of sanctions and Iran's submission of export reports to JODI, the IEA has increased its estimates for annual oil consumption by 1.3 mbpd globally. IEA announced that most members of the Organization for Economic Co-operation and Development (OECD) have been relieved from stagnation and have consequently resumed their demand for oil. This means that despite the production of US shale reaching unprecedented levels, oil will be in short supply especially due to the shrinkage of oil reserves in many industrialized countries as measured in Nov 2013. Both of these developments can be considered good news for Iran depending on the result of P5+1 negotiations.

So far, the main importers of Iranian oil, namely China, India, Japan, South Korea, Turkey and Taiwan have been permitted to continue with their purchases at the current levels with no need to curtail their imports. The breakdown of the import volumes of these countries has not been published yet. But based on the available data, the daily purchase volumes of these countries added together has amounted to 1 to 1.5 mbpd over the past year.

All the while, the rise in international oil consumption and the fall in industrial countries' oil reserves can work as catalysts easing Iran's return to the international market and increasing its exports in the medium term. To this end, Iran has taken an active role. According to Bloomberg, Iran is telling oil companies to "be ready" for future work and is willing to modify contract terms in order to attract them.

Price Indices: Drop in producer and export price indices

The Central Bank of Iran (CBI) published a detailed report on the trend of key price indices in November. The report confirms the previous data showing a 0.5% growth in the country's consumer prices in November compared to the previous month. Tehran's consumer price index also grew by 0.7% in November alone.

The most startling element in the report was the negative inflationary trend in the producer price index in November compared to October. According to this report, the producer price index dropped by 0.7% in November compared to October. This is the first time that the producer price index has

Percent Change in Key Price Indices		
Indicator	**Last Month**	**Same Month Last Year**
Consumer Price Index (Iran)	0.5	29.6
Producer Price Index	-0.7	27.1
Export Price Index	-5	-2.7
Consumer Price Index (Tehran)	0.7	28.2
Construction Workers' Wage Index	1	30.8
Price of Gold Coin	-8	-26.8
Unofficial Exchange Rate	-2.1	-0.5

shown a month-to-month drop since last September. It is likely that this fall in prices of manufactured goods would gradually have a downward effect on the prices of products and services nationwide. Economists believe persistence of this downward trend could lead to a general downturn in the inflation rate in the months ahead.

The CBI's report also indicates the continuity of the decreasing trend in prices of exported commodities. This price decrease started in July 2013 and has persisted over the past 6 months. In November 2013, the price index of exported commodities dropped by 5%, which is a sharper decline compared to the previous months. Given that the exchange rate is one of the main factors in the calculation of this index, this declining trend can be mostly attributed to the depreciation of the dollar against the Rial. According to official reports, one dollar was exchanged for 29500 Rials in November, which is 2.1% lower than the rate in October.

Harnessing the inflation or saving the industrial production

According to the governor of the Central Bank of Iran (CBI), the country's monetary base has grown by 1.8% between March and December 2013. However, compared to the same period last year (14.8%), the growth rate of monetary base shows a 13% reduction. Despite this significant reduction, those officials who are responsible for this sphere claim that the growth of the country's monetary base is even lower in reality than what is

Non-Oil Export and Import Commodities Including Gas Condensates
First 10 months of 2012 and 2013

Activity	First 10 months of 2013		First 10 months of 2012		% Change	
	Weight (Thousand Tons)	Value (Million Dollars)	Weight (Thousand Tons)	Value (Million Dollars)	Weight	Value
Export	75,510	33,788	65,472	34,674	15.33	-2.50
Import	25,608	37,596	32,567	44,049	-21.39	-14.65

Export Statistics on Gas Condensates, Petrochemical Products and Others
First 10 months of 2012 and 2013

Export Commodity	First 10 months of 2013		Share of Total		First 10 months of 2012		Share of Total		% Change	
	Volume (Thousand Tons)	Value (Million Dollars)	Volume	Value	Volume (Thousand Tons)	Value (Million Dollars)	Volume	Value	Volume	Value
Gas Condensates	10,791	8,520	14.29	25.27	8,369	7,764	12.78	22.39	28.95	9.75
Petrochemical Products	12,505	9,019	16.56	26.69	13,121	9,128	20.04	26.32	-4.70	-1.19
Others	56,214	16,249	69.15	48.09	43,982	17,783	67.18	51.29	18.72	-8.63
Total	79,510	33,788	100	100	65,472	34,675	100	100	42.97	-0.07

reflected by these figures. According to the head of the Credit and Monetary Committee, a major part of the growth reflected in the monetary base is due to the release of the CBI's participation papers and recent expansions of monetary coverage for some banks and credit institutions. Excluding these factors, the growth of the monetary base would in fact show a reduction of 4.8% and stand at -0.3%. Likewise, the liquidity growth, excluding these factors, would show a reduction of 8.6% and stand at 11% in the first 9 months of the year.

In addition, official reports show that the money multiplier has grown by 17.4% in the first 9 months of 2013, which is 12.5% higher in comparison to the same period the year before. In the first 9 months of 2013, money multiplier has had a more prominent role in securing monetary base than liquidity growth. These developments indicate the CBI's success in implementing monetary discipline in the past few months.

However, the common consensus is that the persistence of stagnation in the industrial sector has to do with such contractive monetary policies. Referring to the latest statistics, the production value of large industrial companies has had a reduction of 8.4% in the first nine months of 2013 compared to the same period in 2012.

Nevertheless, detailed analyses show that unlike before, a lack of demand for manufactured products and a shortage of liquidity are no longer the main reasons behind the drop in production. Shortages of raw materials and their consequent high costs are now more fundamental factors holding the industrial sector back. Based on these issues, the head of the Credit and Monetary Committee insists that increasing the sector's liquidity, without addressing other relevant factors, will only and inevitably result in a higher inflation rate without ameliorating industrial production.

Share of Different Factors Underlying a Reduction in the Production of Manufacturing Units

Factor	Percent of Companies in the first 6 months of the year			
	1388	1389	1390	1391
Price of Raw Material	12.1	18.2	21.3	26.2
Shortage of Raw Material	10.4	13.6	14.1	19
Shortage of Liquidity	24.1	22.1	22.5	15.6
Shortage of Foreign Currency	1.9	2.6	6.2	15.3
Absence of Demand for Manufactured Goods	29.4	22.8	16.9	11.8
Others	22.1	20.7	19	12.1
Total	100	100	100	100

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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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