

Turkey, African Union sign agreement for Istanbul forum

Anadolu Agency, 10.09.2018



Representatives from 50 African countries expected to attend Turkey-Africa Economic and Business Forum. Turkey and the African Union Commission agreed over the framework of a Turkey-Africa business forum in Istanbul next month.

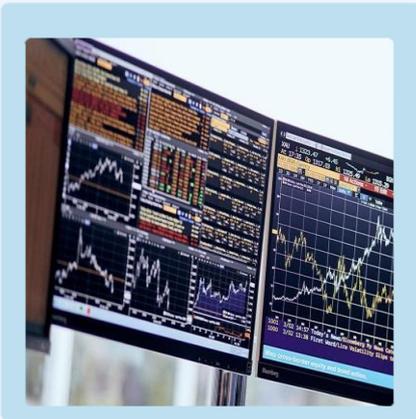
Fatih Ulusoy, the Turkish permanent representative to the African Union, and Victor Harison, the AU commissioner for economic affairs, signed the Cooperative Framework Arrangement at the AU headquarters in Ethiopian capital Addis Ababa.

The Second Turkey-Africa Economic and Business Forum will be held on Oct. 10-11 to seek the cooperation opportunities between Turkey and Africa and encourage Turkish and African entrepreneurs and investors. After the signing ceremony Ulusoy said heads of states, officials and businesspeople from 50 African countries are expected to attend the forum what he described as “a very important event”. “We hope this second forum will produce concrete business deals,” he said. “[...] Up to \$40m business deals were signed” in the first forum held last year in Istanbul, he added. Harison, for his part, said: “Africa’s challenges are enormous. We need partners to help implement [the continent’s] flagship projects.”

“Turkey is the preferred partner of Africa,” he said, describing the cooperation and partnership that exists between Turkey and Africa as “symmetrical and mutually beneficial”. The forum will provide a platform for the business circles from African countries to meet with their Turkish counterparts to develop new partnerships which aims to build together, produce together, sell what is produced together and share the profit. Turkey has an observer status with the AU. It provides an annual contribution of \$1million to the bloc.

'Turkey should take capital market as strategic sector'

Anadolu Agency, 1.09.2018



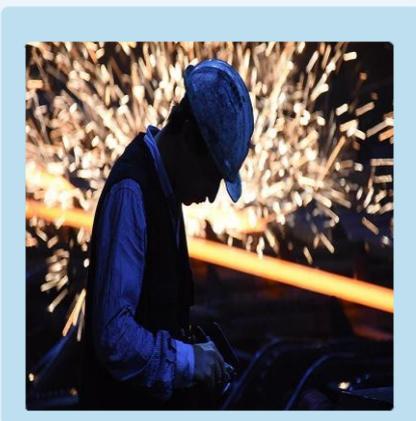
The capital market should be defined as a strategic sector and embraced at the top level, the head of Turkish Capital Markets Association said on Tuesday.

Erhan Topac said the capital market sector should be improved in order to offer more options to both investors and firms which are in need of funding. He added that channeling domestic savings into investments through the capital market should be encouraged. "The use of the capital market in financing of real sector should be supported," Topac said. Topac highlighted that the investment banking model should be supported and developed.

"A competitive and attractive financial system must be created," he added. Topac said intermediary firms played a role in initial public offering of nine companies which created a fund of roughly 5.4 billion liras (\$1.3 billion) in the first six months of this year.

Turkish industry's productivity up over 2 pct in Q2

Hurriyet Daily News, 11.09.2018



Turkish industry's productivity for the second quarter of this year rose by 2.08 percent year-on-year, according to the Ministry of Industry and Technology on Tuesday.

Official data showed that calendar adjusted index of production per person employed valued at 110.72 in the second quarter of 2018, while the figure was 108.46 in the same period last year. Among major economic activities, annual hikes of productivity were 6.52 percent in mining and quarrying sector, 1.06 percent in manufacturing industry, and 0.44 percent in electricity, gas, steam and air conditioning supply.

This April to June, the highest increase in productivity was recorded in the activities of extraction of crude petroleum and natural gas with an annual hike of 27.64 percent. In the same period, the biggest drop in productivity was seen in the activities of manufacture of coke and refined petroleum products with a 24.45 percent yearly fall. On the industrial groupings side, the maximum annual productivity increase was seen in non-durable consumer goods with 4.37 percent while index of production per person employed for durable goods increased by 0.64 percent. The productivity for intermediate goods rose by 0.93 percent in the same period while capital goods saw a decline in productivity, falling 2.74 percent. Official data also revealed that calendar adjusted index of production per person employed for energy sector rose by 3.42 percent over the same period.

The ministry noted that "calendar adjusted" data is derived from unadjusted data by removing calendar and holiday originated effects, and it should be used in annual comparison. Explaining the purpose of quarterly productivity statistics, the ministry said: "Gross output based labour productivity traces the labour requirements per unit of (physical) output." "It is calculated for the purpose of labour requirements analysis based on economic activities," it added. The Ministry of Industry and Technology will release the next productivity report for the third quarter of this year on Dec., 11.

Turkey warns EU of refugee influx from Syria's Idlib

Hurriyet Daily News, 12.09.2018



Turkey has urged the European Union that a potential influx from the Idlib province of Syria would also reach the European continent.

"At a moment when we have already been hosting millions of refugees, a new influx of tens or hundreds of thousands of people towards Turkey would lead to different complications. Its effects will not only be observed in Turkey but will spread to Europe and other countries," presidential spokesperson İbrahim Kalın said during a press conference.

Turkey publicly calls on the whole world, including Western countries, the United States and regional countries to act in coordination and prevent any possible attack in Idlib, the spokesperson said. He also noted all parties should display a constructive role and agree on a political solution that will eliminate all problems regarding Idlib. Any attack on Idlib will create a confidence crisis and undermine ongoing political processes, Kalın said. He warned that rhetoric by "Western countries saying they will interfere if the Assad regime uses chemical agents in Idlib is insufficient and inconsistent." Ninety-nine percent of casualties in Syria are caused by conventional arms and those statements mean they will interfere in killing only if conducted by chemical weapons.

On his Twitter account on Sept. 12, he continued criticizing the U.S. statement that Washington would respond to any chemical attacks by the Syrian government or its allies. This statement is “meaningless and has no deterrence,” Kalin said. Hundreds of thousands of people were killed in Syria with conventional weapons and it is essential to prevent any kind of killings, he said. Any attack in Idlib will cause a humanitarian disaster, migration wave and harm efforts to find a political solution in Syria, the spokesperson said. Representatives from Turkey, Russia, France and Iran will meet in Istanbul on Sept. 14 and discuss recent developments in Syria and efforts for a political solution.

Turkish Treasury to issue euro-denominated bonds

Hurriyet Daily News, 12.09.2018



The Turkish Treasury will launch new euro-denominated securities starting this week, according to the Treasury and Finance Ministry on Sept. 11.

“In order to diversify the borrowing instruments and to broaden investor base, the ministry will issue the euro-denominated government bonds and lease certificates to resident and non-resident individual investors [natural persons] starting from Sept. 12,” the ministry said in a statement. The ministry said the decision was made at the request of Turkish citizens living abroad.

“The demand for the securities will be collected in different rounds by Ziraat Bank and Ziraat Bank Internet Banking [online channel],” it said. The Treasury noted that the issuance and redemptions of the securities will be carried out through Ziraat Bank branches — Turkey’s largest state-run lender.

“The securities will be transferred to the investors’ bank accounts on Wednesdays following the demand collection period of the related round,” it said. According to the official statement, the new securities will be issued with one-year (364 day) maturity. “Certificates will be issued by the multiples of 1,000 euros,” the ministry said. “Investors can sell the securities to only Ziraat Bank at any time by the multiples of 1,000 euros and can receive principal and return with the accrued interest / lease income.” Last week, the Treasury also introduced its new gold-based borrowing securities — gold bonds and lease certificates — to diversify borrowing instruments, broaden the investor base, and bring idle gold into the economy.

Turkey signs agriculture, oil exploration deals with Sudan

Hurriyet Daily News, 11.09.2018



Turkey and Sudan have signed a \$100 million oil exploration deal and an agreement allocating thousands of square miles of Sudanese agricultural land for investment by Turkish companies, Turkey's agriculture and forestry ministry said on Sept. 11.

The two countries have strengthened ties and agreed in December, when Recep Tayyip Erdoğan made the first visit to Khartoum by a Turkish president, to gradually increase trade to \$10 billion a year.

The Turkish ministry said Sudan had designated 780,500 hectares (3,000 square miles) of land for investment by private Turkish companies, saying it would "provide security of food supply for Turkey, Sudan and third countries". The Turkish Petroleum Corporation (TPAO) and Sudan's Ministry of Petroleum and Gas also signed an oil field development agreement, which would initially lead to an investment of up to \$100 million, Turkey's Agriculture and Forestry Minister Bekir Pakdemirli said in a statement. The ministry gave no details about the nature or location of the investment, but Turkey's state-run Anadolu Agency quoted Pakdemirli as saying it was an exploration agreement. Turkey's Ziraat Participation Bank will also open a branch in Khartoum to strengthen financial ties, and customs procedures for machines and equipment imported from Turkey to Sudan will be eased, the ministry said.

A year ago, the United States lifted a trade embargo and other penalties that had cut Sudan off from much of the global financial system, but Khartoum's economy is in crisis, battered by shortages of hard currency and basic food. A decision to reduce bread subsidies, leading to a doubling in prices, led to rare nationwide protests earlier this year. On Sept. 9, President Omar al-Bashir dissolved the government and promised a leaner administration to address the crisis. Turkey, which has strained ties with regional powers Egypt and Saudi Arabia, has boosted investments in Sudan recently. It plans to rebuild a ruined Ottoman port city on Sudan's Red Sea coast and construct a naval dock to maintain civilian and military vessels under an agreement reached between the two sides during Erdogan's visit to Khartoum. The other agreements signed during Erdoğan's visit included Turkish investment to build Khartoum's planned new airport and private sector investments in cotton production, electricity generation and building grain silos and meat slaughterhouses.

Iraq is facing a major internal crisis

Oil & Price, 05.09.2018



Despite the fact that production and export figures presented by Iraqi sources are showing a significant improvement, optimism should be tempered.

Iraq continues to head towards a major showdown between the two main political rival blocks, led by Prime Minister and former PM. Both are currently in a race to lead the country, while being confronted by internal and external threats. Iraqi oil production and export figures are showing very positive developments the country is teetering on the brink.

The latest data from the Iraqi ministry of oil shows that it has boosted its southern crude oil exports to 3.583 million b/d in August, 40,000 bpd higher than in July. Since the OPEC meeting in Vienna, Baghdad has been pushing to increase its total production to a three-month average of 3.549 million b/d, an increase of 109,000 b/d from the first five months of 2018. It is surprising to see that even with continuing unrest in the Basra region, exports from its southern terminals are up. Loadings from the Khor al-Amaya terminal have been suspended since the start of 2018. Iraq's State Oil Marketing Organization (SOMO) reported that 2.727 million b/d of Basrah Light have been shipped from the terminals, along with 856,000 b/d of Basrah Heavy crude. At present another seven tankers have berthed, while four are waiting for their turn, with a total of around 7 million barrels. Northern Iraqi oil figures are also promising, as exports from the semi-autonomous Kurdistan Regional Government to the Turkish Mediterranean port of Ceyhan have been growing. Kurdish sources indicate that the KRG is currently exporting 445,000 bpd to Ceyhan, which is a 40 percent increase in comparison to July. Government oil production in the north however is still blocked, as there is no agreement between Baghdad and the KRG. A potential 200,000 bpd is currently not being exported due to this issue.

The future could, however, be less bright than the above data suggests. The country is facing a total shutdown if the competing political blocks are not able to reach a deal in the parliament soon. Several days ago the Iraqi parliament met for the first time since the May elections. At present, current Prime Minister Haider al-Abadi is still trying to reach a majority coalition, but has, until now, been blocked by his rivals, led by former Prime Minister Nouri al-Maliki. After several heated discussions, no solution has been reached. Al Abadi is fighting to stay in power, having already reached a coalition agreement with Muqtada Al Sadr's Sairoon movement. Al Sadr, a powerful Shi'ite cleric, has warned the government that his patience is running out. Al Sadr, mainly known for his hardline position and power hunger, could be the deciding factor in the current power struggle. He has also become one of the main supporters of the ongoing violent protests in and around the southern Iraqi city of Basra, where protesters are fighting Iraqi security forces in a bid to force the Baghdad-based government to take action on food, water and power shortages in the country. In recent weeks, dozens of protestors have been killed and many more have gotten injured in numerous protests that are now threatening to spill over into the whole southern part of Iraq.



Nouri Al Maliki, the former PM, has been able to form an alliance with militia commander Hadi al-Amiri, the leader of the Shi'a militia Hashd al Shaabi. The latter is strongly supported, and arguably led by, Iran's Islamic Revolutionary Guards Corps (IRGC). Tehran is not only trying to consolidate its power position in Iraq, but is also attempting to influence the government to move away from the Saudi led power block in the region. Adding further fuel to the fire, the Hashd Al Shaabi stated that they will be targeting U.S. and other foreign forces in Iraq. The militia stated that they will take action if non-Iraqis attempt to form a pro-Washington and pro-Saudi government in Baghdad. Iraqi media sources report that the statements were signed by the Badr Brigade, Asayib Ahl al-Hagh, Kata'ib Sayyid al-Shuhada, Kata'ib Jund al-Imam, Ansar Allah al-Awfiya', Saraya Ashura, Saraya Ansar al-'Aqeeda, Saraya Khurasan, and Kata'ib Imam Ali. All these groups are known to be supported and directed by Iran. The West has put its support behind Al Abadi, who is seen as a weaker politician than his predecessor Al Maliki. Several Western analysts have stated that Al Maliki has been much more focused on tribal and sectarian conflicts, while Al Abadi has a more open (or weaker) position. The U.S. and E.U. are still partly blaming Al Maliki for having supported the pro-Shi'a power struggle, leaving other sectarian and religious groups behind. In the eyes of the West, this pro-Shi'a policy has created a breeding ground for terrorism and was one of the reasons behind the rise and success of IS/Daesh in Iraq, as Sunni and other groups in the country were left behind.

Western analysts, however, need to keep an eye on the ongoing power struggle as the outcome will not ease the growing resentment among the Iraqi people. The distrust or outright hate of a growing group of voters has already led to unrest in the oil-rich Basra region. The fall-out of these ongoing clashes and violence between the Iraqi army and the protestors will almost certainly lead to a movement resisting any new government based on the old guard. At the same time, it will lead to a possible violent movement against Iranian backed political parties and militias in other regions. Clashes between these groups have already been reported, but a further increase in violence could lead to a new civil war, in which Iran will be engaged fully. Looking at the current situation in Syria and Lebanon (Hezbollah-Israel), Tehran will likely not be willing to remove part of its hold on Iraq. The link with Baghdad, the Hashd Al Shaabi and other militias, are of immense strategic importance to the struggling regime in Tehran. Renewed fighting is to be expected, especially if the ongoing power implosion in Baghdad will give Kurdish and Sunni groups the option to counter. A further escalation on the ground between government security forces and protestors could lead to a shutdown of oil fields and ports. At the same time, increased bloodshed could lead to direct confrontations in Baghdad and other areas. Such an escalation could trigger Iranian militias and proxies to engage as the Iranian hold on the Iraqi government could be threatened. In short, the current oil production numbers may look encouraging, but if the opposing parties in Baghdad fail to close a deal and address the problems in the South, oil exports could be seriously impacted.

Kuwait acts to resolve energy conflicts with neighbors

Middle East Online, 09.09.2018



Kuwait is trying to tie up several troublesome loose ends with two Gulf neighbours while embarking on a new economic relationship with a traditional foe.

Kuwaiti Oil Minister Bakheet al-Rashidi said his government planned to sign an agreement this year with Baghdad on importing piped Iraqi natural gas and on operating joint border oil fields that have been in dispute between the two Gulf countries for decades. In addition, Rashidi said Kuwait and Saudi Arabia could resume shared oil production from their neutral zone within months. Political differences between Kuwait and Saudi Arabia prompted the shutting.

“Matters with our brothers in Saudi Arabia are going at a steady pace and we expect the return of production in the divided region soon,” Rashidi said. Production from the zone’s offshore 250,000-bpd-capacity Khafji field was shut down in October 2014, with field operator Saudi Aramco citing new government emissions standards for gas flaring. Production from the onshore 220,000-bpd-capacity Wafra field was halted in May 2015, with field co-operator Saudi Arabian Chevron claiming problems in securing work and equipment permits. The two fields are expected to begin producing again in early 2019, though initial volumes from Khafji will be half of capacity and ramped up over time. More significant is that Kuwait and Iraq plan to join forces in sharing oil production and establishing a long-term gas supply relationship. Though Rashidi did not specify which oil fields shared by Kuwait and Iraq would be included in the agreement, cross-border oil fields have long been an issue between the Gulf neighbours.

Former Iraqi President Saddam Hussein accused Kuwait of siphoning oil from Iraq’s South Rumaila field by slant-drilling from the smaller Kuwaiti Ratqa field, which was one of his justifications for invading Kuwait in 1990. One belief is that the Ratqa field is a southern continuation of Iraq’s giant Rumaila field. Another border issue between the two Gulf countries centres on Iraq’s Zubair field, which extends into Kuwait, where the emirate’s portion is known as the Abdali field. Rashidi said a global consultant would study the joint fields project, adding that crude should be extracted by “one company and one team,” with production shared and costs “split between the two sides.” Suffice it to say that Kuwait and Iraq reaching a concrete agreement to jointly operate cross-border oil fields and share in the output would signal a dramatic milestone in relations between the former foes. Another development on a different energy front could help Iraq and Kuwait finally resolve a lingering hurdle in their relations since the 1991 Gulf War: The two countries have been negotiating a natural gas supply deal under which the Iraqi government would pipe Iraqi gas to Kuwait as a means of paying off \$4.6 billion in war reparations.

Kuwait, which has limited natural gas resources, has been looking for steady and diversified gas supplies to free up Kuwaiti crude for export rather than for feeding its power plants. Natural gas also is a cleaner burning energy source. A 25-year-long piped gas supply arrangement that Kuwait and Bahrain had been negotiating with Qatar was halted in 2005 when Riyadh refused to allow a portion of a proposed underwater pipeline to pass through its territorial waters. Kuwait has increasingly turned to liquefied natural gas (LNG) imports, taking in supplies at a floating LNG terminal at its al-Zour port. In 2016, the Kuwaiti government commissioned a Korean consortium to construct a permanent LNG terminal at al-Zour. The terminal is to be completed in early 2021. Last year, Kuwaiti state oil firm Kuwait Petroleum Corporation signed a 15-year LNG supply deal with Royal Dutch Shell to commence in 2020. A piped gas supply contract with Iraq will help Kuwait diversify its gas supplies and lock in a quicker, more efficient sourcing for the Gulf emirate than LNG deliveries. Discussions between the two Gulf countries have moved beyond talk. Baghdad reportedly hired Japan's Toyo Engineering Corporation last November to help build the gas pipeline to Kuwait as well as a related petrochemical plant, with completion of the line expected in 2019. As an indication of just how neighbourly the relations between the two Gulf states have become, Kuwait donated 17 power generators to Baghdad in July when power shortages in Iraq sparked protests in Basra and other cities. Jareer Ellass is a Washington-based energy analyst, with 25 years of industry experience and a particular focus on the Arabian Gulf producers and OPEC.

Russia starts biggest war games since Soviet fall near China

Reuters 11.09.2018



Russia began its biggest war games since the fall of the Soviet Union on Tuesday close to its border with China, mobilising 300,000 troops in a show of force that will include joint exercises with the Chinese army.

China and Russia have staged joint drills before but not on such a large scale, and the Vostok-2018 (East-2018) exercise signals closer military ties as well as sending an unspoken reminder to Beijing that Moscow is able and ready to defend its sparsely populated far east. Vostok-2018 is taking place at a time of heightened tension between the West and Russia.



NATO has said it will monitor the exercise closely, as will the United States which has a strong military presence in the Asia-Pacific region. Russia's Ministry of Defence broadcast images on Tuesday of columns of tanks, armoured vehicles and warships on the move, and combat helicopters and fighter aircraft taking off. In one clip, marines from Russia's Northern Fleet and a motorised Arctic brigade were shown disembarking from a large landing ship on a barren shore opposite Alaska. This activity was part of the first stage of the exercise, which runs until Sept. 17, the ministry said in a statement. It involved deploying additional forces to Russia's far east and a naval build-up involving its Northern and Pacific fleets. The main aim was to check the military's readiness to move troops large distances, to test how closely infantry and naval forces cooperated, and to perfect command and control procedures. Later stages will involve rehearsals of both defensive and offensive scenarios.

Russia also staged a major naval exercise in the eastern Mediterranean this month and its jets resumed bombing the Syrian region of Idlib, the last major enclave of rebels fighting its ally President Bashar al-Assad. The location of the main training range for Vostok-2018 5,000 km (3,000 miles) east of Moscow means it is likely to be watched closely by Japan, North and South Korea as well as by China and Mongolia, both of whose armies will take part in the manoeuvres later this week. Analysts say Moscow had to invite the Chinese and Mongolian militaries given the proximity of the war games to their borders and because the scale meant the neighbouring countries would probably have seen them as a threat had they been excluded. The exercise - which will involve more than 1,000 military aircraft, two Russian naval fleets, up to 36,000 tanks and armoured vehicles and all Russian airborne units - began as President Vladimir Putin held talks with Chinese President Xi Jinping in the Russian port city of Vladivostok. Relations between Moscow and Beijing have long been marked by mutual wariness with Russian nationalists warning of encroaching Chinese influence in the country's mineral-rich far east.

But Russia pivoted east towards China after the West sanctioned Moscow over its annexation of Ukraine's Crimea region in 2014 and trade links between the two, who share a land border over 4,200 km long, have blossomed since. Russia broadcast footage of some of 24 helicopters and six jets belonging to the Chinese air force landing at Russian air bases for the exercise. Beijing has said 3,200 members of the People's Liberation Army will join in. China's official People's Liberation Army Daily said on Wednesday that the drill was aimed at maintaining regional peace, was not aimed at any third party and did not "have anything to do with the regional situation". "The Chinese officers and soldiers participating in the drills will demonstrate the determination and ability to maintain regional peace and stability with practical actions," it said. Some experts see the war games as a message to Washington, with which both Moscow and Beijing have strained ties. "With its Vostok 2018 exercise Russia sends a message that it regards the U.S. as a potential enemy and China as a potential ally," wrote Dmitri Trenin, a former Russian army colonel and director of the Carnegie Moscow Center think tank. "China, by sending a PLA element to train with the Russians, is signalling that U.S. pressure is pushing it towards much closer military cooperation with Moscow." When asked if he was concerned about a potential military alliance between Russia and China in the future, U.S. Defence Secretary Jim Mattis said he did not see the two countries aligned in the long-term. "I think that nations act out of their interest. I see little in the long-term that aligns Russia and China," Mattis told reporters in Washington. Putin, who is armed forces commander-in-chief, is expected to observe the exercises this week alongside Defence Minister Sergei Shoigu, who is overseeing them.

How US sanctions on Iran will harm Iraq's economy

Aljazeera, 08.09.2018



In response to the new set of sanctions imposed by the United States on Iran on August 7, Tehran is now vigorously seeking to expand its stakes in the non-oil trade, energy and engineering markets of neighbouring Iraq.

This was a widely expected move by Tehran, as Iraqi non-oil imports from Iran already amount to more than \$6bn and Tehran has significant influence over the federal government in Baghdad. Moreover, Iranian traders have long enjoyed relatively easy access to Iraqi markets. The actions of other regional powers, such as Saudi Arabia and Turkey, are also pushing Iran to increase its trade share in Iraq.

While a substantial increase in trade with Iraq may help revitalise Iran's worsening economy, it will probably stifle Iraq's economic development. Iran has already been flooding Iraqi markets with cheap products for over a decade, and the latest round of US sanctions imposed by the Trump administration are expected to further exacerbate the problem. If a pro-Iran coalition government is formed in Iraq in the coming days, it would mean minimal implementation of US sanctions and it would pave the way for Iraq to become the most important market for Iranian exports. Last month Iran's ambassador to Iraq, Iraj Masjedi, met Iraqi trade officials to discuss the prospects of higher economic cooperation and Iranian private sector investment in the country.

Moreover, trade with the Kurdish Regional Government (KRG) is booming again after Iran lifted a temporary embargo imposed in the aftermath of the Kurdish independence referendum last year. After the reversal of punitive measures in January 2018, the KRG started to renovate its border-crossings with Iran, and both sides agreed on allowing to drop duties on certain commodities. Today, one-third of Iran's non-oil exports to Iraq are destined for the KRG. First Deputy Chairman of Erbil Chamber of Commerce Ibrahim Muhammad Kanabi told me in a phone interview that he expects some Iranian manufacturers to relocate to the KRG to overcome the obstacles caused by the US sanctions. As a result, low-cost Iranian products are likely to overwhelm the KRG market, despite the fact that they are of relatively poor quality, compared with their Turkish equivalents. The water crisis in Iraq is also providing Iran with an opportunity to further increase its trade share in the country. Both climate change and the upstream dams Turkey built on the Euphrates and Tigris rivers, which supply Iraq with most of its water needs, caused the country to become more and more dependent on agricultural and foodstuff imports from Iran and Turkey.



Iran's exports of agricultural products and foodstuffs to Iraq are worth more than \$2bn annually. Due to the increasing severity of the water crisis and the inability of local producers to compete, this dependency is likely to increase in the coming days, giving Tehran (and Ankara) more leverage to grow its share of the market. This is despite the fact that Iran is also suffering from a water crisis of its own. However, to maintain and ramp up its exports to Iraq, it is resorting to more sophisticated trade strategies such as re-exporting raw products such as wheat in the value-added form of flour. Turkish officials see this as an Iranian attempt to emulate Turkish trade strategies in Iraq. Nevertheless, it is unclear to what extent a water-scarce Iran can continue to export agricultural and foodstuff products to Iraq at the current rate.

The strengthening of Turkey's trade links with Iraq is also encouraging Iran to invest more in trade with the country. Turkey's trade with Iraq has long been dependent on the cooperation of the KRG, as most goods are transferred between the two countries through the Ibrahim Khalil border-crossing on its border with the Kurdish region. However, after Erbil proceeded with its plans for an independence referendum despite its neighbours' vocal opposition in September 2017, Ankara felt the need to end its dependency on the KRG. In August 2018, Turkish President Recep Tayyip Erdogan and Iraqi Prime Minister Haider al-Abadi, reiterated their commitment to building a new, "direct" border-crossing between Turkey and Iraq in Ovakoy -Faysh Khabur, bypassing the KRG. This border crossing would not only allow Turkey to circumvent the KRG in its trade relations with Iraq's federal government, but it will also allow Turkey to increase its market share in Iraq. At a time when Iran is hit by a new set of US sanctions, it is logical to assume it will do everything in its capacity to prevent a loss in its trade revenues in Iraq. Over the past months, Iran has already been building new border markets with Iraq to increase religious tourism-driven trade activity.

Saudi Arabia is another driving force behind Iran's economic expansion towards Iraq. Riyadh has a new engagement policy, with trade cooperation at the top of its agenda, and it wants to increase its market share in Iraq. It does not have the accumulated geo-economic experience that Tehran has developed over the past decade in Iraq, but it appears to be targetting economic areas where Iraq and Iran have disputes, including energy. Saudi Arabia is offering to supply Iraq with triple the amount of electricity it is getting from Iran at a significantly lower price (if the contribution of Iranian natural gas exports to power generation in Iraq were to be excluded). With these soft power moves, Riyadh is attempting to cripple Iran's economic leverage over Baghdad. To counter Saudi Arabia's soft power strategies and help neutralise the impact of US sanctions, Iran has no option but to increase its trade with Iraq. To achieve this, it will likely engage its loyal Iraqi paramilitary networks in business and reconstruction efforts, transforming them into a lobbying force against Riyadh's trade and investment schemes.

By doing so, Tehran would seek to relieve itself of some of its financial commitments to them and turn them potentially into economically self-sufficient proteges. The latest wave of protests in Iraq that commenced in July 2018 reflects, in part, how Iran's strategy of exporting cheap products have harmed Iraq's economic development. The latest set of sanctions imposed on Iran and the ambitions of other regional actors will only intensify its negative impact over the development of the Iraqi economy in the coming few years.

US-China trade war could cause a bear market, stress test shows

CNBC, 12.09.2018



President Donald Trump's continued push to level the global playing field when it comes to trade has done little to disturb the relentless bull market in stocks. But nothing lasts forever, and at some points investors will have to react if the tensions continue to escalate.

Running a series of different scenarios in the U.S.-China conflict, experts at FactSet have come up with a worst-case trade war scenario, one in which most major economies would take a hit and the U.S., along with a few others, would see a bear market emerge.

"In the case of the escalating trade tensions between the U.S. and China, while financial markets still appear to be discounting the global impact of a trade war, our analysis shows that if/when the market does react, the effects will be widespread," Ian Hissey, vice president in FactSet's portfolio analytics group, said in a report. Hissey modeled three scenarios: a base case where the dispute continues along its current path and tensions and tariffs gradually escalate; an optimistic result where the U.S. and China reach broad agreements on the future but the newly imposed tariffs remain, and a "conservative" case that involves "rapidly deteriorating" relations and a more profound impact. In determining impact, Hissey used the market's Brexit reaction, following the 2016 vote that allowed the UK to leave the European Union, as a template. He came up with results that showed stocks globally dropping between 8 percent and 17 percent, with markets in the U.S., Canada and Israel faring worst and Japan being the only overall winner. Hissey did not provide a time frame for how long the market move would take. In the event of the trade war continuing, investors fleeing from stocks would be looking for safe havens like bonds.

That also results in disparate returns, according to the analysis, with Japan again being the big winner but other countries emerging seeing impacts both positive and negative. The results in the bond market are considerably better than in stocks. Broadly speaking, winners and losers are based on how closely they are tied with the U.S. on exchange rates. Those with a close relationship tend to lose, while those not tethered to the dollar are generally winners. "The economic intuition seems simple," Hissey wrote. "Tariffs hurt the economies of both trading parties by creating inefficiencies and lowering future economic growth. This would have a negative impact on equity market valuations. In turn, sudden dramatic falls in equity valuations likely create a flight to quality assets." The latest round in the tariffs is expected to take place soon, with the U.S. enacting duties on \$200 billion worth of items and the Chinese retaliating. The U.S. trade deficit with China expanded by \$36.8 billion in July and is now at \$222.6 billion year to date, according to the Census Bureau.

Goldman: Economy growing at 'twice our estimate' of its potential

CNBC, 11.09.2018



Recent data is pointing to an economy growing at an even more rapid pace that will overcome various headwinds including the intensifying trade war, according to Goldman Sachs.

Friday's nonfarm payrolls report that showed 201,000 new jobs combined with manufacturing surveys to indicate underlying growth at 3.5 percent, "twice our estimate of the economy's potential and consistent with a rapid pace of labor market tightening," Jan Hatzius, Goldman's chief economist, said in a note Monday.

The result is a Fed that will increase interest rates six more times through the end of 2019, he said. That forecast is slightly above the five hikes that central bank officials have indicated during the period and considerably above the implied three moves being priced in by futures markets. Hatzius acknowledged that various headwinds could change the Fed's trajectory, but said that he is "comfortable" with the current forecast, which he said might even be conservative. "Although it is certainly possible that trade policy and emerging market spillbacks will result in a shallower path, on net we think the risks are tilted to the upside of our baseline forecast given the impressive growth momentum, the upward trends in wage and price inflation, and the very limited impact of the hikes on financial conditions so far," he wrote. The Fed's current target range for its benchmark funds rate is 1.75 percent to 2 percent. Markets expect the policymaking Federal Open Markets Committee to approve another quarter-point increase at the Sept. 25-26 meeting and again in December. The September hike has a 98 percent chance of happening, while the December move carries a 79 percent probability, according to the CME's FedWatch tracker.



From there, though, the outlook becomes less clear. Fed Chairman Jerome Powell, at his closely watched Jackson Hole, Wyoming, speech in August, pledged a "whatever it takes" approach to controlling inflation but said for now he is comfortable with the FOMC's gradual approach. Goldman's economists have maintained that the market misinterpreted Powell's remarks as being dovish. An economy that is showing strong signs of heating up likely will continue to get the chairman's attention. Goldman is forecasting inflation, by the Fed's preferred gauge, to hit 2.3 percent by the end of 2019, above its 2 percent symmetric target. If the bank is correct, Hatzius said that's not too much above where the Fed would feel comfortable "but it could nevertheless be important for the monetary policy outlook. After all, if we do go higher from here, it will become harder for Fed officials to maintain their emphasis on the lack of inflation pressure as an offset to the overheating in the labor market." Hatzius also said he does not see the escalating trade tensions, particularly with China, as posing a major threat. In fact, he said the immediate impacts "are not as clearly negative as widely believed." President Donald Trump is expected to implement another 10 percent to 25 percent round of tariffs on \$200 billion worth of Chinese goods, which in turn are expected to prompt a \$60 billion retaliation.

"The 'secondary' effects — greater business uncertainty, potentially tighter financial conditions, a hit to supply chains, and non-tariff retaliation — are negative and ultimately probably bigger, but our best estimate remains only a modest net impact," Hatzius wrote. One area that could give the Fed pause in its rate-hiking cycle would be weaker global growth. Citigroup has a less buoyant outlook on the global economy, which had been benefiting from synchronized growth but recently has shown pockets of weakness, particularly in emerging markets and even China. At least for investors, that could be an issue no matter how fast the U.S. is speeding ahead. "We would characterize global growth as riding on the back of fading tailwinds, while facing increasingly strong headwinds. This raises the risk of an inflexion point some time in 2019 or early 2020," Citigroup economist Mark Schofield said in a note. "We fear that the investment backdrop is becoming more likely to support extended down-trades." In fact, Citi cites higher interest rates as one of four obstacles for the recovery after this year, the others being a China slowdown, an intensifying trade war and tighter financial conditions, which would be a byproduct of higher rates. "A great deal will depend on investor behavior as and when markets correct," Schofield said. "With that in mind, the increasing signs of volatility in asset prices, the increasingly narrow stock market leadership (the US equity market, ex the FAANGs would actually be down on the year) makes us fearful that a quite sharp correction is possible once markets do turn."

U.S. and Saudi energy ministers meet in Washington: DOE

Reuters, 10.09.2018



President U.S. Energy Secretary Rick Perry met with Saudi Energy Minister Khalid al-Falih on Monday in Washington, the U.S. Energy Department said, as the Trump administration encourages big oil-producing countries to keep output high ahead of Washington's renewed sanctions on Iran's crude exports.

Perry and Falih discussed the state of world oil markets, the potential for U.S.-Saudi civil nuclear cooperation and efforts to share technologies to develop "clean fossil fuels," the department said in a statement. The Saudi Embassy in Washington did not respond to a request for comment.

Perry will also meet with Russian Energy Minister Alexander Novak, on Thursday in Moscow, a U.S. source and a diplomatic source said Sunday night. High oil prices are a risk for President Donald Trump and his fellow Republicans in Nov. 6 congressional elections. Global oil prices have already risen sharply to more than \$76 a barrel in recent weeks on concerns about sanctions on Iran's oil exports that Washington will renew on Nov. 4. Trump withdrew the United States in May from the nuclear deal with Iran, and he is pushing consuming countries to cut their purchases of Iranian oil to zero. It is unclear what the United States may offer big oil producers in return for higher oil production. Saudi Arabia has been seeking a civilian nuclear agreement with the United States that could allow the kingdom to enrich uranium and reprocess plutonium. Russia wants the United States to drop sanctions on Moscow. OPEC and non-OPEC officials will meet later this month to discuss proposals for sharing an oil output increase, after the groups decided in June to boost output moderately.

Announcements & Reports

▶ *The Power of Flexibility: The Survival of Utilities During the Transformations of the Power Sector*

Source : Chatham House

Weblink : <https://www.chathamhouse.org/publication/power-flexibility-survival-utilities-during-transformations-power-sector>

▶ *The EU ETS phase IV reform: implications for system functioning and for the carbon price signal*

Source : OIES

Weblink : <https://www.oxfordenergy.org/publications/eu-ets-phase-iv-reform-implications-system-functioning-carbon-price-signal/>

▶ *Electrifying Africa – Issue 115*

Source : OIES

Weblink : <https://www.oxfordenergy.org/publications/oxford-energy-forum-electrifying-africa-issue-115/>

▶ *The Insurgent Sanctuary in Pakistan*

Source : CSIS

Weblink : <https://www.csis.org/analysis/insurgent-sanctuary-pakistan>

▶ *Aren't We All Free Traders?*

Source : CSIS

Weblink : <https://www.csis.org/analysis/arent-we-all-free-traders>



Upcoming Events

► *Managing the Real and Perceived Challenges Facing the World*

Date : 24 September 2018
Place : London
Website : <https://www.chathamhouse.org/event/managing-real-and-perceived-challenges-facing-world>

► *Digitalization in the Industrial Sector: Implications for Energy, Technology, and Policy*

Date : 18 July 2018
Place : CSIS Headquarter
Website : <https://www.csis.org/events/digitalization-industrial-sector-implications-energy-technology-and-policy>

► *Illicit Financial Flows 2018*

Date : 01 October 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/illicit-financial-flows-2018>

► *Cybersecurity in the Commonwealth: Supporting Economic and Social Development and Rights Online*

Date : 04 October 2018
Place : CSIS Headquarter
Website : <https://www.chathamhouse.org/event/cybersecurity-commonwealth-supporting-economic-and-social-development-and-rights-online>

► *The Asian Financial Crisis: Indonesia's Recovery 20 Years On*

Date : 04 October 2018
Place : CSIS Headquarter
Website : <https://www.chathamhouse.org/event/asian-financial-crisis-indonesia-s-recovery-20-years>

► *Talking to North Korea: Ending the Nuclear Standoff?*

Date : 09 October 2018
Place : CSIS Headquarter
Website : <https://www.chathamhouse.org/event/talking-north-korea-ending-nuclear-standoff>



► *Climate Change 2018*

Date : 15 October 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/climate-change-2018>

► *The G20: Benefits, Limitations and the Future of Global Club Governance*

Date : 23 October 2018
Place : London
Website : <https://www.chathamhouse.org/event/g20-benefits-limitations-and-future-global-club-governance>

► *Global Trade 2018*

Date : 01 November 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/global-trade-2018>

► *The Future of London as a Financial Centre*

Date : 12 November 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/future-london-financial-centre>

► *Illicit Financial Flows 2018*

Date : 19 November 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/illlicit-financial-flows-2018>

► *From Growth to Sustainable Prosperity*

Date : 21 November 2018
Place : London
Website : <https://www.chathamhouse.org/event/growth-sustainable-prosperity>