

WEEKLY OUTLOOK

Fed published its March meeting minutes...

As the dovish tone of Fed officials was crucial on the buoyancy in markets in previous week, Fed's March meeting minutes were at the top of the agenda for global investors. According to the minutes, the recent acceleration in the US economy continued to improve labor market conditions. It was stated that the consumer price inflation was still running under the 2% target, while the rise in oil prices led to an upward revision in near term forecasts. The FOMC members, putting more emphasis on the recent global volatility and known for their cautious tone, agreed on the fact that, the US economy became more resilient to the external shocks thanks to the strong domestic demand. Another crucial point was Esther George's vote for a 25 basis point hike. George, who was known as the FOMC's most hawkish member, stated that although the financial markets were unusually volatile in recent months, the policy rate hike was warranted as the labor market conditions had continued to strengthen and the economy was close to the full employment. Besides, she stated that postponing the removal of accommodation could increase the risks regarding to asset bubbles.

Although the Fed minutes painted a positive picture for US economy, the recent data suggested mixed signals. In the last week of the March, jobless claims were announced below expectations and realized as 267k. On the other hand, 1.7% decline in factory orders in February suggests that the GDP growth in first quarter remained subdued.

ECB and BoJ: Ready for the next step...

Policymakers in Euro Area and Japan, still bearing the negative consequences of the global economic crisis, are planning to take new measures to remove the deflation risks. Mario Draghi, President of the ECB, explained last week that continuing deflationary risks create doubts regarding resilience of Euro Area economy to new shocks. In addition, minutes of the last ECB meeting showed the support of ECB Governing Council for president Draghi regarding the need for a stronger ECB policy. Moreover, industrial production in Germany, the growth engine of the Euro Area, declined by 0.5% in February and services PMI in March dropped to the lowest level of the last 15 months raising concerns over the economic activity in the region. Economic activity in Japan, on the other hand, decelerated sharply in March. Composite PMI index realized as 49.9 in March indicating a contraction for the first time in a year which was considered as the outcome of the weak performance of the manufacturing sector since 2012. Expectations for further easing in BoJ's April meeting is rising recently focusing on an expansion of the asset purchase program instead of a policy rate cut. Moreover, USD/JPY parity which has been on downward trend since the beginning of February was realized as 108.4 at the end of the last week, the lowest level since October 2014.

WEEKLY DATA

	1 Apr	8 Apr	Change		1 Apr	8 Apr	Change
BIST-100 Index	82,359	82,502	0.2 % ▲	EUR/USD	1.1386	1.1399	0.1 % ▲
TRY 2 Year Benchmark Rate	9.97%	9.97%	0 bp ●	USD/TRY	2.8211	2.8481	1.0 % ▲
US 10 Year Bond Rate	1.79%	1.72%	-7 bp ▼	EUR/TRY	3.2126	3.2465	1.1 % ▲
EMBI+ (bps)	397	411	14 bp ▲	Gold (USD/ounce)	1,222	1,240	1.5 % ▲
EMBI+ Turkey (bps)	289	301	12 bp ▲	Brent Oil (USD/barrel)	36.5	40.8	11.6 % ▲

bp: basis point

Rapid rise in oil prices...

The rising expectations that OPEC members will freeze the oil production at the meeting, which will be held on April 17th, increased the oil prices last week. Furthermore, an unexpected fall in crude oil inventories in the US, announced in the middle of the last week, backed the increase in oil prices. Brent oil price was realized as 40.8 USD per barrel, up by 11.6% wow. Besides, Iranian officials announced last week that they will keep increasing the oil production such that the Iranian oil export, which was 1.35 million barrels/day in 2015, is expected to reach 2 million barrels/day in mid-April. If that scenario occurs, oversupply in oil market will become the hot topic again and if OPEC countries don't freeze the production, we expect that there won't be a permanent rise in oil prices.

Capital inflows to Turkey rebound in February and March.

Capital outflows from Turkey, which were observed due to domestic political uncertainties and the policies of developed countries' central banks, continued at the beginning of 2016 because of the negative developments in Chinese economy. In the following period, however, recovery in global risk appetite and easing monetary policies of ECB and BoJ prepared a favorable environment for the capital inflows. Thus, in domestic money markets, foreign investors, who made net sales of 353 million USD in January, purchased 3 billion USD of net assets during February and March. In this period, investors' demand raised both for the stock and bond markets. With increasing optimism for TRY assets in recent days, markets show the strongest performance since November 2015.

In March, Turkish lira continued to appreciate in real terms.

Recovery in the global capital flows is effective in appreciation of TL. According to CBRT's figures, CPI-based real effective exchange rate index, which shows competitiveness of TL in global markets, rose by 0.7% mom in March to the level of 100.5. On an annual basis, TRY recorded its lowest real depreciation by 2.3% during the last 11 months. In recent days, with the positive atmosphere in the markets, the Central Bank reduced FX sales amount. CBRT, which was selling 60 million USD per day throughout the first two months of the year, lowered this amount to 20 million USD in recent weeks, the lowest level for the last year.

Moody's statements were followed closely.

The assessments of global credit rating agency Moody's pointed out that fragility in Turkish economy were continuing. Moody's stated that the outlook of Turkish banking sector is negative due to the rise in funding costs and slowing in the economic activity. Voicing the increased uncertainty for the credit quality and profitability, the agency said that it expects the NPL ratio, which was 3.1% in 2015, to rise to a range between 3.5-3.8% in 2016, while it drew attention to the possible weakening of consumer and SME loan portfolios. While stating that Turkey is very sensitive to capital flows due to high borrowing needs from foreign markets, Moody's stressed that the banking sector would be able to overcome these risks, citing to the strong capital structure of the sector. Besides, Moody's has kept Turkey's credit rating (Baa3) and outlook (negative) unchanged.

Domestic markets...

Last week investors were cautious in general in the domestic market, which has been performing quite well due to the increase in global risk appetite. It was due to the statement made by Moody's and comments that CBRT should continue to cut interest rates. USD/TRY parity, which tested below 2.80 last Monday, followed an upward trend in the second half of the last week and closed at 2.8481. 2-year benchmark interest rate, on the other hand, remained unchanged at 9.97%.

Industrial production increased above the expectations.

In February, calendar adjusted industrial production increased by 5.8% yoy, above the expectations. Calendar and seasonal adjusted figures, also registered an increase of 0.5%, indicating a strong start for Turkish manufacturing sector to the first quarter of 2016. In this period, the enlivening in economic activity was spread among the sector. The manufacture of basic pharmaceutical products increased by 27% yoy according to calendar adjusted figures. The recent start of vaccine manufacture in Turkey is thought to be effective in this development. Besides, the expected strong performance in construction sector in 2016, led to an increase in cement production. Production in textile sector, which remained subdued in 2015 due to the weakening in exports, rose by 8.8% yoy. The double-digit growth performance in wearing apparel industry, whose intermediate goods was mainly provided by domestic textile manufacturers, played a role in this development. On the other hand, the manufacture of motor vehicles, which has a high share in Turkish manufacturing sector, decreased by 0.3% yoy due to the base effect.

Exports increased in March.

According to the data announced by the Ministry of Customs and Trade, exports increased by 3.2% yoy to 12.8 billion USD in March. The diminishing base effect of EUR/USD parity was also important in this development, as the export figures increased yoy for the first time since October. Imports volume, on the other hand, kept its downward trend thanks to the decline in energy bill and was realized as 17.8 billion USD. Analysis of March figures revealed that intermediate goods imports and consumption goods imports declined by 11.3% and 1.9% yoy, respectively. In addition to that, capital goods imports, after having declined in the first two months of the year, surged by 22.8% yoy in March. Thus, capital goods imports increased by 7% in the first quarter of 2016, suggesting that the domestic capital formation gained pace and painted a favorable outlook for economic growth.

The decline in current account deficit continued.

Turkey's decreasing energy bill due to low levels of oil prices plays a significant role in the narrowing of the current account deficit. In February, current account deficit decreased by 46.1% yoy to 1.8 billion USD. 12-month cumulative current account deficit was realized as 30.5 billion USD, lowest since 2006. In February, travel revenues, which recorded a net inflow of 613 million USD, decreasing by 170 million USD compared to the same month of the previous year. Portfolio investments, after registering an outflow of 1.2 billion USD amid the growing concerns over the global markets in January, posted an inflow of 1.1 billion USD. The rebound in capital inflows was also influential over the course of the reserve assets and net errors and omission items, which were displaying a weak performance in the previous months. In February, the total capital inflow to the mentioned items was realized as 3.5 billion USD ([Our Balance of Payments Report](#)).

INDUSTRY NEWS

Recovery in automotive sales...

Sales in automotive market, after narrowing by 4.9% yoy in first two months of the year, declined only by 0.4% yoy in March and signaled a recovery in domestic demand. Thus, in the first quarter of 2016 the sales in automotive market declined by 2.8% yoy to 168k. In this period, the sales in passenger car market increased by 0.8%, while the light commercial vehicle market shrank by 12.3%. Contrary to the mild domestic demand, Turkey's automotive exports kept its upward trend. After declining in January, automotive exports displayed a double-digit growth in the following months. Thus, in the first quarter of 2016, automotive exports increased by 7% yoy to 5.5 billion USD.

Cereals output fell short of demand.

Turkey's degree of self-sufficiency (DSS) of cereals, pointing to a balanced outlook in 2014, declined to 86.2% in 2015. The weak performance in wheat production, which has the highest share in grains, was influential in this development. On the other hand, the agriculture sector contributed to economic growth significantly last year, as the output in vegetables and fruits met the domestic demand. Tomato was the most harvested vegetable with a DSS of 110.8%. This ratio was 160.4% for citrus, one of the biggest items in fruits. As the excess supply of these products was exported to Russia, the recent developments cast doubts on the performance of the agriculture sector. Indeed, Russia has banned purchase of these products from Turkey since January 2016. Export volume of these products was 552 million USD in 2015.

Uncertainty over the tourism sector...

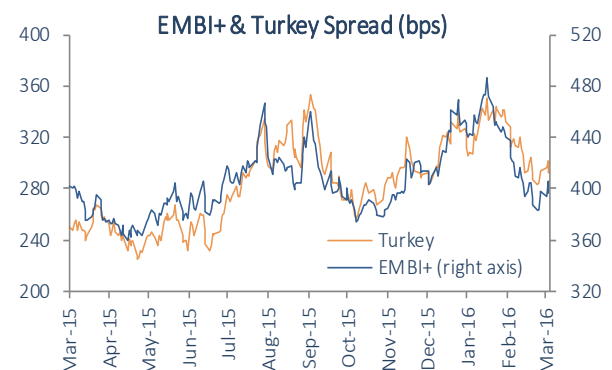
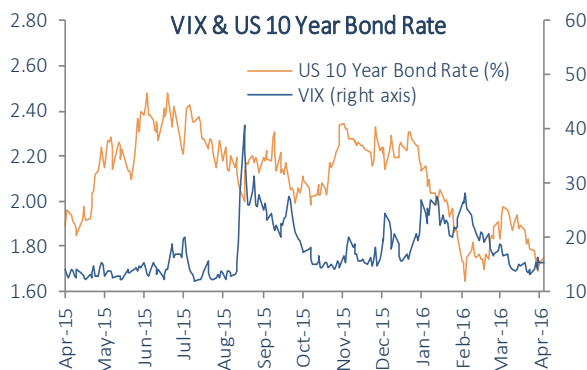
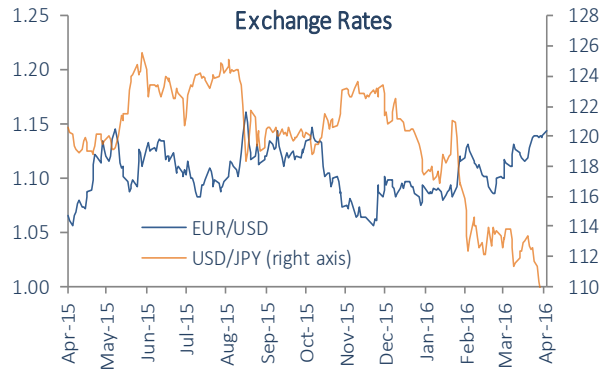
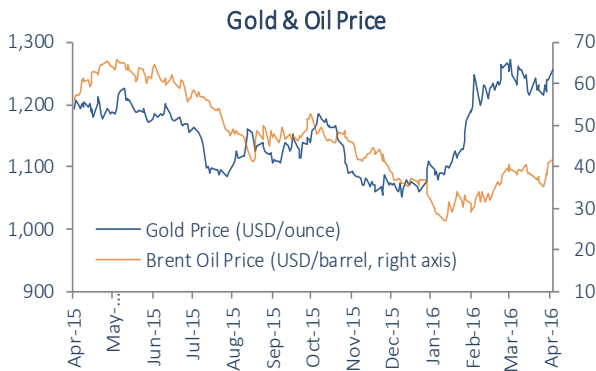
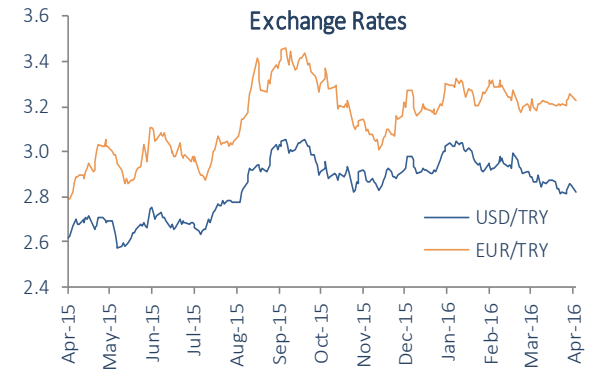
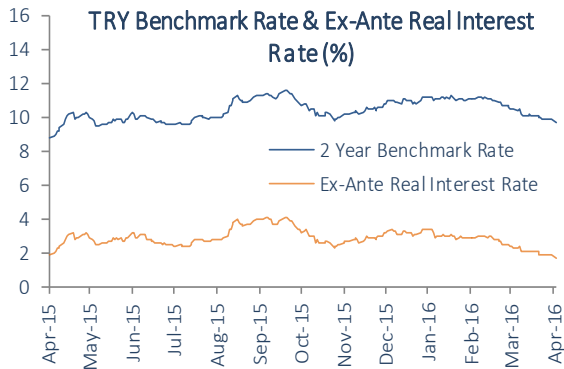
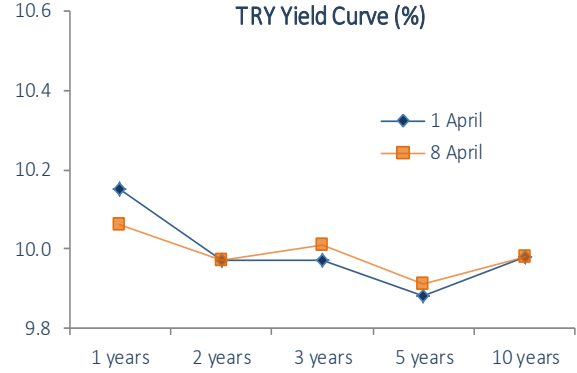
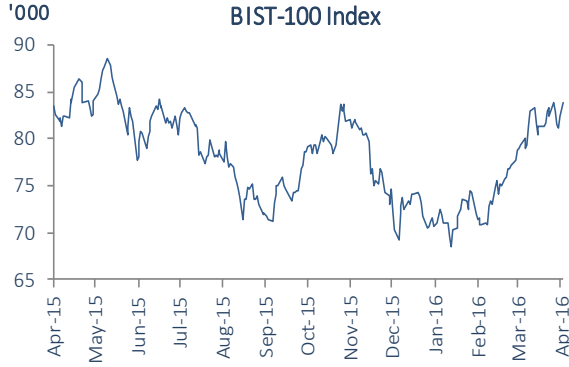
In the previous week, Ministry of Culture and Tourism had announced that the number of tourists visiting Turkey continued to decline in February. Since Turkish tourism sector has been under pressure by the security concerns and limitations of Russia on tour operators, a new regulation to defer and restructure credit payments of tourism sector was published on The Official Gazette last week. As of February 2016, the credit size of the sector was 50 billion TRY and NPL ratio was at a low level of 2.22%.

Other sectors which are closely related to the tourism sector are also dealing with problems. The retail sector, which has been serving greater number of foreign visitors in recent years, is affected negatively while the light commercial vehicle sales used for tourist transfers keeps weakening. Besides, delays in investments for hotel renewals are pulling down the sales in the home textile and home accessories.

Optimistic view Iran -Turkey relations...

Preferential trade agreement signed between Turkey and Iran has been updated to include 30 new products. In the statement after the protocol, it is stated that nearly one-third of the trade between Turkey and Iran is conducted in the local currencies avoiding the losses arising from fluctuations in FX rates.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
11 April	CBRT Balance Of Payment Statistics	February	1.8 billion deficit (A)
	Japanese GDP Growth (Preliminary)	2016 Q1	
12 April	Re-open Auction for Treasury Bond (Maturity Date: 2.17.2021)	March	
13 April	US Producer Price Inflation	March	
	US Retail Sales	March	
	Treasury's Domestic Debt Redemption (992 million TRY)		
14 April	Euro Area Consumer Price Inflation	March	
	US Consumer Price Inflation	March	
15 April	Turkstat Labor Force Statistics	January	
	CBRT Survey of Expectation	April	
	Central Government Budget Balance	March	
	China GDP Growth	2016 Q1	
	US Industrial Production	March	
	University of Michigan Consumer Sentiment Index (Preliminary)	April	
	US Capacity Utilization	March	

(A) Actual

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