

## WEEKLY OUTLOOK

**Heavy economic calendar in the US...**

Last week, in Fed's Beige Book report, which provides information by districts and sectors, it was stated that consumer spending continued to grow at moderate pace in February and March, while the labor market activity gained momentum. In addition to that the ongoing expansion in housing sector was emphasized, while the upturn in wages, which is closely monitored by Fed, was noteworthy. Besides, FOMC members' statements were also effective on the financial markets last week. Dallas Fed chairman Kaplan, a non-voting FOMC member, stated the conditions are unwarranted for a rate hike at April meeting due to the recent mixed signals regarding the US economy, while Atlanta Fed chairman Lockhart emphasized the low level of inflation and investments would pose some risks to the US economy. In this framework, it was seen that market expectations for the next Fed's hike delayed. The recent decline in retail sales and producer price inflation also suggested that Fed would keep its dovish tone in the coming period. Moreover, according to the data announced on Friday, industrial production decreased 0.6% mom and suggested the fastest decrease in a year. Specifically, mining production continued to follow a downward trend. Capacity utilization rate also decreased to 74.8%, the lowest level since August 2010. Michigan University Consumer Sentiment Index decreased to 89.7 in April according to preliminary results.

**Positive outlook in global markets...**

The US Dollar, after slipping to the lowest level since October 2015, pared some of its losses in the second half of the last week, while recovery in risk appetite led to a decrease in gold prices by 0.5%. The US 10-year Treasury yields increased above 1.80% intraday. While the stock market rose in the US thanks to the rebound in banking shares, the Stoxx600 index increased by 3.3% wow in Europe. In Italy a plan was announced to create a 5 billion euro fund to support the banking sector. Considering the Italian banks' 360 billion euro bad loans portfolio, on the other hand, the recent actions cast doubt on the effectiveness of the bail-out plan.

**IMF cut its global growth forecast.**

IMF lowered its global growth forecast from 3.4% to 3.2% for 2016 and from 3.6% to 3.5% for 2017 in the World Economic Outlook report published last week. Chairwoman Lagarde said that the interest rate rise in US, for which the growth rate forecast has been lowered to 2.4% for 2016, will take place gradually, if Fed adheres to released data while making its decisions. Lagarde said that there is no recession risk in the global economy and added that ECB's negative interest rate policy is proper to support the demand. On the other hand, IMF updated its growth forecast for Turkey up from 3.2% to 3.8% for 2016. This evaluation is thought to be caused from the expectations that the increase in the minimum wage and the decline in oil prices will support the domestic consumption while the recovery in Euro Area will affect the exports positively.

## WEEKLY DATA

	8 Apr	15 Apr	Change		8 Apr	15 Apr	Change
BIST-100 Index	82,502	85,573	3.7 % ▲	EUR/USD	1.1399	1.1280	-1.0 % ▼
TRY 2 Year Benchmark Rate	9.97%	9.32%	-65 bp ▼	USD/TRY	2.8481	2.8530	0.2 % ▲
US 10 Year Bond Rate	1.72%	1.75%	3 bp ▲	EUR/TRY	3.2465	3.2197	-0.8 % ▼
EMBI+ (bps)	411	388	-23 bp ▼	Gold (USD/ounce)	1,240	1,234	-0.5 % ▼
EMBI+ Turkey (bps)	301	284	-17 bp ▼	Brent Oil (USD/barrel)	40.8	41.6	2.0 % ▲

bp: basis point

### ***Mixed signals from China...***

Last week, foreign trade figures in March painted a positive outlook for Chinese economy and were effective on the buoyancy in markets. Exports increased by 11.5% yoy for the first time since June 2015, while imports declined by 7.6%. However, we think that these figures should be evaluated cautiously due to the calendar effects arising from Chinese New Year and low base effects. As the recent rebound in manufacturing activity give some positive signals on the Chinese economy, the high debt burden of the state-owned companies and the ongoing industrial overcapacity cast doubt on the soundness of the economy. Chinese GDP growth for the first quarter of 2016 was also one of the closely monitored data last week. Accordingly, Chinese growth came in parallel to the expectations and was realized at 6.7% yoy, the lowest level since 2009. 6.8% increase in industrial production in March and recent recovery in housing market were noted as the main drivers of the GDP growth. Moreover, the 10.5% yoy increase in retail sales in March also supported the Chinese economic growth.

### ***Rise in oil prices...***

The news that Saudi Arabia and Russia agreed to freeze the oil production before the meeting on Sunday caused the oil prices to increase in last week. On the other hand, no deal was reached in Doha meeting during weekend leading the oil prices to increase sharply. Besides, the decrease of oil demand growth projection by 50 thousand barrels/day for 2016, the increases in US oil inventories and rise in Iran's oil exports put pressure on the oil prices.

### ***A new era in CBRT...***

Last week, Murat Çetinkaya, who was the Deputy Governor of CBRT, was appointed as the new Governor of Central Bank starting from April 19<sup>th</sup>. After this announcement on last Monday, the markets reacted positively and BIST-100 index increased by 1.8%, 2-year benchmark bond yield declined 22 basis points to 9.75% and TRY appreciated 0.6% against dollar. In the first meeting, which will be held on April 20<sup>th</sup> under the new Governor Çetinkaya, we expect that CBRT will decrease the upper limit of the interest rate corridor.

In his speech in the General Assembly, CBRT's current Governor Başçı stated that although the inflation level is too far from the 5% target, the steps taken to control the food prices such as the regulations in red meat prices, started to affect the inflation positively. Başçı expressed that in the coming period, the monetary policy decisions will be shaped depending on developments in inflation and CBRT would take the necessary measures to keep the tight monetary policy stance in TRY and FX markets. On the other hand, drawing attention to the improvement in the current account balance thanks to the low oil prices, Başçı added that the steady economic growth is continuing and claimed that the inflation target can be achieved with the structural reforms and the effort of all institutions. According to the CBRT's Survey of Expectations, expectation of consumer inflation for the end of the year was marked down to 7.91% from 8.29% confirming the recent views that inflation will follow a decreasing trend while the expectation of one-week CBRT repo auction long term interest rate in 12 months was also declined to 7.79% from 8.12% referring to the anticipated interest rate cuts from the upper boundary of the interest rate corridor in the upcoming year.

### ***Unemployment rate was 11.1% in January.***

The unemployment rate dropped by 0.2% yoy to 11.1% as of January 2016 and reached its highest level since February 2015. Non-farm unemployment rate was realized as 13% in the same period. While the total number of employed persons increased by 821 thousand persons and reached 26,275 thousand persons, the employment rate rose by 0.7 points to 45%. The share of agricultural sector in total employment fell from 19% to 18.3%, while the share of industrial sector decreased from 21% to 20.2%.

### ***Budget surplus in the first quarter...***

Central government budget deficit was realized as 6.6 billion TRY in March. Tax revenues was up by 13.8% while personnel expenditures increased by 21.8%. Contrary to the deficit given in the first quarter last year, budget posted a surplus in 2016Q1. Total budget revenues in the first quarter soared by 16.4% while budget expenditures rose by 11% ([Our Budget Balance report](#)).

## INDUSTRY NEWS

***Agreement on natural gas prices...***

Gazprom, Russian energy giant, had announced after the tension between Russia and Turkey in November that they had removed the 10.25% discount it had been implying on Turkish natural gas importing firms. When Turkish suppliers had refused to pay the Gazprom without discount, Gazprom had cut the supply to the firms by 50%. Last week, it was announced that the conflict between Gazprom and the Turkish firms reached an agreement and natural gas import will continue by full capacity.

***A new competitor for Turkish cement sector...***

The news about Saudi Arabia's removal of the cement export ban last week created worry over Turkish cement producers since low cost cement production of Saudi Arabia may threaten the market share of Turkey. Rising demand for cement due to the increasing numbers of infrastructure projects in 2008 had made Saudi Arabia implement a ban on cement export. Since falling oil prices are now slowing down the public investments and housing sector in the country, it is pushing down the cement prices as well. Saudi Arabia currently holds the production capacity of 61 million tons of clinker used as the major input to cement industry and they aim to mark up the capacity to 78 million tons in the upcoming 5 years. On the other hand, the international credit rating agency Fitch downgraded the country's credit rating to "AA-" from "AA" while holding the credit outlook as "negative" last week due to the escalating budget deficit.

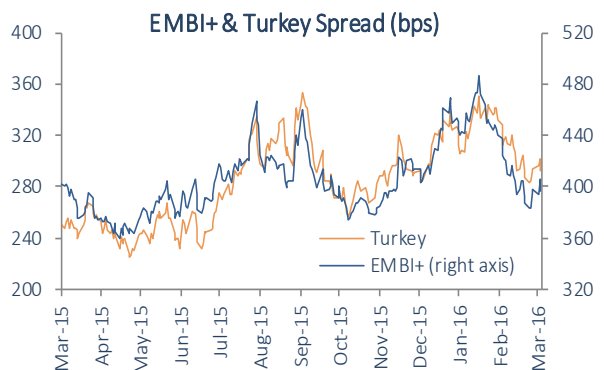
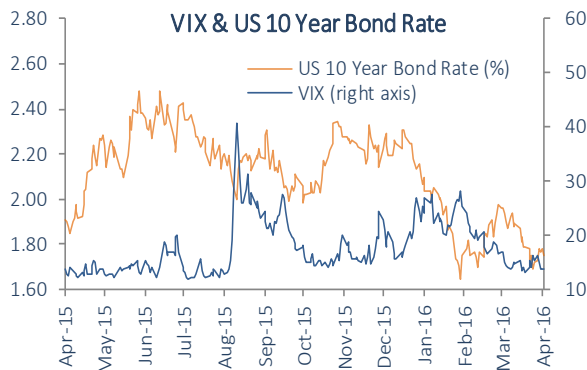
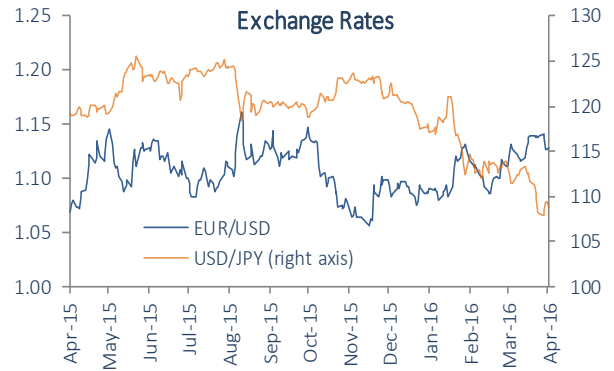
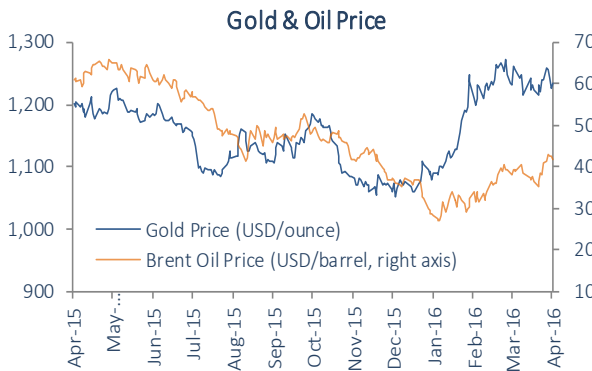
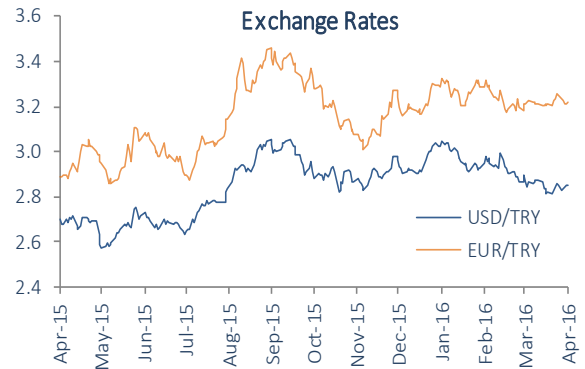
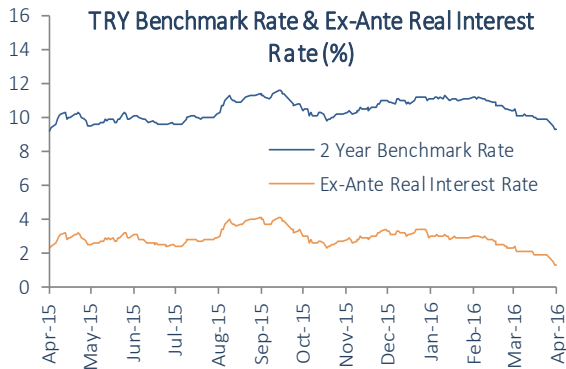
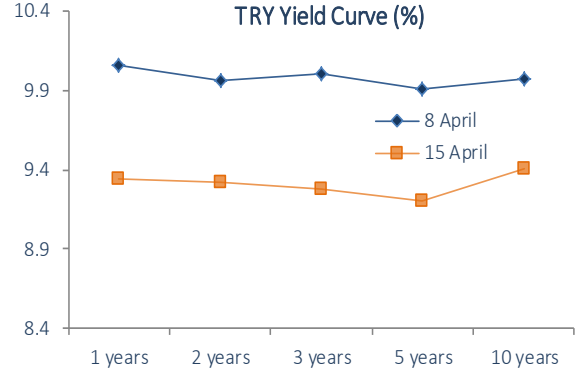
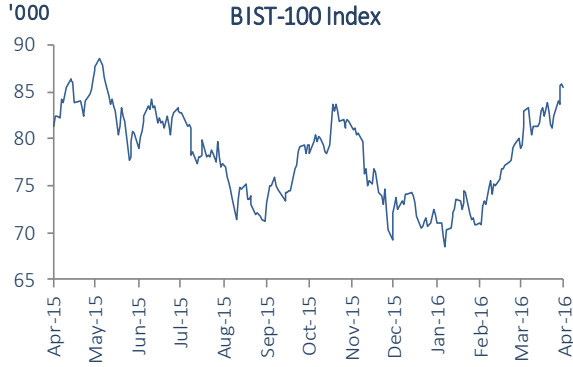
***Efforts to boost the tourism sector...***

As part of the Turkish government's efforts to alleviate the problems of tourism sector, the deadline for 6.000 USD of fuel support for planes arriving to Antalya, Muğla, İzmir and Kütahya had been extended to September from May. Additionally, it was announced last week that a support package of 260 million TRY will be provided to former employees in the tourism sector in Muğla and Antalya who had been laid off in 2015. In case they are rehired in 2016, their insurance premium and minimum wages will be covered by İŞKUR for 3 months.

***New developments in retail sector...***

In 2015, the share of the online shopping in total shopping was realized as 1.3%, far below the world average. However, the value of online shopping through bank cards in February rose by 32% to 4.9 billion TRY yoy pointing out that the increase in online shopping volume will continue to grow for a while. On the other hand, there is a growing concern in the retail sector due to surging numbers of applications for the suspension of bankruptcy mostly because of the increase in minimum wage and the recent fluctuations in TRY.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
19 April	Germany Zew Economic Sentiment Index	April	
	US Housing Starts	March	
20 April	CBRT's MPC Meeting and Interest Rate Decision	April	
	US Existing Home Sales	March	
21 April	Turkstat Consumer Confidence Index	April	
	ECB Meeting and Interest Rate Decision	April	
22 April	Euro Area Manufacturing PMI (preliminary)	April	
	US Manufacturing PMI (preliminary)	April	

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