

WEEKLY OUTLOOK

Fed officials' statements were on the top of the global agenda...

Last week, statements made by Fed officials were effective on shaping the interest rate hike expectations. St. Louis Fed Chair Bullard told that the soundness in labor market might push the inflation further in the coming months, while keeping the interest rates low for too long could cause financial instability. Besides, he added that global markets appear to be "well-prepared" for a summer interest rate hike. Fed's Powell, another voting member of the FOMC, repeated the recent "hawkish rhetoric" and declared further rate increases may be appropriate depending on the incoming data. Additionally, Fed Chair Yellen's speech on Friday was also closely followed. Yellen said that a rate increase could be appropriate in coming months if the economy and labor market continue to improve. But she urged caution and warned of hiking rates too steeply. Therefore, it was seen that expectations on July rate increase boosted more than that of June's. Moreover, Yellen added that the improvement in the economy would continue for a couple of years, while inflation rate is anticipated to converge to the 2% level. On the other hand, the recent developments in oil prices suggested that the US inflation would gain momentum in the coming months. After the Yellen's speech, dollar extended its gains against other currencies as the DXY index rose to the highest level since February and the upward trend in S&P 500 quickened. Thus, the stock index registered its best weekly performance in two months.

Last week, contrary to the disappointing industry and services PMI data, better than expected durable goods orders and new home sales data, which was at highest level since 2008, painted a positive picture for the US economy. The Q1 GDP revision from 0.5% to 0.8%, on the other hand, did not meet expectations.

Quiet week in the Euro Area...

The preliminary manufacturing PMI published on last week decreased to 16 months low, suggesting that the relatively strong Q1 GDP reading might be short-lived. Furthermore, ECB Vice President Constancio's speech was also closely followed. Constancio stressed that it is too early to discuss a further stimulus package by the ECB. At its March meeting, ECB decided to cut the interest rate and increase the size and scope of its asset-purchase program. ECB will also start the purchase of corporate bonds in June. Besides, Eurogroup ministers agreed to release 10.3 billion euro in new funds for Greece and set a path toward debt relief. After the meeting, EUR/TRY parity extended its gain from 2 months low level and 10 year benchmark interest rates declined. European stock indices recorded a 2% increase last week thanks to the strengthening expectation that UK will remain in the EU after the referendum in June.

The yuan is at 5-years low...

China's central bank set its daily currency "fix" at 6.5693, the lowest level since 2011, tracking a weaker market price as the dollar rally took its toll on the yuan. The downward trend in the profits at state-controlled industrial firms and the high level of debt stock continued to raise concerns over the Chinese economy.

WEEKLY DATA

	20 May	27 May	Change		20 May	27 May	Change
BIST-100 Index	76,358	78,029	2.2 % ▲	EUR/USD	1.1222	1.1114	-1.0 % ▼
TRY 2 Year Benchmark Rate	9.79%	9.37%	-42 bp ▼	USD/TRY	2.9752	2.9550	-0.7 % ▼
US 10 Year Bond Rate	1.85%	1.84%	-1 bp ▼	EUR/TRY	3.3382	3.2869	-1.5 % ▼
EMBI+ (bps)	396	392	-4 bp ▼	Gold (USD/ounce)	1,252	1,212	-3.2 % ▼
EMBI+ Turkey (bps)	310	305	-5 bp ▼	Brent Oil (USD/barrel)	48.4	49.1	1.3 % ▲

bp: basis point

The increase in oil prices...

Last week, despite their volatile course, the oil prices increased. In the beginning of the week, oil prices declined as Canada's oil production recovered and the Iran's oil exports gained pace. On Wednesday, on the other hand, after the disappointing oil stocks data in US, oil prices surged to 49.5 USD/barrel, the 7 months high. In the following days, the oil prices declined modestly ahead of the OPEC meeting that would be held on June 2nd. In line with the strengthening in dollar, gold prices declined by 3.2% wow, displaying the worst performance since November 2015.

Central Bank cut the upper band of the interest rate corridor once again.

Central Bank's Monetary Policy Committee (MPC) meeting and announcement of the new cabinet by Prime Minister Binali Yildirim were at the top of the domestic agenda last week. CBRT cut the upper band of the interest rate corridor by 50 basis points stating that tight monetary policy stance and macro prudential measures increased the strength of the economy against the shocks despite the rise in global volatility to some extent. In the press release issued after the meeting, the statement that the tight liquidity stance would continue on the grounds of the limited improvement in core inflation trend was noteworthy. CBRT's messages in the meeting with the bank economists on Wednesday are interpreted as the room for a cut on the upper band seems limited and CBRT is proceeding to a single funding rate. In the meeting on 26th April, where the second Inflation Report of the year was announced, Central Bank's Governor Murat Çetinkaya stated that they would continue with the simplification steps and target a single interest rate policy with a narrower symmetrical interest rate corridor around it.

On the other hand, the removal of uncertainty regarding the management of the economy in the new cabinet was welcomed by the market and BIST 100 index held its highest daily rise with 3.5% since the beginning of 2016 on Tuesday. USD/TRY parity rose above 3.00 reaching the highest level since February 2016 on Tuesday morning, then it fell to 2.94.

S&P's statements on Turkey...

On the note released on Thursday, Standard&Poor's stated that despite sluggish investment spending and exports, CBRT's cautious easing trend is expected to continue. However, in case of any strong pressure on TRY, CBRT may tighten the monetary policy. S&P stressed that a sudden slowdown in capital inflows will have downside risks for Turkey, whose external financing gap is high. The agency stated that Turkey, which is positively affected from the low (negative) interest rates in Europe and worldwide, dissociates from other developing countries positively with a low level of dependence on Chinese demand and its structure as a net energy importer. S&P raised Turkey's rating outlook to "stable" from "negative" at the beginning of May.

Rise in consumer confidence...

In May, Turkstat announced that the consumer confidence rose to its highest level since January with the level of 68.8. On the other hand, there was no change in the real sector confidence index on a monthly basis. Analysis of sectoral confidence indices revealed that despite the annual decline in the service sector confidence index, its rise to the highest level of 2016 indicates an improvement in the demand conditions. On the other hand, the construction sector confidence index fell to its lowest level for the last 2 years with the expectation of a decline in the number of employees.

INDUSTRY NEWS

The “Advisor” concept to be introduced in real estate sector...

The bill of law regarding the limitations brought to the licensed real estate advisory and real estate brokerage was included in the Grand National Assembly's (TBMM) agenda last week. Within the bill, a person who wants to be a real estate advisor must be a university graduate and to get the real estate license, this person must be successful on the required examination. The real estate sector is currently tied to a legal notice from 2004 which requires people to get real estate education and the sector is exposed to increasing informality problem. Based on the bill of law, the sector must be audited and unqualified real estate agents caught on the job will be fined to high charges. In case the bill turns into law, many real estate agents are considered to leave their jobs although the current rights are said to be reserved.

Capacity utilization rate increased in manufacturing sector.

In May, the manufacturing industry capacity utilization rate (CUR) rose to its highest level since the beginning of the year. The capacity utilization rate showed the best May performance since 2008, reaching the level of 75.7% thanks to basic pharmaceutical products and manufacture of motor vehicles sectors.

House sales declined in April.

House sales declined by 10.9% yoy in April while the decline was 1.6% yoy in the first 4 months of the year. Mortgaged house sales, which constitute 31% of total sales, decreased by 27% whereas other sales almost remained flat. House sales to foreigners continued to fall mostly in Antalya and Muğla, indicating that the recent crisis in tourism has been reflected on construction sector as well.

480 firms were given investment incentive certificates in April.

Based on the data from Ministry of Economy, 480 firms were given incentive certificates for their investments worth a total of 5 billion TRY. The investment incentive in April covers the employment of 12,321 people and machinery and equipment worth of 659 million USD. The services sector reached the highest investment level with total investment value of 2.7 billion TRY among other sectors.

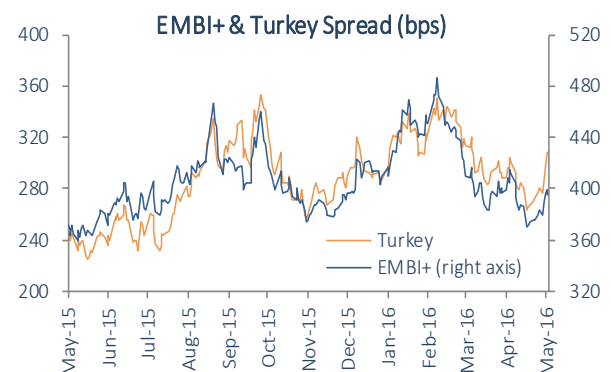
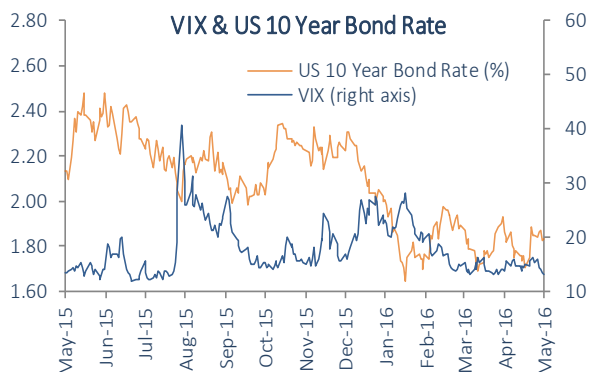
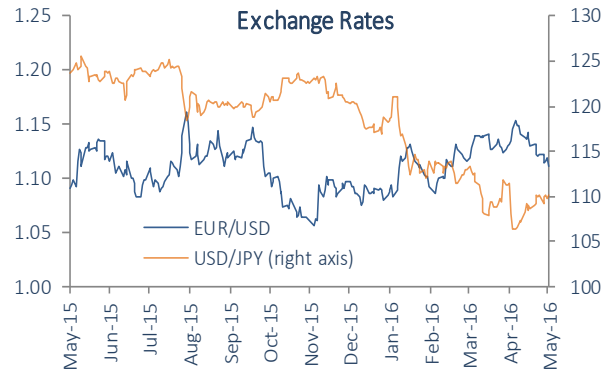
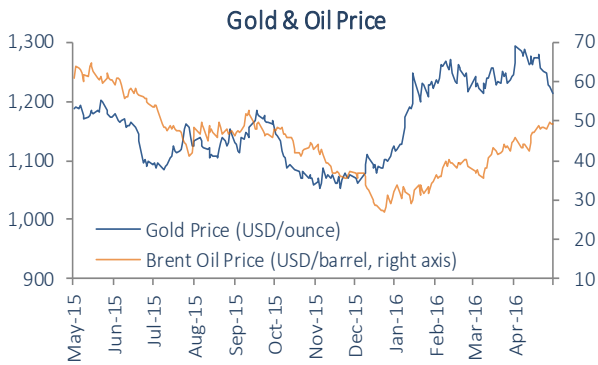
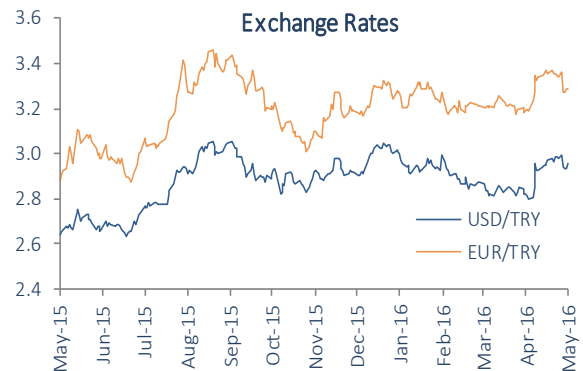
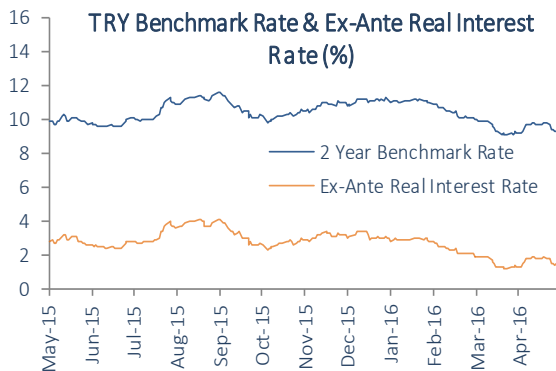
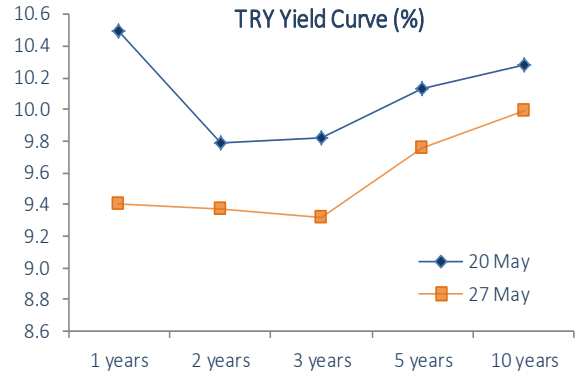
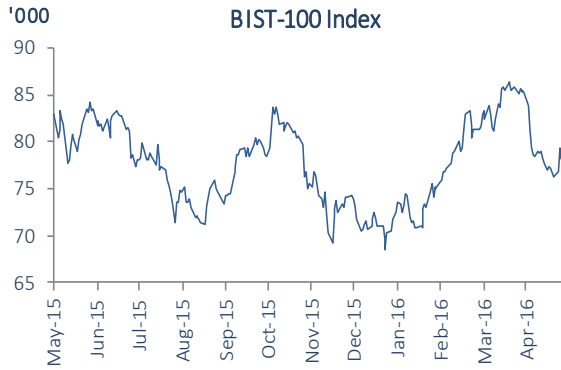
Continuing weakness in tourism sector...

According to an announcement made by Hotel Association of Turkey, tourism sector, which has already had an ongoing negative performance so far, is expected to shrink by a double digit number in 2016. Decreasing number of reservations and discounts in prices are accelerating the fall in sector revenues. Ministry of Culture and Tourism last week announced that the decline led by the number of foreign tourists visiting Turkey in April declined by 28% yoy (number of Russian tourists decreased by 79% yoy) to 1.75 million.

Cement sector will grow with the help of domestic demand in 2016.

Turkish Cement Manufacturers' Association (TCMA) announced last week that domestic demand, thanks to urban transformation and mega projects, will help the cement sector to grow since the sector's export markets are having difficult times. The Association revised the estimated increase in domestic sales of 2016 up to 4%. Turkey, as one of the world's most important cement producer, is expected to have a decline in cement exports due to Iran's appearance in Turkey's main export markets, Iraq's plans to ban cement import because of the restart in the country's production facilities and Saudi Arabia's recent removal of cement export quota. Cement production costs are lower in those countries due the oil production capability. The cement sector in Turkey is expecting the completion of the legal list of conditions to use cement for highway tenders in order to cope with the overcapacity.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
31 May	Turkstat International Trade Statistics	April	4.2 billion USD deficit
	CBRT Monetary Policy Committee Meeting Minutes	May	
	CBRT Financial Stability Report	2016-I	
	Euro Zone CPI (Preliminary)	May	-0.1%
	Euro Zone Unemployment Data	April	10.2%
	USA Consumer Sentiment	May	97
	USA Personal Spendings Data	April	0.7%
	USA Personal Income Data	April	0.4%
	1 June	Euro Zone PMI Manufacturing Index	May
China Caixin PMI Manufacturing Index		May	50
Germany PMI Manufacturing Index		May	52.4
USA PMI Manufacturing Index		May	50.5
USA ISM Manufacturing Industry Index		May	50.6
USA ADP Employment Report		May	175,000
2 June	Euro Zone PPI	April	-4.1% yoy
3 June	Turkstat PPI	May	2.57% yoy
	Turkstat CPI	May	6.7% yoy
	Euro Zone Retail Sales Data	April	0.4%
	USA Nonfarm Payrolls	May	158,000
	USA Unemployment Data	May	4.9%
	USA Factory Orders	April	2%
	USA International Trade Statistics	April	41 billion USD deficit

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