

WEEKLY OUTLOOK

Yellen's speech was closely watched last week.

Fed Chair Janet Yellen's speech regarding US economy was followed closely last week during which data agenda was quite light. Fed Chair emphasized that although recent non-farm payrolls data was disappointing, to attach too much significance to any single monthly report would be misleading. Yellen, who was positive about US economy, didn't give a clear sign for timing of the next interest rate hike. On her last speech on May 27th, she hinted that rate hike was probably appropriate in the coming months. Right after her speech, USD depreciated against currencies of other developed countries. The yield on the 10-year US Treasury note declined to 1.64%, closer to its lowest level in last 3 years. Investors turned to high-yield funds and US markets kept their upward trend, led by the stocks of energy firms parallel to developments in oil prices.

We assume that Fed will keep the policy rate unchanged at this week's FOMC meeting. The projections published after the meeting will be essential since they indicate a road map for Fed's monetary policy. On the other hand, we think that the FOMC members would keep their expectation of two interest rate hikes in 2016. Thus, we consider that in case of a "remain" vote in the referendum next week regarding the Brexit, the global uncertainties will decrease and increase in non-farm payrolls, which showed a weak performance due to temporary factors, will gain momentum in June. Moreover, we also foresee that the Fed officials will emphasize more about the increasing pressure of the rising oil prices on the US inflation.

Commodity prices are on an increasing trend.

Last week, the depreciation of US dollar supported the commodity prices globally. Commodity price index rose by 2.1% wow, top level since October 2015. Decline in global oil supply, which climbed to 5 year highs, and decreasing US oil inventories put upward pressure on the oil prices. Brent crude oil price, which hit 51.5 USD/barrel (the highest in the last 8 months), gave some of its gains back. Thus, oil prices closed the week with a 1.5% increase. Gold prices which rose due to the seasonal demand were realized as 1.274 USD/oz at the end of the week.

World Bank revised down the global growth forecast.

Based on the Global Economic Prospects report by World Bank last week, sluggish growth in advanced economies, low commodity prices and diminishing capital flows are pushing up the downside risks on the global economy. The Bank downgraded its 2016 global growth forecast to 2.4% from the 2.9% projected in January. It was stated that Brazil and Russia are projected to remain in deeper recessions where global capital flows are weak. Moreover, no changes were made to Chinese growth forecast. According to the report, although the energy importing countries including Turkey are positively affected by the current conjecture, geopolitical concerns and terror attacks limited that impact. World Bank kept 2016 growth forecast of Turkey at 3.5%. Turkey, which had a vivid economic activity at the first half of the year, will be predicted to have a slowing economic growth due to the narrowing tourism revenues and weaker net exports.

WEEKLY DATA

	3 Jun	10 Jun	Change		3 Jun	10 Jun	Change
BIST-100 Index	78,139	76,887	-1.6 % ▼	EUR/USD	1.1365	1.1249	-1.0 % ▼
TRY 2 Year Benchmark Rate	9.17%	9.22%	5 bp ▲	USD/TRY	2.9013	2.9264	0.9 % ▲
US 10 Year Bond Rate	1.70%	1.64%	-6 bp ▼	EUR/TRY	3.2983	3.2931	-0.2 % ▼
EMBI+ (bps)	393	393	0 bp ●	Gold (USD/ounce)	1,244	1,274	2.4 % ▲
EMBI+ Turkey (bps)	303	307	4 bp ▲	Brent Oil (USD/barrel)	48.6	49.3	1.5 % ▲

bp: basis point

GDP growth exceeded expectations...

Turkey's economic growth performance, which exceeded expectations in recent quarters, continued this trend in the first quarter of the 2016. Real GDP growth was recorded as 4.8% on an annual basis. According to expenditure approach, domestic consumption made the highest contribution to the growth. Private and public consumption expenditures supported the GDP growth by 4.8 and 1.2 points, respectively. Thus, the contribution of domestic demand to growth reached the highest level since the third quarter of 2011. We think that the 30% increase in the minimum wage at the beginning of the year, the domestic demand created by 3 million refugees and the public spending to meet their needs were effective in this development. Parallel to the flat course of the loan growth pace, investment expenditures didn't contribute to the growth in the first quarter. Investment expenditures remained under pressure with the declining profitability of the industrial sector due to increased funding costs. Net exports, making the lowest contribution in the last 9 quarters with -1.5 points, continued to affect the growth negatively. Transport and storage activities were negatively affected with the contraction in foreign trade volume and the weak outlook in tourism. The activity in the industrial sector, which has strong correlation with GDP growth in the first quarters seasonally, increased by 5.9% contributing 1.6 points to the growth. Construction and agriculture sectors also supported the growth by 0.4 and 0.1 points, respectively ([Our GDP Growth Report](#)).

The slowdown in industrial production...

Industrial production in Turkey, which performed well in the first quarter of the year, made a poor start to the second quarter. According to the calendar adjusted figures, the industrial production increased by 0.7% yoy in April, weakest annual performance for last 9 months. Besides, seasonal and calendar adjusted production decreased by 1.1% mom. The activity in the computers and electronic products sector, whose production increased quite fast in the previous months, decreased by 39.3% yoy in April. We believe that the seasonal reduction in television production was effective in this development. The production of motor vehicles decreased by 8.7% yoy and had a negative impact on the industrial production. We believe that motor vehicles production, which has a relatively high share in the industrial production, will display a positive performance in the coming months due to base effect stemming from the production cuts as a result of the strikes in May 2015.

Current account deficit continues to decline.

Thanks to the relatively low oil prices, decreasing energy bill provides a suitable basis for narrowing the current account deficit which was realized as 3 billion dollars in April with a decrease of 23.3% yoy. Thus, the 12-month cumulative current account deficit with 28.6 billion dollars approached the lowest level for 5 years. In April, travel revenues decreased by 33% yoy to 748 million dollars, due to the ongoing problems in tourism sector. Portfolio investments, which weakened because of the deterioration in global risk sentiment in February and March, improved in April. During this period, foreign capital inflows to equities totalled a net amount of 495 million dollars. Turkish banks issued eurobonds with of 1.6 billion dollars, while foreign investors bought government debt securities amounting 1.2 billion dollars ([Our Balance of Payments Report](#)).

The statements by Minister of Economy...

Minister of Economy Nihat Zeybekçi asserted that the inflation target of 7.5% for 2016 year-end is achievable. He stated that per capita GDP rose from 3,000 USD in 2003 to 10,000 in 2015 and inflation basket must be revised due to changing consumption patterns as the share of food expenditures in total has changed. Zeybekçi, who noted that the economic growth will be strong in the second half of the year with the help of consumption and investment expenditures, emphasized that the growth target of 4.5% for 2016 is realistic. Additionally, he explained that export incentives system will be reviewed later in this year and exports will perform better in the second half of the year reaching the expected value of 150 billion USD. Minister of Economy, who referred to interest rate cuts of 50 basis points by CBRT in the last 2 months as reasonable, stressed that strategic investments will get tax exemption for up to 20 years and there will be new measures to be taken about the new entries to the sectors. The process is expected to begin with the supports given to the leading firms in sectors such as iron-steel, petrochemicals and electrical device production.

Weak outlook in domestic markets...

The demand in TRY denominated assets was buoyant in the first half of the last week amid with the optimism in global markets. On Friday, on the other hand, domestic markets pared its early gains due to the latest polls suggesting the lead for the “leave” camp in UK. USD/TRY parity declined by around 0.7% on Friday and completed the week at 2.9264. The cautious stance of the investors led to a steeper yield curve and the BIST-100 index dropped by 1.1% in last trading day of the week.



INDUSTRY NEWS

ICI Top 500 list was published.

İstanbul Chamber of Industry (ICI) announced “Turkey’s Top 500 Industrial Enterprises - 2015” survey results. According to the production-based net sales ranking, Tüpraş and Ford Automotive kept their places in top 2, as Arçelik climbed to the third place. Analysis of the list revealed that, after completing the year with a record level of production, automotive sector enhanced its position. On the other hand, iron and steel companies lost some place in the list mainly due to the decline in iron ore prices and the surge in Chinese imports.

Among the top 500 companies, the production based net sales volume increased by 7% to 451 billion TRY in 2015. During this period, operating profits increased by 45% to 44 billion TRY. Contrary to this positive outlook in profitability, the surge in financing costs pointed the problems in financing structure of the Turkish industrial sector. Indeed, financing costs of those firms rose by 75% to 28 billion TRY. In this context, firms spent nearly two thirds of their profits for financing costs. In this development, the depreciation in TRY and the financing structure of companies, whose borrowing is heavily nominated on FX, were crucial. As Turkish industrial firms short term debt repayment was around 45 billion USD, due to the ongoing depreciation in local currency financing costs are anticipated to increase at a modest pace. In this regard, we think that the pressure on profitability and shareholder’s equity growth would remain in the coming period.

Rapid increase in automotive production...

According to the Automotive Manufacturers Association, automotive production posted an annual increase of 42% to 125k in May, thanks to the base effect. In this period, parallel to the strengthening foreign demand, the automobile production gained momentum and increased by 46% to 77k. In fact, Turkish automotive industry, which sold its three forth production to abroad, registered export revenue of 2 billion USD in May.

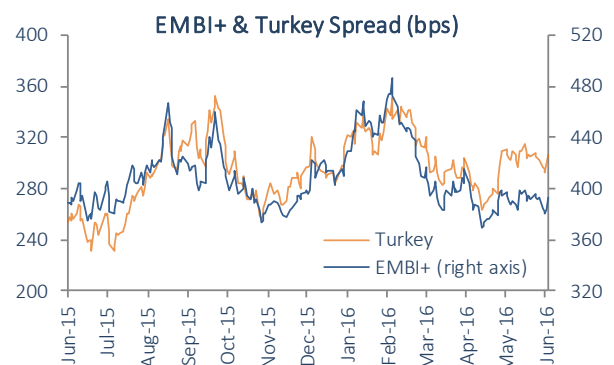
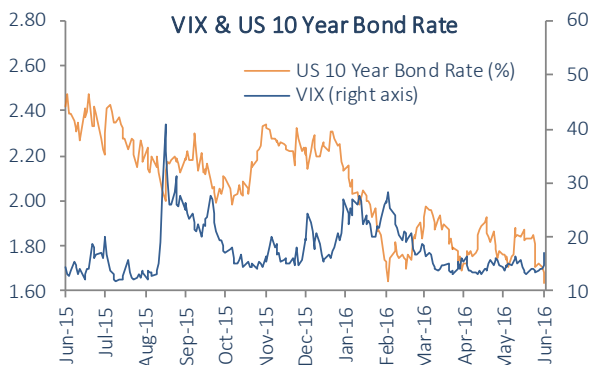
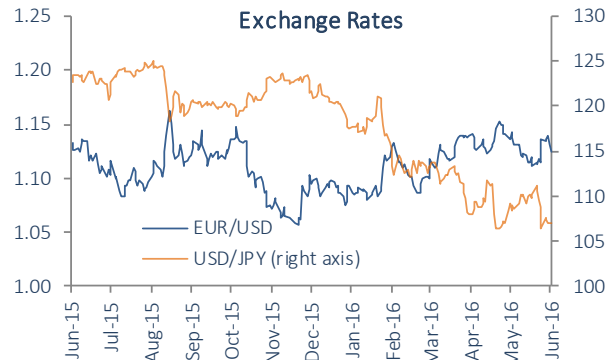
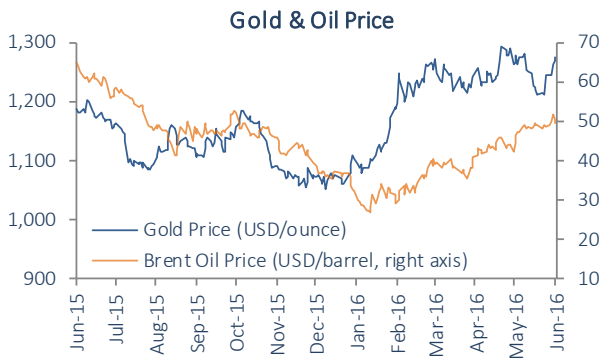
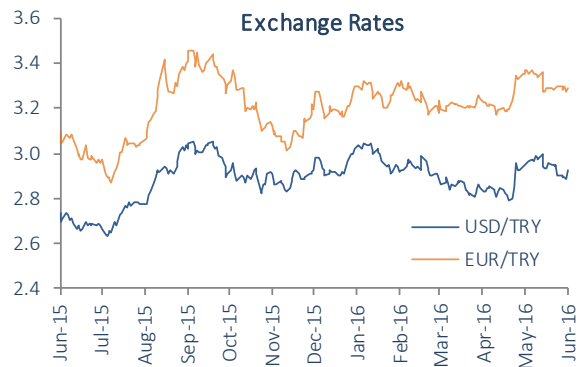
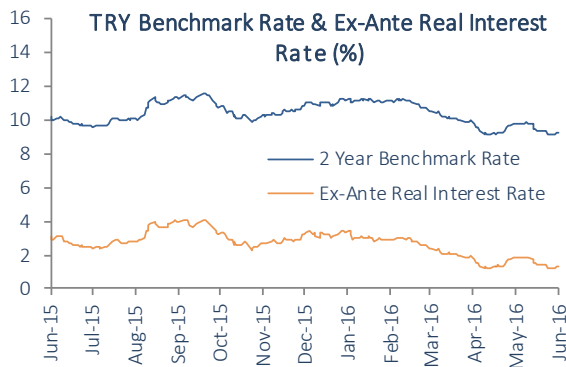
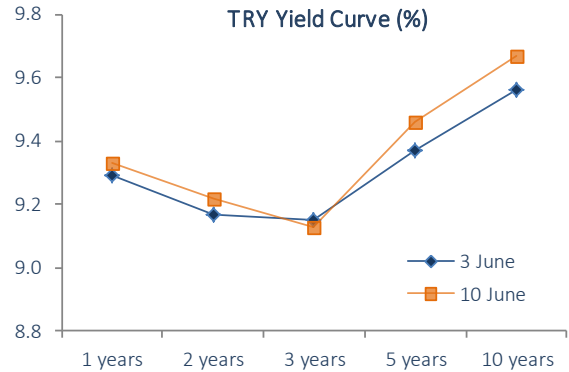
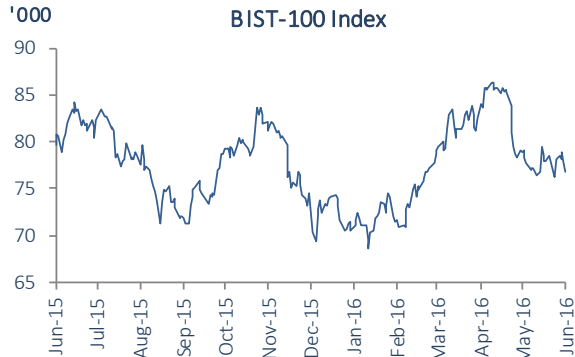
The rise in retail sales continued.

In April, retail sales kept their upward trend and registered an increase of 3.4% yoy. In this period, the sales of electronic goods and furniture posted the highest increase with 17.3%. Textile and clothing sales also increased by 8.4% thanks to the new seasonal arrivals.

The growth in aviation sector continued.

In 2015, the revenue of the Turkish civil aviation sector was realized as 23 billion dollars, as the employment in the mentioned sector rose to 192k. In this period, though the partial weakness in tourism sector, domestic passenger growth kept its rising trend thanks to the cheap flight tickets. In 2015, the numbers of domestic and international passengers were 98 million and 84 million, respectively. The improvement in aviation was also reflected to the air traffic statistics announced by the Airports Council International Europe. In 2015, among the busiest airports in Europe having passenger volume over 25 million, the airport traffic increased by 5.2%, while that of İstanbul Atatürk Airport’s was 9.1%.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
14 June	US Retail Sales	May	%0.3
15 June	Treasury's Domestic Debt Redemption (474 million TRY)		
	Turkstat Labor Force Statistics	March	
	Ministry of Finance Central Government Budget Realizations	May	
	Fed FOMC Meeting	June	
	US Producer Price Index	May	%0.0
	US Industrial Production	May	-%0.1
16 June	CBRT Survey of Expectations	June	
	BoE MPC Meeting	June	
	Euro Area Consumer Price Index (final)	May	-%0.1
	US Consumer Price Index	May	%0.2
17 June	US Housing Starts	May	

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