

WEEKLY OUTLOOK

Domestic markets under pressure...

After the failed coup attempt occurred on July 15th, selling pressure on the domestic markets intensified. Last week, decoupled from its peers, demand for TRY denominated assets dropped. Having started the week with a heavy loss, BIST-100 index followed downward trend throughout the week. As TRY dropped to its record low levels last week, benchmark interest rate were up by 84 bps to 9.44%. Along with deteriorating risk perception, Turkey's CDS spreads have widened to 273 bps, lowest since March 2016.

S&P downgraded Turkey.

Credit rating agency Standard & Poor's (S&P), which doesn't have any official agreement with Turkish Treasury, downgraded Turkey's rating to BB, 2 notches below investment grade and said that the outlook is negative. Moody's and Fitch are expected to review Turkey's rating on August 5th and 19th, respectively. Two agencies are rating Turkey on investment grade. We expect that investors will display a cautious stance in the coming weeks towards TRY-based assets due to upcoming reviews. Moreover, Fitch downgraded Turkey's credit rating on local currency because of an update in the methodology.

Policy makers drew a positive picture.

According to Deputy Prime Minister Mehmet Şimşek given the current outlook, cost of external financing for corporates might increase; however this will not affect Turkey's roll over ratio. Şimşek expressed that macroeconomic fundamentals of Turkey are very strong and Turkish banks are strong enough to absorb risks thanks to their sound asset quality. "Capital controls are absolutely not in our agenda" said Mr. Şimşek, adding that new reforms will be swiftly implemented in the coming weeks. Minister of Economy Nihat Zeybekçi told that volatility in exchange rates is temporary and CBRT will not intervene.

Previous weekend, CBRT had taken several measures for the efficient functioning of markets. IMF chief economist Obstfeld said in an interview that CBRT and other authorities did a good job in reassuring the economy and the markets.

Decline in consumer confidence...

Consumer confidence, after following an increasing trend in recent months, began the third quarter of the year with a decline. According to data released by Turkstat, Consumer Confidence Index decreased by 3.5% mom to 67 in July. Analysis of the index revealed that the deterioration in consumer confidence was spread among the sub-items. During this period, households' tendency towards saving declined significantly.

WEEKLY DATA

	15 Jul	22 Jul	Change		15 Jul	22 Jul	Change
BIST-100 Index	82,825	71,738	-13.4 % ▼	EUR/USD	1.1034	1.0973	-0.6 % ▼
TRY 2 Year Benchmark Rate	8.60%	9.44%	84 bp ▲	USD/TRY	3.0188	3.0625	1.4 % ▲
US 10 Year Bond Rate	1.59%	1.57%	-3 bp ▼	EUR/TRY	3.2260	3.3687	4.4 % ▲
EMBI+ (bps)	350	360	10 bp ▲	Gold (USD/ounce)	1,337	1,322	-1.2 % ▼
EMBI+ Turkey (bps)	272	329	57 bp ▲	Brent Oil (USD/barrel)	46.2	44.4	-3.9 % ▼

bp: basis point

Central Bank continued to cut interest rates.

In the MPC meeting held on July 19th, CBRT delivered a 25 bps rate cut on the upper band of the interest rate corridor, in line with expectations. Thus, the interest rate corridor was narrowed by 200 basis points since March, when the simplification process in the monetary policy initiated. In the statement released by the Central Bank, it was expressed that the annual loan growth remains at a reasonable level thanks to the tight monetary stance and macro-prudential measures, while the positive developments in foreign trade supports the improvement in the current account balance. It was stated that while there are fluctuations in the domestic markets due to the recent developments, the taken liquidity measures limited the volatility in the markets. It was emphasized that the inflation might gain pace in the short term due to the developments in unprocessed food and tobacco prices, as the core inflation is expected to decline gradually.

ECB didn't change its monetary policy.

At its meeting on July 21st, ECB kept its policy rate and the asset purchase program unchanged. After the meeting, ECB President Draghi stated that the markets in the euro area were resilient to the elevated uncertainty recently. He stressed that together with the ECB's loose monetary policy, the proactive stance of other developed central banks were effective in this development. Indicating that the economic activity in the euro area remained moderate, ECB President expressed that the domestic demand with loose monetary policy supported the growth. Draghi added that the inflation would remain low depending on the developments in oil prices for a while, but it is expected to increase due to the base effect in the second half of the year. Before the results of EU banking sector stress test this week, Draghi pointed out that structural reforms might be executed in the banking system in Europe and said that public backstop might be needed to support banks in difficulty. Following these statements Italian stock markets, which displayed a weak performance due to the problems in banking sector, soared.

Positive economic data from the US...

US stock market rose to record high levels last week in tandem with strong company balance sheets. Volatility index (VIX) indicating the global risk perception approached to its lowest level for the last 2 years in line with the hopes on advanced central banks would keep their loose monetary stance. Economic data announced during the last week pointed out that the economic activity in US continued to gain pace and the news on Fed's next hike might be delivered in September came into agenda. US housing market performed well in line with the falling mortgage rates and the improvement in the household income. Similarly, US existing home sales rose to their highest level for the last 9 years in June. Jobless claims, on the other hand, supported the positive outlook in the market while initial claims in the July 16 week were less than market expectations, 253k people. The 4-week average claims dropped nearly all-time low levels and revealed that US labor market was on track in July. We anticipate that Fed might keep the policy rate unchanged at this week's monetary policy committee meeting however the policy makers might sound more confident over US economic activity compared to the previous meeting.

IMF cut global growth forecasts.

An update on the "World Economic Outlook" report published by IMF last week noted that the growth rates in advanced economies are expected to lose momentum in the coming period. IMF stressed that following the referendum held in the UK, uncertainty in the market elevated significantly while this development might limit the investment expenditures. IMF revised the UK economic growth forecast for 2017 down by 0.9% points to 1.3% and detailed that this is becoming a risk for advanced European countries. IMF stated that the recession in Brazil is expected to be less severe than previously estimated and the recovery in oil prices is anticipated to support the Russia economy in 2017. In the report IMF also mentioned that the fluctuations in international capital inflows increased the vulnerabilities. IMF kept the 2016 economic growth forecast for Turkey at 3.8% and declined the 2017 forecast by 0.2% points to 3.2%.

INDUSTRY NEWS

Recovery in sectoral confidence indices...

Sectorial confidence indices, which display an upward path in the first half of the year, kept their trends in July as well. According to the seasonally adjusted data, services confidence index increased by 5.3% mom, up to the level of 100.9. Hence, the index was marked up over the threshold level of 100 points for the first time since November, a favorable indicator for the sector. Retail sector confidence index rose by 3.9% mom. It stemmed from higher sales in the last 3 months and recent downfall at stock levels in the sector. Finally, construction confidence index recorded a limited increase by 2.5%, parallel to the soft expectations on the sectoral employment.

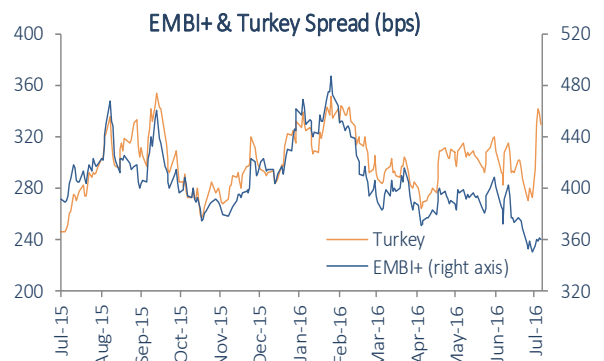
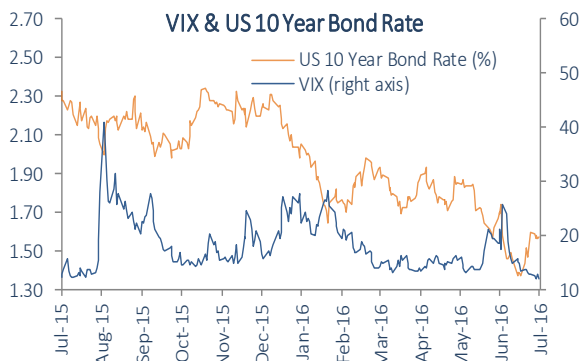
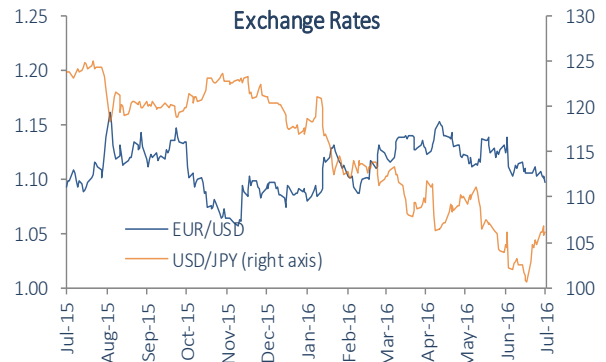
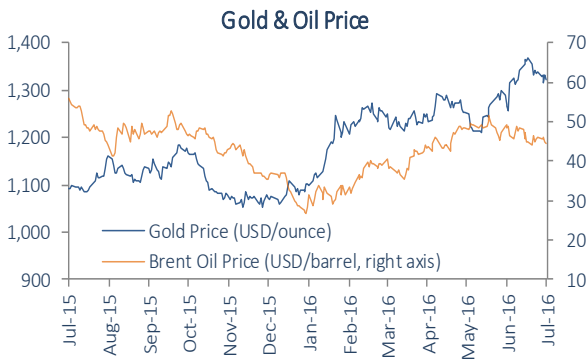
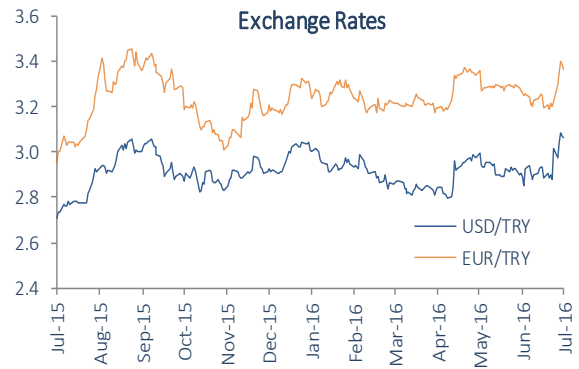
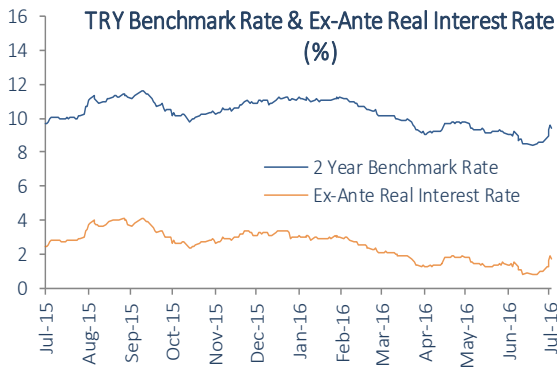
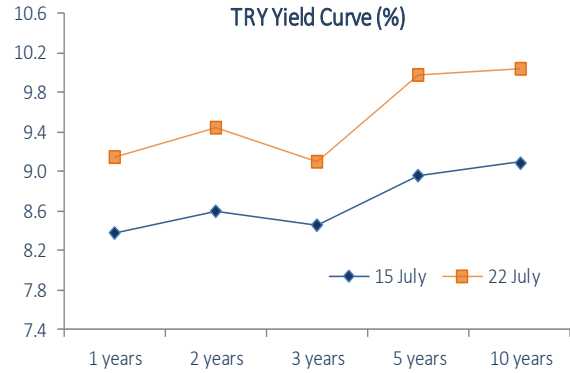
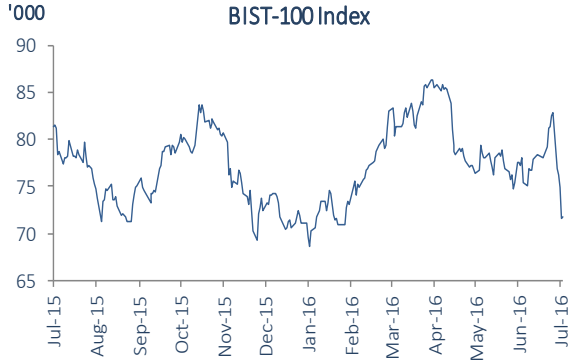
The decline in house sales...

In Turkey, house sales decreased by 4% in June 2016 compared to the same month of the previous year and hence, became 106k. In this period, new house sales decreased by 3.6% and came in at 49k. The mortgaged house sales remained sluggish also in June. We anticipate that the 10.2% drop in mortgaged house sales was mainly due to the households' reluctance to buy houses expecting a decrease in interest rates together with the deterioration in consumer confidence.

The decline in newly established companies...

The number of newly established companies, which followed an upward trend in recent months, declined in June. According to the statistics published by the Union of Chambers and Commodity Exchanges of Turkey, the number of newly established companies posted an annual decrease of 5.7% in June, while that of in the first half of the year increased by 4.8%. The sharp drop in the number of the newly established energy companies mainly due to the low profitability problem, was one of the key items. The number of the newly established manufacturing companies also declined significantly. The upturn in the number of newly established construction companies, on the other hand, was eye-catching.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
25 July	Turkstat Sectoral Confidence Indexes	July	
	CBRT Capacity Utilization Rate of the Manufacturing Industry	July	
	CBRT Business Tendency Survey and Real Sector Confidence Index	July	
26 July	CBRT Summary of the MPC Meeting	July	
	CBRT's Inflation Report	2016-III	
	US New Home Sales	June	562k
27 July	US The Conference Board Consumer Confidence Index	July	
	Fed FOMC and Interest Rate Decision	July	
	US Durable Goods Orders	June	-1.3%
29 July	Treasury's Domestic Debt Redemption (523 million TRY)	July	
	Turkstat Foreign Trade Statistics	June	
	Euro Area CPI (Preliminary)	July	
	Euro Area Unemployment Rate	June	
	US GDP Growth Rate (Flash)	2016 Q2	2.6%
	University of Michigan Consumer Sentiment Index	July	

İŞBANK - Economic Research Division

İzlem Erdem - Division Head

izlem.erdem@isbank.com.tr

Alper Gürler - Unit Manager

alper.gurler@isbank.com.tr

H. Erhan Gül - Asst. Manager

erhan.gul@isbank.com.tr

Dilek Sarsın Kaya - Economist

dilek.kaya@isbank.com.tr

Bora Çevik - Economist

bora.cevik@isbank.com.tr

Ahmet Aşarkaya - Economist

ahmet.asarkaya@isbank.com.tr

Ayşe Betül Öztürk - Asst. Economist

betul.ozturk@isbank.com.tr

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