

WEEKLY OUTLOOK

Fed officials split on the timing of the next move.

Last week, Fed released its minutes of the FOMC meeting that was held on July 26-27. FOMC members generally agreed that, before taking another step in removing monetary accommodation, it was prudent to accumulate more data in order to gauge the underlying momentum in the labor market and economic activity. One of the key items of the meeting was the discord among members whether Fed needs to raise interest rates soon. In the coming period, data from US economy and the volatility in global markets would determine Fed's tone. Besides, last week some Fed officials told that, conditions for a rate hike might be warranted if the recovery in economic activity gain momentum and signaled that a September rate rise is still on the table. Indeed, the upturn in consumption expenditures was also emphasized in minutes, while industrial production and housing starts beat the market expectations, confirming a moderate growth. Moreover, this weekend Stanley Fischer told that the US economy is close to meet the Fed's goals and signaled that a 2016 rate hike is still under consideration. Aftermath of the Fischer's recent statement, dollar erased its losses. Fed's next meeting would be held on September 20-21. This week, on the other hand, markets will focus on Yellen's speech in Jackson's Hole.

ECB also released its minutes.

Last week, ECB's July meeting minutes was also released. According to the minutes, the members assessed the impacts of Brexit decision and the recent developments in inflation. In this context, it was stated that as the volatility diminishes after the Brexit, the markets erased its early losses. 0.1% increase in June's CPI reading was welcomed by the ECB officials, but they suggested that Euro Area is still vulnerable to deflation. Last week, on the other hand, the annual CPI inflation was affirmed as 0.2%. ECB's next meeting will be held on September 8th.

Oil prices continued to increase.

Last week, world's third largest oil producer Russia's Energy Minister declared that they are consulting with Saudi Arabia and other producers to achieve oil market stability while adding that the door is open for more discussions on freezing output levels if needed. After this statement, the rise in oil prices gained momentum. Besides, recent data showed that US oil inventories declined surprisingly and supported the upturn in oil prices. Thus, Brent oil prices rose by 9.8% wow.

World stocks fell, yen appreciated.

Global stocks fell with the statements of Fed officials about the rate hike earlier in the last week, but recovered in the second half as the FOMC minutes on Wednesday indicated that the Fed officials split on the timing of the next rate hike.

Japan's Ministry of Finance, has announced that they started to track the FX market to check whether there are speculative transactions after Japanese yen continued to appreciate against dollar despite the recent expansionary policies. Japan's Central Bank is expected to take more concrete steps at its meeting in September.

WEEKLY DATA

	12 Aug	19 Aug	Change		12 Aug	19 Aug	Change
BIST-100 Index	78,229	78,146	-0.1 % ▼	EUR/USD	1.1158	1.1325	1.5 % ▲
TRY 2 Year Benchmark Rate	9.10%	9.00%	-10 bp ▼	USD/TRY	2.9579	2.9283	-1.0 % ▼
US 10 Year Bond Rate	1.52%	1.58%	7 bp ▲	EUR/TRY	3.3017	3.3164	0.4 % ▲
EMBI+ (bps)	352	342	-10 bp ▼	Gold (USD/ounce)	1,336	1,341	0.4 % ▲
EMBI+ Turkey (bps)	306	308	2 bp ▲	Brent Oil (USD/barrel)	45.4	49.8	9.8 % ▲

bp: basis point

Domestic markets...

Last week BIST 100 index lost 0.1% following a parallel course with the global markets. Security concerns were effective in the fall, while the positive atmosphere created by Fed minutes in global markets limited the decline. Deputy Prime Minister Mehmet Şimşek expressed in his speech on the last trading day of the week that it wouldn't be possible to achieve the 4.5% growth target in 2016 due to the downside risks on growth, especially increased in the third quarter. He also added that the economy will be supported by incentives and the repatriation law. This week, the domestic markets will be focused on CBRT meeting which will be held on 23rd August. We expect a 25bp cut on the upper band of the interest rate corridor.

Fitch didn't change Turkey's credit rating.

Fitch announced that it kept Turkey's credit rating as investment grade "BBB -" while changing credit outlook from "Stable" to "Negative". Mentioning the increase in the risks on political stability of the country after the failed coup attempt in July, Fitch stated that recent terrorist attacks in Istanbul and Ankara are affecting the current situation, especially the tourism sector, negatively. Fitch notes that the improved diplomatic relations with Russia support the sector, but, there won't be a substantial recovery unless there is a significant improvement in security conditions. Predicting that the economic growth would decelerate as the reduction of investments in the country, Fitch estimates that Turkey will grow 3.4% in 2016. In recent weeks, successive evaluations for Turkey came from rating agencies after the failed coup attempt. S&P had lowered Turkey's credit rating one notch while Moody's announced that it would conclude its review within 90 days.

USD/TRY forecast for the end Of 2016 is 3.0684 according to CBRT's Expectations Survey...

Year-end consumer price inflation expectation, which was rising for the last two months, rose to 8.21% in August according to CBRT's Expectations Survey. Thus, the yearly CPI inflation stood at 8.79% in July with an increase led by food and tobacco prices. Survey participants' year-end USD/TRY expectations also increased to 3.0684. In addition, with the impact of political and security concerns growth, expectations for 2016 declined to 3.47%.

Budget posted surplus in July.

Budget revenues increased by 6.1% yoy reaching 42.5 billion TRY, while budget expenditures declined by 6.8% yoy to 42.4 billion, in July. Budget, which posted a deficit of 4.6 billion TRY in January-July period of 2015, recorded a surplus of 1.3 billion TRY in the same period of 2016. Despite the flat course in tax revenues, budget revenues increased thanks to the rise in non-tax revenues. On the other hand, budget expenditures fell due to the decline in current transfers and capital expenditures, which has the highest share with 38% in budget expenditures, while the increase in social security contributions and personnel expenses were remarkable ([Our Budget Balance Report](#)).

INDUSTRY NEWS

Turkish Sovereign Wealth Fund is expected to raise 200 billion dollars in capital.

Turkish Sovereign Wealth Fund, which is to be established to generate finance for domestic strategic investments, was submitted to the Parliament last week. Minister of the Economy Nihat Zeybekçi explained last week the details of the Fund which is expected to reach up to 200 billion dollars. Within the Fund, not only large-scale and strategic investments but company-based investments will be supported as well. The Wealth Fund will be covered initially by cash surpluses from the Privatization Fund and other state institutions while being exempt from regulations and taxes such as antitrust law, income and corporate taxes. Addressing other current issues, Zeybekçi noted that they are currently working to support the agricultural production for the agricultural products to be included in the scope of the Customs Union. He also mentioned that there are talks on free trade agreements with Russia as well.

Tax incentives in omnibus bill...

Omnibus bill, which was accepted last week at the Parliament, includes project-based incentives to local and foreign companies, tax incentives in renewal of commercial vehicles and vehicle sales to martyr's relatives with no special consumption taxes. It is projected that the new bill will revive the commercial vehicle segment of the automotive sector. On the other hand, within the omnibus bill, an autonomous structure will be set to deal with mine exploration. Hence, production from natural resources will be the priority while diminishing the country's dependency on imports.

Retail sector keeps its growth target for 2016.

Retail sector keeps 10% growth target for 2016 despite the slowdown in consumer confidence index, rising cost pressures due to increase in minimum wages and negative impacts of current developments in the sector. Turkish Federation of Shopping Centers and Retailers (TAMPF) Chairman Zafer Kurşun explained last week that the sector's turnover target for 2016 is around 720-725 billion TL. Kurşun detailed that the sector is having an issue of profitability with the hike in minimum wages and soaring rent costs mostly because of the FX fluctuations. On the other hand, the efforts of the government to ease installment conditions in shopping by credit card were received positively by the sector officials. .

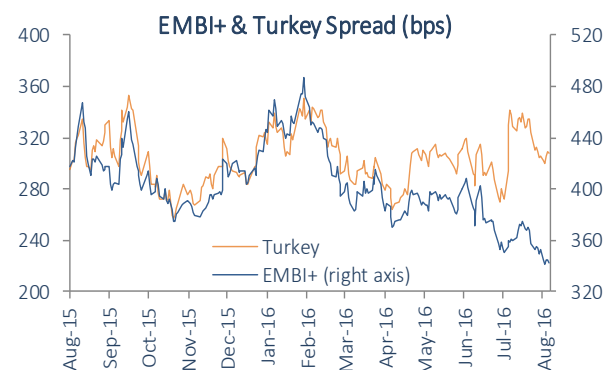
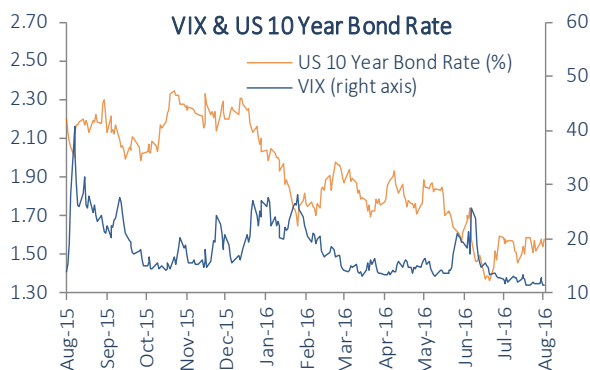
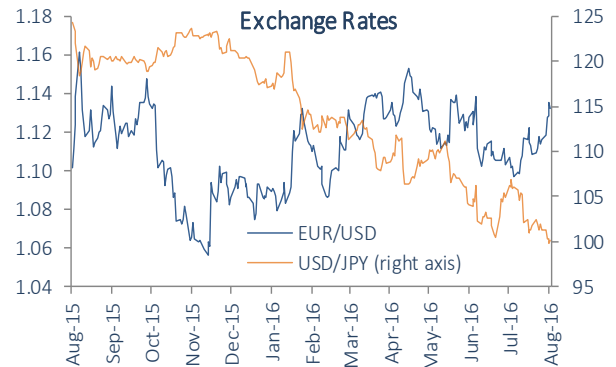
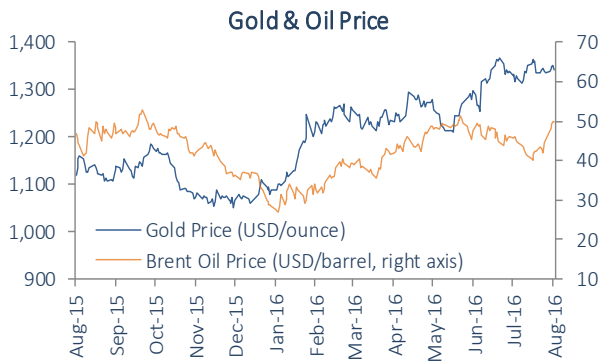
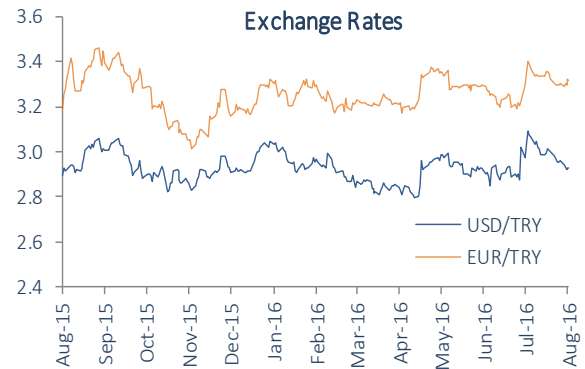
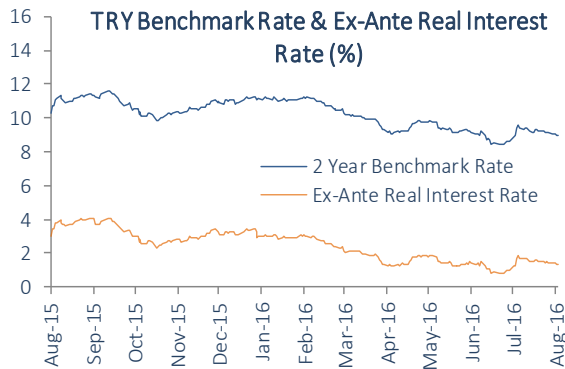
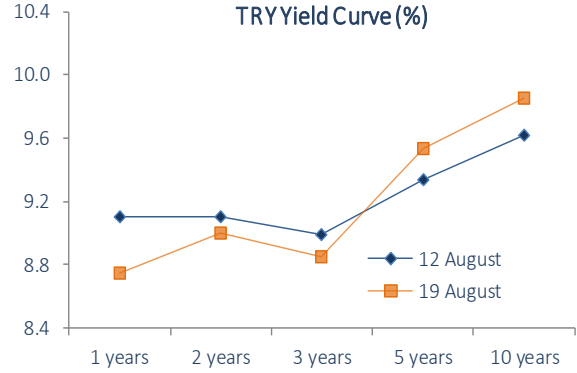
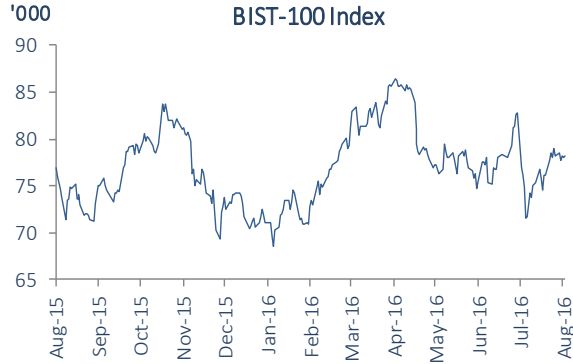
273 firms were given investment incentive documents in July.

The list of 273 firms which were given investment incentive documents in July was published on the Official Gazette last week. Within the context of the investment incentives, total investment amount is expected to be 10.2 billion TL and 10,111 people are planned to be employed. The investments will be mostly concentrated on the manufacturing (103), energy (81) and services (75) sectors.

Regulations at second-hand vehicle sales...

According to a draft regulation prepared by the Ministry of Customs and Trade, second-hand vehicle sales will be made only by the corporates authorized by the Ministry or gallery chambers. The draft was formed to limit tax losses. On the other hand, within the regulation, a standard citizen is planned to be restricted to make three second-hand vehicle sales a year. The regulation is expected to mark up the tax revenues and drop online vehicle sales for some.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
23 August	USA New Home Sales	July	580 K
	USA PMI Manufacturing Index Flash	August	52.7
	Euro Area Manufacturing Index Flash	August	52.0
	Turkstat Consumer Confidence Index	August	
	CBRT MPC Meeting and Interest Rate Decision	August	
	Reissuance of the Treasury Bond with 6-month coupon	August	
24 August	Germany GDP Growth	2016 Q2	1.8%
	USA Existing Home Sales	July	5,51 M
	Treasury Domestic Debt Redemption (1.513 M TRY)	August	
25 August	Turkstat Sectoral Confidence Indices	August	
	CBRT Capacity Utilization Rate of the Manufacturing Industry	August	
	CBRT Business Tendency Survey and Real Sector Confidence Index	August	
	USA Durable Goods Orders	July	+3.5%
26 August	USA University of Michigan Consumer Sentiment	August	90.7
	USA GDP Growth (Revision)	2016 Q2	1.1%

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