

## WEEKLY OUTLOOK

***Global markets focused on Yellen's speech.***

Last week, Fed Chair Janet Yellen's speech at Jackson Hole was on the top of the global markets agenda. Indeed, the recent statements from other Fed officials rekindled the expectations of a sooner than anticipated interest rate hike in US. Last Friday, Yellen told that the case to raise interest rates is getting stronger as the US economy approaches the central bank's goals. Fed Chair voiced optimism about the economy and stressed that they want to explore new options, including broadening the range of assets they can purchase in order to deal with future recessions. She emphasized that FOMC's decisions always depend on the incoming data and said gradual increases in interest rates were "appropriate".

Yellen's last comments reinforced the view that Fed's next move could come later this year. Despite the Fed officials' repeated intentions to raise the rate again, markets did not put a big chance on a September rate hike, before the presidential elections.

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

After following a weak course in the first half of the year, in July, durable goods orders in US increased above the expectations by 4.4%. Although this development was mainly due to the surge in commercial aircraft orders, the demand for business equipment and machinery painted a positive picture for the US economy. Initial jobless claims data for the week ended August 20th, hit the lowest level with 261k persons suggesting the labor market conditions remained buoyant. New home sales recorded a monthly increase of 12.4%, while existing home sales declined by 3.2%. Recently, the tightening in US housing market became more evident but the upturn in new home sales is anticipated to support the economic activity. August manufacturing PMI reading, however, was realized as 52.1, slightly below the 52.7 market expectation. On the last day of the week, GDP growth for the second quarter came in at 1.1% yoy, with a slight revision in line with expectations.

Although the recent data offered a mixed outlook for the third quarter GDP growth, strong labor market conditions is expected to support the economic activity in the coming quarters. Besides, inventory draw in the second quarter GDP reading indicated that inventory build-up process might stimulate the supply.

***High volatility in crude oil and gold prices...***

Brent oil prices were down by 0.7% to 49.5 USD per barrel last week while very volatile intraweek. Increase in oil prices in the first three weeks of August came to a halt in the fourth week mainly due to ongoing concerns for oversupply and weakening expectations of any possible action towards that concern in the coming unofficial OPEC meeting. In addition, US crude oil stocks grew unexpectedly by 2.5 million barrel.

USD was strong last week and global equity markets were weak as traders hold a cautious stance ahead of Yellen's speech in Jackson Hole. Gold price which was recorded as high as 1,363 USD/ounce in the beginning of August extended its decline last week and was down by 1.5% w/w to 1,321 USD/ounce.

## WEEKLY DATA

	19 Aug	26 Aug	Change		19 Aug	26 Aug	Change
BIST-100 Index	78,146	77,120	-1.3 % ▼	EUR/USD	1.1325	1.1195	-1.1 % ▼
TRY 2 Year Benchmark Rate	9.00%	9.01%	1 bp ▲	USD/TRY	2.9283	2.9528	0.8 % ▲
US 10 Year Bond Rate	1.58%	1.63%	5 bp ▲	EUR/TRY	3.3164	3.3060	-0.3 % ▼
EMBI+ (bps)	342	339	-3 bp ▼	Gold (USD/ounce)	1,341	1,321	-1.5 % ▼
EMBI+ Turkey (bps)	308	297	-11 bp ▼	Brent Oil (USD/barrel)	49.8	49.5	-0.7 % ▼

bp: basis point

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***Eurozone PMI at seven-month high...***

Global stocks fell with the statements of Fed officials about the rate hike earlier in the last week, but recovered in Composite Purchasing Managers' Index in Eurozone rose to a seven-month high of 53.3 in August. PMI figure suggests that Eurozone economy remains on a steady growth path in the third quarter and services sector is the main driver of the growth.

***Japan economy is recovering.***

Japanese manufacturing activity showed signs of recovery according to preliminary PMI data. The index remained below the 50 threshold that separates contraction from expansion for the sixth month, but it rose on a monthly basis. Index for output expanded for the first time in six months indicating a recovery in economic activity, while export orders index showed that country's export performance is not improving. The cabinet this month announced an economic package in fiscal measures, hoping it would help the economy deflect external headwinds and sustain a moderate recovery.

***CBRT cut the upper band of the interest rate corridor.***

CBRT left the benchmark one-week repo rate unchanged at the MPC meeting last week, but pulled the upper band of the interest rate corridor down to 8.5% from 8.75% as a step towards simplification. Thus, interest rate cuts since March have totaled 225 basis points. CBRT also reduced the late liquidity window interest rate to 10% from 10.25%.

The statements published right after the MPC meeting iterated that annual loan growth has been reasonable. Developments in tourism sector are projected to have a short-term negative impact on the current account balance; however, foreign trade developments and moderate course of consumer loans are expected to have supported the recovery in the current account balance. In addition, it was noted that negative outcome of the domestic developments in July has been mostly compensated by the global risk appetite and recent measures taken. CBRT will keep the tight monetary policy stance on the upcoming days watching the inflation outlook. It was also added on the notes that prices of unprocessed food, which has lately been marked up, will show a downside correction in the short-term. Minister of Economy Nihat Zeybekçi, at his speech after the MPC decision, explained that they are planning to apply structural policies to control the inflation staying focused on the food inflation. Annual CPI had previously been announced as 8.79% in July, which was quite above the expectations.

## INDUSTRY NEWS

***Consumer confidence showed recovery in August.***

Consumer confidence, which fell in July, has recorded a rapid improvement in August with the level of 74.4 and reached up to its highest level since November 2015. General economic situation expectation index was realized above the level of 100. Moreover, growing possibility of household savings with regards to the purchase of home and automobiles in the next 12 months period supported the rise in the confidence level. We consider that campaigns initiated by the construction companies and discounts in mortgage credits by 15-20 basis points were effective on the improvement of confidence level as well. Indeed the data for house sales in Jan-Jul 2016 period, which is down by 2.7% yoy and the drop in mortgage sales was by 17.6% yoy, signaled the postponed demand in the sector. Latest data for the month July also demonstrate that failed coup attempt and Ramadan holiday have put downward pressure on the house sales.

***Decline in sectoral confidence...***

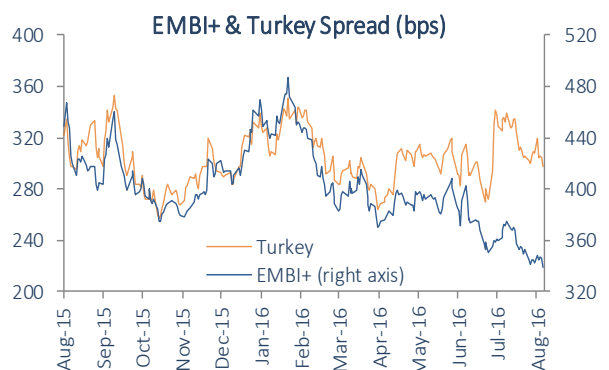
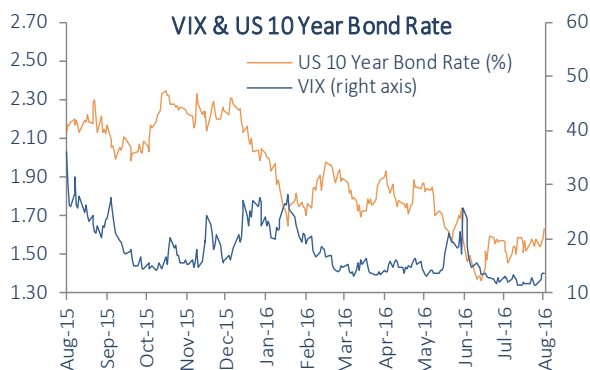
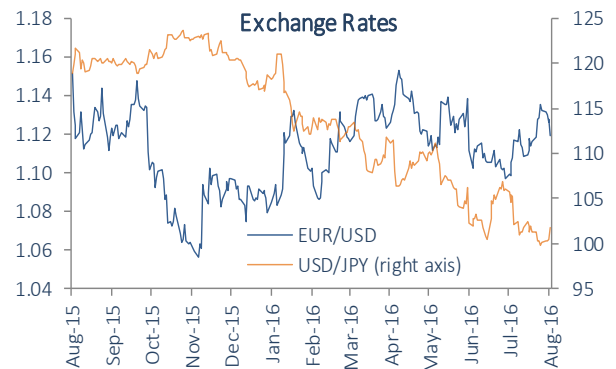
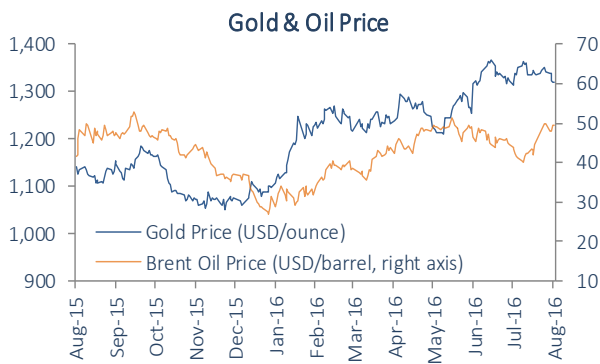
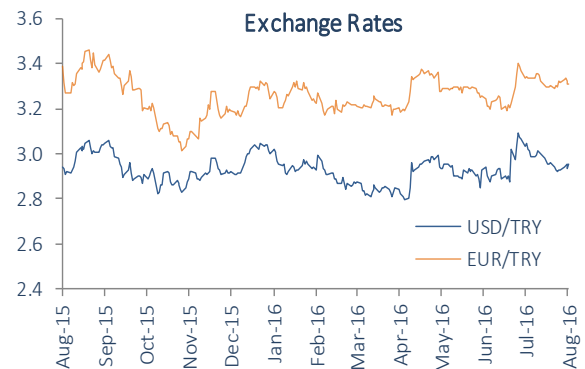
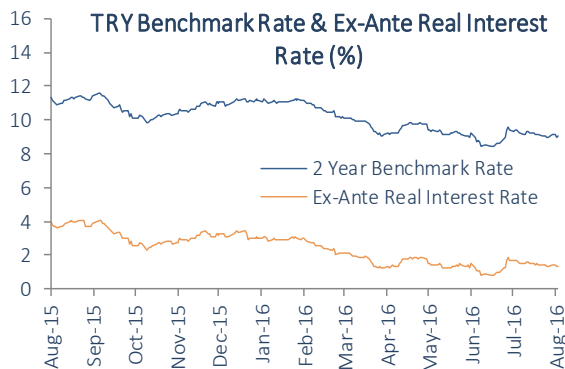
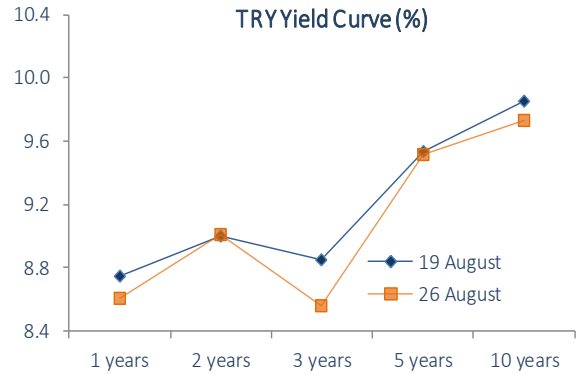
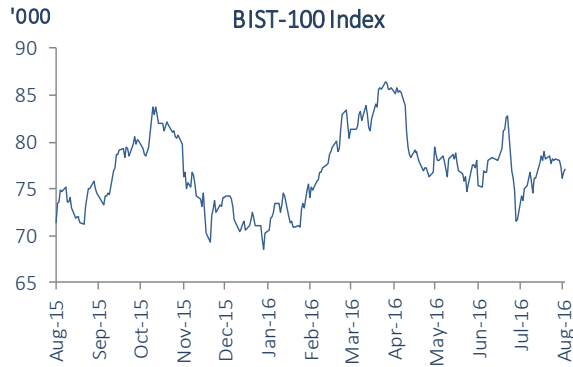
According to data released by Turkstat, in August, confidence indices declined in all sectors, especially the decline in services sector was significant. Seasonally adjusted confidence index for services sector decreased by 9.7% to 91.06 due to the decreased number of managers considering business activity as improved and current&expected demand over the next three months as increased. Decreased number of managers assessing the current total orders as above normal for the season and expecting an increase in the number of the employees for the next quarter pushed the construction sector confidence index down by 4.2%. The decline in retail trade sector confidence index was relatively moderate as 2.3%. The survey results showed a slowdown in domestic demand, which was stronger in the first half of the year, while confirming the difficulties in tourism and related sectors.

***Recent developments in relations with Russia...***

Negotiations for a free trade agreement between Russia and Turkey restarted after a break of 10 months. Two countries considered mainly to focus on the free movement of capital and free trade in services because of the ongoing restrictions of Customs Union agreement between Turkey and EU. Unprocessed agricultural products, iron and steel products, which are not included in Customs Union agreement with EU, are projected to be contained in the agreement with Russia. Free trade agreement is expected to increase the total volume of trade between two countries by accelerating the customs and bureaucratic procedures. Foreign trade volume between Turkey and Russia began to decline in 2015 as a result of the recession in Russian economy due to the embargo and fall in oil prices. Economic sanctions applied to Turkey by Russia have narrowed it even further after the plane crisis in November 2015.

Last weekend, it was also announced that the ban on charter flights from Russia to Turkey was lifted. Start of charter flights and 9 days of public holiday in September are expected to provide a slight relief in tourism sector in the final months of the year.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
29 August	US Consumer Spending Data	July	0.3% (A)
	US Personal Income Data	July	0.4% (A)
30 August	US The Conference Board Consumer Confidence Index	August	97.3
31 August	Turkstat Foreign Trade Statistics	July	
	CBRT Summary of the Monetary Policy Committee Meeting	August	
	Eurozone CPI (Preliminary)	August	0.3%
	Eurozone Unemployment Rate	July	10.0%
	US ADP Employment Data	August	175,000
	Treasury Domestic Debt Redemption (204 Million TRY)	August	
1 September	Eurozone Manufacturing PMI	August	
	China Caixin Manufacturing PMI	August	50.2
	Germany Manufacturing PMI	August	53.6
	USA Manufacturing PMI	August	
	USA ISM Manufacturing PMI	August	52.0
2 September	Eurozone PPI	July	-2.9%
	US Nonfarm Payrolls Data	August	175,000
	US Unemployment Rate	August	4.8%
	US Factory Orders Data	July	1.9%
	US International Trade Statistics	July	

(A): Actual

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