

## WEEKLY OUTLOOK

***US nonfarm payrolls didn't meet expectations.***

US nonfarm payrolls rose below the expectations by 151,000 and unemployment rate was realized as 4.9% exceeding the expectations. Rise in nonfarm payrolls, which were higher than expected in June and July, slowed down in August. It has been considered as a negative data to weaken the possibility of Fed's next interest rate hike to be in September. After the data, demand for emerging market assets was observed to be accelerated.

Boston Fed President Eric Rosengren expressed last week in his speech that US economy is likely to achieve full employment and price stability soon adding that quicker interest rate hikes could remove the risks to economy such as rising commercial real estate prices. Rosengren didn't comment on whether Fed may increase interest rates before year end.

***Euro Area economy...***

Flash HICP in Euro Area in August was lower than expected as 0.2% yoy, preventing the deflationary concerns to rise. PPI, on the other hand, was realized as -2.8% yoy, lower than the expectation of -%2.9. Consumer confidence was flat in August and the manufacturing PMI in August was revised down to 51.7 from 51.8.

***Domestic economic activity remained weak...***

Manufacturing PMI in Turkey which was 47.6 in July fell to 47 in August which signaled an ongoing slowdown in the sector for the last 6 months. Analyzing the details of PMI, the lowest level since April 2009, indicated that production and new orders declined. Growth in export orders, on the contrary, implied that exporting sectors are relatively doing better than the others. Economic confidence index in August was also in tandem with the weak domestic economic activity. According to data released by Turkstat, economic confidence was down by more than 24% mom in August.

***Foreign trade deficit continued to narrow down in July.***

Foreign trade deficit in July met the expectations with 4.79 billion USD. In July, exports declined by 11.5% yoy and imports fell by 19.7%. During January-July 2016, foreign trade deficit narrowed by 18.9% yoy to 32.8 billion USD thanks to low oil prices, strong gold exports and relative recovery in EU. Based on the flash foreign trade data published by Ministry of Customs and Trade, export volume increased in August contrary to July figures. Thus, exports and imports increased by 7.6% and 3.8% yoy respectively while foreign trade deficit kept its narrowing trend ([Our Foreign Trade Balance Report](#)).

## WEEKLY DATA

	26 Aug	2 Sep	Change		26 Aug	2 Sep	Change
BIST-100 Index	77,120	76,884	-0.3 % ▼	EUR/USD	1.1195	1.1153	-0.4 % ▼
TRY 2 Year Benchmark Rate	9.01%	9.08%	7 bp ▲	USD/TRY	2.9528	2.9499	-0.1 % ▼
US 10 Year Bond Rate	1.63%	1.60%	-4 bp ▼	EUR/TRY	3.3060	3.2902	-0.5 % ▼
EMBI+ (bps)	339	349	10 bp ▲	Gold (USD/ounce)	1,321	1,325	0.3 % ▲
EMBI+ Turkey (bps)	297	316	19 bp ▲	Brent Oil (USD/barrel)	49.5	46.0	-7.1 % ▼

bp: basis point

***CBRT published its MPC meeting minutes.***

Last week, CBRT published its MPC meeting minutes which was held on August 23rd. According to summary of the meeting, at which the upper band of the interest rate corridor cut by 25 bps, it was stated that economic activity continued to grow at a moderate and stable pace as domestic developments of July may cause a pause in this trend in the short term. However, it is stated in the summary that this trend is not likely to be a permanent one, as the recent measures contained the adverse impacts on the markets. Besides it was emphasized that geopolitical factors, waning global growth and sluggish tourism sector posed a downside risk to economic activity, while restored relations with Russia is anticipated to support external demand gradually. MPC's assessments regarding the inflation outlook was also crucial. The committee envisaged the recent deceleration in economic activity may curb services inflation, while core inflation expected to sustain its gradual downtrend.

***CBRT introduced new measures on required reserves.***

Last week, CBRT also announced new measures on the TRY denominated required reserves. Accordingly, in order to bring out residents' gold into the economy and to increase FX reserves, a new separate tranche of 5%, in addition to the existing facility of 30% allowing reserves requirement to be maintained as gold within the context of Reserve Option Mechanism, was introduced. It was decided that only wrought or scrap gold collected by banks from residents will be eligible for this new tranche, as the Reserve Option Coefficient will be set as 1 for this new tranche. Before the decision, banks were allowed to hold up to 60% of their TRY denominated required reserves as dollar and 30% as gold. According to the recent data, as of August 12th, domestic banks hold 26.3% of their required reserves as gold. Considering the domestic banks did not prefer to use all the existing facility of 30% allowing reserves requirement to be maintained as gold, the new tranche of 5% is not expected to have a significant impact on banking practices in the short term. In the coming period, on the other hand, banks gold saving practices is anticipated to gain momentum, which enabled them to maintain their required reserves as gold.

***Consumer prices rose by 8.05% annually...***

Domestic producer price index increased by 0.08% mom and 3.03% yoy, according to Turkstat. On the other hand, consumer price inflation was realized as -0.29% monthly and 8.05% annually. The highest monthly decrease was observed by 4.69% in clothing and footwear, whereas highest increase was 3.44% in alcoholic beverages and tobacco ([Our Inflation Report](#)).

***Assessments by credit rating agencies...***

Last week, Fitch commented on the financial structure of Turkish firms. Accordingly, Turkish firms are exposed to uncertainties because of low growth and high inflation. Fitch stated that these factors are badly affecting the financial flexibility of the firms and external debt ratio which declined in 2015 may increase again with less flexibility. Therefore, current credit ratings of Turkish firms might be under pressure. On the other hand, according to a report published by Moody's, political uncertainty in Turkey poses minimal risk for non-Turkish companies.

## INDUSTRY NEWS

***Domestic automotive sales dropped in August.***

Automobile and commercial vehicles market shrank in August annually by 13.3%, according to Automotive Distributors' Association (ODD) data. Following attempted coup, domestic automotive sales had dropped by 30% in July and downward trend in sales seemed to lose momentum in August. For the first 8 months of the year, sales were recorded as 598,963 suggesting a 5% yoy decline. Year-end sale forecast of ODD stands between 950k and 1 million.

***Normalizing relations with Russia...***

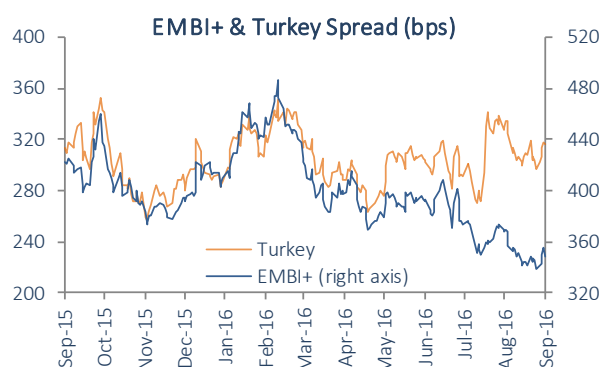
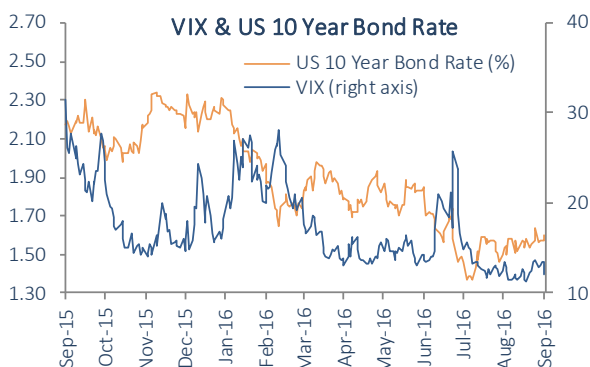
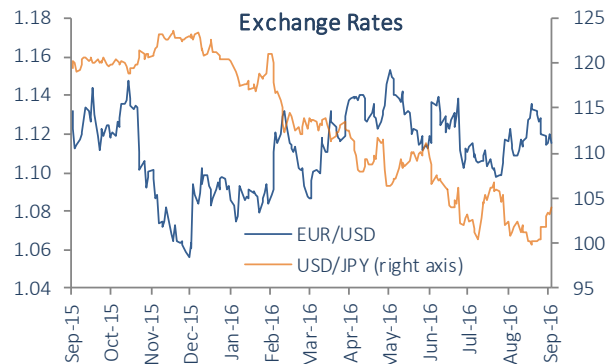
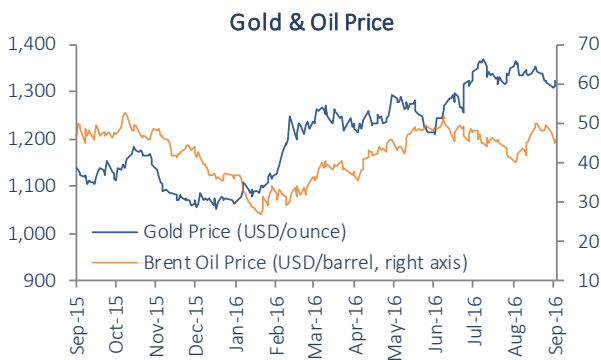
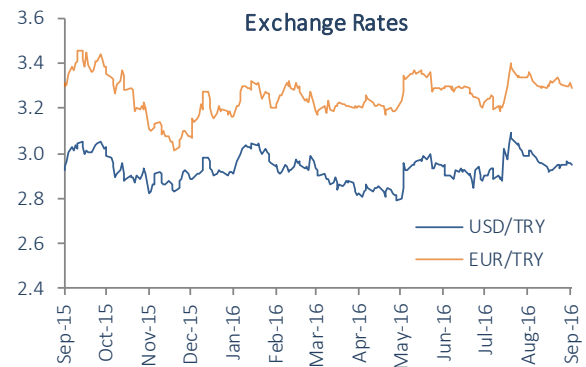
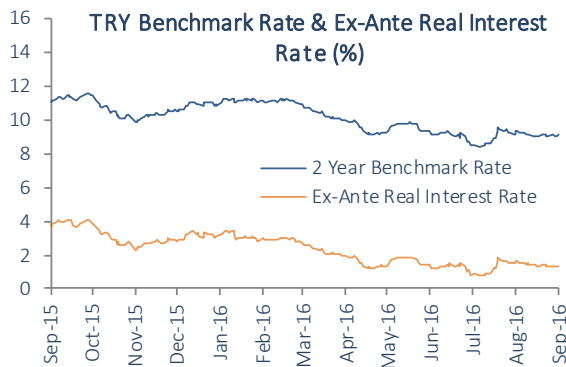
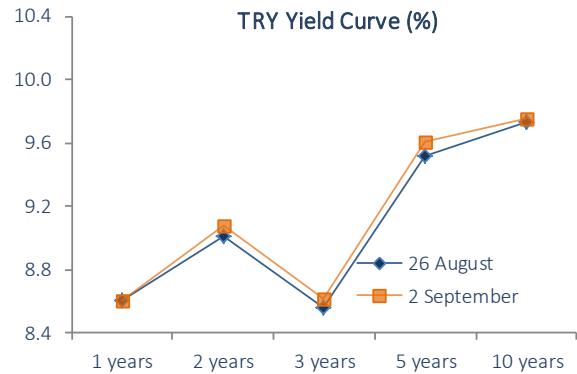
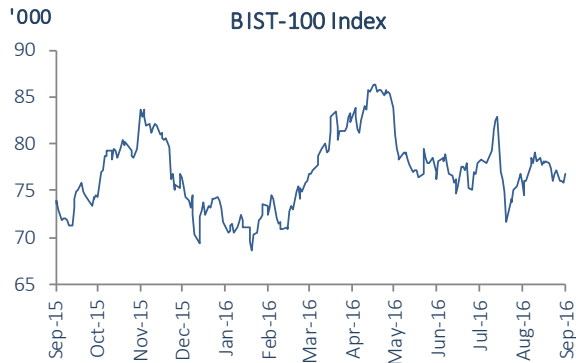
Relations with Russia continue to normalize rapidly. Previous week, Russia had lifted the ban on charter flights to Turkey; hence tourism sector in Turkey is expected to recover from the recession rather quickly. As the conflict between Turkey and Russia emerged, incoming tourists from Russia declined dramatically and tourism revenues registered sharp declines. Data announced last week also confirmed the deterioration. Thus in July, number of tourists from Russia dropped by 93% annually and overall visitors were down by 36.7%. Decline in tourists for the first 7 months of the year was registered at 30.3%.

Moreover, Russian Energy Minister Novak commented on Turk Stream project. According to Novak, timeline of the project is still yet to be determined and an agreement can be finalized within October.

***Number of shopping centers visits dropped.***

Number of shopping centers visits dropped by 2.9% in July. Along with dropping visits, total sales also declined by 2.6%. Chairman of Council of Shopping Centers Hulusi Belgü commented that the latest figures suggest a recession in the sector; however, shifting demand to June because of Ramadan Eid contributed to the decline in July. Belgü also said that attempted coup affected the behavior of consumers and increase in supermarket sales indicates that consumers focused on spending on convenience goods.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
5 September	TURKSTAT Domestic Producer Price Index	August	0.08% (A)
	TURKSTAT Consumer Price Index	August	-0.29% (A)
	Eurozone Retail Sales	July	1.1% (A)
6 September	Euro Area GDP Growth	2016Q2	1.6%
7 September	Treasury Domestic Debt Redemptions (580 million TRY)		
8 September	TURKSTAT Industrial Production Index	July	
	China Foreign Trade Statistics	August	
	ECB Monetary Policy Meeting	September	
9 September	TURKSTAT GDP Growth	2016Q2	
	CBRT Balance of Payments Statistics	July	

(A): Actual

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