

WEEKLY OUTLOOK

The US job market remains strong.

In the week of July 8-15, jobless claims in US were lower than expectations with 233k. The claims, which dropped to the lowest level of five months, hinted that the increase in employment was also strong in July. Jobless claims lower than the 300k threshold indicate that the job market is improving. The claims, which had decreased to the lowest level since March 1973 with 227k in February, are under the threshold for the last 124 weeks.

ECB leaves guidance unchanged.

Previously, European Central Bank (ECB) President Draghi told that the economy was growing and left the door open for a shift in the monetary policy stance. Therefore, last week investors awaited Draghi's speech after the MPC meeting for clues on ECB's next move. ECB reiterated that the economic activity in Euro Area displayed a strong performance and it would continue to ease its monetary policy if needed. Currently ECB's monthly bond purchases of 60 billion euro will continue until December. ECB kept the policy rate at 0%. Draghi pledged that the ECB will discuss the next stage in its asset purchase program in autumn as the decision to keep the guidance unchanged was taken unanimously. Besides, Draghi stated that the economy recovered significantly after a long time and they would closely watch the inflation figures before making any decision in the autumn.

IMF published the "World Economic Outlook" report.

In its "World Economic Outlook" report released this week, IMF has revised up its growth forecasts for Euro Area and China, while keeping its global growth forecasts for this year and next year unchanged. The growth forecast for Euro Area was raised from 1.7% to 1.9% for this year and from 1.6% to 1.7% for 2018. IMF also revised up its Chinese GDP growth forecasts to 6.7% and 6.4%, for the mentioned period. The US growth forecasts, on the other hand, were reduced to 2.1% for both 2017 and 2018, which were 2.3% and 2.5% previously. IMF noted that the short-term risks on the global economy are broadly balanced, but medium-term risks are still skewed to the downside.

Food prices continue to be effective on CBRT policies.

In his presentation to the Banks Association of Turkey, CBRT Governor Murat Çetinkaya emphasized that tight stance in monetary policy will be maintained until inflation outlook displays a significant improvement. Çetinkaya added that cost factors still drive the inflation upwards and fall in core inflation has been limited. As food prices continue to be volatile, it is expected that inflation will fluctuate in the second half of the year.

Food and Agricultural Product Markets Monitoring and Evaluation Committee reconvened last week to discuss possible measures to be taken. The committee studies towards avoiding rise and volatility in food prices, which make a significant contribution to inflation. The press release after the meeting indicated that the Committee focused on enhancing efficiency in key logistics processes along the fresh fruit-vegetable supply chain. It also showed that there are works in progress at several other areas to grant incentives. Imports of agricultural products were not on the agenda though.

WEEKLY DATA

	14 Jul	21 Jul	Change		14 Jul	21 Jul	Change
BIST-100 Index	105,176	106,843	1.6 % ▲	EUR/USD	1.1467	1.1661	1.7 % ▲
TRY 2 Year Benchmark Rate	11.37%	11.40%	3 bp ▲	USD/TRY	3.5371	3.5353	-0.1 % ▼
US 10 Year Bond Rate	2.32%	2.23%	-9 bp ▼	EUR/TRY	4.0569	4.1256	1.7 % ▲
EMBI+ (bps)	332	332	0 bp ●	Gold (USD/ounce)	1,229	1,254	2.1 % ▲
EMBI+ Turkey (bps)	291	285	-6 bp ▼	Brent Oil (USD/barrel)	48.2	46.9	-2.7 % ▼

bp: basis point

Fitch affirmed Turkey's credit note.

International credit rating agency Fitch affirmed Turkey's credit note (long-term foreign-currency issuer default rating) at "BB+", one notch below the investment grade and kept the country's credit outlook at "stable". Fitch, which had downgraded Turkey's credit note below the investment grade in January, underlined Turkey's high external financing vulnerabilities, geopolitical risks, high levels of inflation and macroeconomic volatility against low public debt ratios backed by fiscal stability and strong growth performance. Fitch noted that low public debt burden is one of the main supporting factors of the credit note and stressed that deterioration in the government debt/GDP ratio may lead to a negative action, while implementation of structural reforms may lead to a positive one. Fitch forecasts that general government deficit will rise to 3.1% of GDP, the largest since 2010 due to fiscal stimulus measures recently taken. According to Fitch's projection Turkey's economic growth will average 4.3% between 2017 and 2019. Although it is favorable compared to the "BB" median, it is well below Turkey's 2011-2017 average. Two of other rating agencies Moody's and S&P rates Turkey below the investment grade as well. Moody's rates Turkey's credit note at "Ba1", one notch below the investment grade and its outlook at "negative", while S&P rates Turkey's credit note at "BB", two notches below the investment grade and its outlook at "negative".

Turkey's second-top 500 industrial enterprises list has been published.

Istanbul Chamber of Industry (ICI) has recently published "Turkey's Second-Top 500 Industrial Enterprises" list. Accordingly, production-based net sales of the firms on the list increased by 8.6% in 2016 while EBITDA and pre-tax net profits have both declined in real terms as a result of the increase in financing expenses. Likewise in ISO-500 list, financing expenses remained to be the main factor which affected industrial enterprises' profit margin. In fact, financing expenses of industrial firms surged by 16.3% and were realized as 4.4 billion TRY in 2016. ICI officials stated that "In the second-500 list financing expenses to operation profits ratio went down from 51.1% to 50.6% in 2016. In spite of this improvement, industrial enterprises kept on spending half of their profits to financing needs. These developments indicate that interest rates and exchange rate volatility have continuous effects on both profitability and capital accumulation of the manufacturing industry."

The central government posted a budget deficit in June.

In June, budget expenditures increased by 11% compared to the same month of the last year. On the other hand, budget revenues decreased by 0.3% yoy due to the base effect stemming from the high level of privatization revenues in June last year. Thus, central government budget deficit which was 7.9 billion TRY in June 2016 became 13.7 billion TRY this year. In the first half of the year, budget expenditures expanded by 18.5% compared to last year due to the economic stimulus measures. In this period, the increase in budget revenues was recorded as 8.8%. Hence, the budget, which posted 1.1 billion TRY surplus in the first six months of last year, gave a deficit of 25.2 billion TRY in the same period of 2017 ([Our Budget Balance Report](#)).

Financial markets...

Last week, in the global markets, dollar has been relatively stable whereas EUR/USD parity was affected by the recent developments in the Euro Area. EUR/USD parity increased by 1.7% compared to previous week. TRY remained relatively flat against USD however the currency depreciated against euro which had risen upon ECB meeting. On Thursday, Germany's official comments on Turkey were also influential on TRY's course and TRY denominated assets were under pressure during the day. Although BIST-100 index fell by 0.8% on Thursday, the market closed 1.6% higher wow. This week, Fed's FOMC meeting will be monitored closely in the markets.

INDUSTRY NEWS

White goods production and domestic sales continue to increase.

According to the data released by White Goods Manufacturers' Association of Turkey (TÜRKBEŞD), domestic sales in the white goods sector increased by 7% yoy in June, while exports decreased by 5%. In the first half of the year, domestic sales and exports increased by 27% and 2% respectively. White goods production also increased by 9% in the first half of the year. It is observed that the increase in production and sales is continuing with a decreasing momentum as tax cut applied in white goods sales was extended until the end of September.

Positive expectations in the construction sector...

Construction Materials Industry Composite Index, which has been on an upward trend for the last four months, continued its upward trend in June. The index, which gave important signals regarding the performance and cost structure of the construction sector, rose by 0.4% in June despite the Ramadan and Ramadan holiday. While the confidence index in the sector increased in June and carried its increase to the fifth month, expectation index rose above last year's level. Orders index for the next three months has also risen significantly.

Economy Minister Zeybekçi stated that the regulation will be published over the next few days to reduce customs duty on the construction steel to 10%-15% levels. The debates whether customs duty should be reduced or not has been ongoing for the last couple of weeks. Costs in the construction sector have risen considerably due to rising prices of construction steel, and industry representatives have indicated that if solutions cannot be found, the activities in the sector may come to a halt.

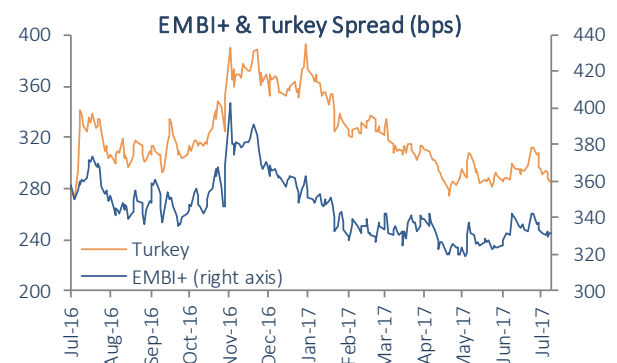
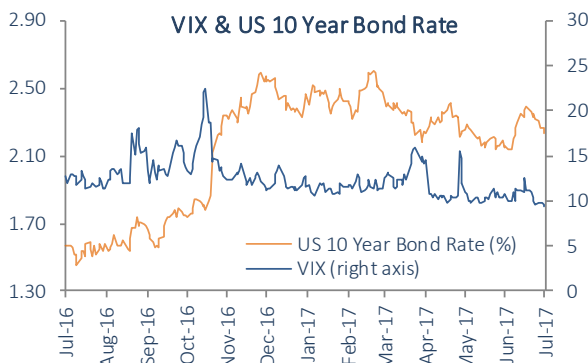
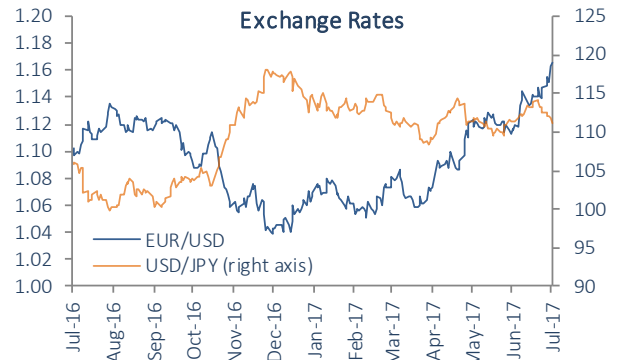
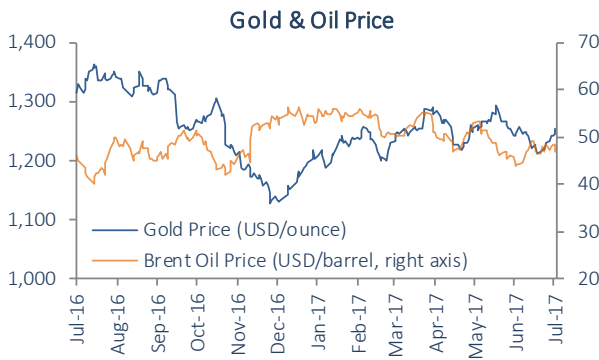
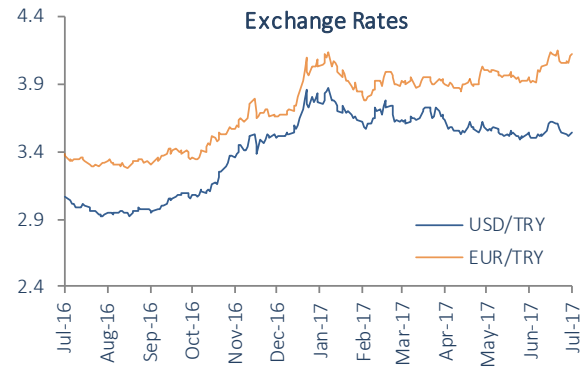
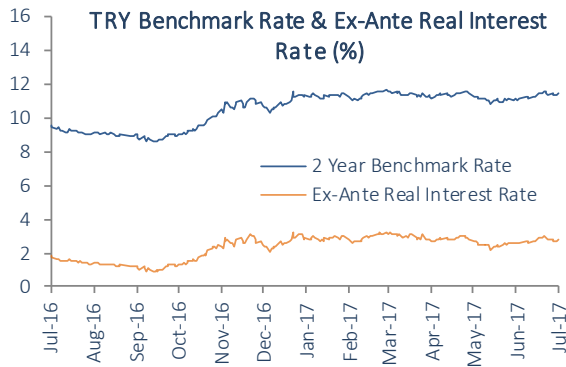
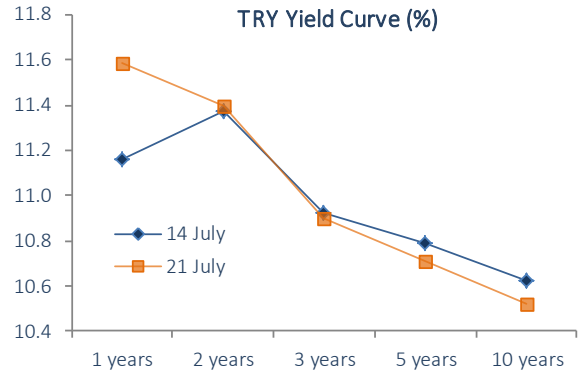
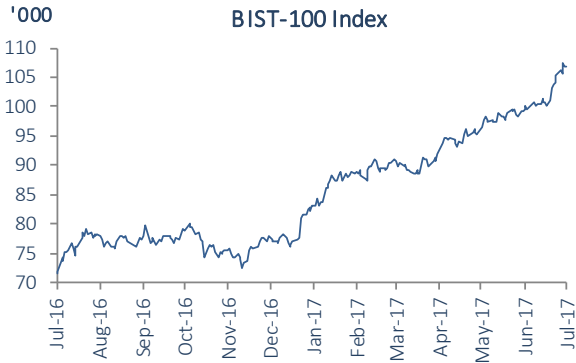
Limited increase in home prices.

Property Price Index for Turkey, prepared by REIDIN, increased by 0.79% in June compared to the previous month and by 10.1% compared to the same month of last year. Annual increase in rental housing price index in Turkey was limited with 4%. It is thought that the housing market has lost some attraction as an investment vehicle when the increase in housing prices is parallel to inflation and the increase in rental prices is limited. In addition, if increase in rental prices remains low, rate of increase in housing prices is also predicted to slow down.

Domestic demand in the cement sector is expected to shrink in 2017.

Profit margin in cement sector, which declined in the first quarter of the year, has recovered in the second quarter. Profitability in the sector is expected to remain relatively flat for the remainder of the year. Decline in demand, increased energy cost and postponed investments prior to the referendum were effective in deterioration of profitability. Activity and profitability in the sector had been quite high in 2014 and 2015 thanks to robust activity in construction sector; however, profitability was relatively weak afterwards. Production capacity of Turkey, the fifth largest cement manufacturer in the world following China, India, USA and Brazil, is 80 million tons of clinker or equivalent of 130 million tons of cement by the end of 2016, according to the European Cement Association. The domestic demand, which grew by some 5% in 2016, declined in the first half of 2017. Despite some recovery expected in the rest of the year, overall demand is projected to shrink in 2017. While approximately 40% of the companies operating in the sector are represented in Borsa Istanbul, this expectation in domestic demand is reflected in stock prices as well. BIST-100 index has risen close to 37% since the beginning of the year, while the rise in the sub-index, including 17 cement companies, was limited to 12% in the same period.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
24 July	USA Existing Home Sales	June	5,58 million unit
	USA Manufacturing PMI (Preliminary)	July	53.2 (A)
	Eurozone Manufacturing PMI (Preliminary)	July	56.8 (A)
	Germany Manufacturing PMI (Preliminary)	July	58.3 (A)
25 July	CBRT Capacity Utilization Rate of Manufacturing Industry	July	
	CBRT Business Tendency Survey and Real Sector Confidence Index	July	
26 July	USA The Conference Board Consumer Confidence Index	July	117.0
	Treasury Debt Redemption (657 million TRY)		
	Fed Open Market Committee Meeting	July	
27 July	USA New Home Sales	June	612K unit
	CBRT Monetary Policy Committee Meeting		
28 July	USA Durable Goods Orders	June	mom 3.2%
	USA International Trade Statistics	June	65 billion USD deficit
	USA GDP Growth (Advance)	2017Q2	2.6%
	USA The University of Michigan's Consumer Sentiment Index	July	93.1

(A) Actual

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