

## WEEKLY OUTLOOK

***Fed kept its policy rate unchanged.***

Last week, global markets closely followed Fed meeting and latest data releases on US economy. Composite PMI and consumer confidence index data released in the first half of the week exceeded expectations and pointed out that the positive outlook in US economy continued. At the FOMC meeting, which ended on July 27<sup>th</sup>, Fed did not change its policy rate in line with expectations. Second quarter growth in US economy was realized somewhat in line with expectations with 2.6% and 1.4 points above first quarter's level. Strong growth data suggested a healthy economic activity in US. While it is positive that consumption expenditures and investments were the main contributors to the growth, contribution of net exports reverted to positive.

In the statement following the FOMC meeting, it was emphasized that increase in private consumption expenditures was the result of robust activity in labor market. Moreover, business fixed investment expenditures have contributed positively to growth. While Fed expressed that inflation is below the target of 2%, it expects to begin implementing its balance sheet normalization program relatively soon. However, dovish statements by Fed support the view that Fed will take its time before tightening its monetary policy. While balance sheet normalization program is expected to begin in September, Fed is expected to raise interest rates at its December meeting.

US stock market was on the positive side last week due to increasing risk appetite thanks to dovish statements by Fed and strong corporate financial results. VIX was at a historic low level of 8.84 after Fed meeting. Due to strong data from the US in the first half of the week, 10-year treasury bond yield was increasing; however, it declined in the coming days. DXY index, which shows the value of USD against other developed country currencies, is approaching its lowest levels for the last 15 months.

***Rapid increase in oil prices...***

After a sharp decline following OPEC meeting in May, oil prices have turned upwards last week. This development was influenced by the fact that Nigeria, which is exempted from OPEC's production cut deal, will limit its daily production to 1.8 million barrels and that the global oil market stabilization process will accelerate. In addition, announcement that oil inventories in US have fallen more than anticipated also supported the rise in oil prices. Price of Brent oil, which surpassed 52 USD/barrel on Friday, rose 11% wow. Gold prices continued its upward trend and closed the week at 1,269 USD/ounce, highest of the last 6 weeks.

***Domestic markets monitored CBRT meeting.***

Limited effects of the recent decline in annual inflation on expectations along with TRY's depreciation against the currency basket (0.5\*\$+0.5\*€) has been leading CBRT to act in a prudent way lately. Although TRY has appreciated against USD in the last few weeks, the rise in €/€ parity puts an upward pressure on €/TRY. Currency basket, which hit historic high in January, turned upward again in July and realized as 3.83 on average. CBRT kept policy rate,

## WEEKLY DATA

	21 Jul	28 Jul	Change		21 Jul	28 Jul	Change
BIST-100 Index	106,843	107,700	0.8 % ▲	EUR/USD	1.1661	1.1750	0.8 % ▲
TRY 2 Year Benchmark Rate	11.40%	11.53%	13 bp ▲	USD/TRY	3.5353	3.5269	-0.2 % ▼
US 10 Year Bond Rate	2.23%	2.29%	5 bp ▲	EUR/TRY	4.1256	4.1466	0.5 % ▲
EMBI+ (bps)	332	335	3 bp ▲	Gold (USD/ounce)	1,254	1,269	1.1 % ▲
EMBI+ Turkey (bps)	285	285	0 bp ●	Brent Oil (USD/barrel)	46.9	52.0	11.0 % ▲

bp: basis point

interest rate corridor and late liquidity rates unchanged in its Monetary Policy Meeting held last week. In its minutes, CBRT stated that economic activity has preserved its strength and external demand has improved with the help of positive developments in the European Union countries. CBRT also warned about the risks related to pricing behaviour and mentioned that tight monetary stance would be preserved.

### ***Signs of rising borrowing limits...***

Incentives provided to the real sector have been backing up the domestic economic activity on one hand, started to weigh on public sector finances on the other. Last week, Deputy Prime Minister Mehmet Şimşek commented on that issue by saying Treasury's borrowing limit might be increased in the following period. Şimşek emphasized that the borrowing needs might exceed the limit for the first time since 2009-crisis and added that public sector would probably borrow higher than expectations this year due to the economic measures taken. Treasury's net borrowing has already reached TRY 44.8 billion in the first half, where the borrowing limit had been set as TRY 47.5 billion for 2017 according to the Law No. 4749. Related legislation also allows public sector to increase the borrowing limit by around 10% up to TRY 52.2 billion, on the condition that the government approval has been obtained. On the other hand, even the limit rise might not be enough as most probably TRY 7.4 billion limit for the second-half of 2017 would be insufficient. In this case the government is likely to go for a law amendment to ensure additional borrowing.

### ***Capacity utilization rate of the manufacturing industry declined slightly.***

Turkey's economic activity had a strong performance in the first half of the year thanks to the public incentives given to the real sector and reviving demand from Turkey's main trading partner, European countries. On the other hand, leading indicators point out that Turkey's economic activity has so far had a moderate growth in the second half of the year. Capacity utilization rate (CUR) of the manufacturing industry increased by 0.9 bps yoy to 78.7% in July. Seasonally adjusted CUR, on the other hand, had a slight drop mom and became 78.4%. CUR of manufacturing of motor vehicles, which contributed most to economic activity in the first half of the year, was stable in July. CUR of basic metals sector, having a buoyant performance so far during the year, slightly decreased mom while CUR of computer and electronic products sector fell by a significant amount. CUR of clothing sector rose in July and limited the decline in overall CUR of the manufacturing industry.

### ***Rise in Economic Confidence Index...***

Economic Confidence Index went up by 4.5% mom to 103.4 in July. Hence, the index reached its highest level since November 2013. Rise in confidence mainly stemmed from the improvements in retail trade and services sectors. On the contrary, confidence indices of both real sector and construction sector fell, realizing -1.4% mom for the latter. Decline in orders and deterioration in employment prospects have led to a downward course in the construction sector's confidence.

### ***Exports kept its rising trend.***

According to data released by TURKSTAT, in June, Turkey's exports rose by 2.3% yoy to USD13.2 billion, while imports fell by 1.5% yoy to USD19.2 billion. Hence, foreign trade deficit narrowed by 9.1% yoy to USD6 billion. Import coverage ratio rose by 2.6 bps to 68.7%. Germany, United Arab Emirates and USA became Turkey's largest three export partners during the same period. Motor vehicles realized the highest export volume in June, while sector's exports climbed by 21.7% yoy. Exports of knitted and non-knitted textile products, which had a weak performance in recent months, contracted by 10.1% and 8.1% yoy. Surge in imports of precious stones, metals and pearls restricted the fall in foreign trade deficit. Imports of the related products widened by USD1.4 billion yoy to USD2 billion in June.

### *Growing optimism in domestic financial markets...*

Growing optimism towards Turkey's economic activity accompanied by rising risk appetite just after Fed's FOMC meeting were effective on the positive outlook in domestic financial markets last week. Turkey's 5 year CDS spreads have been clinging on its lowest levels since January 2015. BIST 100 index reached its highest level thanks to favorable expectations on strong banking sector balance sheets. BIST 100 increased by 0.9% week and closed the week at 107,823. TRY, which depreciated against USD in the first half of the week, made up to 3.53 following the Fed meeting. Upward trended EUR/USD parity, on the other hand, is weakening TRY against EUR. EUR/TRY, which rose to 4.16 turned back to 4.14 backed by the fall in USD/TRY.



## INDUSTRY NEWS

***Domestic demand in clothing sector remained strong.***

The clothing sector is crucial for Turkey in terms of its high employment and export potential. In the first half of 2017, contrary to the upturn in Turkish economy, domestic clothing sector recovered mildly. Şeref Fayat, Chairman of Turkish Clothing Manufacturers Association, told that domestic demand gained strength in the last few months, as the domestic sales for 2017 is expected to increase by 10% to above TRY 60 billion. Fayat also added that foreign sales are under pressure as some German buyout groups have canceled their visits due to increased political tension. Germany was sector's largest export market with a share of 18% in 2016.

***High demand for YEKA Project...***

In line with the policies to reduce import dependence in energy sector, Turkey is planning to increase its energy capacity on renewable energy sources. Applications for the 1,000 megawatt (MW) renewable source area wind licensing contract was concluded last week, where 8 consortiums, submitted proposals for Wind Energy Renewable Energy Resource Areas (YEKA) contract. The bidding is slated to be held this week. The contract involves building a wind turbine plant, requiring investors to have over 65% local production and R&D operations for over 10 years. Turkey's installed wind energy capacity, which is around 6,000 MW, is planned to increase to 20,000 MW in 2023.

***Decline in house sales...***

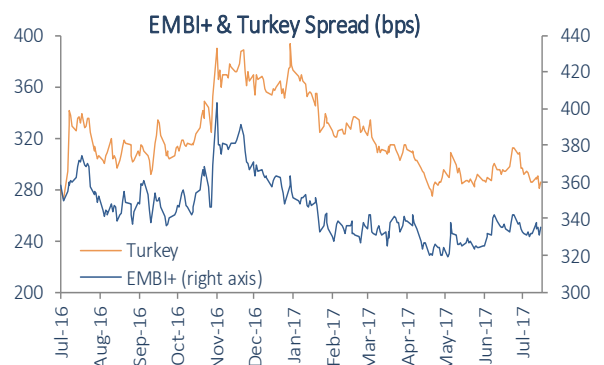
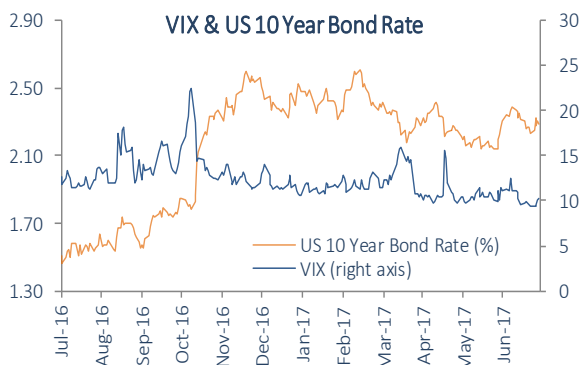
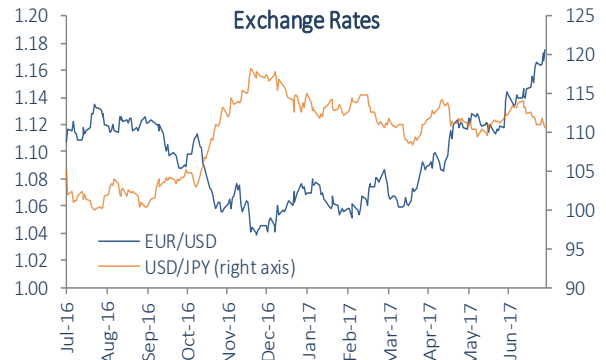
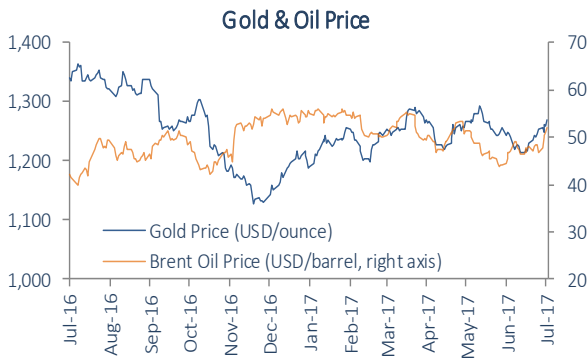
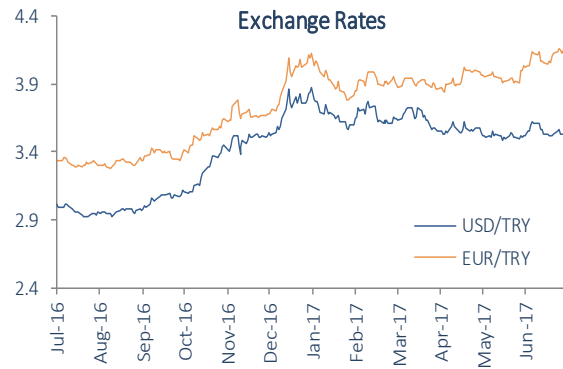
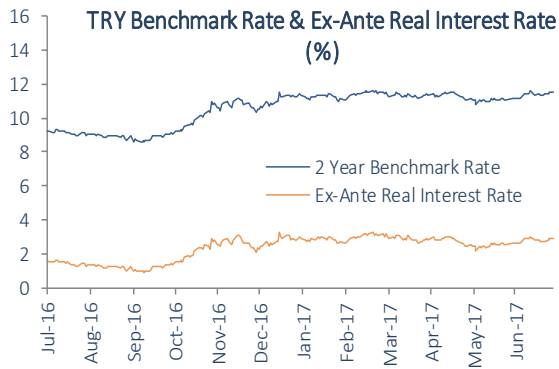
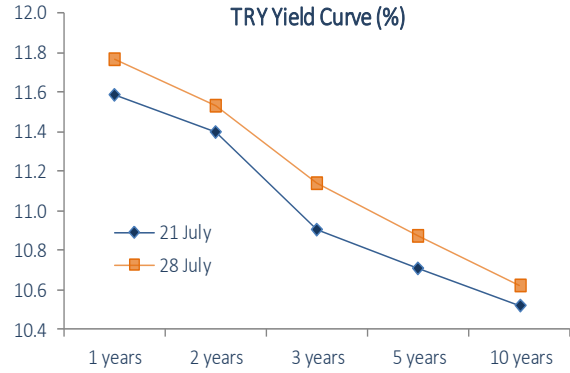
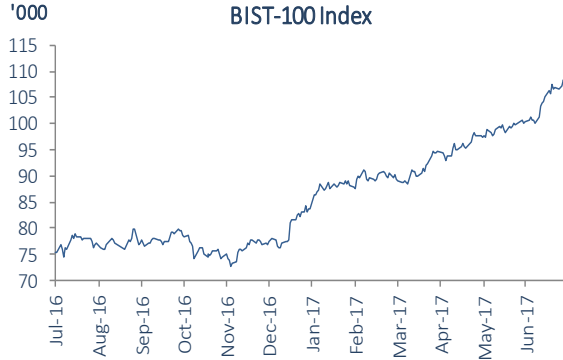
In June, house sales in Turkey decreased by 8.1% compared to the same period of previous year and came in at 98k units. Mortgaged house sales, having a 36.1% share in total, declined by 3.2% in this period, while other house sales declined by 10.7%. In June, new home sales fell by 7.9% yoy to 45k units and second hand house sales decreased by 8.2%. Besides, home sales in top three markets, Istanbul, Ankara and Izmir, shrank by more than 10%. We think that the sluggish performance of house sales might be transitory, due to the iterated demand in Ramadan period and fewer working days.

Despite the temporary decline in house sales, the increase in prices has lost momentum since the beginning of 2016. According to the statistics published by CBRT, house prices increased by 10.96% yoy in May. Thus, house prices in Turkey recorded its lowest increase for the last 44 months. This development mainly stemmed from the cooldown of housing market in İstanbul. In İzmir, where the construction sector has been relatively vivid recently, the prices increased by 16.6% yoy and diverged positively from other provinces.

***Tax on imports of construction iron is reduced.***

Turkey, world's second largest construction iron exporter, lowered the tax rate on imports from 30% to 10%, as this development may deepen the idle capacity problem for domestic manufacturers. Besides, the Free Trade Agreement with Ukraine, which is expected to enter into force by the end of this year, is another factor that may increase construction iron imports.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
31 July	Foreign Trade Statistics	June	6 billion USD deficit (A)
	Euro Area CPI (preliminary)	July	1.3% (A)
	Euro Area Unemployment Rate	June	9.1% (A)
	Germany Manufacturing PMI (preliminary)	July	
01 August	Turkey Manufacturing PMI	July	
	US Personal Income	June	
02 August	US ADP Employment Report	July	
	Treasury's Domestic Debt Redemption (570 Million TRY)	August	
03 August	Turkey CPI	July	0.15%
	Turkey D-PPI	July	
	Euro Area PMI	July	
04 August	US Nonfarm Payrolls	July	180k
	US Unemployment Rate	July	4.3%

(A) Actual

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