WEEKLY OUTLOOK

Global markets reacted positively to Yellen's speech.

Last week global markets focused on the speeches of Fed officials, especially the Fed chair Janet Yellen. During her speech at the Economic Club of New York, she drew attention to the climbing risks in the global economy and explained that Fed must proceed with caution on interest rate hikes. She also asserted that economic growth in China has been decelerating and moving to a more domestic-demand-driven economic growth rather than export-driven growth. However, the uncertainty about how they achieve this transition is raising concerns in the global markets. She mentioned that falling commodity prices, particularly oil prices, are also creating risks for the global economy. Right after her speech, risk appetite rose in the global economy. At the FOMC meeting held on March 15-16, Fed had made no changes in the policy interest rate. The median policy interest rate predictions of FOMC members had pointed that there will be two 25 bps interest rate hikes in 2016.

Positive data from US economy…

Personal income rose slightly higher than expectations by 0.2% in February while consumer spending showed little increase as expected. Annual PCE price index, which Fed has been watching closely, was revised to 1% yoy whereas core PCE price index was stable at 1.7% yoy. Pending home sales index increased by 3.5% mom in February, creating positive outlook in the market. Similarly, non-farm payrolls grew by 215,000 persons on the very last day of the last week, somewhat higher than expected. Employment participation rate which was realized as 63%, the highest level since March 2014, pushed the unemployment rate in March up to 5%. On the other hand, ISM manufacturing index, one of the prominent indicators of the industrial activity in the US, came as 51.8 with a modest gain. Consumer sentiment data was also moderate enough to back the steady expectations for the US economy.

The effectiveness of negative interest rate policy in Japan is being questioned.

After the Easter Holiday earlier in the week, Asian markets moved up with Yellen's speech but remained under pressure due to the negative data from Japan released on Friday. In the first quarter of the year, Tankan index, which measures the confidence at Japanese manufacturers in the economy, became its lowest level of last three years and the manufacturing PMI in the country pointed to ongoing contraction in the sector. These developments led the economists to question the effectiveness of BoJ's negative interest rate policy, which has been implemented since the end of January 2016.

China's credit rating outlook was cut to negative from stable.

After Moody's, Standard & Poor's also reduced China's credit rating outlook from "stable" to "negative", affirming the current credit rating. As the reason of this reduction, the company stated that the rebalancing process of the Chinese economy is slower than expected. On the other hand, China's manufacturing PMI for March was released as 50.2, higher than the threshold value and beyond the consensus. Manufacturing PMI exceeded the threshold for the first time in nine months.

WEEKLY DATA

	25 Mar	1 Apr	Change			25 Mar	1 Apr	Change	
BIST-100 Index	81,356	82,359	1.2 %	▲	EUR/USD	1.1163	1.1386	2.0 %	▲
TRY 2 Year Benchmark Rate	10.13%	9.97%	-16 bp	▼	USD/TRY	2.8753	2.8211	-1.9 %	▼
US 10 Year Bond Rate	1.89% *	1.78%	-11 bp	▼	EUR/TRY	3.2108	3.2126	0.1 %	▲
EMBI+ (bps)	398 *	397	-1 bp	▼	Gold (USD/ounce)	1,216	1,222	0.5 %	▲
EMBI+ Turkey (bps)	294 *	289	-5 bp	▼	Brent Oil (USD/barrel)	38.4 *	37.7	-2.0 %	▼

bp: basis point
(*) As of March 24th.

Weak outlook in USD, volatile course in commodity prices…

After the Yellen's statement in the beginning of the week, dollar depreciated against other major currencies. Gold prices, after attracting investors in the first half of the week, pared some of its gains in the following days. Thus, gold prices rose by 0.5% wow to 1,222 USD/ounce.

Brent oil prices completed last week at 37.7 USD/barrel. The decline was mainly due to the uncertainties whether Iran and Libya would attend OPEC's April meeting that will be hold in Doha and the upward revision in US crude oil inventories. In addition to that, in last day of the week Saudi Arabia declared that it would freeze its oil production only if Iran participates in. The recent developments in commodity prices affirmed our view that, the recent rally in commodity prices depend loosely on fundamental factors and might be short-lived.

In 2015, Turkish economy grew above the expectations, thanks to the domestic demand.

Last week Turkstat published GDP data for the fourth quarter of 2015. According to that, Turkish economy grew by 5.7% in the last quarter yoy in real terms, while the growth rate was realized as 4.0% in whole year. In the fourth quarter, industry and services sectors made the highest contribution to growth. 5.4% yoy increase in the construction sector was also noteworthy. Reduction of political uncertainties after the November elections and the increase in public sector's infrastructure expenditures contributed this favorable outlook. During the whole year, on the other hand, agriculture sector registered the highest increase with 7.6%, while services and industry sectors grew by 4.8% and 3.3%, respectively. GDP per capita, which was 10,395 USD in 2014, declined to 9,261 USD due to the depreciation of TRY. In addition to that, GDP in nominal USD narrowed by 9.9%. Analyzing the GDP via expenditures approach revealed that the domestic demand supported the growth through 2015. It is thought that 3 million Syrian refugee population also played a role in this development.

Recent leading indicators sent mixed signals on economic activity. In January, industrial production expanded significantly, while the March PMI data dropped below the 50 threshold for the first time since October 2015, suggesting a contraction in economic activity. Consumer confidence index, on the other hand, continued to follow its downward trend since November 2015. Considering all of these developments, we anticipate that Turkish economy would sustain its moderate growth rate in 2016. In the coming period, we think that the domestic demand driven growth would continue and the enlivening in European economies would support the domestic economic activity. On the other hand, ongoing uncertainties in other export markets and the fall in tourism revenues might put some pressure on growth figures (Our GDP Growth Report).

Foreign trade deficit decreased by 32.8% to 3.2 billion USD in February due to decreasing energy imports.

In February 2016, export volume rose by 1.4% yoy to 12.4 billion USD while import volume dropped by 8.1% to 15.6 billion USD. Increase in exports was mainly due to export growth in the motor vehicles while decrease in imports stemmed from the fall in commodity and energy prices. Foreign trade deficit decreased by 32.8% to 3.2 billion USD while export/import ratio was realized as 79.7% in February. Recent economic recovery in EU countries triggered the February export to this region to rise by 10.8% yoy. Germany was the main export market of Turkey by 1.2 billion USD. Exports volume to the Near and Middle East countries weakened because of the geopolitical risks. China has the biggest share in Turkish imports (2.1 billion USD) (Foreign Trade Balance Report).

Turkish Exporters' Assembly (TIM) announced the export figures for March 2016. The export volume was up by 2.6% to 11.5 billion USD maintaining the positive outlook in March. The top three sectors in terms of the export volume were motor vehicles, wearing apparels and chemicals. In the upcoming period, the export volume is expected to continue to depend on the economic developments in EU and EUR/USD exchange rate. Besides, Turkey will still be under the impact of the geopolitical problems going on in the neighboring countries.

Yellen's statements and recent macro data supported the domestic markets.

In the beginning of the last week, the trading volume in domestic markets was low due to closed international markets because of the Easter Holiday. On Tuesday, global risk appetite improved thanks to the Yellen's dovish statements, while the capital inflows to emerging markets gained pace. After the strong GDP data, USD/TRY exchange rate fell to 2.8160, the lowest level since August 12th,2015. BIST-100 index, registering a weekly increase of 1.2%, closed the week at 82,359, while the 2-year benchmark yield was declined to 9.97%, which came down to single digit levels for the first time since October 2015.

In March, CPI decreased by 0.04%, while D-PPI rose by 0.40%.

In March, while CPI decreased by 0.04% mom, annual CPI inflation was realized as 7.46%. On a monthly basis, the fastest price fall among sub-groups was observed in food and non-alcoholic beverages in which prices decreased by 1.53%, while the prices increased most rapid in health sub-sector by 1.21%. On an annual basis, on the other hand, the highest increase was observed in alcoholic beverages and tobacco subgroup (12.79%). In March, D-PPI increased by 0.40% mom and 3.80% yoy. On monthly basis, the prices decreased by 1.80% in electricity and gas and by 0.26% in mining and quarrying, while increased by 0.63% in manufacturing sub-sector (Our Inflation Report).

Treasury announced the Domestic Borrowing Strategy for the second quarter and the external debt stock.

According to the domestic borrowing strategy for the 2nd quarter of 2016, the Undersecretariat of Treasury plans to borrow a total of 9.6 billion TRY. During this period, domestic debt redemption is projected to be 11.5 billion TRY in total.

According to data released last week, Turkey's gross external debt was 398 billion dollars as of 2015 year-end. The ratio of gross external debt to GDP increased to 55.3%. Thus, Turkey's gross external debt to GDP ratio became over 55% for the first time since 2002. The share of short-term debt was 26%, while 74% of total debt is long-term. The share of public debt was 28%, while the share of the private sector was 71%.

This week, Moody's will review Turkey's sovereign credit rating.

This week, in Turkey, industrial production figures and Moody's' review of Turkey's credit rating will be on agenda. Besides, FOMC minutes and Fed officials' statements will continue to be effective in the course of the global markets.

INDUSTRY NEWS

HPI in Turkey increased by 17.5% yoy in January.

According to the CBRT's publication, the house price index (HPI) increased by 17.5% yoy in January, having lost momentum successively in the last 3 months. In real terms, HPI rose by 7.2% yoy. The highest price increase was observed in the sub-index including Aydın, Denizli and Muğla while Istanbul ranked as 2nd. New housing price index, on the other hand, surged by 15.2% yoy.

Milk prices stabilized after Meat and Milk Board's (MMB) intervention.

The milk producers were under pressure for a while as the milk prices fell below the production costs due to the oversupply in the milk market. However, the pressures on milk producers eased somewhat after the MMB's milk purchases from the producers at 1.15TRY/lt. In line with the purchases, milk prices have tended to increase from the level of 0.70-0.75TRY/lt.

Investments in pharmaceutical sector continue.

Pharmaceutical sector, which recently performs well in terms industrial production and recorded the highest yoy increase by 43% in January, continued to attract investments. Last week, French pharmaceutical company Servier began studies to shift its production in Ireland and France to Abdi Ibrahim and İlko İlaç in Turkey. The company is targeting to reach production of 32 million boxes until 2018. Ministry of Health's drug purchase guarantee is considered to be effective in the company's decision.

Another development in the sector is the completion of the new protocol between Social Security Institution (SGK) and Turkish Pharmacists' Association (TEB). According to the protocol which will be effective in the next 4 years, each year inflation difference will be included to the calculation. Moreover, in the new protocol public sector discount rates were regulated, while service charge per prescription was also slightly increased.

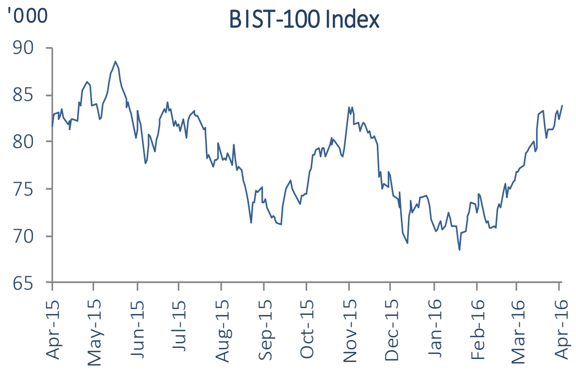
Rapid decline in hotel occupancy rates and the number of foreign visitors…

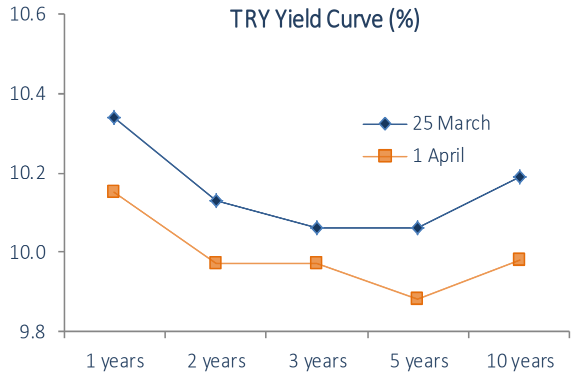
According to the statistics of the Ministry of Culture and Tourism, the number of foreign visitors decreased by 10.3% to 1.2 million as a result of the recent terror attacks and the crisis with Russia. The most rapid yoy decreases were observed in the number of tourists from Russia by 51.6% and Germany by 9.5% while the number of Georgian and Iranian tourists was up by 43% and 16.8% yoy. On the other hand, Hotel Association of Turkey noted that hotel occupancy rate in Turkey dropped to 49.9% by 7.7 points yoy, the worst performance in overall Europe.

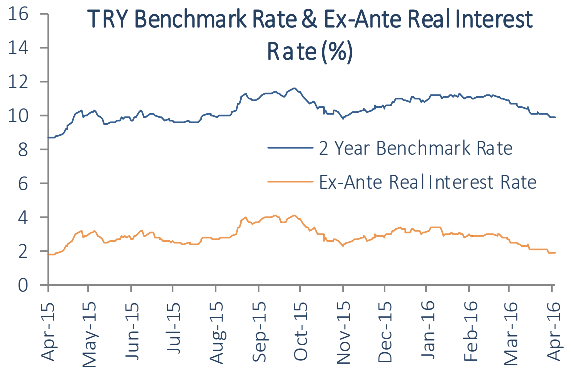
487 firms qualified to get state investment incentives in February.

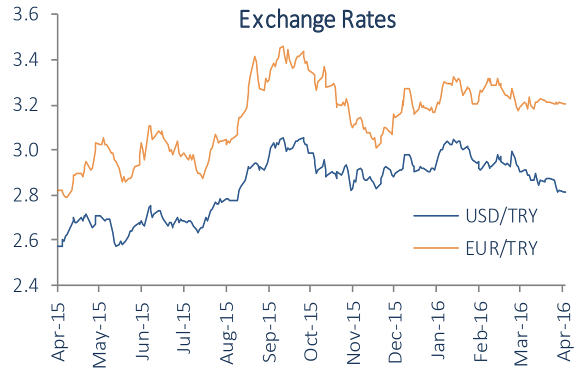
Ministry of Economy announced that 487 firms were able to get investment incentives in February. Under the investment incentive scheme of February, total fixed investment is planned to be 6 billion TRY and total employment will be 9,027 persons. While foreign investors obtained 83% of the total fixed investments, 48% of them were energy-related.

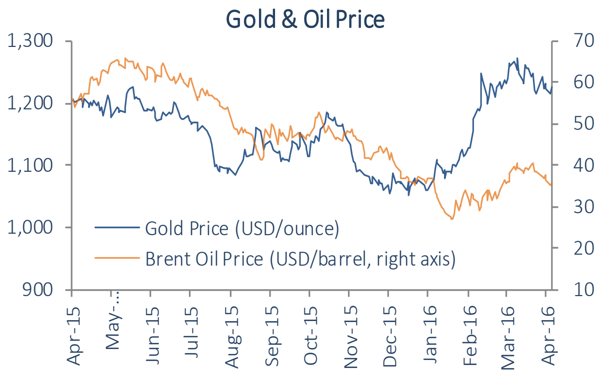
FINANCIAL MARKETS

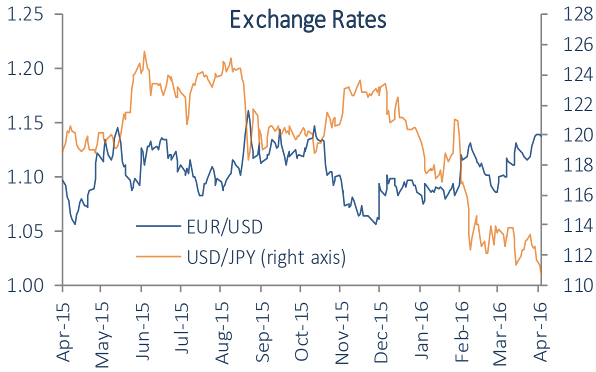


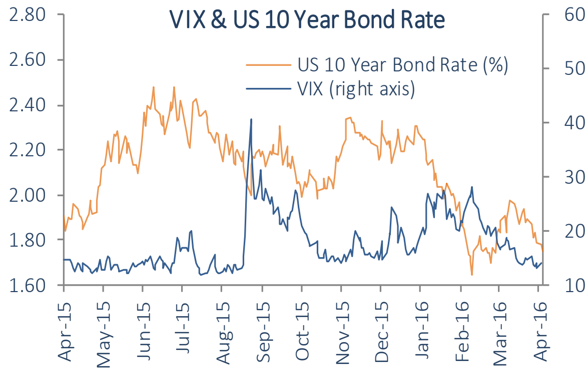


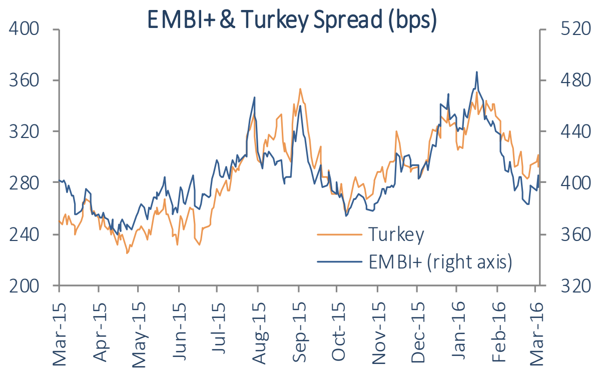












WEEKLY DATA RELEASES

		Period	Consensus
4 April	Turkey Consumers Price Inflation	March	-0.04% monthly (A)
	Turkey Producers Price Inflation	March	0.40% monthly (A)
	Euro Zone Producers Price Inflation	February	
	Euro Zone Unemployment	February	
	US Factory Orders	February	
5 April	Euro Zone Retail Sales	February	
	US Foreign Trade Statistics	February	
6 April	US FOMC Meeting Minutes	March	
8 April	Turkey Manufacturing Industry Production Index	February	
	China Foreign Trade Statistics	March	

(A) Actual

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