

WEEKLY OUTLOOK

Oil prices rose to 5-month high.

Oil prices slide just after the oil producers failed to reach an agreement to freeze production at Doha meeting. However, the prices recovered first from the low levels due to the impulse purchases and then the production cut in Kuwait arising from the strike of oil workers supported this rise. Moreover, crude oil production in US was realized at the lowest level in the last 18 months and pushed oil prices as much as to 44 USD/barrel during the week and closed the week at 43.6 USD/barrel, near 5-month high.

Positive outlook in the US markets...

Rising trend in oil prices despite failed Doha meeting and the low levels of global risk indicator VIX set ground for the US stock markets to continue its increasing trend last week. S&P 500 increased by 0.4% reaching its highest level in the last 4 months. As economic activity gains pace in the US, the labor market recovery remains firm. Jobless claims were 247,000 persons last week at their lowest level since 1973. Considering the diminishing risks in global economy, Chinese economy in particular, that is an important indicator for the markets about Fed's monetary policy. We expect no change in policy rate, however a relatively "hawkish" statement after the FOMC meeting this week. On the other hand, housing starts in the US in March decreased while existing home sales rose above the expectations. Existing home sales were considered to be under pressure because of the melting house stocks. Housing market index, realized as 58 in April, pointed out that the recovery in the sector persists.

ECB kept the policy rate unchanged.

ECB kept the policy rate unchanged at its meeting on Thursday. ECB President Mario Draghi emphasized in his statement after the meeting that expansionary monetary policy implementations will continue pointing out that a potential interest rate cut remains on the agenda. Regarding the "non-standard monetary measures", Draghi reminded that ECB expanded its monthly purchases under the asset purchase program to 80 billion euro and those measures improved the overall financing conditions in the Euro Area. Draghi noted that growth in Euro Area economy continues despite the rising uncertainties in global economy and domestic demand continues to be steady by the support of private consumption and investment expenditures. ECB President, asserting the ongoing downside risks on inflation, stated that the current low energy prices at futures market indicate that the increase in the annual inflation rate will decline while he expects a higher inflation at the second half of the year. Details of the corporate sector purchase programme (CSPP) were also explained after the ECB meeting. The program aims to purchase the euro denominated bonds which corporates other than banks will issue. The purchases under the CSPP and TLTRO II (new series of targeted longer-term refinancing operations) will start in June. Similarly, the market interest rate in the Euro Area declined to the lowest level in a year since the ECB meeting in March that CSPP was announced for the first time.

WEEKLY DATA

	15 Apr	22 Apr	Change		15 Apr	22 Apr	Change
BIST-100 Index	85,573	85,829	0.3 % ▲	EUR/USD	1.1280	1.1230	-0.4 % ▼
TRY 2 Year Benchmark Rate	9.32%	9.10%	-22 bp ▼	USD/TRY	2.8530	2.8479	-0.2 % ▼
US 10 Year Bond Rate	1.75%	1.89%	14 bp ▲	EUR/TRY	3.2197	3.1967	-0.7 % ▼
EMBI+ (bps)	388	374	-14 bp ▼	Gold (USD/ounce)	1,234	1,232	-0.1 % ▼
EMBI+ Turkey (bps)	284	268	-16 bp ▼	Brent Oil (USD/barrel)	41.6	43.6	5.0 % ▲

bp: basis point

China's economy shows signs of recovery.

After the announcement of economic growth figures, the statements of the state officials were followed closely in China during last week. Officials stated that it requires being more cautious on the new incentives to be injected to the economy referring the steady economic activity in the country. Correspondingly, recent housing sector data which contributes greatly to the economic growth points out that new house prices were up by 4.9% yoy in China while the price increase was realized at double digit number in big cities such as Beijing and Shanghai. Recently, boosting demand in China is also pushing up the commodity prices. Last week, iron ore prices stayed above 60 USD/tones, the highest level in the last 14 months.

Expected move from CBRT...

Last week, Monetary Policy Committee (MPC) meeting, held on Wednesday, was at the top of the domestic markets' agenda. CBRT, which cut the upper band of the interest rate corridor by 25 basis points in the previous meeting, also lowered the upper bound by 50 basis points at the first meeting under Murat Çetinkaya's governance. Thus, the Central Bank's marginal funding rate has been reduced to 10%, as one-week repo rate, which is the policy rate, has been kept at 7.5%. At the statement made after the meeting it was noted that the annual loan growth stays at reasonable levels in response to the tight monetary policy stance and macroprudential measures. It has been emphasized that the favorable developments in foreign trade and the moderate course in consumer loans contribute to the improvement in the current account balance. It has been expressed that the positive impact of the increasing demand of EU countries on exports is continuing despite the geopolitical risks and furthermore the recent leading indicators show that the economic activity maintains its moderate and steady growth. On the other hand, CBRT's cautious statements on inflation drew attention. Central Bank, which expects that the decline in inflation would continue in the short term due to the developments in unprocessed food prices, underlined the need to maintain the tight stance in liquidity policy due to the limited improvement in core inflation.

In recent months, increasing demand for TRY assets is effective on the decline in bond interest rates. Last week, 2-year benchmark bond's yield decreased below 9% intraday which was its lowest level for last one year. BIST-100 index also continued to rise last week, led by banking shares. TRY, which depreciated due to increased uncertainty after failed Doha meeting, offset its losses after the CBRT meeting. On the other hand, we expect that the effects of CBRT's recent interest rate cuts on banking funding costs will be limited. We estimate that the recent decision will lower the weighted average cost of CBRT funding by around 20-25 basis points. This week, markets will focus on the CBRT's Inflation Report.

Improvement in consumer confidence...

The consumer confidence index, which made a weak start to the year, continued to increase in April and reached 68.5. It has been noted that the improvement in consumer confidence is reflected on all sub-items for the first time in four years. The probability of borrowing money and saving recorded the greatest improvement in April. The flat course in consumer households' expectations on their financial situation and wage changes over the next 12 months, is pointing that there is a "cautious optimism" within the country.

Cautious statements from IMF...

On its report published in late Friday, IMF said that the inflation in Turkey is hovering at high levels and increase in the vulnerabilities to the external shocks rise as well as the possible acceleration of capital outflows are the main risks for Turkish economy. It is also noted that, tighter fiscal and monetary policies should be implemented to contain domestic demand until structural reforms deliver results.

INDUSTRY NEWS

Anti-dumping duty on cotton imports from the US...

According to the communiqué published in the Official Gazette on April 17th, a 3% anti-dumping duty has been imposed on all US cotton fiber imports into Turkey. Turkey, meeting half of its cotton supply shortage from US, imported cotton worth of 1.2 billion dollar in 2015. Turkey, exporting a total value of 25 billion dollar garments and textiles in 2015, would likely face a 3% raw material cost increase after this decision. Besides, aftermath the increase in minimum wages in the beginning of 2016, concerns regarding the competitiveness of these labor intensive sectors have come into agenda.

Statements of Energy Minister were followed closely.

Energy and Natural Resources Minister Berat Albayrak declared that Turkey began negotiations with Iran to make price reductions in natural gas imports. Albayrak stated that the Turkish government is currently working on a coal law, which will enhance labor safety and attract more investment to the sector. According to the Energy Ministry's prior study, Turkey could save around 7.2 billion dollar from its annual energy bill as long as the country's coal reserves are fully used. Besides Albayrak said that Turkey's installed energy capacity is about 73,000MW's and this level should be increased by 50,000 MW's in the next decade. Energy Minister emphasized that the current electricity distribution network in Turkey is away from meeting the demand, while noting an investment of 18 billion TRY in the coming 5 years was envisaged for the 21 electricity distribution regions..

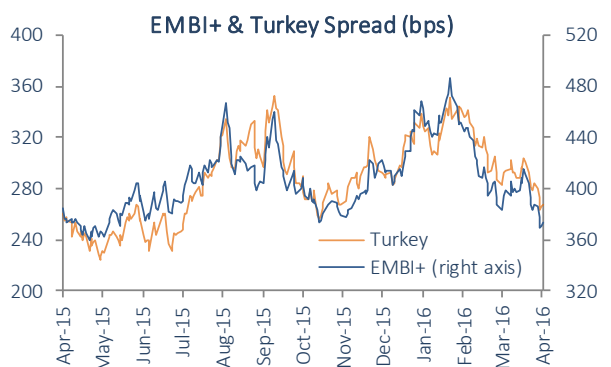
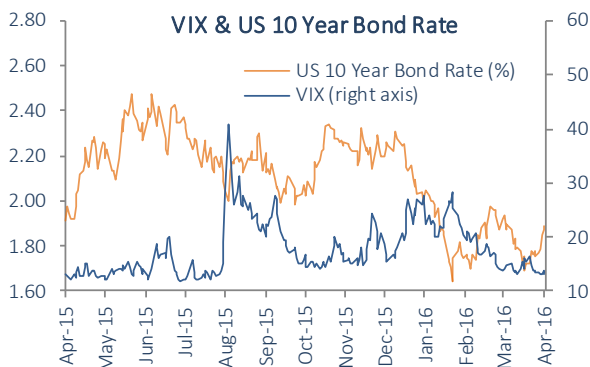
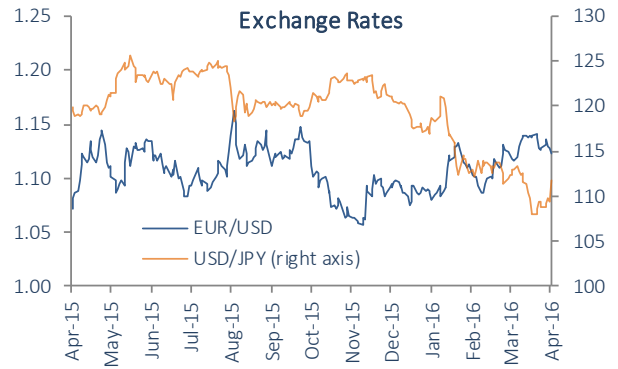
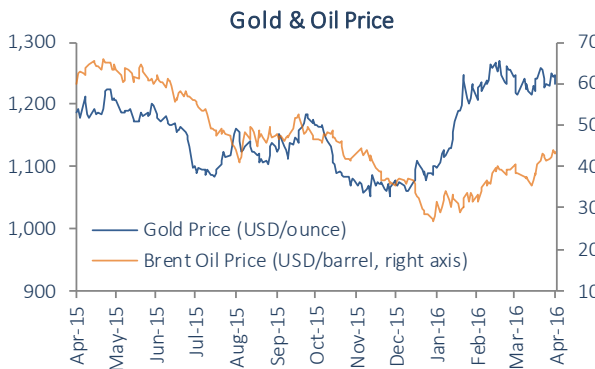
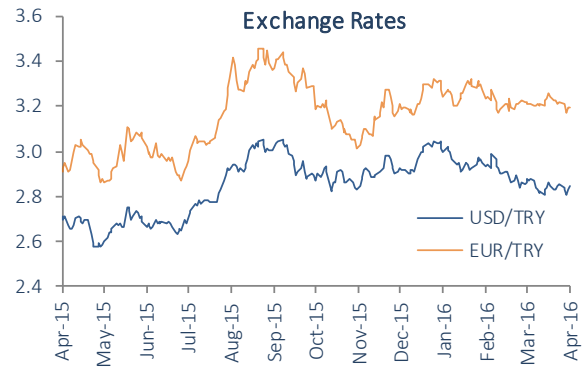
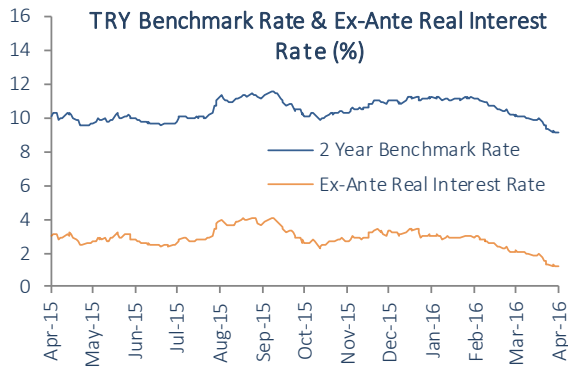
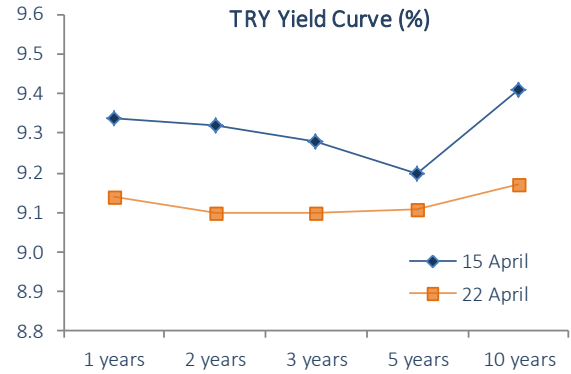
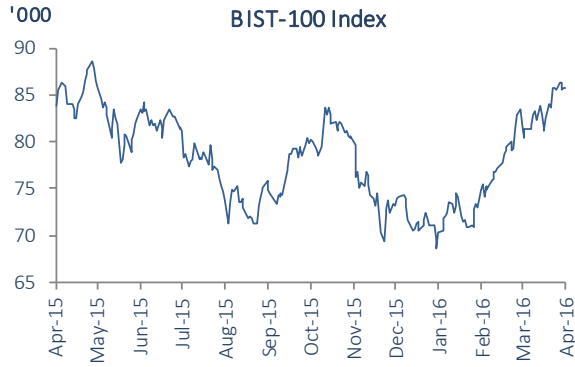
Limited increase in annual house sales...

In March, house sales in Turkey increased by 1% yoy to 117k. In this period, first house sales in Turkey increased by 1.7% yoy and came in at 52k. Mortgaged house sales, on the other hand, continued to decline on an annual basis. We think that 14.3% decline in mortgaged house sales in March was mainly due to the investors cautious stance in line with the expected decline in mortgage interest rates. Besides, Emlak Konut REIT CEO Murat Kurum stated that he expects the mortgage interest rate to drop below 1% in the coming period. According to the CBRT data, the average mortgage interest rate stayed flat at 1.12% in first half of April.

Hotel occupancy ratios are declining.

Turkish tourism sector is having difficulties due to the security concerns and tension with Russia. According to the statistics published by Hotel Association of Turkey (TUROB), hotel occupancy ratio in March was realized as 52.5% down by 16.5% yoy while the same ratio decreased by 23.3% in Istanbul, the most preferred holiday destination in Turkey. Because of the discounts at accommodation prices, average accommodation price in Istanbul slide to 92 euros in March from the level of 140 euros in 2013. Additionally, hotel occupancy ratio in Antalya fell by 6.5%. Sector officials stated that the reason why the ratio seems lower than expectations is that some hotel groups having more than one hotel in Antalya are directing their customers to one single hotel while they keep their other hotels non-operating.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
25 April	Turkstat Sectoral Confidence Indices	April	
	CBRT Capacity Utilization Ratio	April	75.3% (A)
	CBRT Business Tendency Survey and Real Sector Confidence Index	April	110.1 (A)
	US New Home Sales	March	
26 April	CBRT MPC Meeting Summary	April	
	CBRT Inflation Report	2016-II	
	US Consumer Confidence	April	96.0
	US Durable Goods Orders	March	1.6%
27 April	Treasury's Domestic Debt Redemption (994 million TRY)		
	FOMC Meeting	April	
28 April	BoJ Meeting	April	
	US GDP Growth (first estimate)	2016Q1	0.7%
29 April	Turkstat Foreign Trade	March	
	Euro Area CPI (preliminary)	April	
	Euro Area Unemployment Rate	March	
	US The University of Michigan's Consumer Survey	April	90.4
	US Consumer Spending	March	0.2%
	US Personal Income	March	0.3%

(A) Actual

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