WEEKLY OUTLOOK

Markets focused on Fed meeting last week.

Fed maintained the target range for the federal funds rate unchanged at 0.25-0.50% in parallel to market expectations. 9 out of 10 members voted to keep rates unchanged. The only member who voted against the action was Esther L. George. It was announced after the meeting that labor market conditions have improved although growth in economic activity has slowed since the March meeting. Besides, inflation has continued to remain below the Committee's 2% objective due to falling energy prices and declines in non-energy imports prices. The Committee expects that economic activity will grow at a moderate pace with gradual adjustments in monetary policy and labor conditions will continue to strengthen. Therefore, the Committee will be watching closely the inflation indicators and global economic and financial developments. Fed, which had signaled after the March meeting that global economic and financial developments posed risks, eased its concerns over them at its latest FOMC statement. It is considered that the change in the last statement is mostly amid lessened concerns over Chinese economy and higher commodity prices, especially oil prices. It is believed that Fed's concerns over global economic developments are diminishing and thus they will not become prominent at Fed's future decision regarding the interest rates. The next Fed meeting will be held on June 14-15.

Mixed signals from US data.

Macroeconomic data announced last week in the US didn't meet the expectations in general. US economy which had grown by 1.4% at 2015Q4 grew only by 0.5% at 2016Q1 yoy according to preliminary figures. GDP data, the slowest pace in last 2 years, is showing that economic growth has lost momentum for the last three quarters. Durable goods orders were only up by 0.8% in March as opposed to the expectations of 1.8% while consumer confidence was 94.2 in April not meeting the expectations, either. Personal income increased more than projections although it was not fully reflected on the personal consumption expenditures (PCE) as expected. PCE inflation, which is effective on Fed's policy rate decisions continued weakening and was realized quite below the Fed's target of 2%. On the other hand, low levels of weekly jobless claims indicated that labor market has kept its strong pace.

Weak earnings for the first quarter...

Relatively weak outlook for the US economy was reflected on first quarter balance sheets. Banks' balance sheets announced in recent weeks pointed out that net profits and earnings of 12 out of 17 investment banks in the US declined at 2016 Q1 while the earnings of tech firms didn't beat the expectations, either. International credit rating agency Fitch announced that the fears of global economic slowdown, strong USD and weak energy prices were reflected on weaker US banks result. As a result of these developments, S&P 500 and Dow Jones indices both decreased by 1.3% wow in the last week.

WEEKLY DATA

	22 Apr	29 Apr	Change		22 Apr	29 Apr	Change
BIST-100 Index	85,829	85,328	-0.6 % ▼	EUR/USD	1.1230	1.1454	2.0 % ▲
TRY 2 Year Benchmark Rate	9.10%	9.22%	12 bp ▲	USD/TRY	2.8479	2.7945	-1.9 % ▼
US 10 Year Bond Rate	1.89%	1.82%	-7 bp ▼	EUR/TRY	3.1967	3.1920	-0.1 % ▼
EMBI+ (bps)	374	383	9 bp ▲	Gold (USD/ounce)	1,232	1,293	5.0 % ▲
EMBI+ Turkey (bps)	268	280	12 bp ▲	Brent Oil (USD/barrel)	43.6	45.8	5.0 % ▲

bp: basis point

BoJ surprised the markets.

BoJ left monetary policy unaltered while consumer prices showed the most rapid decrease in 3 years in March. Having considered the decline in the household spending, global markets had expected BoJ to take a new expansionary step. While no action at BoJ meeting left markets disappointed, Japanese yen appreciated to 18-month-high against USD. Moreover, it was noteworthy that the BoJ postponed its forecast for reaching its 2% inflation target further.

Relatively more positive data from Euro Area and China…

Economic data announced on the last day of last week in Euro Area was realized above the expectations. The economic growth rate in Euro Area at 2016 Q1 was 0.6% qoq and 1.6% yoy. The unemployment rate declined below the expectations to 10.2% in April, however, the preliminary annual CPI fell more than expected by 0.2%.

Industrial sector profits in China rose by 11.1% yoy in March pointing to the economic recovery in the country. Industrial profits which were on downward trend for the last 7 months of 2015 grew by 4.8% in the first 2 months of 2016.

Oil prices keep increasing.

Oil prices continued their rising trend last week which had started after the Doha meeting although there had been no agreement for the oil production freeze. Brent crude oil price completed the last week at the level of 45.8 USD/barrel up by 5%. Oil prices started to increase in the last month after slumping to its lowest level in the last 12 years at the beginning of this year due to the concerns over the falling global oil oversupply because of the production decline in the US shale gas production.

World Bank published the second "Commodity Market Outlook" report of the year and projected that energy prices will increase somewhat in 2016 as the rebalancing in commodity markets continues. Oil price forecast (the average of Brent, WTI and Dubai oil prices) was revised up to 41 USD/barrel from January report's forecast of 37USD/barrel. World Bank expects that fall in metal prices will be less than it had been projected earlier while agricultural prices are revised down.

CBRT published the second Inflation Report of the year.

Last week, CBRT published the second Inflation Report of the year. CBRT kept its CPI forecast for 2016 and 2017 unchanged, signaling a cautious tone regarding the volatility in food prices and the recent increase in energy prices. In its previous report, CBRT revised its 2016 inflation forecast upwards by 1 point to 7.5%. CBRT governor Murat Çetinkaya affirmed that the CBRT will keep its tight stance, while noting that CBRT will continue to simplify its monetary policy aiming a narrower and more symmetric interest rate corridor, signaling more cuts in the upper end of the corridor in the coming period. Domestic markets reacted positively to Çetinkaya's tone.

According to the Moody's recent report, Turkish banks' funding costs are likely to decline after Central Bank's rate cut, but if the TRY is pressured by expectations of a further rate cut, it could reverse the benefits to the cost of funding. The share of FX funds in total liabilities was the main reason behind this statement. On the other hand, TRY continued to perform strongly against USD. In line with the USD's weak course against other currencies, USD/TRY dropped to its 8.5 month low. This week, we anticipate that the inflation data released on May 3rd and the employment situation in the US would likely be crucial on the course of USD/TRY parity.

Capacity utilization ratio increased in April.

Capacity utilization ratio increased by 1.2 points yoy in April, 1.3 points above the average of the first quarter of the year. On sectoral basis, the activity in repair and installation of machinery and equipment rose sharply, while the capacity utilization in the manufacture of basic pharmaceutical products and manufacture of coke and refined petroleum products decreased due to the base effect. Analyzing the main industrial groups, on the other hand, it was seen that the capacity utilization in investment goods recorded the sharpest increase among other items.

Foreign trade deficit continued to narrow down.

In March, exports increased by 2.3% yoy as the imports decreased by 5.2%. Thus, foreign trade deficit narrowed by 20.3% yoy and came in at 4.9 billion USD. In the first quarter of the year, exports and imports decreased by 6.2% and 10.6%, respectively. In March, the biggest export item was motor vehicles of which exports surged by 15.4% yoy, while the the drop in exports of iron and steel lost some momentum. The mineral fuels and oils imports contracted by 40.1% yoy and brought down Turkey's total imports by about 1.5 billion USD in March.

Exports to EU countries rose by 18.1% yoy thanks to the relative economic recovery in the region and an annual rise in EUR/USD parity in March. Due to the ongoing tensions, trade relations with Russia kept weakening. Indeed, exports to Russia fell by over 60% yoy in the first quarter of the year. In addition, exports to the Near and Middle Eastern countries, where geopolitical headwinds have been prevalent, continued to decline. In the coming period, the course of oil prices and the performance of the EU economies anticipated to have large implications for the path of Turkey's foreign trade balance (Our Foreign Trade Balance Report).

Turkish Exporters Assembly (TIM) announced that export declined by 2.8% to 11.4 billion USD yoy in April. During this period, automotive industry made the highest amount of export by 2 billion USD while exports in wearing apparels industry and chemicals industry were realized as 1.5 billion USD and 1.2 billion USD, respectively.

Economic confidence index decreased.

According to the data announced by Turkstat, the economic confidence index fell by 6.1% mom in April. Consumer and real sector confidence indices rose by 2.2% and 1.5%, respectively, as the confidence in services and retail trade sectors declined by 3.8% and 5.9% mom. Construction sector confidence index, on the other hand, recorded a limited increase of 0.1%. The upturn in the reel sector and consumer confidence pointed to a recovery in production activity in line with the buoyant domestic demand. The deterioration in services and retail trade sector confidence indices, on the other hand, was mainly due to the negative developments in tourism sector. According to the recent figures, in the first quarter of the year tourist arrivals to Turkey decreased by 10.3% yoy. Tourist arrivals from Russia, which ranked as the first in recent years, tumbled by 56% and the tourist arrivals from the high income European countries declined by 14.4%.

Manufacturing PMI fell to 48.9 in April.

Domestic manufacturing PMI decreased from 49.2 in March to 48.9 in April, the lowest level since September 2015. Fell in the index was mainly due to the contraction in the new orders, and it was noteworthy that export orders continued to decline in the last four consecutive months.

INDUSTRY NEWS

Increase in housing prices continues.

According to data released by CBRT, in February 2016 housing price index rose by 0.79% mom and 16.4% yoy. New Housing Price Index, which is calculated by analyzing the actual valuation reports for houses, built in the current and previous years in 48 provinces, increased by 1.68% monthly and 14.83% annually. Considering the CPI in February, the price increases continued to be above inflation, despite the recent slowdown in housing demand. On the other hand, the Hedonic House Price Index, which is created in order to monitor the impact of quality in price changes, shows that 3% of the annual price increase stems from the quality increase.

In February 2016, the price increase in Istanbul was 0.77%, while the increases in Ankara and Izmir stood at 0.33% and 1.45%, respectively. Yearly price changes in Istanbul, Ankara and Izmir, on the other hand, were realized as 21.37%, 11.65% and 16.35%, respectively.

In March, 564 companies qualified to get state investment incentives.

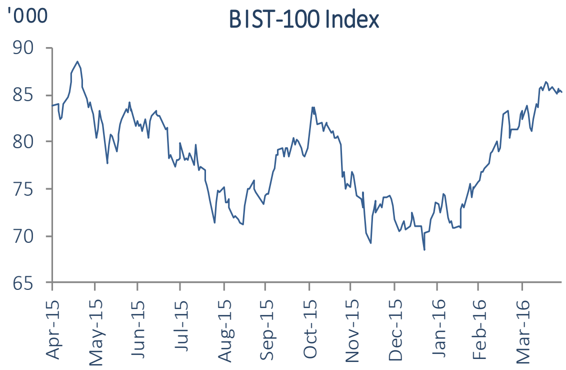
Last week, investment incentives data for March were published in the Official Gazette. Accordingly, 564 companies (198 in manufacturing sector and 153 in services sector) were given investment incentive certificates which contain various tax exemptions. Under the investment incentive scheme of March, total fixed investments are planned to be 6.8 billion TRY, while the machinery and equipment imports amount to 805 million USD and total employment is projected to be 14,096 persons.

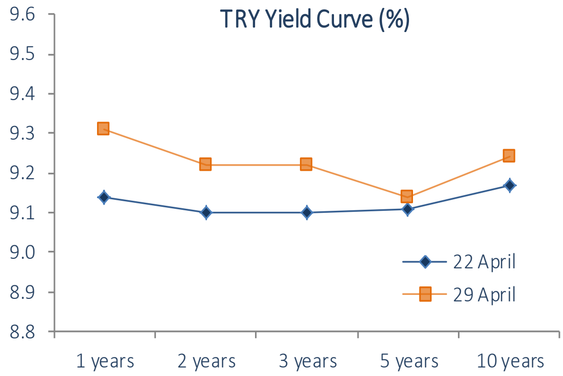
Investments in energy sector continue.

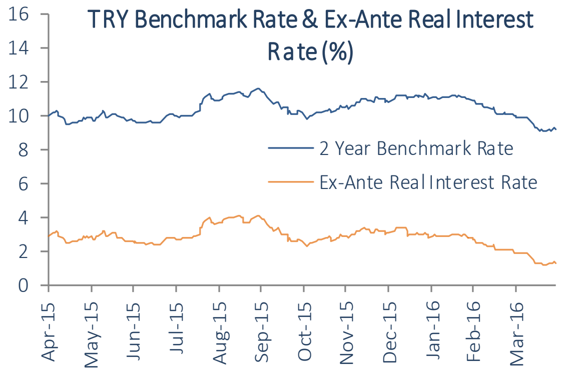
In recent years, energy sector investments continue to take high share among the investment incentives. 196 companies from the energy sector were given investment incentive certificates in March, amounting to 2 billion TRY. While the investments in electricity distribution network shine out, on the production side the investments in geothermal energy and hydroelectric power plants also drew attention. In the last year, total amount of investment incentive certificates received by the electricity distribution companies have reached 4.6 billion TRY. Along with these investments, it is aimed to curb the experienced power outages.

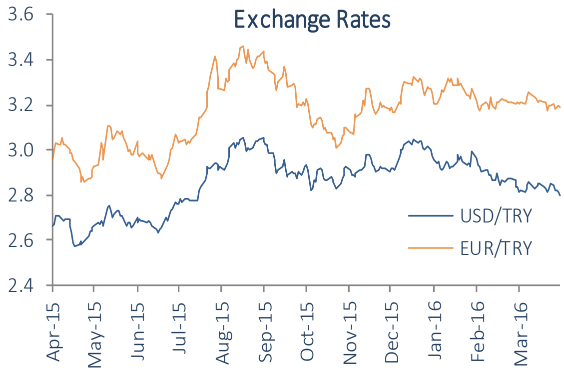
On the other hand, the opening ceremony of Turkey's largest privately owned lignite power plant with a capacity of 450 megawatts was held last week. The new power plant, whose investment cost is 1.1 billion USD, is expected to process 5.5 million tons of lignite per year and to reduce Turkey's natural gas bill by 6 billion USD. In Turkey, approximately 30% of energy production is based on coal.

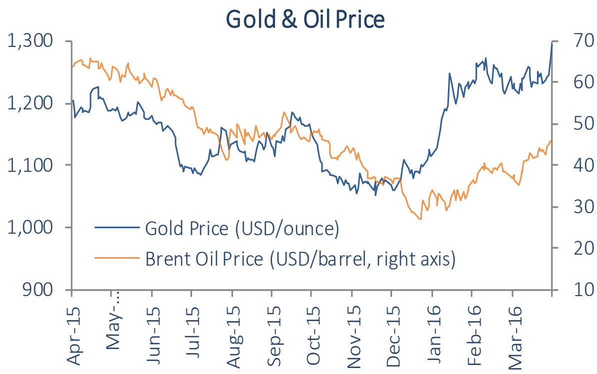
FINANCIAL MARKETS

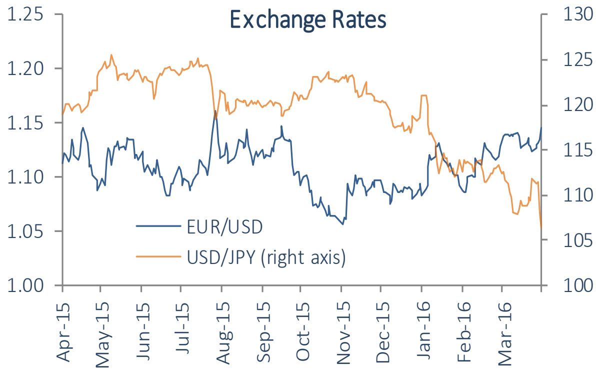


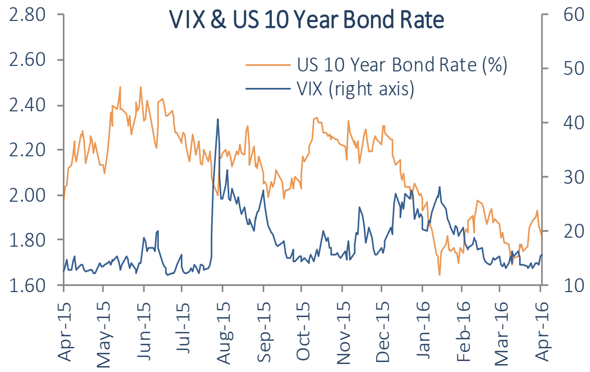


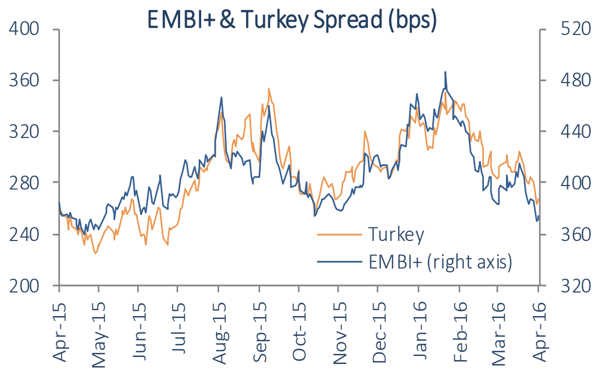












WEEKLY DATA RELEASES

		Period	Consensus
2 May	Turkey Manufacturing Sector PMI	April	48.9 (A)
	Euro Area Manufacturing Sector PMI	April	51.7 (A)
	Germany Manufacturing Sector PMI	April	51.8 (A)
	US Manufacturing Sector PMI	April	51.0
	US Manufacturing Sector ISM Index	April	51.5
3 May	Turkstat Domestic Producers Price Inflation	April	
	Turkstat Consumer Price Inflation	April	%1.0
	Treasury's 13-months maturity Bond auction		
	Treasury's 10-years maturity Bond auction		
	Euro Area Producers Price Inflation	March	
	China Manufacturing Sector Caixin PMI	April	
4 May	Treasury's Domestic Debt Redemption (3,854 million TRY)		
	Euro Area Retail Sales	March	
	US Factory Orders	March	
	US Foreign Trade Statistics	March	
	US ADP Employment	April	
6 May	US Non-Farm Employment	April	
	US Unemployment	April	

(A) Actual

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