

WEEKLY OUTLOOK

Mixed signals from the US economy...

US dollar extended its losses last week and fell to the lowest level since January 2015, as Fed kept the policy rate unchanged on its April meeting and the weak GDP growth data pointed to a bleak outlook for the economy. Besides, BoJ's neutral stance on its recent meeting put also pressure on the US dollar. Manufacturing PMI declined to 50.8 in April, the lowest level since September 2009 and indicated that the rebound in economic activity lost some momentum. On the other hand, factory orders in March posted a 1.1% increase and gave mixed signals regarding the US economy. In addition to that, foreign trade deficit realized as 40.4 billion dollar in March, below the expectations. 3.6% decline in imports led by the drop in consumption goods, while exports decreased by 0.9% mom due to the weak global demand.

Last week, Fed officials' cautious tone regarding the June meeting were also crucial on the course of the markets. Fed officials told that monetary policy decisions will depend on the incoming economic data and kept the door open to more hikes if economy is on track. St. Louis Fed Chair Bullard, a voting member of FOMC, stressed that for the time being there is "obviously a pretty big gap" between the markets' prediction for future rate rises and the Fed's own and noted that labor market, inflation and global data are in line with the FOMC members' median forecasts. On the other hand, recent weak data pointed some stress in the labor force market. In April private payrolls recorded their weakest print since April 2013, jobless claims hit one month high and non-farm payrolls came in well below the expectations and unemployment rate was realized as 5% in April. After the disappointing labor force data, it was seen that the probability for rate hike in June declined.

Weak economic performance in Europe...

Last week, Euro Area manufacturing PMI data came in at 51.7 surpassed the expectations. In Germany, PMI rose to the highest level since January. In the Euro Area, 0.1 point increase in April PMI data suggested that the region's loose monetary implementations had a limited effect on the economic activity. On the other hand, European Commission revised its GDP growth and inflation forecasts downwards on its latest report published last week and stressed that the uncertainties regarding the global economy might cast some shadows over the recent optimism.

ECB President Draghi said low interest rates reflect weak investment demand and argued that the loose monetary policy stance has no alternative, on his speech delivered in the beginning of the last week. Draghi's recent statement pointed that policy makers have limited room to maneuver. Besides, disappointing Q1 financial results from UBS and Commerzbank together with the deceleration in UK economy due to the Brexit talks weighed on the European markets. Last week, Stoxx 600 and German DAX indices declined by 2.9% and 1.7% wow, respectively.

WEEKLY DATA

| | 29 Apr | 6 May | Change | | 29 Apr | 6 May | Change |
|---------------------------|--------|--------|----------|------------------------|--------|--------|----------|
| BIST-100 Index | 85,328 | 78,368 | -8.2 % ▼ | EUR/USD | 1.1454 | 1.1402 | -0.5 % ▼ |
| TRY 2 Year Benchmark Rate | 9.22% | 9.68% | 46 bp ▲ | USD/TRY | 2.7945 | 2.9263 | 4.7 % ▲ |
| US 10 Year Bond Rate | 1.82% | 1.78% | -4 bp ▼ | EUR/TRY | 3.1920 | 3.3374 | 4.6 % ▲ |
| EMBI+ (bps) | 383 | 395 | 12 bp ▲ | Gold (USD/ounce) | 1,293 | 1,288 | -0.4 % ▼ |
| EMBI+ Turkey (bps) | 280 | 309 | 29 bp ▲ | Brent Oil (USD/barrel) | 45.8 | 44.2 | -3.6 % ▼ |

bp: basis point

Asian markets fell last week.

As BoJ refrained from easing monetary policy further at April's meeting, USD/yen parity decreased to 18-month yen at the start of the week. The parity recovered on the last trading day despite 3 days of public holiday last week. Activity at China's factories slumped to a 14-month low in March and created concerns over worker layoffs. Moreover, in April services PMI decreased to 51.8 and manufacturing PMI fell to 50.1, raising worries about Chinese economy. Foreign trade data announced on the last day of the last week pointed out that both exports and imports declined in China. This decline also heightened the expectations from policymakers to support economic growth.

Fall in oil prices lost momentum.

A huge wildfire near oil sands in Canada and lowest weekly oil production in the US since September 2014 drove oil prices up, above 44 USD/barrel. USD, recovered from its lowest levels in the last 17 months, appreciated by 0.9% last week against other currencies as expectations for an interest rate hike in June strengthened. Before non-farm employment data announcement in the US, VIX increased to the highest level of the month as risk perception in the market improved.

Inflation fell to its lowest level for last 3 years.

Annual CPI inflation, which had a downward trend for last 3 months, went down to 6.57% in April and came in at its lowest level since May 2013. On the other hand, monthly CPI, which rose for the first time since January, recorded an increase of 0.78%. The price developments in alcoholic beverages&tobacco products and restaurants&hotels subgroups made the highest contribution to yearly CPI by 12.8% and 11.4%, respectively, while food and non-alcoholic beverages prices recorded their lowest increase due to excess supply arising from the crisis with Russia. We expect that, despite the increase in EUR/TRY rate, the low price levels in hotels and restaurants will continue because of the difficulties in tourism, but the low level of food prices would be short-lived. In fact, the recent decline in food and non-alcoholic beverages is far below CBRT's 9% forecast in its last Inflation Report. In addition, H and I indices, which remained close to 10%, suggested that the downward movement in inflation would not be sustainable unless the core inflation aggregates fall further ([Our Inflation Report](#)).

BIST-100 decreased by 8.2% wow.

Last week, besides the mixed data from the US and the moderate signals from Europe, political developments in Turkey were crucial on the course of the domestic markets. Political uncertainty elevated following the announcement that the ruling party AKP will hold an extraordinary congress on May 22nd and the Prime Minister Davutoğlu would not be a candidate. BIST-100 index posted a weekly loss of 8.2% and receded to 78,368. Moreover, TRY denominated asset sales gained momentum due to political developments, as the 2-year benchmark bond's compound interest rate surged by 46 basis points in the week. In addition, Turkey's 5-year CDS's increased to the highest level for one month.

Moody's noted that the political uncertainty in Turkey, which is crucial on the foreign capital inflows to finance current account deficit, would hurt the investor confidence increasing Turkey's vulnerability and this may affect Turkey's credit rating in a negative way. On the other hand, on the last trading day of the week S&P confirmed Turkey's credit rating as "BB+", while changing the outlook from "negative" to "stable". The agency stated that Turkish economy was resilient to the challenges and risks to the financing of Turkey's current account deficit had moderated. S&P projected Turkish economy to grow by 3.4% in 2016.

INDUSTRY NEWS

Zero tariffs for the import of 570,000 live animals...

Last week, the Council of Ministers authorized General Directorate of Agriculture Enterprises (TİGEM) to import 150,000 live animals for breeding, 20,000 live sheep and goats and Meat and Milk Board (ESK) to import 400,000 livestock with zero import tariffs till the end of 2016. Within the new regulation, ESK has become in charge of animal fattening and TİGEM of animal breeding. Regarding the private sector, tariffs were raised from 0% to 7.8% for animals for breeding and from 15% to 60% for cattle for fattening.

Passenger car and light commercial vehicle market down in April.

Automotive Distributors' Association (ODD) announced that passenger car sales decreased by 6.5% while sales of light commercial vehicles declined by 9.9% in April yoy. Although fall in light commercial vehicle market lost momentum, passenger car sales showed the sharpest yoy decline in April since November 2014. The automotive market data of the first 4 months revealed that passenger car market was down by 1.9% while light commercial vehicle market slipped by 11.6%. ODD's current domestic sales target for the year-end is 900,000-950,000 vehicles. Production costs rising due to the increase in the FX rates are considered to have been reflected on the automotive prices.

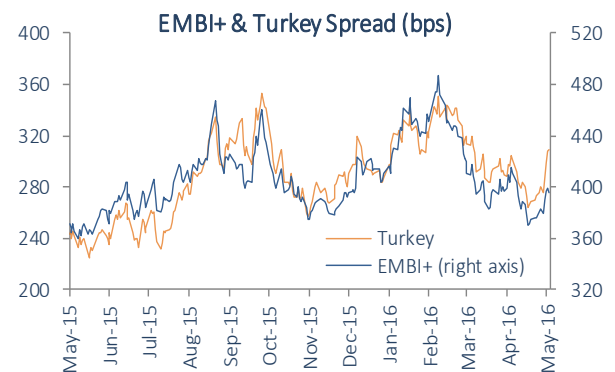
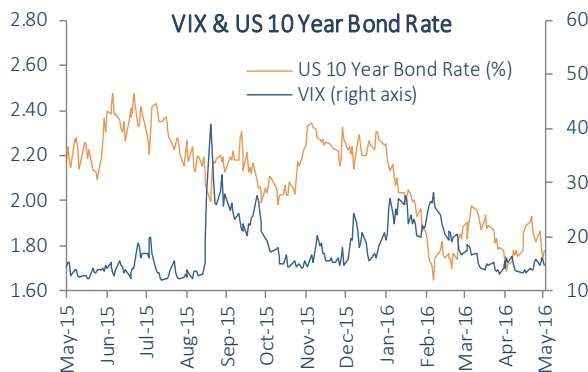
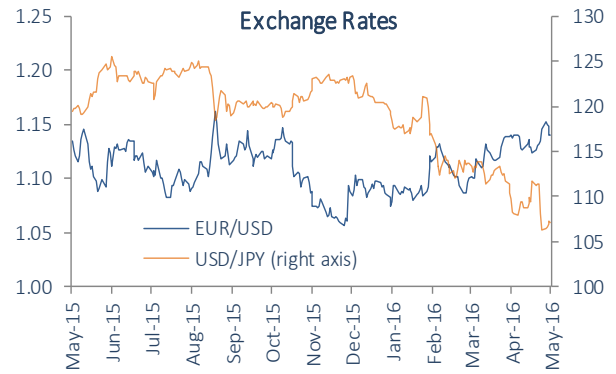
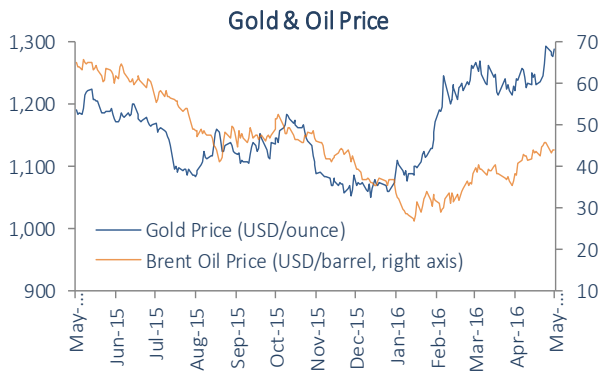
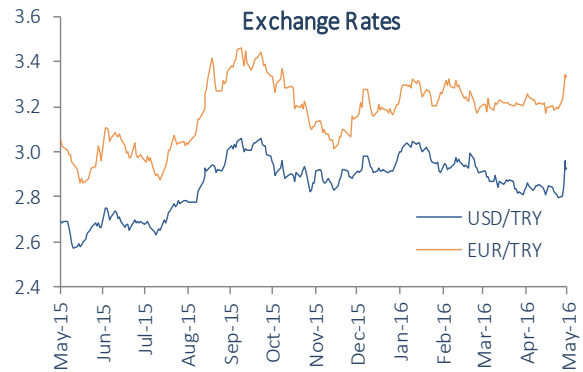
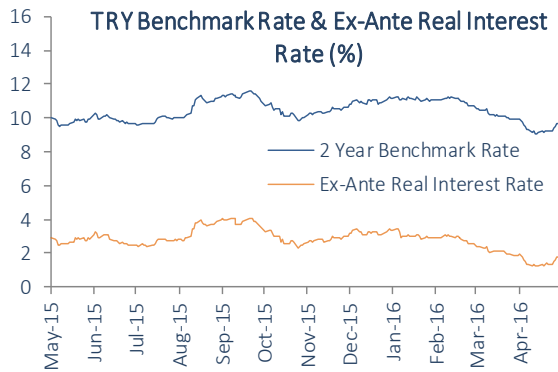
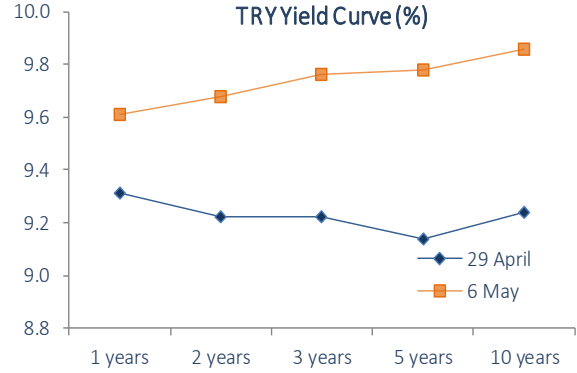
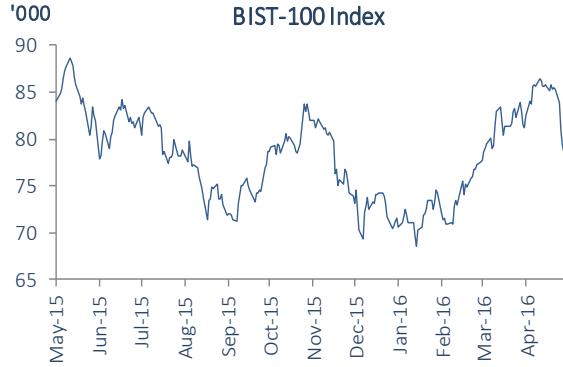
Agricultural supports were determined for 2016.

As part of the State's agricultural support policy, the agricultural support ratios, valid for 2016, were published on the Official Gazette last week. The product group, oilseeds and industrial plants, which had the highest support for fuel (7.90 TRY) and fertilizer (8.25 TRY) last year, is now taking 11 TRY since the support for fuel and fertilizer was combined in 2016. Besides, there will be no soil analysis support this year. While farmers can get 10-100 TRY of support for organic agriculture by category, no changes were made to the support for good agricultural practices. The product premiums, considered essential at the time of planting, were uplifted for sunflower oilseeds, cottonseeds, soybeans, canola, safflower and olive oil by 0.10 TRY/kg; and for tea by 0.01 TRY/kg while grains and paddy will take the same amount of support in 2016 as last year. Despite the drop in fuel and fertilizer support, we project that higher oilseed premiums in 2016 will increase their production and eventually contribute to the vegetable oil production, realized as 2.7 million tons in 2015.

Privatization of national lottery...

Last week Ministry of Finance announced that tender offers for the privatization of National Lottery Directorate will start to be obtained as of August 2016. 10 years of operational rights will be given to the winner of the tender. New arrangements made to the tender in 2016 are as follows: Although the tender will be initiated on USD basis, payments in TRY will also be accepted. The pre-payment which was 40% of the overall tender cost earlier was now reduced to 20%. The winner will be earning advertising and interest earnings over the ticket sales and will have the right to increase the number of games to organize. The previous tender which had been initiated in July 2014, worth 2.7 billion USD, was canceled later on due to the sharp rise at USD/TRY and tender attendants' being late for pre-payments of the license fee.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

| | | Period | Consensus |
|--------|--|---------|-------------------|
| 9 May | Turkstat Industrial Production Index | March | %4.7 rise yoy (A) |
| 10 May | China CPI yoy | April | 2.3% |
| | China PPI yoy | April | -3.8% |
| | CBRT Balance of Payments Statistics | March | |
| 11 May | Treasury's Domestic Debt Redemption (58 million TRY) | | |
| 12 May | Euro Area Industrial Production mom | March | 0.0% |
| 13 May | Euro Area GDP Growth Data (Preliminary) | 2016 Q1 | 0.6% |
| | Germany GDP Growth Data (Preliminary) | 2016 Q1 | 0.6% |
| | USA PPI mom | April | 0.3% |
| | USA Retail Sales Data | April | 0.9% |
| | USA Michigan University Consumer Sentiment (Preliminary) | May | 89.9 |

(A) Actual

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