

WEEKLY OUTLOOK

Retail sales increased in the US.

Retail sales in the US increased above expectations by 1.3% mom in April. Thanks to accelerating automobile sales, retail sales, which accounts for the two third of the overall economic activity in the US, recorded their biggest gain in a year. Initial jobless claims data for the week ended May 7th, however, hit the highest level for more than a year. Although initial claims unexpectedly climbed and signaled a loss of momentum in the US labor market, the labor market still remains stable. Preliminary consumer confidence data, announced on the last trading day of the week, was realized above expectations as 95.8 in May and rebounded to its highest level since June 2015.

Last week, Fed officials hinted upcoming interest rate hikes in 2016. Boston Fed president Rosengren noted that Fed should raise interest rates if the US labor market performs well and inflation figures accelerate in the second quarter. Similarly, Kansas City Fed president Esther George, who voted for an interest rate hike at the last two Fed policy meetings, explained last week that interest rates are too low for current economic conditions and this increases financial risks.

Gradual growth in Euro Area continues.

Data regarding Euro Area economy announced last week was generally below the expectations. Industrial output decreased by 0.8%, while preliminary GDP growth rate in the Euro Area was revised down to 0.5% qoq from 0.6%. Constancio, vice-president of the ECB, asserted last week that ECB will continue to do what is necessary to achieve 2% inflation target and enough policy tools can still be used. He added that some time must be allowed for the package of measures to produce its effects while he forecasted that new level of oil prices will increase inflation as of the last quarter of 2016. On the other hand, ECB examines the risks of Brexit for Euro Area and asks Eurozone banks to detail their Brexit plans.

Brexit discussions...

Besides the impacts of Brexit on EU, the possible risks UK will be facing are also on the agenda of the global markets. IMF warned the markets that in case of an exit decision, UK would be entitled to risks such as heightened uncertainty, financial market volatility and slower growth. Moreover, IMF officials said that in case of an exit, UK will need new trade negotiations. Similar concerns were uttered after the BoE policy meeting last Thursday in which BoE held the interest rates unchanged. Governor Mark Carney pointed out at a press meeting last week that based on the analysis of the Monetary Policy Committee, GDP growth will show significant slowdown and inflation will start to rise in case of Brexit. The Committee also projected that Brexit would weaken sterling and raise the unemployment rate.

WEEKLY DATA

	6 May	13 May	Change		6 May	13 May	Change
BIST-100 Index	78,368	77,808	-0.7 % ▼	EUR/USD	1.1402	1.1305	-0.9 % ▼
TRY 2 Year Benchmark Rate	9.68%	9.76%	8 bp ▲	USD/TRY	2.9263	2.9687	1.4 % ▲
US 10 Year Bond Rate	1.78%	1.71%	-7 bp ▼	EUR/TRY	3.3374	3.3563	0.6 % ▲
EMBI+ (bps)	395	390	-5 bp ▼	Gold (USD/ounce)	1,288	1,273	-1.2 % ▼
EMBI+ Turkey (bps)	309	310	1 bp ▲	Brent Oil (USD/barrel)	44.2	46.9	6.3 % ▲

bp: basis point

Data released in China have raised concerns about economic activity.

During the weekend Chinese factory output, investment spending and retail sales data for April have been announced. While industrial production increased by 6% yoy, which was below expectations of 6.5%, investment spending and retail sales also failed to meet market expectations. These data supported the views that deceleration in the Chinese economy continued in the second quarter of the year.

EBRD estimated global economic growth will gain momentum in 2016.

European Bank for Reconstruction and Development (EBRD) published on its annual report that economic growth in its investment zone would stand at 1.4% in 2016 and is expected to increase to 2.5% in 2017. EBRD projected that Russian economy would shrink by 1.2% in 2016 due to low oil prices and recession in the country. It was also noted in the report that Fed would make an interest rate rise in 2016 and capital inflows to emerging markets will be lower than the level of the recent years. EBRD expected that Turkey would grow by 3.2% in 2016 and 3.4% next year. Low oil prices and minimum wage hike would support the economic growth in Turkey in 2016. Moreover, it is emphasized that Turkey's banking sector and fiscal balances remain steady while non-performing loans and public debt stock hold their low levels. However, quick recovery in oil prices and sharp falls in capital inflows due to rising local and regional uncertainties and increasing volatility in global financial markets are regarded as the main risks for Turkish economy.

Current account deficit continued to narrow.

According to the CBRT, current account deficit declined by 25.1% in the first quarter of the year to 7.9 billion USD, thanks to the narrowing foreign trade deficit. 12-month cumulative current account deficit decreased by 1.1 billion USD mom and was realized as 29.5 billion USD, lowest level since July 2010. In the first quarter of the year, exports posted a limited decrease and import volume declined by more than 10%. During this period, services revenues continued to affect current account deficit adversely as travel revenues dropped by 16.8% yoy. In the coming period, if the decrease in tourism revenues gains pace, we expect the unfavorable impact of the tourism revenues on the current account deficit will be more severe.

Analysis of the financing side of current account deficit revealed that foreign direct investments, having exhibited a sluggish performance in the first two months of the year, continued to lose steam in March. Net foreign direct investments fell by almost 60% yoy in the first quarter. In line with the increase in capital inflows to emerging countries, amid with the improvement in the risk appetite especially in February and March, portfolio inflows towards Turkey also gained momentum. In the first quarter of 2016, portfolio investments posted a net inflow of 2.6 billion USD. Capital inflows continued to perform well in April, while in the week of 2-6 May capital outflows were registered due to global developments and the elevated political tension. In this period, non-residents sold net 183 million USD worth of government debt securities and their equity securities portfolio declined by 298 million USD. (Our Balance of Payments Report)

Domestic markets fluctuate with the political developments.

Due to S&P's positive assessments on Turkey and impulse purchases from low levels, BIST-100 index marked a fresh start last week. In the following days, on the other hand, the fluctuation in domestic markets became more evident due to the elevated political tension and security concerns. BIST-100 decreased slightly by 0.7% wow.

The upward trend in bond yields continued. The 2-year benchmark bond's compound interest increased by 8 bps to 9.76%. TRY depreciated against dollar and euro by 1.4% and 0.5%, respectively. We think that, political risks and the expectations for CBRT's next rate cuts would be crucial on the course of TRY in the coming period.

INDUSTRY NEWS

Industrial production continued to rise though losing momentum.

Seasonally and calendar adjusted industrial production index decreased by 0.5% in March mom while calendar adjusted index increased by 2.9% yoy. Thus, rise in industrial production at the first quarter was 4.7% yoy. The sharpest decline among the main subgroups was at energy by 2.4% while manufacturing of main pharmacy and pharmacy-related products declined by 13.5% in the manufacturing subgroup. Manufacturing of computers, electronics and optic products showed the highest increase in industrial production mom (21.7%) followed by manufacturing of tobacco (7.4%) and wood and related products (6.7%).

Seasonally and calendar adjusted industrial turnover index in March 2016 was down by 1.3% mom. The highest monthly decrease was at capital goods production by 4.0% at main industrial subgroups whereas the steepest fall was at fabricated metal products (except machinery and equipment) among the manufacturing sub groups by 8.1%.

Automotive exports continued to grow.

While domestic automotive sales have been falling since the beginning of the year, increase in automotive exports is remarkable. In previous week, it was announced that in the first four months of 2016, domestic automobile sales decreased by 1.9%, and the decline in light commercial vehicles was 11.6%. The price increases due to the reflection of FX increases and the base year effect arising from 1 million unit sales last year, contributed to the contraction in the domestic market. On the other hand, depreciation of TRY supports the sectors' exports, which are about 75% of the total production. After the contraction in January, exports of the sector increased by more than 10% in February, March and April with the impact of the recovery in European markets, newly entered markets particularly in Africa and the introduction of new models. Thus, automotive exports increased by 7.8% yoy in the first four months of 2016

Cooperation with Iran in tourism sector...

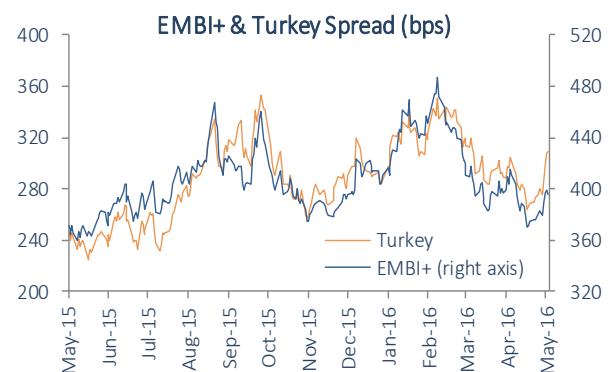
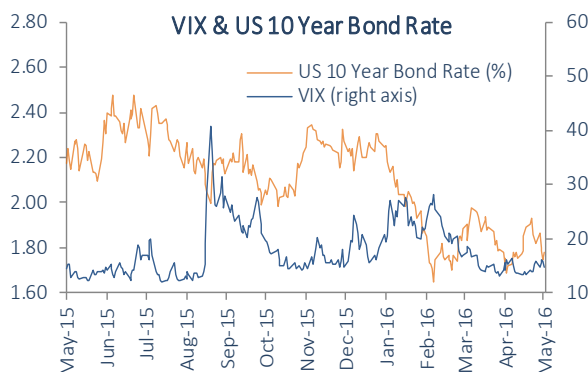
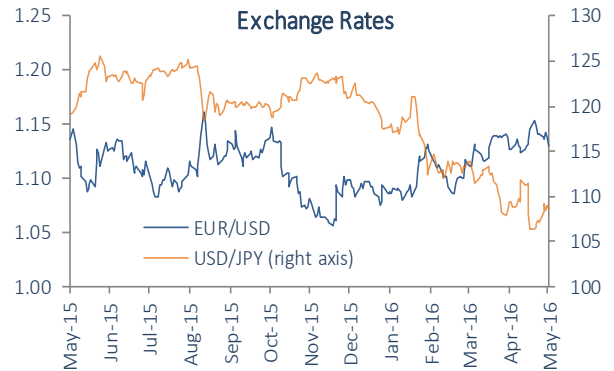
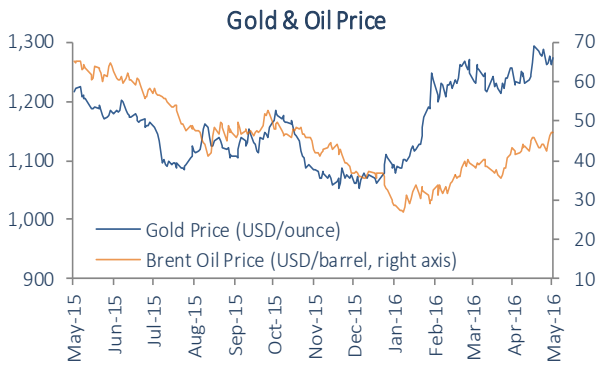
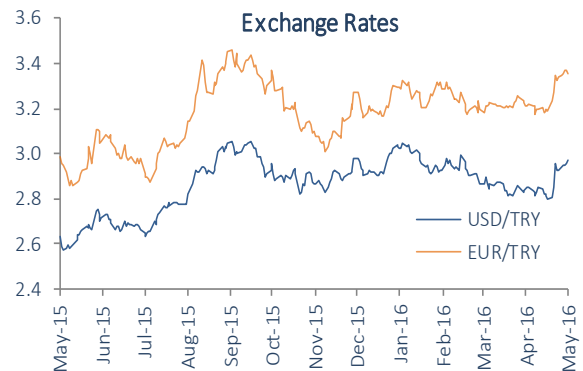
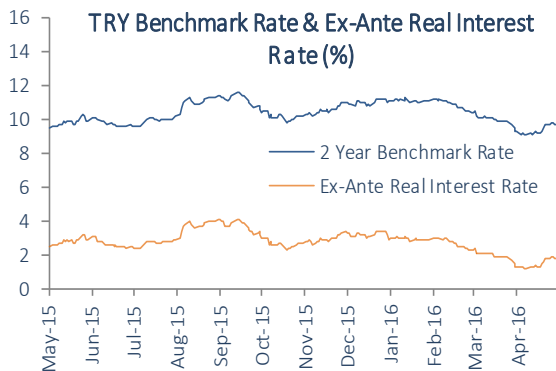
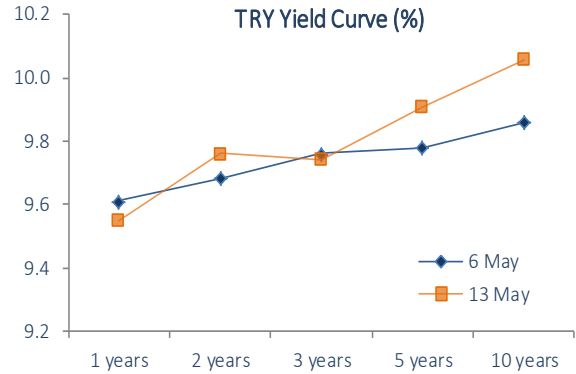
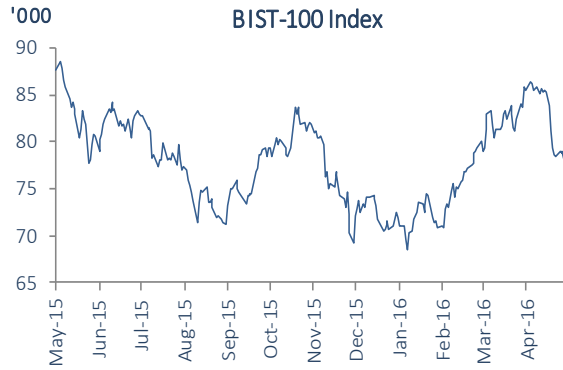
Studies on finding alternative markets in order to compensate the decline in the number of European tourists and the effects of the crisis with Russia continue. Last week, Minister of Culture and Tourism Mahir Ünal and representatives of the tourism sector held talks in Iran on new investment opportunities to improve the cooperation between the two countries. In this context, consensus was achieved in many areas, such as to cooperate in promotional work to third party countries in distant destinations such as China, India, Indonesia and Malaysia, to increase the number of charter flights, to improve Turkish tourism investments in Iran and to prepare new travel package for Iranian tourists.

Iranian tourists traveling abroad prefer to visit Turkey in the third place after Malaysia and Dubai, and their first choice in Turkey is Istanbul. In 2015, the number of visitors from Iran to Turkey got closed to the levels in 2012, before the sanctions were effective. Following the lifting of the sanctions at the beginning of 2016, the number of Iranian tourists in January-March increased by 7.4% on an annual basis. We expect this trend to continue in the rest of the year. Although Iranian tourists have a relatively lower share in the total number of tourists visiting Turkey, we believe that this increase will partly compensate the reduction in the number of tourists coming from Europe, and this will alleviate the negative impacts on Istanbul mostly.

Agricultural product exports to Russia...

Last week, the statements that Russia will widen the scope of the bans imposed on the imports of fresh fruits and vegetables from Turkey, have caused a further deterioration of the prospects for the sector's export performance. Russian agricultural products inspection agency Rosselkhoznadzor's vice president Alekseyenko, said that they could give consent to import products from Turkey if the country can give "credible" guarantees about the quality of agricultural products. On the other hand, the expansion of the bans can support the decline in food price inflation and strengthen the positive outlook recorded in inflation in the coming months.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
16 May	Turkstat Employment Statistics	February	10.9% (A)
	Ministry of Finance Central Government Budget Realizations	April	
17 May	Treasury's 5 year maturity Treasury Bill Auction		
	USA Housing Starts	April	1,125 thousand
	USA CPI	April	0.3%
	USA Industrial Production	April	0.3%
	USA Capacity Utilisation Rate	April	75.0%
18 May	CBRT Expectations Survey	May	
	Treasury's Domestic Debt Redemption		1,863 Million TRY
	FED FOMC Meeting Minutes	April	
	Eurozone CPI	April	-2.0%
20 May	USA Existing Home Sales	April	5.4 million

(A) Actual

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