

## WEEKLY OUTLOOK

***US non-farm payrolls disappoint...***

US markets got off to a calm start last week since the markets were closed on Memorial Day, but on the following days markets faced a heavy economic agenda. April consumer spending data announced last Tuesday recorded the highest mom increase (1%) since August 2009 while personal income rose by 0.4% as expected. Personal consumption expenditures price index (PCE), used as an indicator for US inflation and important gauge for Fed's monetary policy decisions, rose by 1.1% yoy (target: 2%). ISM manufacturing index in May increased mom and was realized as 51.3, above the market expectations. All the related data showed that weak US economy at Q1 made a strong start to Q2. Markets also focused on non-farm payrolls data last week which rose only by 38,000 and indicated the slowest pace since September 2010. The labor strike of 34,000 workers at Verizon, US cell phone operator and network provider, contributed to the weak payroll data. Downward revisions for March and April non-farm payroll data also raised the concerns for US employment market. Unemployment rate, on the other hand, declined to 4.7% to its lowest level since November 2007 due to the falling participation rate. Average hourly earnings were at no levels to put any upward pressure on the inflation. After the disappointing non-farm payroll data, the expectations for Fed's funds rate hike were deferred to July and September. The possibility of a rate hike in June meeting, which is to be held a week before the referendum at UK where Brexit will be discussed, is almost disappeared. USD slumped after the weak payroll data. The markets will focus on Fed Chair Janet Yellen's speech on June 6<sup>th</sup>.

***ECB left its monetary policy unchanged.***

European Central Bank (ECB) didn't make any changes to its monetary policy in line with expectations. ECB, which had announced a long-term refinancing operation for banks (TLTRO II) in March to be started in June, would like to see the effectiveness of its measures. After the meeting last week, Mario Draghi, President of the ECB, announced that ECB revised up its 2016 growth forecast to 1.6% from 1.4% and inflation forecast to 0.2% from 0.1%. Draghi emphasized that ECB will continue the asset purchase program till the inflation is consistent with the target. Even after the program is completed, ECB interest rates could remain at present or lower levels for an extended period of time. He indicated that economic growth in the Q2 continued despite losing some pace compared to the first quarter. Composite and services PMI announced last Friday as 53.1 and 53.3, respectively above the expectations supporting the statements.

Draghi explained that ECB has a view that the UK should remain in the European Union, but the ECB is ready for any outcome. The recent polls regarding the referendum that will take place on June 23<sup>rd</sup> in the UK show that the gap between two sides is tightening. Based on the last poll, Leave supporters are 46% of the vote share while the Remain ones are 51%. Thus, margin between two sides declined to 5 points.

## WEEKLY DATA

	27 May	3 Jun	Change		27 May	3 Jun	Change
BIST-100 Index	78,029	78,139	0.1 % ▲	EUR/USD	1.1114	1.1365	2.3 % ▲
TRY 2 Year Benchmark Rate	9.37%	9.17%	-20 bp ▼	USD/TRY	2.9550	2.9013	-1.8 % ▼
US 10 Year Bond Rate	1.84%	1.70%	-13 bp ▼	EUR/TRY	3.2869	3.2983	0.3 % ▲
EMBI+ (bps)	392	393	1 bp ▲	Gold (USD/ounce)	1,212	1,244	2.6 % ▲
EMBI+ Turkey (bps)	305	303	-2 bp ▼	Brent Oil (USD/barrel)	49.1	48.6	-1.1 % ▼

bp: basis point

***OPEC meeting didn't move the oil prices.***

The 169<sup>th</sup> ordinary meeting of OPEC was conducted last week. It was announced after the meeting that it was agreed on no changes in oil production policy. The former General Secretary of OPEC, Abdalla El-Badri, noted that the group needs more time to adopt a new production ceiling while it is hard to put a target while Iran is increasing oil supply and Libya has mostly stopped production. The group wasn't expected to come up with a production freeze due to recently rising oil prices close to 50 USD. Brent oil prices were mostly flat during last week and closed the week at the level of 48.6 USD. In April OPEC had first discussed the issue of production freeze; however, members couldn't agree on a deal at that meeting. After falling to their lowest levels in 12 years in January, oil prices has surged by 80% thanks to falling US oil production and inventories although OPEC didn't freeze the production level.

***Foreign trade deficit continued to narrow.***

According to the Turkstat, exports declined by 10.2% yoy to 12 billion dollar while imports dropped by 11.9% yoy to 16.2 billion dollar in April. Foreign trade deficit narrowed by 16.3% to 4.2 billion dollar and the import coverage ratio increased to 74% (from 72.7% in April 2015).

On sectoral basis, the upward trend in motor vehicles (8.3%), boilers and machineries (8.2%) and knitted goods (10.8%) supported the export performance while the fall in gold and iron-steel exports affected the export performance negatively. Thanks to the partial economic recovery in European Union, exports increased by 7.5% yoy. During this period, Germany, England and Italy was the top three export markets for Turkey and China, Germany and Russia was the top three import markets. In the coming period, we anticipate that the movements in oil prices together with the strength of foreign demand, especially the European demand, will be significant for the foreign trade outlook. While problems in our neighbouring markets are expected to prevail, the pace of the decline in imports is likely to lose steam somewhat due to domestic demand. In this context, we foresee that the improvement in the foreign trade deficit might lose momentum in the coming months (Our Foreign Trade Balance Report).

***The downward trend in inflation continued.***

In May, CPI increased by 0.58% mom, bringing the annual inflation to 6.58%. In this period, the prices in clothing and footwear sub-group surged by 8.04% due to the seasonal effects. Excess supply in agricultural products due to Russia crisis, on the other hand, led the food prices fell by 1.64% mom. In May, D-PPI rose by 1.48% mom and recorded an annual increase of 3.25%. The prices in the electricity and gas index decreased by 1.48% mom, while prices increased by 2.43% in mining and stone quarrying, and by 1.87% in manufacturing. The prices in coke and refined petroleum products, crude petroleum and natural gas sub-groups also surged by 14.58% and 10.00%, respectively, due to the recent upturn in global oil prices (Our Inflation Report).

***CBRT published its financial stability report.***

Last week, CBRT published its financial stability report. Central Bank stated that banks have built adequate liquidity buffers against any possible liquidity crunch. CBRT noted that volatility in global markets continued, as the macroprudential measures taken in recent years and improvements in fiscal discipline increased the economy's resilience to global shocks. It was also emphasized that the Turkish economy continued to grow at a stable pace. Thanks to the favorable conditions in the terms of trade and the moderate growth rate seen in consumer loans supported by macroprudential policies, the recovery in the current account balance continued.

## INDUSTRY NEWS

***Automatic enrolment in private pension system...***

Deputy Prime Minister Mehmet Şimşek announced that the legislative work for automatic participation in PPS proceeded to its final stage. The new system, which aims to increase domestic savings, will automatically include the employees under the age of 45 and the minimum contribution will be 100 TRY. There will be government contribution in the new system as well and the employees, who don't want to continue participation, will have the right to leave the system after 6-month mandatory period. Currently about 13 million people out of 18 million employees will attend to the new system as a result of the age criteria. The new regulation will be presented to the Parliament after the assessment of the Economic Coordination Council.

***Automotive sales set record in January-May.***

During January-May 2016, automotive sales increased by 0.3% annually, according to data published by Automotive Distributors Association. Total automotive sales amounted to 347 thousand units in this period. The annual increase rate reached 15.2% in May. Car sales increased by 2.8% reaching 267 thousand units, while light commercial vehicle market contracted by 7.4% to 79 thousand units. Automotive sales, which set a record last year, were expected to decline in 2016 due to high base effect. On the other hand, the sales in the first 5 months of the year caused the emergence of the possibility of a new record in 2016 as well.

***The construction sector is growing with urban renewal projects.***

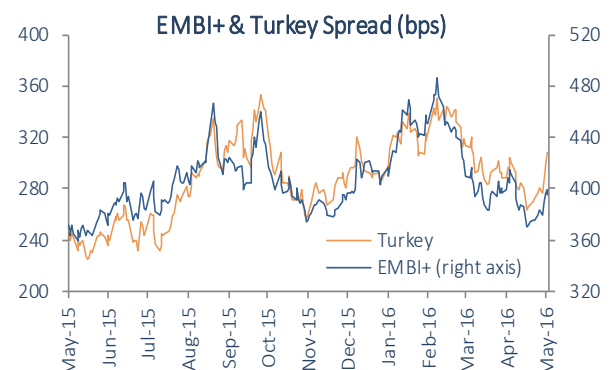
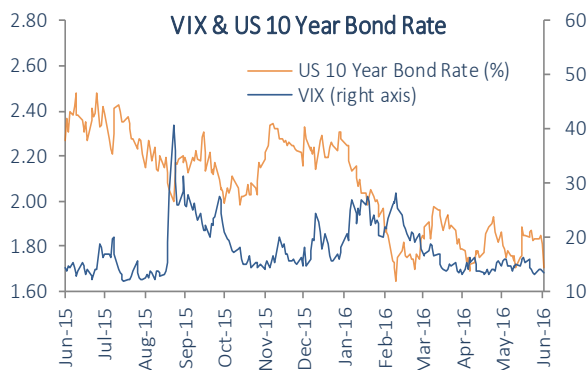
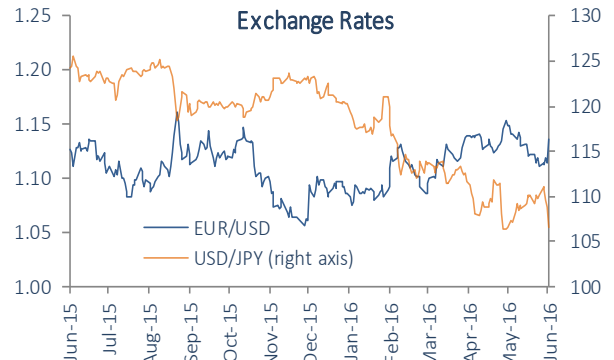
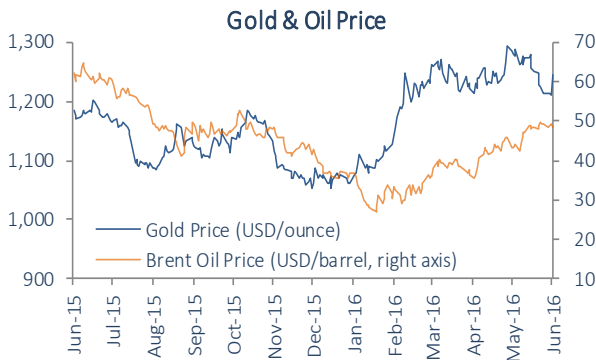
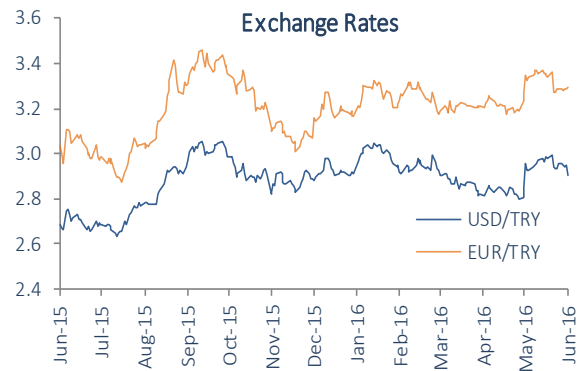
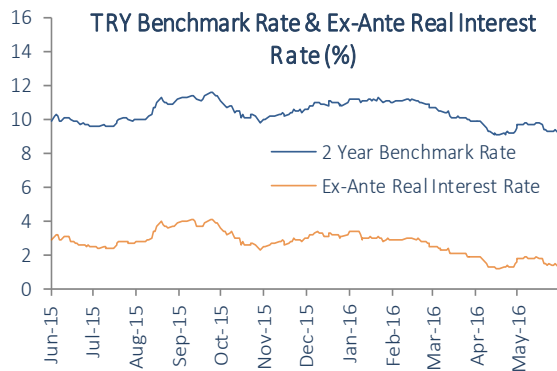
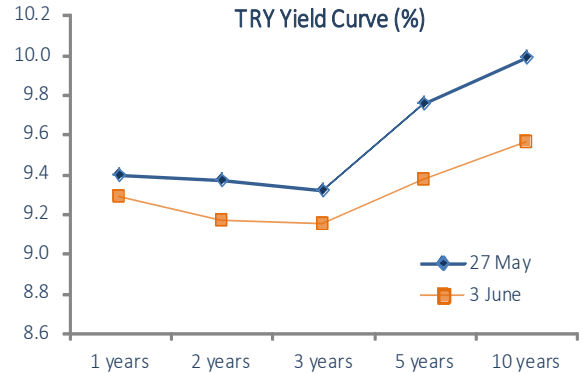
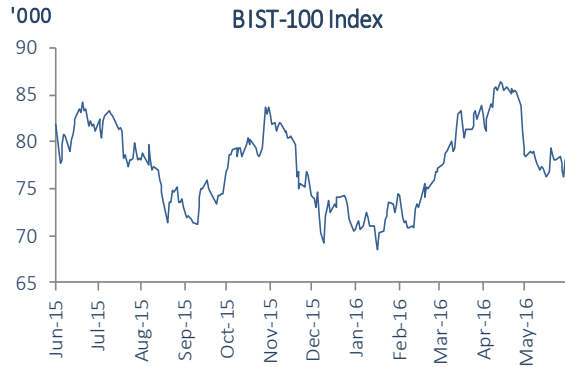
Ergün Turan, chairman of Housing Development Administration (TOKI), announced that they continue with 129 urban transformation projects in 49 cities and have completed the production of 75 thousand new houses. Turan said that 40% of their production would be within the urban transformation program in the future and gave information about the ongoing projects in Istanbul. He added that they are aiming to achieve the procurement of tenders for 60 thousand houses in 2016 and they have met half of this target as of May. Turan, announced that TOKI is aiming to build 500 thousand new houses and reach a total of 1.2 million housing units till 2023.

***Paper and paper products sector...***

Paper and paper products industry had busy days lately. Last week, İpek Kağıt of Eczacıbaşı group initiated its 300 million dollars investment in Manisa/Turkey and Kazakhstan. With these investments, the company increased its production capacity by 65% and aims to increase its production value by 35% in 2016.

Global packaging company, Mondi Group, have bought 90% of Kalenobel shares for about 90 million euros from European private equity fund Argus Capital. The highest production in the paper sector occurs in corrugated paperboard, where almost all the production is sold in the domestic market. Paper industry in Turkey is pointing to a medium-term growth potential, where the consumption per capita is well below the European average. Demand for several final products is met through imports in the fast-growing domestic market, while domestic cleaning paper industry is known as a net exporter.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
7 June	Auction for 5 year maturity Treasury Bond		
	Euro Area GDP Growth	2016 1 <sup>st</sup> Quarter	
8 June	Turkstat Manufacturing Industry Production Index	April	
	Treasury's Domestic Debt Redemption		834 million TRY
	China Foreign Trade Statistics	May	
10 June	Turkstat GDP Growth	2016 1 <sup>st</sup> Quarter	
	CBRT Balance of Payment Statistics	April	
	University of Michigan Consumer Sentiment Index (Preliminary)	June	94.7

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