

WEEKLY OUTLOOK

Fed officials' interest rate expectations lowered.

Last week Fed, BoJ and BoE's meetings as well as the developments regarding the "Brexit" were on the top of the agenda. At its meeting, Fed kept the policy rate unchanged in line with the expectations. After the meeting, it was stated that the recovery in labor market lost pace in line with the assessments aftermath the May non-farm payroll data. Fed officials stressed that inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but to rise to 2% over the medium term as the transitory effects of past declines in energy and import prices dissipate and the labor market strengthens further. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee would continue to assess a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. Fed Chair Janet Yellen told that the uncertainties regarding the upcoming UK referendum on the country's EU future played a role in Fed's decision to keep federal funds interest rates unchanged. She further stressed that the outcome of the referendum is important for both the UK and Europe and that a possible Brexit would have an impact on the economy on a global level, making it relevant for United States' economic future. Besides, the disappointing CPI and jobless claims readings also put pressure on the Fed futures. Moreover, uncovering of voting member St. Louis Fed governor Bullard as the lone official projecting one increase this year and none for 2017 and 2018 hints the pace of the rate hikes in the upcoming period.

Brexit looms on the European markets.

Last week, global investors evaluated Brexit polls news on the EU Referendum on 23rd June, while the capital outflows from UK surged to the highest over a year. GBP/USD parity, which fall below the 1.40 level for the first time since the global crisis in February, is anticipated to weaken further after a Brexit vote. Besides, it was seen that, BoE offered more liquidity to the banking system as a precaution to help ensure the smooth functioning of FX markets. Aftermath the assassination of Jo Cox, a British parliamentarian advocating for the UK to remain, the support for "Brexit" gained momentum.

Ahead of the ECB meeting that will be held on June 22nd, the talks about the access of Greek banks to the cheap funding operations put pressure on the markets. While Greece's debt is rated "junk" by credit agencies, ECB is likely to waive its investment-grade credit rating requirement. Thanks to the ECB's 1.7 trillion-euro asset purchase program, the funding costs in the Euro Area continued to decline.

BoJ didn't change its asset purchase program.

BoJ didn't change the policy rate (-0.1%) and its 80 trillion worth of asset purchase programme on its meeting last week. In the press release issued after the meeting it was stated that moderate economic recovery has been underway despite the effects of slowdown in emerging economies on Japan's production and export volume. Following the BoJ meeting, which was held after Fed meeting where interest rate hike worries eased, USD/JPY parity registered lowest values since August 2014 while Nikkei-225 decreased by 3.1%.

WEEKLY DATA

	10 Jun	17 Jun	Change		10 Jun	17 Jun	Change
BIST-100 Index	76,887	75,431	-1.9 % ▼	EUR/USD	1.1249	1.1274	0.2 % ▲
TRY 2 Year Benchmark Rate	9.22%	9.15%	-7 bp ▼	USD/TRY	2.9264	2.9244	-0.1 % ▼
US 10 Year Bond Rate	1.64%	1.62%	-2 bp ▼	EUR/TRY	3.2931	3.2987	0.2 % ▲
EMBI+ (bps)	393	401	8 bp ▲	Gold (USD/ounce)	1,274	1,298	1.9 % ▲
EMBI+ Turkey (bps)	307	309	2 bp ▲	Brent Oil (USD/barrel)	49.3	47.4	-3.8 % ▼

bp: basis point

Oil prices continued to slide...

The increase in Iran's oil exports to its pre-sanction levels (2.31 million barrels/day) and OPEC's statement that the oil supply in the second half of 2016 will diminish were the main drivers of the volatility of oil prices last week. Brent oil price, which decreased to 45.34 USD/barrel intraweek, dropped by 3.8% wow to 47.4 USD/barrel at the end of the week.

BIST-100 declined last week.

BIST-100 index decreased by 1.9% weekly, similar to global markets mainly due to the Brexit worries and cautious stance of investors before the Fed meeting, while USD/TL increased to 2.95 during the week. USD/TL started to decline in the last days of the week as Brexit worries eased.

Unemployment rate at 10.1% in March...

As unemployment rate dropped to 10.1% in March, nonfarm unemployment rate has declined to 11.9%, its lowest value for 9 months. Highest increase in employment was registered in education and administrative and support service activities sectors, while agriculture sector experienced the highest decline in employment.

Positive trend in budget figures...

According to data released by Ministry of Finance, the central government budget revenues increased by 18.6% yoy to 49.5 billion TRY, while budget expenditures increased by 14.3% to 45.9 billion TRY in May. Thus, the budget had a surplus of 3.7 billion TRY. Having given a deficit of 2.4 billion TRY in January-May 2015, the budget posted a surplus of 9.1 billion TRY during the same period of this year. While budget expenses rose due to the increase in public sector recruitment, the revenues rose with the contribution of 43% annual increase in corporate income tax. ([Our Budget Balance Report](#))

Improvement in inflation continues according to Central Bank's Expectations Survey.

Central Bank's Expectations Survey results show that the ongoing optimism for year-end inflation continues. The annual CPI inflation, which decreased to 6.58% in May thanks to the decline in unprocessed food prices, is expected to be 7.64% at the end of 2016. The respondents are predicting USD/TRY parity to rise to the level of 3.1008 at the end of 2016, while they expect Turkey's growth rate, which was realized as 4.8% in the first quarter, to be as 3.7% in the whole year. The downward trend in weighted average funding cost continues, following the 50 basis points rate cuts by Central Bank in the last two meetings. Markets expect that CBRT would continue the rate cuts in the policy meeting on June 21st.

INDUSTRY NEWS

Red meat imports...

In May, General Directorate of Agriculture Enterprises (TİGEM) and Meat and Milk Board (ESK) had been authorized for the import of 400.000 livestock and breeding animals with zero tariffs to increase the number of livestock and to meet the domestic demand. Due to the rising red meat demand during Ramadan, Ministry of Food, Agriculture and Livestock decided to make meat import. Now, ESK is getting ready to import 15.000 live cattle. Turkey already has to import 19.500 tons of meat from EU each year based on the Customs Union Agreement. Local livestock breeders and animal feed producers, on the other hand, react to the import method, used to limit the rise in meat prices. The market considers it as a temporary solution for the price increase.

Risks in ceramic sector exports...

Free Trade Agreements (FTAs) recently planned by European Union with countries like Algeria, Tunisia and Morocco are exposing risks for Turkish ceramic sector which has been losing market share in the Middle East. If the FTAs are realized, tariff for the imported Turkish products will be 20% in these countries while for Europe it will decrease to 5%. Turkish ceramic sector, which raised its domestic sales of ceramic tiles by 9.5% yoy to 230 million m² in 2015 thanks to the vivid urban transformation and construction projects, is now trying to diversify its export markets. US is considered as the target market for floor tiles which form 70% of the total sector sales, while European countries are at the top of the list for the sanitaryware. The sector, which tended to import the final product due to the tariffs implied on raw materials, has other problems such as high levels of energy, transportation and freight costs.

Tourism sector continues to be supported.

CRBT last week announced that it extended the term of the notes to be rediscounted from 240 days to 360 days. It is expected to help the high tech product exports while financing of tourism sector is considered to be positively impacted as well. Furthermore, the Association of Turkish Travel Agencies (TÜRSAB) having met the Prime Minister Binali Yıldırım last week, shared the sector's demands and asked for discounts in VAT, Special Consumption Tax and social security premiums, restructuring and postponing the tax and premium payments for a year without any interests, rise in charter support and holiday incentive for the public sector employees. Besides, according to research conducted by Turizmdatabank, revenue loss in the tourism sector has reached 12 billion USD so far, 3.8 billion USD of which is tax revenue loss.

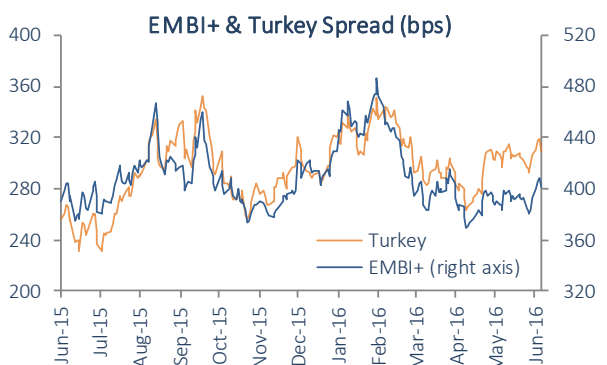
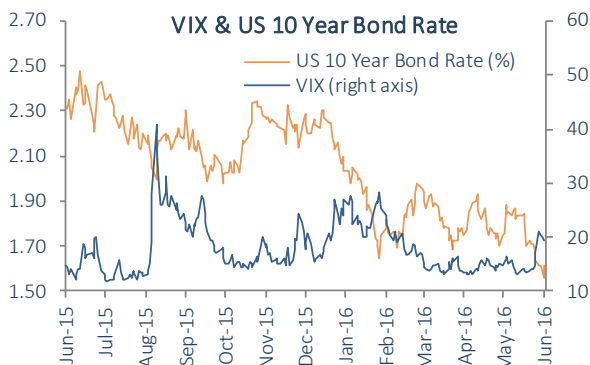
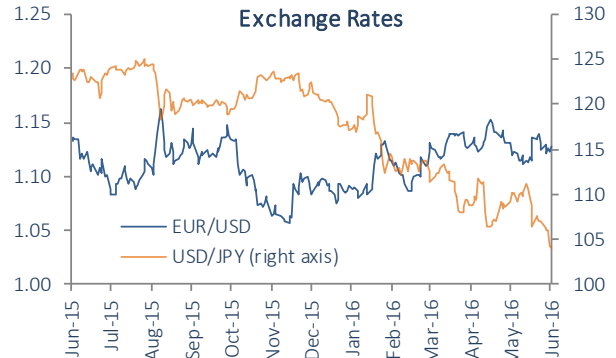
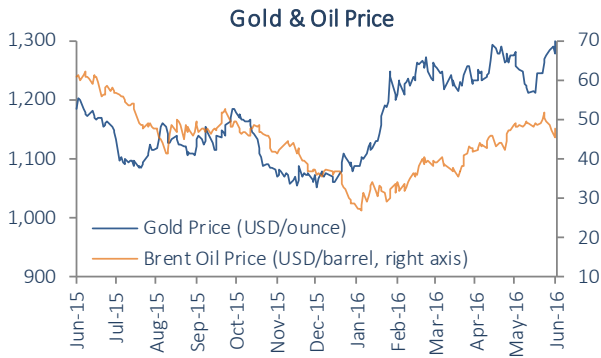
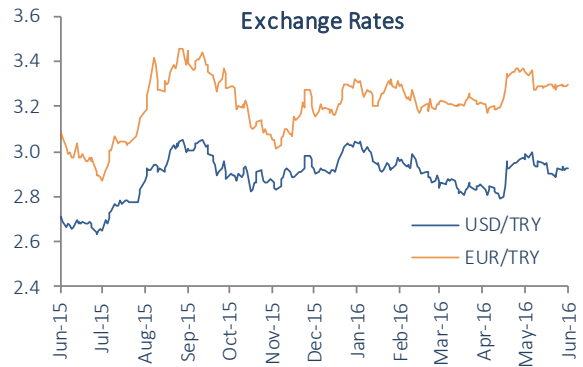
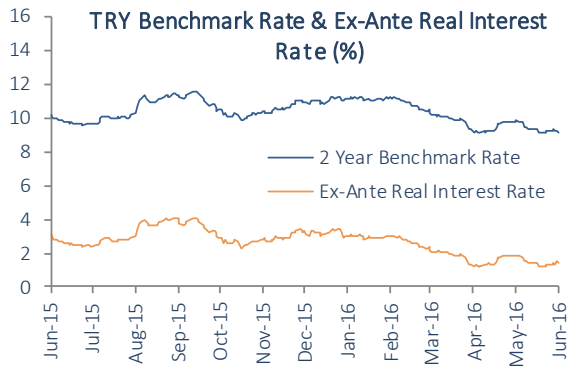
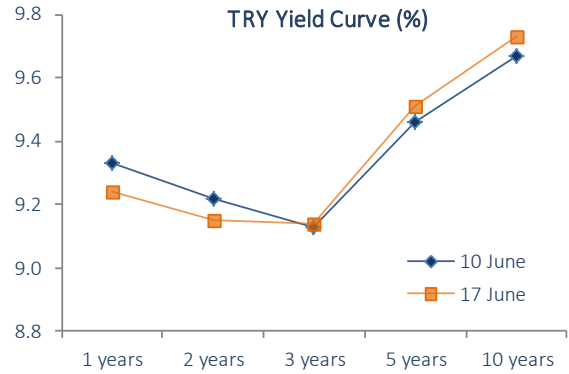
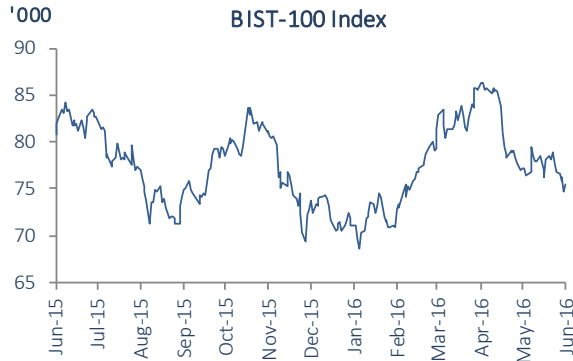
Opportunities for Iranian market...

Foreign Economic Relations Board (DEİK) Chairman, Ömer Cihad Vardan, who spoke in a meeting about the Iranian market last week, explained that since Iran has an energy cost advantage over Turkey, Iranian firms will be competing with Turkish firms at the energy-intensive sectors such as cement, iron-steel and ceramic. He added that Turkish firms may invest in Iran so that they would take advantage of the cheap energy. Foreign trade volume between two countries was down to 10 billion USD in 2015 due to the sanctions. Exports of Turkey are expected to grow by 14% CAGR in 5 years thanks to Turkey's know-how at sectors like retail, construction and services. Besides the renewal of the old tech oil production facilities, services sector investments like hotel, mall and hospital constructions are offering opportunities for Turkish investors.

Turnover of construction sector fell.

Based on the data released by Turkstat, seasonally and calendar adjusted turnover index of construction sector during Jan-Mar 2016 declined by 1% while construction production index was up by 2.1% yoy. Sector officials expect that the market will be stagnant in 2017 after the current ongoing projects are completed. They also stated that sector needs support for overseas contracting, diminishing bureaucracy and growing qualified employment.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
21 June	CBRT Monetary Policy Committee Meeting	June	
	Germany ZEW Survey	June	
22 June	Turkstat Consumer Confidence Index	June	
	US Existing Home Sales	May	5.570 million
	Treasury's Domestic Debt Redemption	June	543 million TRY
23 June	Euro Area PMI Manufacturing Index (Flash)	June	51,4
	US New Home Sales	May	565 K
	US PMI Manufacturing Index (Flash)	June	51
24 June	Turkstat Sectoral Confidence Indexes	June	
	CBRT Capacity Utilization Rate of the Manufacturing Industry	June	
	CBRT Business Tendency Survey and Real Sector Confidence Index	June	
	University of Michigan Consumer Sentiment Index	June	94
	US Durable Goods Orders	May	-%0,7

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