WEEKLY OUTLOOK

UK voted to leave EU in referendum.

UK voted last week for Brexit referendum to decide the country's future in the EU. Referendum resulted in an overall vote to leave EU by 52% and turnout was 72%, higher than the last year's general elections. Prime Minister David Cameron, who was running campaigns to remain in EU, announced after the referendum that he would be stepping down as prime minister by October.

Before the referendum, President of the ECB Mario Draghi asserted that ECB was ready for all contingencies following the UK's referendum while he explained that ECB would use all its available instruments if necessary to counter the side effects of a Brexit. Governor of the Bank of England (BoE), Mark Carney said after the "Leave" vote that there will be a period of uncertainty and adjustment while he added that BoE would provide additional 250 billion GBP to the financial system if needed. President of the European Council Donald Tusk noted that the effects of Brexit decision will be seen in time while remaining member countries are determined to keep the unity as 27. It is considered that it will take decades to restore commercial and political agreements between UK and EU member countries while the impacts of "leave" decision will be watched in the markets for a very long time.

Recent fluctuations at global markets after Brexit are expected to be influential on Fed's interest rate decisions as well. Fed Chair Yellen last week stressed that Fed's ability to raise interest rates hinge on a rebound in US economy, assuming no shocking result from UK referendum.

Volatility in global markets…

Global markets had priced a "remain" decision from the UK referendum as the recent polls reversed just a few days before it; however, the surprising outcome raised the volatility in global markets to a great extent. Last Friday, GBP depreciated against EUR and USD by 6.2% and 8.1%, respectively while gold prices went up by 4.8% with the rising risk perception. Moreover, safe haven investments dropped yields of the bonds in advanced economies. 10-year US Treasury yield was down by 17 basis points to 1.57%. Global deterioration in risk sentiment was reflected on global equity indices as well. US stock markets fell by over 3% last Friday while Europe's Euro Stoxx 50 index was down by 8.6%. BIST-100 also decreased by 3.4% while USD/TRY climbed up to 3 in the early hours. USD/TRY recovered somewhat and closed the week at 2.9265.

CBRT cut the upper band of the interest rate corridor.

On its meeting held on last Tuesday, ahead of the Brexit voting, CBRT cut the upper band of the interest rate corridor by 50 points as the Monetary Policy Committee (MPC) envisaged these steps a part of "its simplification policy" previously. At its press release, CBRT reiterated that future monetary policy decisions will be conditional on the inflation outlook while emphasizing that the developments in "services inflation and unit labor costs" will be closely monitored. Previously, CBRT drew more attention to "the developments in core inflation". CBRT's "dovish tone" suggested that further cuts might be on the table.

WEEKLY DATA

	17 Jun	24 Jun	Change		17 Jun	24 Jun	Change
BIST-100 Index	75,431	75,366	-0.1 % ▼	EUR/USD	1.1274	1.1115	-1.4 % ▼
TRY 2 Year Benchmark Rate	9.15%	9.20%	5 bp ▲	USD/TRY	2.9244	2.9265	0.1 % ▲
US 10 Year Bond Rate	1.62%	1.58%	-4 bp ▼	EUR/TRY	3.2987	3.2549	-1.3 % ▼
EMBI+ (bps)	401	391	-10 bp ▼	Gold (USD/ounce)	1,298	1,315	1.3 % ▲
EMBI+ Turkey (bps)	309	307	-2 bp ▼	Brent Oil (USD/barrel)	47.4	46.5	-1.9 % ▼

bp: basis point

At its investor meeting, however, MPC officials made no clear comments on the next steps in the simplification process and stressed that CBRT has less room to maneuver due to narrowing interest rate corridor. This development suggested that the "simplification process" might lose some momentum in the coming period. In 2016, CBRT lowered the upper band of the interest rate corridor by 175 points to 9%, while keeping the lower band and the policy rate at 7.25% and 7.50%, respectively.

Fitch's assessment about Turkish economy...

International credit rating agency Fitch has published an assessment on Turkish economy last week. In the analysis, it has been expressed that Turkey is growing faster than its ratings peers, but noted that the slow pace in structural reforms creates uncertainty about the sustainability of the growth. Referring the importance of the post-election reform program, the analysis stressed that the reform package should be implemented swiftly in order to improve the pace and the composition of the growth sustainably and to reduce the vulnerability to external shocks. Fitch also noted that besides the structural reforms more stable domestic political and security environment will affect the credit note positively, while the increase in external risks on the economy or deterioration in fiscal discipline will put pressure on it. Fitch grades Turkey BBB-, which is the lowest credit rating for investment grade and the country's rating outlook is "stable".

Foreign direct investments to Turkey recorded as 16.5 billion USD.

According to the "World Investment Report - 2016" published by the United Nations Trade and Development Organization (UNCTAD), global FDI increased by 38% to 1.76 trillion dollars in 2015, thanks to the cross-border merger and acquisition transactions. In line with the global trend, FDI inflows to Turkey increased by 36% to 16.5 billion USD in 2015 and Turkey became the 20th among the most investment attracting countries, going up by two steps. Estimated fall in global FDI by 10-15% in 2016 is expected to be reflected on FDI inflows to Turkey as well.

INDUSTRY NEWS

New regulation on provisions…

Changes on the regulation concerning the classification and provisions of loans have been published last week. According to the new regulation which set to enter into force on January 1st, 2017, Turkish banks must use Turkish Financial Reporting Standards 9 (TFRS 9) on loan provisions. In addition, provisions are set to be minimum 1% for standard loans and 2% for loans under close monitoring respectively until January 1st, 2018. Following Banking Regulation Supervision Agency's new regulation, provisions for some consumer loans will be down to 1% from its current level of 4% as of January 1st, 2017.

Local grocery retailers continue to grow.

Turkey's Retailers Federation president Mustafa Altunbilek released a statement last week, according to which local grocery retailers will grow by 11% as of 2016 year-end after expanding by 9% annually in the first quarter of 2016. Altunbilek stressed that minimum wage increase and compulsory change of payment system machines create extra costs to the sector while rapidly increasing share of low-cost retailers suppresses the performance of local retailers. Altunbilek emphasized that constantly decreasing EBITDA margin reaching as low as 2% makes it impossible to open new branches by the means of banking loans. Therefore, investments are being done with self-finance which makes rapid branching not possible. There are 337 local grocery retailers registered to the Federation with a total number of 3,655 branches. In 2015, net sales of these retailers grew by 13% to 10 billion USD.

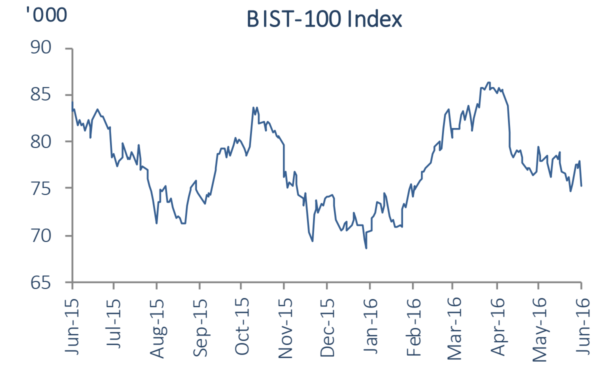
Production quota increased for starch based sugar.

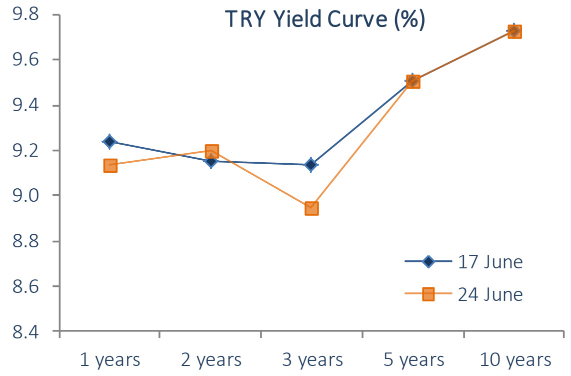
Starch based sugar production quota for 2015-2016 marketing year has been increased by 25% to 312,500 metric tons with a Council of Ministers' Decree published in Official Gazette last week. Beet producers have been suffering from ever increasing starch based sugar quota.

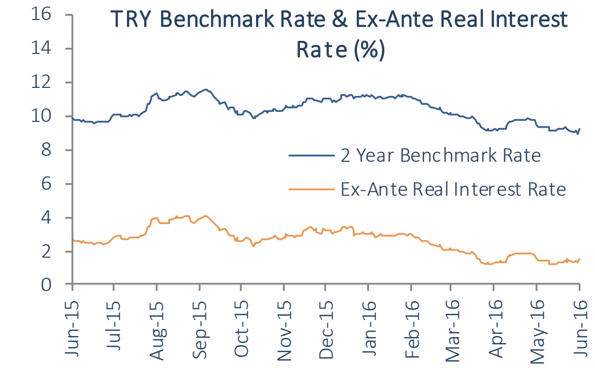
Commodity prices extended gains for four consecutive months.

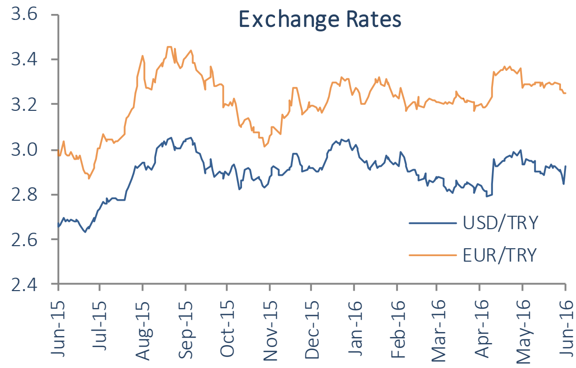
Commodity price index continued to increase in May after registering its lowest value in January since the end of 2004. Thus, commodity prices recorded a 4-month increasing streak. Surging prices in May (6%) are mainly driven by a continued increase in energy prices.

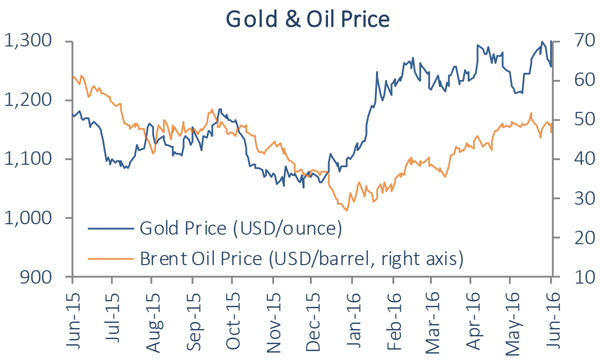
FINANCIAL MARKETS

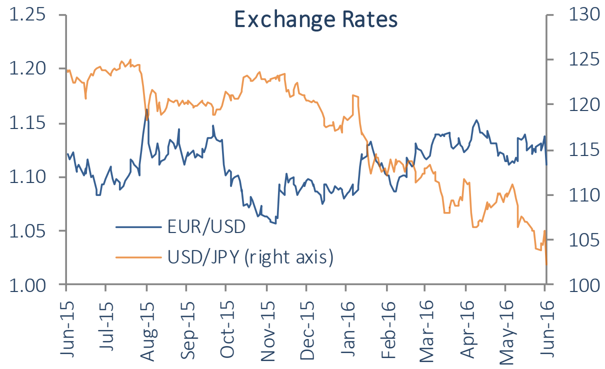


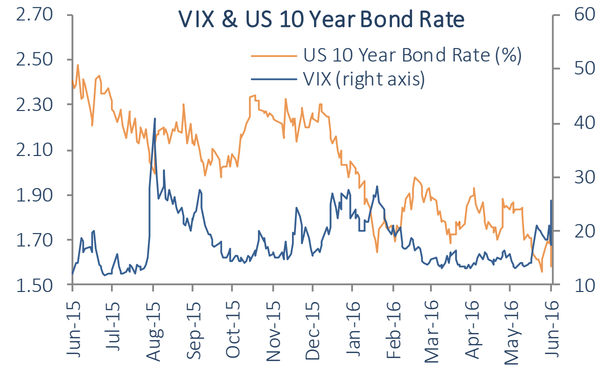


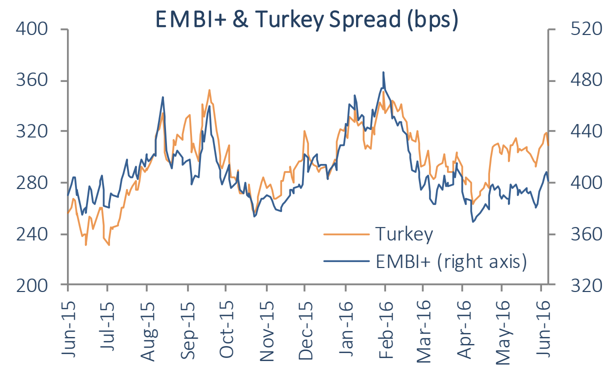












WEEKLY DATA RELEASES

		Period	Consensus
28 June	CBRT Summary of the Monetary Policy Committee Meeting	June	
	USA The Conference Board Consumer Confidence Index	June	93.3
	USA GDP Growth (Final)	2016Q1	1.0%
29 June	USA Consumer Spending	May	0.3%
	USA Personal Income	May	0.4%
30 June	TUİK Foreign Trade Statistics	May	
	Eurozone Consumer Price Inflation (Preliminary)	June	
1 July	USA Manufacturing PMI	June	
	USA ISM Manufacturing Index	June	51.5
	Eurozone Unemployment Rate	May	
	Eurozone Manufacturing PMI	June	
	Germany Manufacturing PMI	June	
	China Caixin Manufacturing PMI	June	

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