WEEKLY OUTLOOK

Global markets seek direction…

In the aftermath of the Brexit vote, the risk perception in global markets deteriorated significantly as the investors rushed into “safe haven” assets. Last week, on the other hand, central banks around the world signaled a readiness to act if required. Bank of England, at the eye of the storm, declared that as growth would slow in coming months, further easing and other actions might be needed. In this context, global markets calmed down and erased most of its early Brexit meltdown. As the hopes on a new round of global monetary easing revived, bond yields around the world dropped significantly. Besides, talks on ECB’s consideration to ease the rules for its bond purchases to carry out additional stimulus welcomed by the markets. During the last week, Volatility Index (VIX) was below 20 in general suggesting more calm financial markets.

Political developments after the referendum…

In the wake of the referendum, economic and political developments in United Kingdom were closely monitored. The statements from Scottish leaders, hinting a vote for independence, came on the top of the last week’s agenda. German Chancellor Merkel said she saw no chance that Britain might go back on its decision to leave the EU. At the first EU leaders meeting after the referendum, policymakers emphasized that relationship with EU must be based on “rights and obligations” suggesting that UK would lose its access to the “single market”. In this context, in the coming weeks we anticipate that global markets will focus on the political developments once again, while investors exhibit a “cautious stance”.

UK’s credit ratings were downgraded.

After Moody’s decision to change UK’s credit outlook to negative, Last week S&P cut country’s credit rating for two notches and Fitch for one notch. Both institutions also cut the credit outlook to negative reflecting the ongoing downward risks for the UK economy. The notes published by the credit rating agencies highlighted that UK economic growth is expected to slow down and the labor market in London, the international financial center in Europe, would be affected negatively in case of deterioration in the banking sector. It was also indicated that UK might lose competitiveness as UK leaves the European Common Market which is the main export market for UK with a share of 44%. Credit rating agencies’ rating cuts were not limited to UK only. Last Thursday, S&P cut the credit rating of EU by one notch and revised up the outlook to stable. In its statement, S&P said that: “Going forward, revenue forecasting, long-term capital planning and adjustments to key financial buffers of the EU will be subject to greater uncertainty"

WEEKLY DATA

	24 Jun	1 Jul	Change		24 Jun	1 Jul	Change
BIST-100 Index	75,366	77,952	3.4 % ▲	EUR/USD	1.1115	1.1135	0.2 % ▲
TRY 2 Year Benchmark Rate	9.20%	8.48%	-72 bp ▼	USD/TRY	2.9265	2.9009	-0.9 % ▼
US 10 Year Bond Rate	1.58%	1.46%	-12 bp ▼	EUR/TRY	3.2549	3.2299	-0.8 % ▼
EMBI+ (bps)	391	373	-18 bp ▼	Gold (USD/ounce)	1,315	1,342	2.0 % ▲
EMBI+ Turkey (bps)	307	291	-16 bp ▼	Brent Oil (USD/barrel)	46.5	48.3	3.8 % ▲

bp: basis point

Mixed signals from US economy…

Economic developments in the US, which were watched closely by the markets in previous weeks, were overshadowed by Brexit last week. While Fed's rate hike expectations shifted to the year-end due to the rising uncertainties at global markets, recently announced data in the US gave mixed signals over the country's economic activity. US GDP growth in the first quarter was revised up to 1.1% from 0.8%. Upward revisions on net export and investment items were considered to be influential on the growth figures while private consumption expenditures' (PCE) contribution to growth decreased. Pending home sales which recorded the fastest growth in the last 6 years in April fell by 3.7% in May, well below the expectations. Slump in US oil inventories for six consecutive weeks triggered the rise in prices. Last week Brent crude oil prices increased by 3.8% to 48.3 USD/barrel.

Recovery in domestic markets…

Domestic markets, which had kicked off last week on a weak mode, were pulled up on the following days by the prudent optimism at global markets. Normalization of bilateral relations with Israel and Russia were taken positively by the markets. On the other hand, terrorist attacks during the last week escalated the security concerns in the country. Aviation industry shares in BIST-100 index responded negatively to the current issues. Investors' growing risk appetite pushed up the demand for TRY assets and pressed the yield curve down at all maturities. Likewise, 2-year benchmark bond yield dropped to its lowest in 15 months to the level of 8.48%, sliding 72 basis points.

Rapid increase in exports...

Exports performed well in May, increasing by 9.6% yoy to 12.1 billion USD, following downward trend since the beginning of 2015 due to geopolitical risks. Imports, on the other hand, decreased by 3.8% to 17.2 billion USD; thus, trade deficit were recorded at 5.1 million USD with particular contribution from export volume of England and Iran. Exports to these countries increased 87.1% and 64.2% respectively, as gold exports, recording at 935 million USD, contributed half of the total exports to these countries. Sectoral analyses indicate that automotive industry has the highest share in exports with 40.7% totaling 1.6 billion USD.

Brexit decision raised questions over the future of trade relations between Turkey and the UK. Considering the supposedly two-year long transition period, no major risk is anticipated for the relations between Turkey and the UK in the short-run. Nonetheless, there can be a downward pressure especially on our exports if Brexit weakens the UK and/or the EU economies in the medium and longer term. Potential political developments in our major trade partner EU that might be fueled by Brexit can also weigh on the Turkish economy in an indirect way (Our Foreign Trade Balance report).

Recovery in economic confidence index…

Economic confidence index extended its positive performance in June, after a poor performance in the first month of the second quarter due to increased volatility in global markets. In June, index increased to 83.3, its highest level in 5 months. On the other hand, improvement in the index varied among sub-sectors. Construction and services sector indices sustained their increasing pattern, as retail sector and real sector confidence indices continued to depict a poor outlook for manufacturing industry and retail sector. These data releases point out that the developments in construction and services sectors might be more influential on GDP growth in the second quarter.

INDUSTRY NEWS

Improvement in relations with Russia creates hope in many sectors.

Last week significant steps were taken to finalize tensions with Russia. While the new steps might support the exports of agricultural products and manufactured goods in the coming months, we expect the recovery in the services sector to happen in the longer term. Due to the political tension started in November 2015, Turkey's exports to Russia declined by 59% in January-May 2016 yoy. While the exports of fresh fruits/vegetables and textile/clothing decreased by 77%, exports of motor vehicles fell by 44% during the same period. Turkish economy has also been affected adversely due to the contraction in tourism sector and construction sector providing services to Russia.

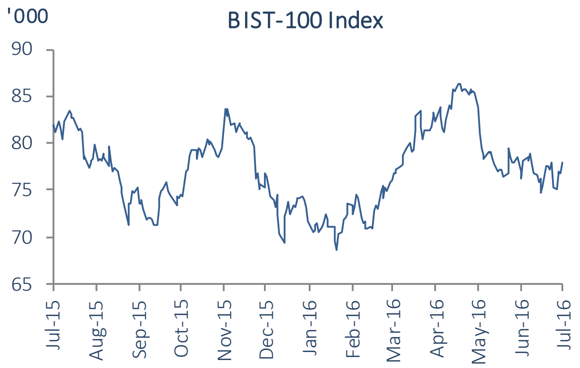
Decline in tourist arrivals continues…

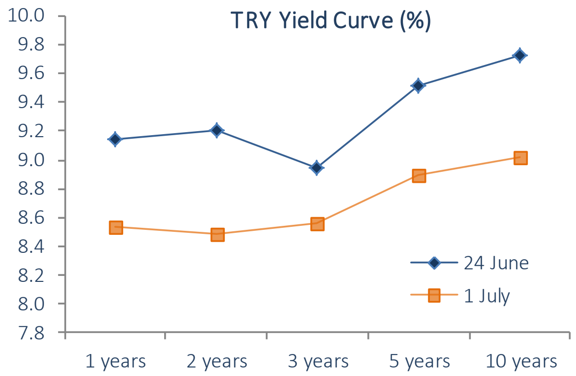
In May, the number of tourist arrivals to Turkey decreased 34.7% yoy. In January-May 2016, the number of the arrivals declined by 22.9% to 8.3 million visitors, showing the worst performance since 2010. The number of visitors from Russia decreased by 82.8%, performing worst annually while number of visitors from Israel, Jordan and Ukraine increased somewhat. Last week, after the steps taken to finalize tensions between Russia and Turkey, Ministry of Transport of Russian Federation announced that it would re-start the non-scheduled flights to Turkey. In addition, Council of Ministers of Turkey decided to increase visa-free stay for Ukrainian citizens from 60 days to 90 days. These developments may alleviate the contraction in tourism sector somewhat in the rest of the year, but we think that a permanent recovery in the sector may be observed in longer term.

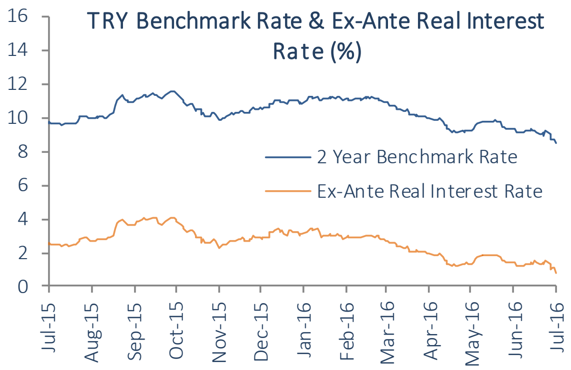
Price increases in the housing market slowed down.

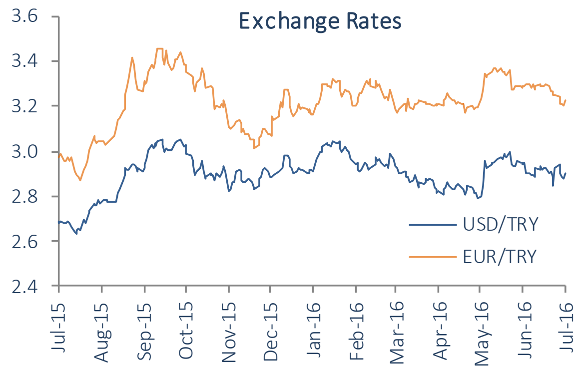
According to statistics published by the CBRT, in April, housing price index rose by 14.7% yoy. The annual increase in housing price index has been decelerating in the last 11 months. The index had risen by 19% yoy in May 2015. Slowdown in the index was mainly due to deceleration in house price growth in Istanbul. In addition, the house prices in Kilis, Adıyaman and Gaziantep region decreased by 0.3% yoy due to the rising security concerns. Real price increase was above 5%, the rise in quality of houses led to an annual increase of 2.1% in housing prices. The slowdown of price increase was affected from the significant momentum loss in house sales during the first five months of the year. House sales in Turkey increased by 6.4% yoy to 114,800 in May. The share of new houses in total sales was 48.8%. Second hand sales still have a share of over 50%, as house is counted as an investment tool due to the rapid price increase in recent years.

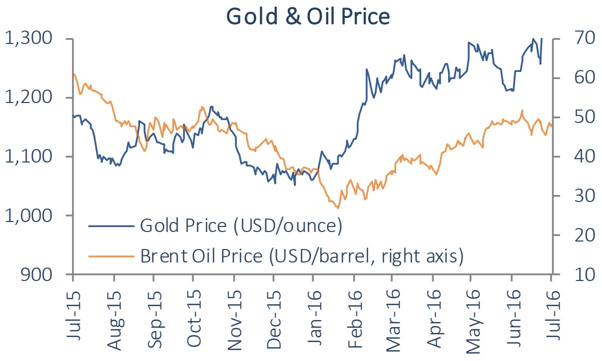
FINANCIAL MARKETS

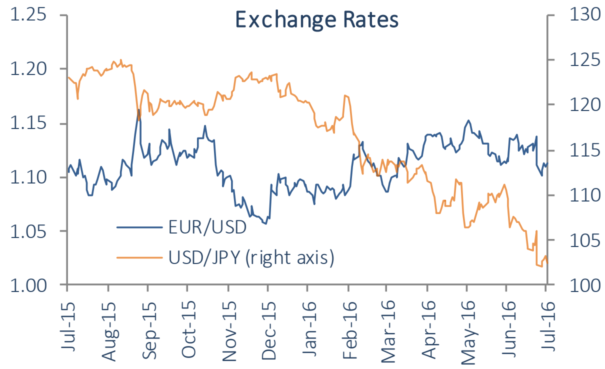


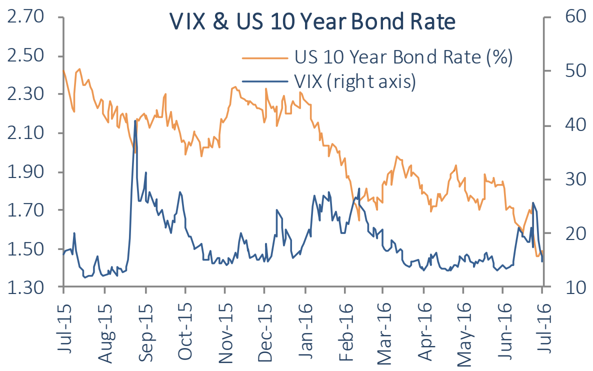


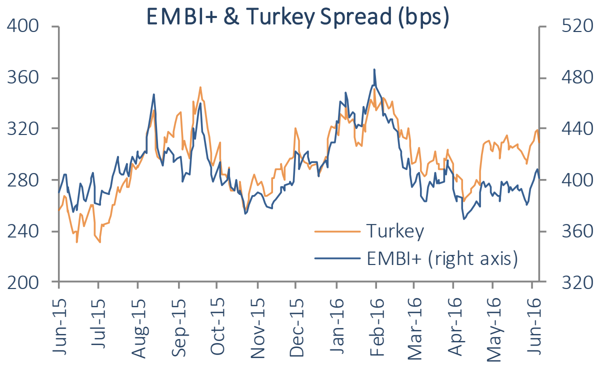












WEEKLY DATA RELEASES

		Period	Consensus
4 July	Turkstat D-PPI	June	
	Turkstat CPI	June	
	Eurozone PPI	May	
5 July	Eurozone Retail Sales	May	
	US Factory Orders	May	
6 July	FOMC Meeting Minutes	June	
	US Foreign Trade Balance	May	-40 billion USD
	US ADP Employment Report	June	
8 July	China Foreign Trade Balance	June	
	US Nonfarm Payrolls	June	180,000 persons
	US Unemployment Rate	June	4.8%

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