

WEEKLY OUTLOOK

Domestic markets completed the week with sharp fluctuations after the coup attempt.

Domestic markets completed last week with sharp fluctuations due to a military coup attempt on last Friday. CBRT, on the weekend, announced a series of measures to ensure that financial markets keep working properly. Offering unlimited liquidity to banks and lowering the commission rate for the intraday liquidity facility to zero are some of the measures taken by CBRT. Conference calls made by the Deputy Prime Minister Mehmet Şimşek to banks and foreign investors indicated that political stability is underway. Therefore, USD/TRY, which went up to 3.05, was down to the level of 2.92 as the market opened. Although it is estimated that the market will go through short-term volatility until the normal conditions are met according to the announcements there are no expectations of a longer term economic destruction.

Solid industrial production data supported the domestic market.

Motor vehicles production in May grew by 5.6% yoy on the low base effect due to the labor strikes last year and boosted the overall industrial production quite above the expectations. Current account deficit's ongoing downward trend in May was another development backing the markets. Besides, Turkey's efforts to normalize the relations with Israel and Russia helped to keep the market momentum. BIST-100 index, which diverged last week positively from other emerging country markets, lost momentum in the last day of the week due to the effects of terrorist attacks in France. BIST-100 index was up by 6.2% wow and closed the week at the level of 82.825. Additionally, Treasury almost completed July borrowings and acquired 9.35 billion TRY in total. The yield on the benchmark 2-year Treasury bond, which climbed parallel to the stock market, returned some of its earnings with the deteriorating risk perception in the market.

Governor of the CBRT, Murat Çetinkaya, last week had underlined the improvement at the core inflation indicators and ongoing positive projections over the current account balance at a meeting made at the Banks Association of Turkey (TBB). The market had perceived as a signal for an interest rate discount decision out of the CBRT's this week's Monetary Policy Committee meeting.

Central government budget gave a deficit in June.

According to statistics published by Ministry of Finance, central government budget registered a deficit of 7.9 billion TL in June. Tax revenues increased by 11% in the first half of 2016, although failing to reach the 50% of the budget target, while non-tax revenues recorded a rapid rise of 36.6%, annually. Special consumption tax, which has the highest share in tax revenues, is expected to gain momentum with the help of the price increase in tobacco products; however, tax exemption on commercial vehicles might have a negative impact on special consumption tax revenues. On the other hand, having the highest share in budget expenditures, current transfers and personnel expenditures grew by 63% and 28%, respectively, in the first 6 months. Rise in personnel expenditures is mainly caused by the minimum wage increase while current transfers surged because of treasury aid to social security premiums ([Our Budget Balance Report](#)).

WEEKLY DATA

	8 Tem	15 Tem	Change		8 Tem	15 Tem	Change
BIST-100 Index	78.019	82.825	6,2 % ▲	EUR/USD	1,1052	1,1034	-0,2 % ▼
TRY 2 Year Benchmark Rate	8,44%	8,60%	16 bp ▲	USD/TRY	2,8886	3,0188	4,5 % ▲
US 10 Year Bond Rate	1,37%	1,59%	23 bp ▲	EUR/TRY	3,1946	3,2260	1,0 % ▲
EMBI+ (bps)	368	350	-18 bp ▼	Gold (USD/ounce)	1.366	1.337	-2,1 % ▼
EMBI+ Turkey (bps)	287	272	-15 bp ▼	Brent Oil (USD/barrel)	44,7	46,2	3,5 % ▲

bp: basis point

Downward trend in current account deficit continues.

Current account deficit came in 2.9 billion USD in May narrowing by 32.9% yoy. 12-month rolling deficit recorded at 27.3 billion USD, lowest for the last 6 years. While travel income in the first 5 months of the year dropped by 21.2% yoy, rise in portfolio investments had an important role in financing the deficit. Banks' appetite for foreign loans dropped due to low demand for credits. Despite decreasing tourism revenues, we expect that positive outlook for current account deficit will remain in the coming months mainly thanks to ever-decreasing foreign trade deficit. The normalization process with Russia started to affect the tourism sector somewhat, however; contribution of this development to current account will be observed in the coming months. Moreover, geopolitical risks and failed coup attempt are expected to increase the pressure on tourism sector ([Our Balance of Payments report](#)).

Year-end expectation for USD/TRY decreased to 3.05.

According to Survey of Expectations released by CBRT, inflation for 2016 year-end will realize at 7.81% and inflation expectation for 12-month forward decreases. Average cost of the CBRT funding expectation also declines mainly due to rate cuts by CBRT. GDP growth for 2016 is expected to realize at 3.67% despite the 4.5% growth target in Medium Term Programme. Expectation for USD/TRY is down to 3.05 at the end of the year.

Strong data from US...

After the disappointing non-farm payroll data in May, the 287k increase in June reading was well above the expectations, which supported the positive outlook in markets. Last week, the expectations regarding the additional measures from BoJ and BoE nourished global risk appetite, as gold prices pared its gains. The "cautious" tone from Fed officials led the rate *hike* expectations of the markets for 2016 weaken. Besides, on its "Beige Book" report, Fed stressed that although the mixed signals from the industrial production data, readings from the labor markets and consumption expenditures suggested that the economic activity in US was on course. In Beige Book, the assessments on inflation were also crucial. Accordingly, the flat course of inflation hinted that more time is needed to reach the 2% target.

Bank of England kept the policy rate unchanged.

Aftermath the Brexit voting, Bank of England (BoE) Chair Mark Carney hinted that additional measures could be taken on June 23rd. At its meeting on July 13rd, on the other hand, BoE kept the policy rate at 0.5%. After the meeting, sterling rebounded as the hopes on further steps lingered to the next meeting that would hold three weeks later.

On the other hand, Theresa May became the new PM of the UK. After the Brexit decision, all eyes were on May, as the new government is anticipated to implement the referendum results.

Italian banks are on the top of the agenda in Europe...

The non-performing loans in Italian banking system, which are around 360 billion euro (nearly 20% of GDP) put more pressure on markets after the Brexit voting. Last week, news on Italian authorities' new 40 billion euro capital injection into the banks and Merkel's positive tone regarding the Italian banking system eased the concerns. Thus, European stock markets followed an upward course parallel to the global markets, thanks to the easing political concerns in UK and hopes on additional measures from central banks. After the terrorist attack in France, on the other hand, stock markets lost some of its early gains. At its first meeting after the Brexit voting that would hold on this week, European Central Bank is anticipated to ease its monetary policy further.

Abe's ruling coalition claimed victory in Japan...

After Prime Minister Shinzo Abe had claimed victory in an election for the upper house of parliament, uncertainty in the market faded and it was signaled that a new comprehensive economic package is being planned as a stimulus to boost consumer spending and inflation. Former chairman of Fed, Bernanke's visit to Abe last week created the discussions over "helicopter money". While expectations of a stimulus package caused a surge in Asian bourses, yen depreciated strongly against dollar. Bank of Japan chopped its GDP growth forecast down to 0.9% from %1.7 in January. It is expected that more expansionary measures will come out of the meeting of BoJ, which will take place at the end of July.

GDP growth in China was above the expectations.

Inflation, foreign trade and economic growth data announced last week in China were watched closely by the markets. 1.9% increase in consumer price index (CPI) yoy in June was still below the government's inflation target of 3% and pointed to the weak demand in the country. Foreign trade and fixed asset investments, on the other hand, continued to narrow. China, which has been planning to grow out of consumption, had a GDP growth of 6.7% at Q2. Since Chinese GDP growth performed better than the government's annual target of 6.5% in 2016, it was received positively by the market. The growth was mostly derived from the rise in credits and consumption expenditures. Despite the strong performance of the industrial production and retail sales, high corporate debt stock in China is still creating worries over the economy.

INDUSTRY NEWS

Special consumption tax discount on taxis and public-transport type passenger vehicles...

According to the new incentive package issued by the government on July 4, taxis, public-transport type passenger vehicles such as jitneys, minibuses, municipal and public buses, trucks and pickup trucks for the transport of goods can be renewed till the end of 2016 without paying any special consumption tax. 50,000 taxis with engines displacing 1,300cc to 1,600cc are expected to be renewed in Turkey within the new incentive package and it is expected to support the automobile industry to reach 1 million vehicles sales target in 2016. However, it is also predicted that the incentive will be repressing the second-hand vehicle sales. Moreover, 18% of value added tax (VAT), which is calculated out of the price which is the sum of ex-factory costs and special consumption tax, is anticipated to go down as well.

Price rise in cigarettes...

The price adjustment for tobacco products made in January was followed by a price rise of roughly 1TL last week. Upward revision of the tax rates by Ministry of Finance, in line with the rising USD/TRY parity, eventually led cigarette firms to a price increase of 10.9%. The price of cigarettes, which constitutes 4.63% of Consumer Price Index (CPI) basket, was up by 10.9% and is expected to have a 0.5% of rise in overall CPI.

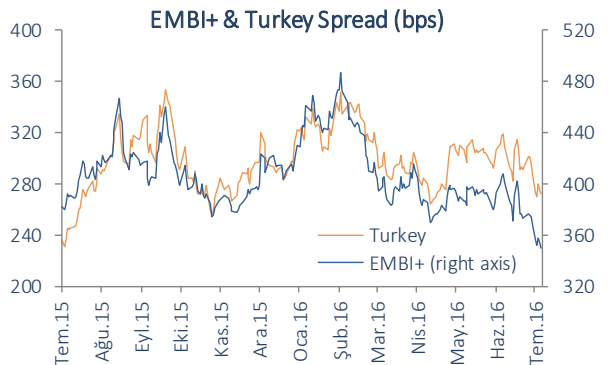
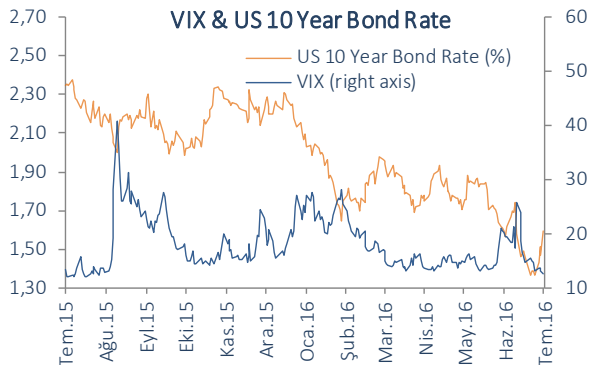
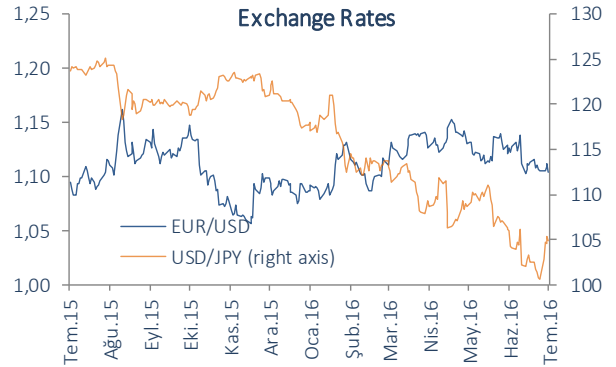
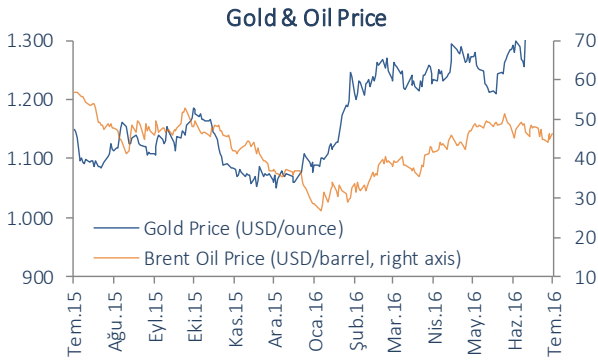
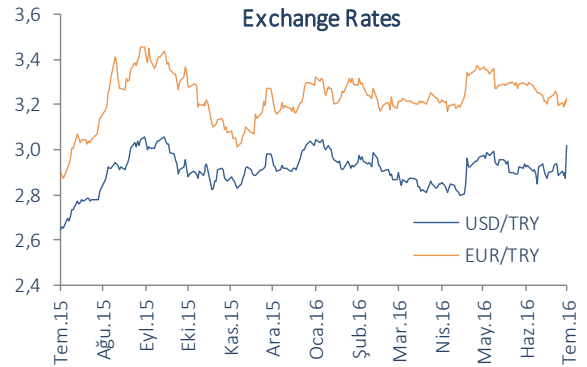
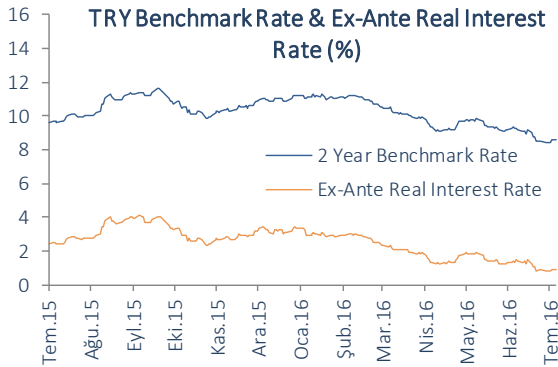
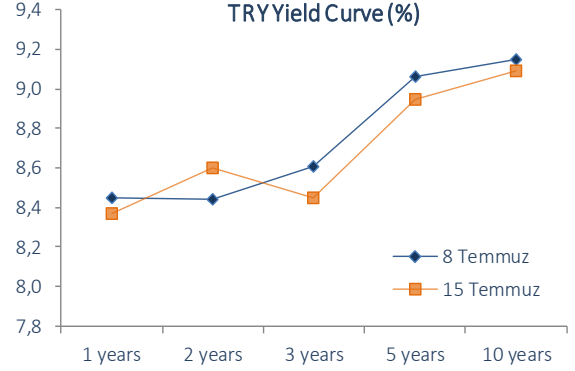
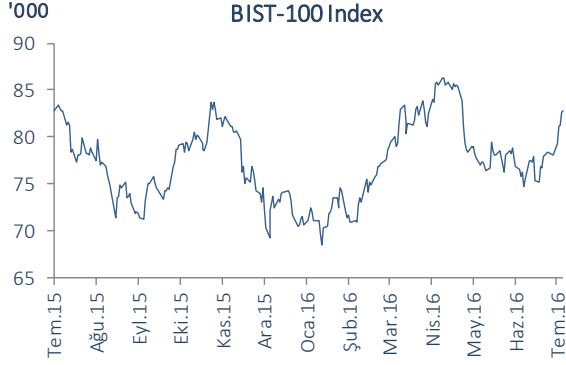
Real Estate Certificates at Urban Transformation Projects...

According to a new regulation, homeowners will be able to acquire real estate certificates instead of their renewed houses at fast-growing urban transformation projects. They will be able to exchange the papers at the stock exchange markets or regain ownership of their houses within the buy-back guarantee. Deputy Prime Minister Nurettin Canikli explained that certificate issues are an opportunity for investors who cannot buy a whole flat but would like to gain some m² of a flat. For the certificate issues to take place, it is expected that the necessary approvals and permissions should be taken and agreements with homeowners will be completed.

Price of red meat is projected to fall.

Meat and Milk Board (ESK) and General Directorate of Agriculture Enterprises (TİGEM), which were authorized in May 2016 for the import of 400,000 livestock with no tariffs, initiated a tender for 100,000 livestock, half imported from South America and half from European Union (EU) countries. The price of carcass meat, which will be sold only in Istanbul this week, was announced to be 22TL/kg and it is estimated that consumer price of red meat will go down approximately by 4-5TL/kg.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
19 July	CBRT MPC Meeting and Interest Rate Decision	July	
	Germany ZEW Survey	July	
	USA Housing Starts	June	1.17 million
	Auction for 10-month maturity Treasury Bond with no coupon	July	
	Treasury's 5-year maturity Sukuk auction	July	
20 July	Turkstat Consumer Confidence Index	July	
	Treasury's Domestic Debt Redemption (1,482 million TRY)	July	
21 July	USA Existing Home Sales	June	5.46 million
	European Central Bank (ECB) Meeting and Interest Rate Decision	July	
22 July	Euro Area Manufacturing Sector PMI (Flash)	July	
	USA Manufacturing Sector PMI (Flash)	July	

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