

WEEKLY OUTLOOK

CBRT didn't change its inflation forecasts.

CBRT released the third Inflation Report of the year. In the report, the year-end inflation forecast for 2016 has been left unchanged at 7.5%, as the range for 2017 inflation is expected to be between 4.3% and 7.7% with the midpoint 6%.

Governor Murat Çetinkaya said in his presentation that the recent monetary policy decisions of the Committee should be evaluated under the scope of simplification process and added that the ultimate aim of the simplification is to achieve a narrow and symmetrical corridor and provide funding via a single rate. Stressing that the simplification process in monetary policy is planned to be concluded in a reasonable time frame, Çetinkaya expressed that the speed and timing of the process would depend on developments in inflation and financial stability. Çetinkaya said that the simplification process wouldn't have a negative impact on the performance of TRY and mentioned that the risk perception concerning Turkey would improve with a more predictable monetary policy after simplification process. CBRT continued to cut interest rate with 25 bps on the upper band of the interest rate corridor at the last MPC meeting on 19th July, which is described as measured and cautious by CBRT. The total rate cuts on the upper band since March reached 200 bps. 1-week repo rate, which is the policy rate, stands at 7.5% while the lower band of the corridor O/N borrowing rate and the upper-band of the corridor O/N lending rate stand at 7.25% and 8.75%, respectively.

Çetinkaya said that the rise in unprocessed food prices and price adjustments on tobacco products would boost inflation in July; however, there will be a downward correction in the coming periods.

Çetinkaya also commented on rating agencies and said that he is not expecting downgrade for Turkey's credit note in August. In his statements last week, Finance Minister Naci Ağbal also iterated that the reviews of Moody's and Fitch should be positive for Turkey in August. Moody's and Fitch, that are evaluating Turkey with investment grade, are expected to release their assessments on 5th and 19th August, respectively.

Liquidity support to banks from CBRT...

Summary of the MPC meeting held on 19th July was released last week. The Committee said that it may decrease the required reserve ratio in order to balance the short-term effects of the tightening in financial conditions. The following day of the summary release, CBRT announced that the haircut/discount rates of Turkish lira and foreign currency denominated collaterals pledged against Turkish Lira transactions have been changed with the aim of supporting efficient liquidity management of banks. Approximately 6 billion TRY-worth of pledged collaterals are expected to be released with the adjustment.

Another noteworthy subject of the summary was the assessments regarding the tourism sector. It was stated that the ongoing problems have a possible spillover effect on economic activity and current account deficit, which may be more visible in summer months. In addition, it was added that the data by Social Security Institution indicate that the stagnate outlook in the tourism sector also affected employment. Moreover, recent data releases for foreign visitors confirms the recession in the sector.

WEEKLY DATA

	22 Jul	29 Jul	Change		22 Jul	29 Jul	Change
BIST-100 Index	71,738	75,406	5.1 % ▲	EUR/USD	1.0973	1.1170	1.8 % ▲
TRY 2 Year Benchmark Rate	9.44%	9.24%	-20 bp ▼	USD/TRY	3.0625	2.9873	-2.5 % ▼
US 10 Year Bond Rate	1.57%	1.46%	-11 bp ▼	EUR/TRY	3.3687	3.3386	-0.9 % ▼
EMBI+ (bps)	360	374	14 bp ▲	Gold (USD/ounce)	1,322	1,351	2.2 % ▲
EMBI+ Turkey (bps)	329	339	10 bp ▲	Brent Oil (USD/barrel)	44.4	41.1	-7.5 % ▼

bp: basis point

Foreign trade deficit came in at 6.6 billion USD in June.

In June, foreign trade deficit was recorded at 6.6 billion USD. While exports increased by 8.1% yoy, imports which were decreasing on annual basis since August 2014, increased by 7%. Foreign trade deficit widened by 5% in June while, deficit in the first half of the year declined by 16% due to decreasing commodity prices.

Bilateral relations are to normalize with Russia...

Bilateral relations between Turkey and Russia are continuing to normalize. Two countries agreed on the continuation of the Turk Stream gas pipeline and nuclear power plant projects and will discuss the lifting off food imports ban that Russia imposed. Deputy Prime Minister of Russia Arkady Dvorkovich said that resumption of charter flights and foreign trade relations between the two countries will take some time. Turkish President Tayyip Erdoğan is scheduled to meet with his Russian counterpart Vladimir Putin in Russia on August 9th, and the normalization process is expected to gain speed following that meeting.

Fed left interest rates unchanged.

The Federal Reserve left interest rates unchanged on Wednesday after a 2-day FOMC meeting, while not giving any hints as to when to increase the rates. Fed said that near-term risks to the U.S. economic outlook had diminished and it repeated that a rate hike will be dependent on economic data. Fed noted that household spending and labor market had been performing strongly and inflation has remained steady for the last few months. Fed policymakers had expressed concerns about raising rates until there is enough evidence that inflation moves towards 2% target.

US GDP grew by 1.2% in second quarter.

US GDP growth remained slow in the second quarter with 1.2% against 2.6% market expectation. The fall in inventories for the first time since 2011 contributed to the low GDP figure, while robust consumer spending offset the effect of this decline. Low level of inventories is likely to provide a boost to the economy in the coming quarters as restocking underway along with strong consumption. Better than expected consumer confidence and Chicago PMI figures in July suggest that economy gaining momentum in the third quarter of 2016.

The dollar depreciated against a basket of currencies as the expectation of a rate hike by Fed diminished. On the other hand, New York Fed President Dudley said that if the economy and labor market improve quickly, Fed will likely raise interest rate before the election.

Japan announced a large stimulus package.

Japan's prime minister unveiled a surprisingly large 28 trillion yen stimulus package to boost the economy and to overcome deflation. The size of the package is nearly 6% of Japanese economy and 13 trillion yen from this package will be allocated to fiscal measures. While stimulus package is likely to take place over the next few years, it adds pressure on central bank to match the measures with expansionary monetary policies. However, BoJ failed to meet the expectations on Friday last week by keeping interest rates and monetary base unchanged; hence, yen appreciated against dollar. BoJ said that it will assess its monetary policy in September, decreasing volatility in the markets.

INDUSTRY NEWS

Protective measures for iron and steel industry...

Ministry of Economy stated last week that new steps can be taken for the iron and steel industry due to ongoing risks in the sector. According to the statement of the Ministry, strategically important industry has recently evolved into being a net importer and production decisions of the firms have been shifting rapidly, hence damaging the industry's overall performance. It was noted that the sector will be protected from negative impacts of the imports via amendments in import policies or protective trade measures if needed.

China cut 13 million tons of steel capacity in the first half of the year. However, it seems that the country will fail to achieve the annual capacity reduction target of 45 million tons till the end of 2016. The overcapacity problem still keeps the global iron prices under pressure.

Number of tourists declined by 41% yoy in June.

Ministry of Culture and Tourism announced last week that the number of foreign tourists visiting Turkey in June went down by 41% yoy to 2.44 million people and recorded the sharpest fall since 1994 when the data started to be published. Decline in the number of tourists in the first half of the year was 28% yoy. The number of Russian tourists visiting Turkey during the same period dropped by 87.4%.

Normalizing bilateral relations with Russia are expected to have a positive impact on the tourism sector, yet ongoing risks in the short run indicate that tourism sector is having a tough year in 2016. On the other hand, based on the decree published in the Official Gazette on July 30, 2016, rents, revenue shares and etc., which are to be collected during Jan 1-Dec 31 2016 from firms and operators that are using public land, will be postponed for a year as of the exact payment date. The decree detailed that deferred receivables will be collected at the deadline in cash or in 3 years at most with 3 equal installments without any price-ups or interests. This decision is expected to remove the cost pressure in the sector having cash flow problems and help the sector get over this year with less problems.

4 corvettes are at the bidding process within the project MILGEM.

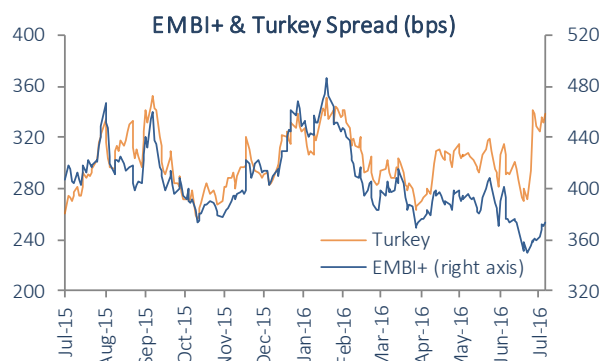
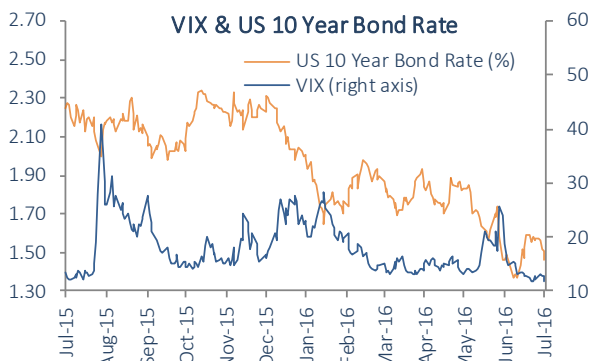
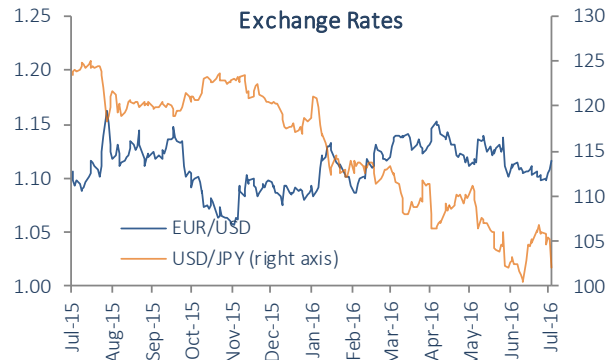
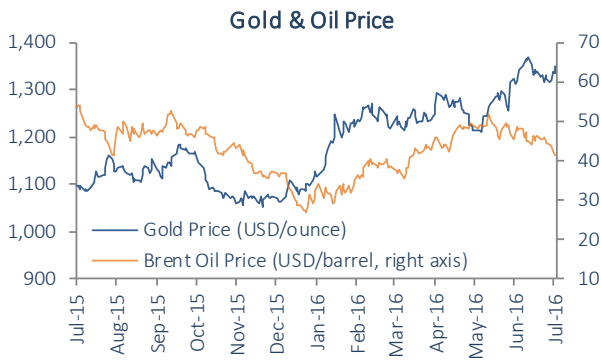
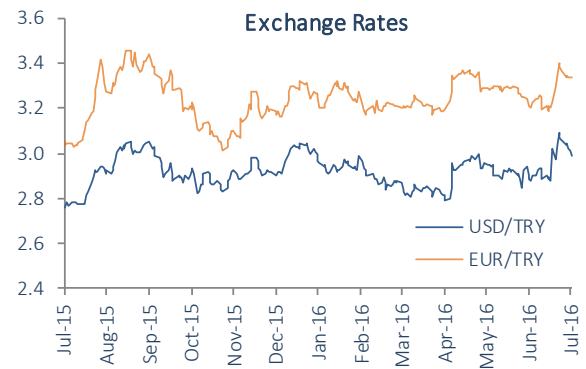
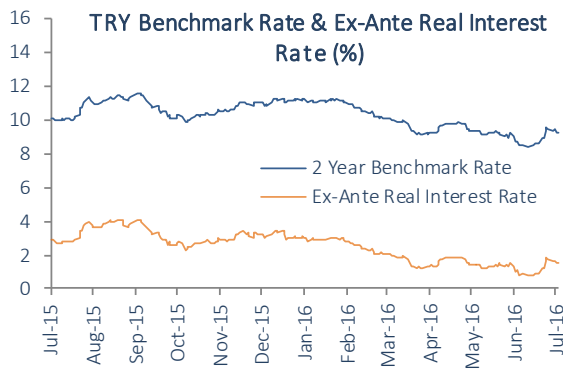
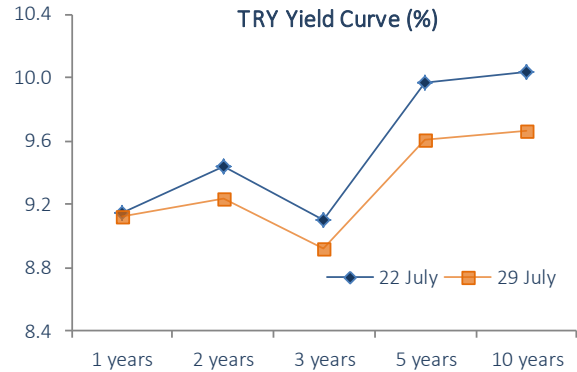
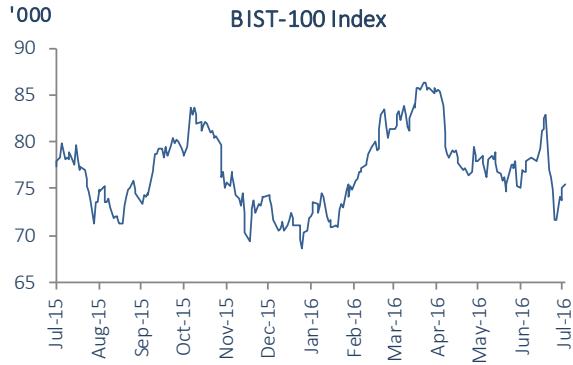
Undersecretariat for Defense Industry (SSM) opened a tender for shipyards operating domestically to construct 4 new corvettes in the scope of the project MILGEM (National Ship). The tender is planned to take place in 2016 year-end or in the first quarter of 2017. The construction of 2 warships has so far been completed by the Istanbul Shipyard Command of Turkish Naval Forces while the remaining 2 ships are still under construction. This project is very important for the shipbuilding sector which is having a hard time getting new orders, has currently focused on maintenance and repair services.

Capacity utilization rate was down to 75.5% in July...

According to the statistics published by CBRT, capacity utilization rate in the manufacturing industry fell by 0.2 points yoy to 75.7% in July. The rate dropped considerably in sectors such as refined petroleum products, chemistry and beverages sectors while it surged in tobacco products and automotive industries.

Real sector confidence index as a benchmark for the real sector production activities surged in July. Seasonally adjusted index was up by 2 points mom to 106.3. The index being higher than 100 indicates that economic activity is improving.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
1 August	Eurozone Manufacturing PMI	July	52,0 (A)
	China Caixin Manufacturing PMI	July	50,6 (A)
	Germany Manufacturing PMI	July	53,8 (A)
	USA Manufacturing PMI	July	
	USA ISM Manufacturing Index	July	53.2
2 August	Eurozone Producer Price Index	June	0.4%
	USA Consumer Spending	June	0.3%
	USA Personal Income	June	0.3%
3 August	TURKSTAT Domestic Producer Price Index	July	
	TURKSTAT Consumer Price Index	July	
	Eurozone Retail Sales	June	0.0%
	USA ADP Employment Report	July	165k
4 August	USA Factory Orders	June	-1.8%
5 August	USA Nonfarm Payrolls	July	185k
	USA Unemployment Rate	July	4.8%
	USA International Trade Statistics	June	43B USD deficit

(A) Actual

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