

WEEKLY OUTLOOK

Non-farm payrolls increased well above expectations.

Data releases last week in US suggested that the country has kept its moderate economic activity and strong labor market while PCE inflation failed to meet the expectations. ISM manufacturing index coming at 52.6 and manufacturing PMI at 52.9 indicated that US manufacturing industry held a steady production increase in July. Non-farm payrolls in July increase more than expected by 255,000 jobs. Along with non-farm payroll data, rise in average hourly earnings indicated that the economy is gaining momentum. On the other hand, PCE price index performed poorly by increasing 0.1% mom and remaining flat at 1.6% yoy. Moreover, figures from financial statements of the companies, especially the ones at the retail sector, failed to meet the expectations.

The discussion on a possible rate hike by Fed this year is still ongoing. Despite the positive outlook in job markets, expectation that Fed will not rush into another rate hike remained strong. However, some Fed officials expressed that there might be one rate hike this year based on the economic data.

Bank of England cut the policy rate.

Bank of England (BoE) cut the policy rate by 25 bps to 0.25% at its meeting last week. This was the first rate cut in the last seven years. Furthermore, BoE decided to increase its asset purchase program by 60 billion pounds to 435 billion pounds and decided to buy 10 billion pounds of high-grade corporate bonds. Governor Mark Carney told that the deterioration in economic activity following the United Kingdom's vote to leave the European Union led to these measures. Carney said the BoE had scope to do more rate cuts, but ruled out negative interest rates. The Bank said most BoE policymakers expected the main interest rate to decrease even closer to zero later this year. Besides, The Bank reviewed its growth forecasts, keeping 2% for 2016, while downgrading forecast for 2017 from 2.3% to 0.8%.

Stress test results for EU banking system...

European Banking Authority (EBA) published the results of the "stress test" for 51 banks in European Union last week. Banks were exposed to three-year theoretical economic shocks and observed if their capital adequacy ratios will hold up. Daniele Nouy, an official from ECB, stated that the banking sector is more resilient today than it was two years ago and can perform better to withstand economic shocks. Mostly Italian, Irish, Spanish and Austrian banks were among the bad performers at the test while Italian Banca Monte dei Paschi di Siena was the worst bank to have its whole capital wiped out during the test. Stress test results indicated that Euro Area banks could maintain their required capital adequacy ratios; however, record-low level interest rates are putting pressure on the sector profitability.

WEEKLY DATA

	29 Jul	5 Aug	Change		29 Jul	5 Aug	Change
BIST-100 Index	75,406	76,066	0.9 % ▲	EUR/USD	1.1170	1.1085	-0.8 % ▼
TRY 2 Year Benchmark Rate	9.24%	9.25%	1 bp ▲	USD/TRY	2.9873	2.9977	0.3 % ▲
US 10 Year Bond Rate	1.46%	1.58%	12 bp ▲	EUR/TRY	3.3386	3.3238	-0.4 % ▼
EMBI+ (bps)	374	357	-17 bp ▼	Gold (USD/ounce)	1,351	1,335	-1.1 % ▼
EMBI+ Turkey (bps)	339	324	-15 bp ▼	Brent Oil (USD/barrel)	41.1	42.4	3.3 % ▲

bp: basis point

Rapid increase in inflation...

In July, CPI increased by 1.16% mom, well above the expectations. Thus, the annual CPI inflation surged to 8.79%, the highest level of the last six months. The increase in food prices and the hike in cigarette prices elevated CPI. CBRT stressed in their price developments report that the price increase in tobacco products occurred in the mid-July and its upside impact on inflation is expected to continue with a diminishing pace in August. Clothing and footwear prices, which continued to decline due to the seasonal factors, were the only expenditure group making a downward impact on monthly CPI. The core inflation indicators, which have been recovering in recent months, remained relatively flat in July. Monthly increase in D-PPI slowed down due to the slide in energy prices. In July, monthly and annual D-PPI inflation was realized as 0.21% and 3.96%, respectively.

At its third Inflation Report published on July 26th, CBRT kept its CPI inflation forecast for 2016 at 7.5%. However, we think that if the recent depreciation in TRY becomes permanent, the inflation will likely surpass the CBRT's forecast ([Our Inflation Report](#)).

Exports declined in July.

According to Turkish Exporters Assembly (TIM) statistics, exports declined by 18.7% yoy to 8.8 billion USD in July. One week long Ramadan Eid holiday and falling price level was the main contributors to the decline in exports. Thus, exports in quantity decreased by 8.2%, showing a better performance than exports in value. Automotive industry was the main exporting sector in July with 1.7 billion USD, followed by wearing apparels and chemicals/chemical products industries with 1.3 billion USD and 968 million USD, respectively.

On the other hand, statistics released by Ministry of Customs and Trade showed a relatively moderate decline in exports in July with 11.5% yoy. Gold trade figures that are not included in TIM's statistics were the main reason behind this decoupling.

Rating Agencies' decisions on Turkey...

Standard&Poor's (S&P) has lifted its country risk assessment on Turkey to "high risk" from "moderately high risk". S&P had downgraded Turkey's credit rating one notch following failed coup attempt. The new risk assessment on Turkey may affect the ratings of Turkish companies.

Moody's said on Friday that review of Turkey's credit rating remains ongoing. On July 18th, Moody's started reviewing Turkey's rating for a possible downgrade after failed coup attempt and said that reviewing process will be concluded within 90 days.

Fitch is expected to publish its review on Turkey's note on August 19th. Fitch rates Turkey on investment grade.

Industrial production increased by 1.1%.

According to Turkstat figures, calendar adjusted industrial production increased by 1.1% yoy in June.

Turkish manufacturing PMI, a favorite leading indicator for industrial production, showed that the respectively weak outlook of Turkish manufacturing industry continued in July. Manufacturing PMI edged up to 47.6 in July from 47.4 in June, the lowest since April 2009. PMI, fifth month in a row, failed to reach 50 that separates expansion from contraction.

A legislation package aiming to overcome the ongoing problems in the economy via incentives was sent to Turkish Parliament. The package includes tax exemptions, subsidies on infrastructure and land allocation to investors.

INDUSTRY NEWS

Demanding any bankruptcy suspension is banned during the state of emergency.

Demanding bankruptcy suspensions, for which the demand increased rapidly in recent years, has been banned during the state of emergency with a decree published in the Official Gazette last weekend. The process for bankruptcy suspension starts with the appeal to the court by the companies, with a project to improve their deteriorated financial situation. During the bankruptcy process, legal proceedings by the company's creditor, including the ones started before the suspension decision, cannot be finalized. The process, which enables some more time to the companies in financial distress, was criticized because of frequent usage in recent years. In this context, the arrangements made in the relevant legislation were adopted in the Parliament in June, but not implemented.

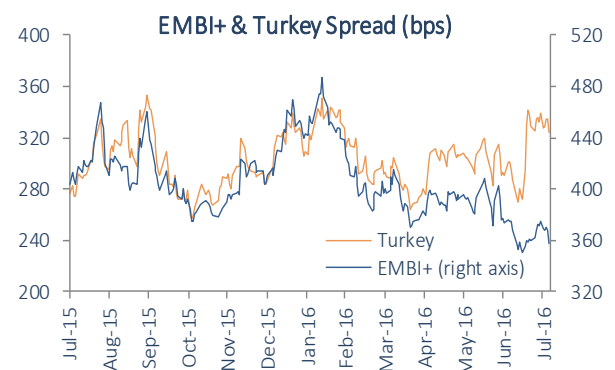
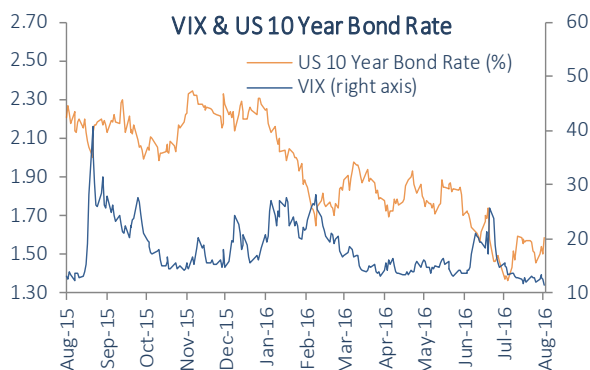
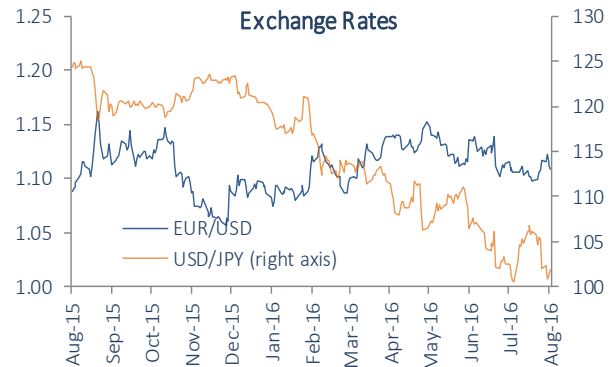
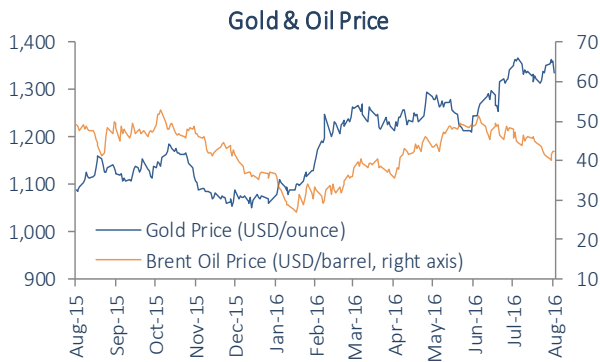
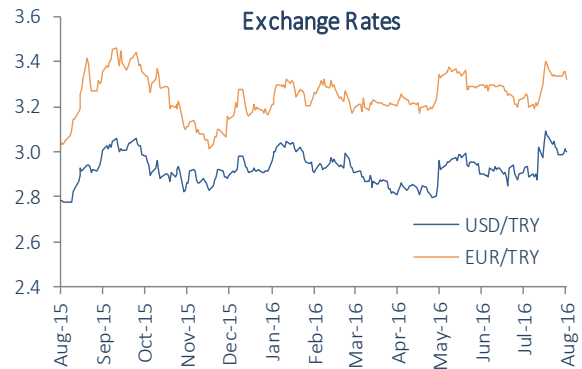
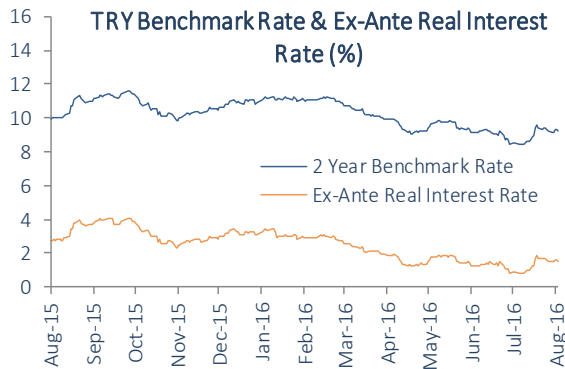
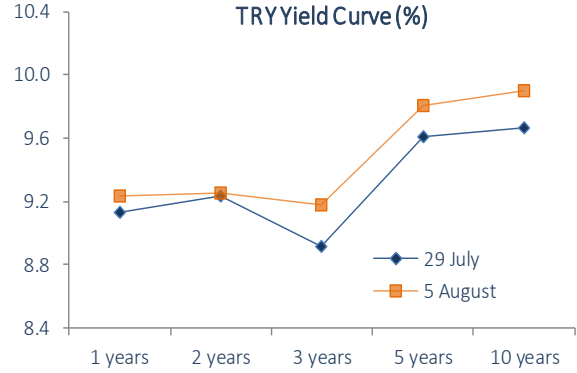
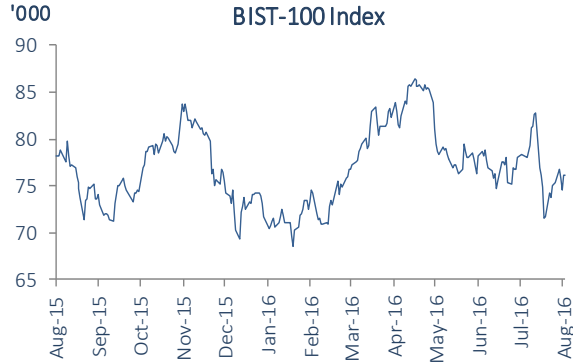
Restructuring of some public receivables...

Last week the law for restructuring of some public receivables was adopted in the General Assembly. According to the law, the restructuring of public receivables due on and before 30 June 2016 with their default interest and penalties will be covered. The overdue principal amounts and the interest amounts calculated with PPI index will be collected from the debtors. Moreover, there will be a discount for advance payments or the opportunity for 18 installments and the regulation will provide the assets located abroad to be invested in Turkey freely, if brought until 31 December 2016.

The conditions for automatic enrolment to private pension system become clear.

The proposal for automatic enrolment to private pension system has been submitted to the Parliament last week. The new system, which will be implemented as of 1 January 2017, will automatically include the employees under the age of 45. If the proposal is enacted in its current form, the employee's monthly premium will be 3% of their paid salaries with min. 50 TRY - max. 321 TRY. Employees, who don't want to continue participation, will have the right to leave the system after 2-month mandatory period. The system is estimated to include about 13 million people as a result of the age criteria. To encourage the regulation, which aims to increase domestic savings, the government will contribute 1,000 TRY for one time at the entrance to the system, and 25% of the premiums every month.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
8 August	Turkstat Industrial Production Index	June	1.1% yoy (A)
	China Foreign Trade Statistics	July	
11 August	CBRT Balance of Payments Statistics	June	
12 August	Eurozone GDP Growth	2016 2. Quarter	
	US Producer Price Index	July	
	US Retail Sales	July	
	US Michigan University Consumer Sentiment Index (Preliminary)	August	

(A) Actual

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