WEEKLY OUTLOOK

Mixed signals from US economy…

Last week's data announced in the US gave mixed signals on the country's economy. Contrary to the expectations, productivity fell by 0.5% qoq in the Q2 for the third decline in a row. It shows the worst performance in the history of this report since World War II. Weak capital investments and labor market recovery led by the services sector contributed to the related productivity decrease. Due to the concerns on economic growth, the market expectations that Fed will delay raising interest rates to 2017 gains weight. Ongoing loose monetary policies in the US are putting pressure on USD while stock market indices have reached record high levels. Additionally, President of Federal Reserve Bank of San Francisco John Williams, who is not a voting member at FOMC this year, made hawkish assessments last week. He said in an interview that Fed should raise interest rates further this year considering that the inflation has a rising trend.

Economic growth in Euro Area has lost momentum.

Economic data released last week in the Euro Area signaled that prospering economy at the first quarter has slowed down at Q2. Euro Area grew 0.3% qoq and 1.6% yoy at Q2. The largest economy in the area, Germany showed an economic growth of 0.4% and continued to be positively diverged from other economies in the area. Consumer inflation in Germany was confirmed as 0.4% in July while ECB's expansionary monetary policies supported the rise in the inflation. Moreover, the impacts of the related policies on the banking system are becoming significant. Some banks in Germany were monitored to pull the interest rates down the below zero. IMF, on the other hand, published a note last week on ECB's current policies. While it was stated that negative interest rates have so far backed the financial markets and credit expansion, rate cuts are currently becoming a burden on banks' profitability. Since negative rates outweigh their benefits, next monetary policies may need to depend more on credit easing and expansion of the ECB balance sheet rather than interest rate cuts.

High volatility in oil prices…

Oil prices, which had markedly followed its downward trend due to China's decision to cut the oil refilling amount for their strategic oil reserves, continued to decline in the first half of the last week. Increase in crude oil stocks and statistics showing that OPEC's oil production at 8-year high were the main contributors to that decline. According to statistics released by International Energy Agency (IEA), Saudi Arabia, the largest oil producer in OPEC, produced record high 10,620,000 barrel/day during July. Downward trend in oil prices reversed in the second half of the week following the statements from OPEC countries' officials. Saudi Arabia's Minister of Energy said that OPEC countries may take actions to stabilize oil market, which raised speculations on possible actions during the unofficial meeting in September. Consequently, Brent oil prices were up by 7% to 45.4 USD per barrel last week.

WEEKLY DATA

	5 Aug	12 Aug	Change			5 Aug	12 Aug	Change	
BIST-100 Index	76,066	78,229	2.8 %	▲	EUR/USD	1.1085	1.1158	0.7 %	▲
TRY 2 Year Benchmark Rate	9.25%	9.10%	-15 bp	▼	USD/TRY	2.9977	2.9579	-1.3 %	▼
US 10 Year Bond Rate	1.58%	1.52%	-7 bp	▼	EUR/TRY	3.3238	3.3017	-0.7 %	▼
EMBI+ (bps)	357	352	-5 bp	▼	Gold (USD/ounce)	1,335	1,336	0.0 %	▲
EMBI+ Turkey (bps)	324	306	-18 bp	▼	Brent Oil (USD/barrel)	42.4	45.4	7.0 %	▲

bp: basis point

CBRT decreased reserve requirement ratios.

Last week CBRT, which cut the upper band of the interest rate corridor by 200 bps since March leading a decrease in the weighted average cost of the CBRT funding by 85 bps, also decreased reserve requirement ratios. While Turkish lira reserve requirement ratios for all maturity brackets have been decreased by 50 bps, in the context of Reserve Options Mechanism, coefficients for the second, third and fourth tranches of the FX facility and for the first two tranches of the gold facility have been increased by 0.1. CBRT said that approximately 1.1 billion TRY and 600 million USD of liquidity would be provided to the financial system with these changes given that the reserve option utilization rates remain unchanged.

Current account deficit has widened.

Current account deficit have widened by 54% yoy to 4.9 billion USD in June. Therefore, 12-month rolling deficit in June reversed its downward trend and increased to 29.4 million USD. Decline in tourism revenues was the main contributor to the widening deficit. Net tourism revenues edged down by 51.2% annually to 1.1 billion USD due to recent conflicts with Russia and domestic security concerns. In the first half of 2016, total tourist arrivals were down to 10.3 million people from 13.9 billion, while tourist arrivals from Europe and Russia were down by 1.9 million and 1.1 million, respectively.

Net portfolio investments were recorded as 1 billion USD in June. While general government carried out a net borrowing of 1 billion USD in international bond market, other investment figure reached record high level with 8.9 billion USD net inflows. This development stemmed mostly from the 4.8 billion USD decrease recorded in domestic banks' currency and deposit holdings within their foreign correspondent banks. After falling to the lowest level of last 3 years in May, 12-month long-term debt rollover ratio of the private sector, which has been monitored closely by the rating agencies recently, increased in June (Balance of Payments report).

Optimism in domestic markets…

The demand for TRY based assets were relatively high last week due to ongoing expectation that Fitch will leave Turkey's rating unchanged like Moody's had done previous week. In addition, developments regarding normalization process with Russia have supported the positive outlook in the markets. Turkey's 5 year CDS spread declined by 21 bps to 241. The yield curve for all maturities has shifted down. BIST 100 index increased by 2.8% to 78,229 last week, thanks to high demand for banking sector shares. Weakening dollar in emerging markets as well as strong capital inflows to Turkish markets contributed to the appreciation in TRY. On the other hand, the current account deficit, which was well above the expectations, limited the appreciation in TRY in the second half of the week. USD/TRY parity decreased by 1.3% weekly to 2.9579. The decline in EUR / TRY parity was limited due to strong euro in global markets. Thus, EUR/TRY parity inched down by 0.7% to 3.3017 weekly.

The unemployment rate came in at 9.4% in May.

The unemployment rate, which normally exhibits a downward trend in spring and summer months due to seasonal factors, came in above market expectations at 9.4% in May. Total employment rose by 795,000 yoy in May and reached 27.9 million. During this period, decrease in the farm employment was effective in the deterioration of labor market indicators. However, services sector has maintained its strong outlook by creating 863,000 jobs. Employment in education and healthcare industries were particularly robust. Construction industry, which is recovering from a week 2015, was able to create 186,000 jobs in May.

INDUSTRY NEWS

BRSA might ease the installment conditions for credit cards and consumer loans.

Mehmet Ali Akben, the head of Turkey's Banking Regulation and Supervision Agency (BRSA), said that the installments limit for credit cards and consumer loans might be increased in the coming period. This easing would possibly cover mobile phones, according to sector representatives, which is likely to support the domestic demand. Besides, news on a regulation to ease SME's access to finance came into agenda.

Retail sales increased slightly.

According to the seasonal and calendar adjusted data, in June retail sales increased by 1.7% yoy. In this period, electronic goods and textile sales was buoyant. Computer sales and sales via mail order/internet, on the other hand, decreased significantly and limited the increase in total sales. Hence, in the second quarter of the year, the increase in retail sales slowed to 2.4% yoy, which was 3.9% in the first quarter with the help of the minimum wage hike. The recent developments in the retail sales index, as a leading indicator for private consumption expenditures, confirmed that Turkish economy continued to grow with a modest pace. In fact, readings published on prior week also suggested that the economic activity in manufacturing sector has lost some momentum.

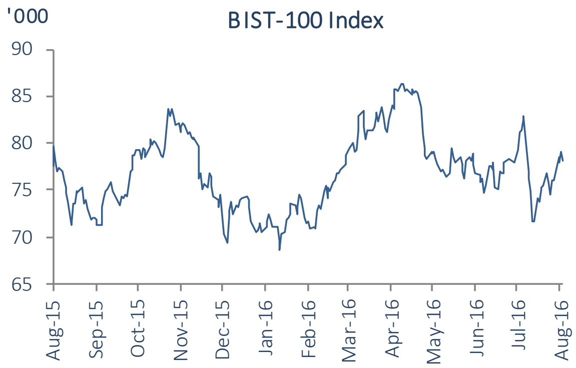
New regulation for food prices on the way…

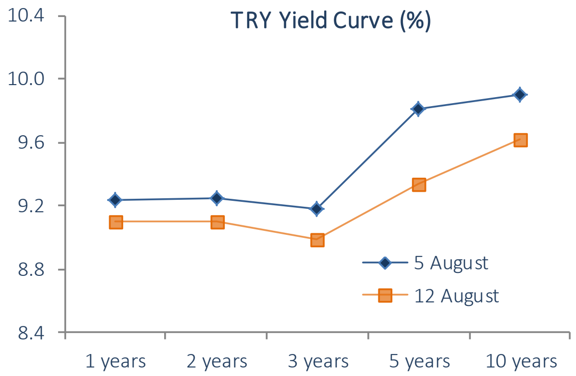
Customs and Trade Minister Bülent Tüfenkci said some revisions would be made in regulations in a bid to decrease the gap between fresh fruit and vegetable prices in the field and their market prices. Minister Tüfenkci told that with a number of planned revisions, including removing some middlemen in the process, might decrease the fruit and vegetable prices reach up to 30%. In this context, a likely fall in fresh fruit and vegetable prices, which has a 5% share in consumption basket, might decrease the annual inflation up to 1.5 points.

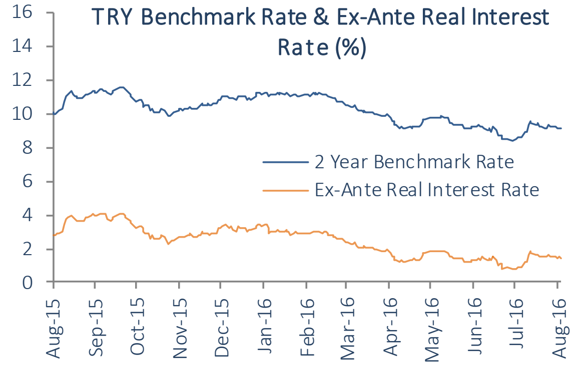
Russia and Turkey agreed to normalize ties…

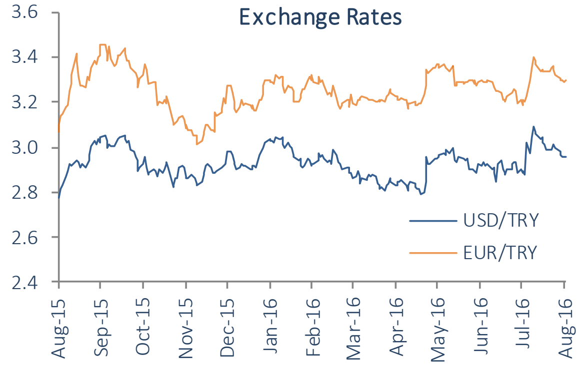
Last week Turkish President Erdoğan visited his Russian counterpart Putin. Both leaders pledged to put ties back on track and told that both sides would follow a program to restore their economic and trade relations. Besides, Turkey and Russia have agreed to form a joint investment fund as part of their restoration of ties. Accordingly, this fund, which would create mechanisms of investment in a wide range of projects including in infrastructure agriculture and medicine, would manage investments worth several billion US dollars. In addition to that, constructive talks over energy projects were noteworthy. It was stated that the Turkish Stream project will be realized swiftly following a thorough review. Moreover, Turkey granted a "strategic investment" status to the Akkuyu nuclear power plant.

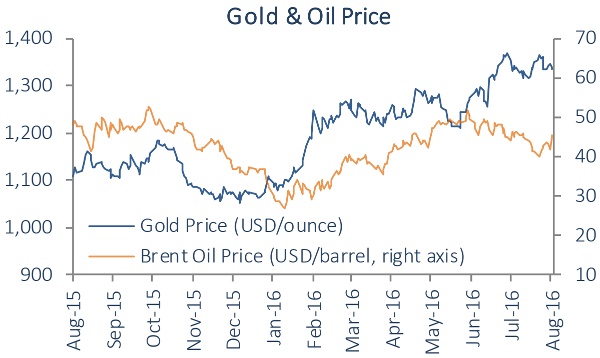
FINANCIAL MARKETS

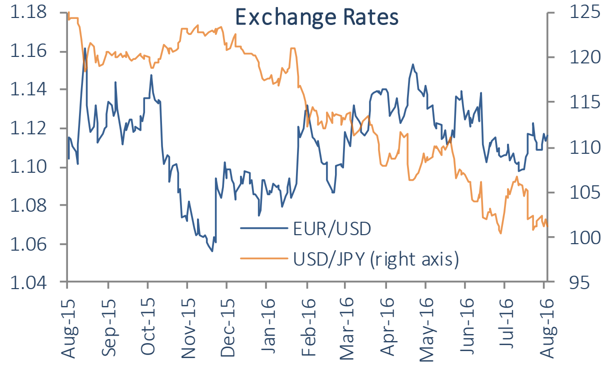


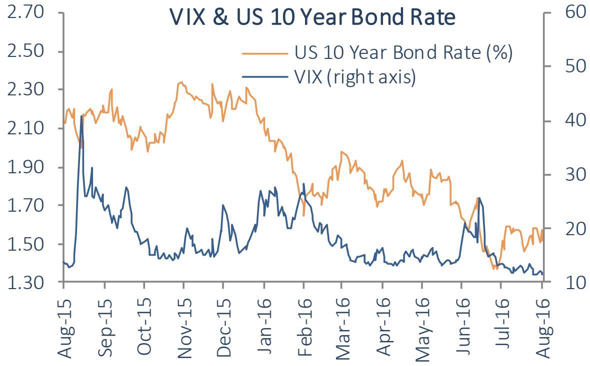


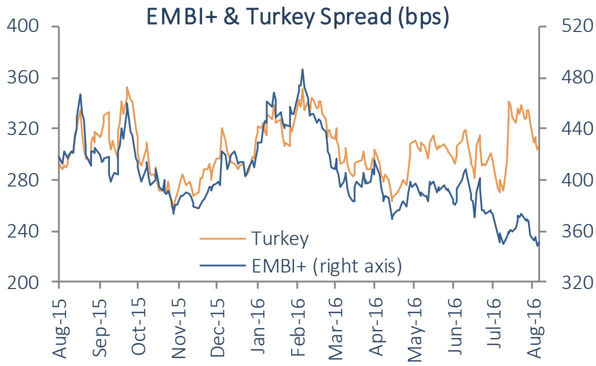












WEEKLY DATA RELEASES

		Period	Consensus
15 August	Turkstat Unemployment Rate	May	9.4% (A)
16 August	Germany ZEW Survey	August	
	US Housing Starts	July	1.18 million
	US Consumer Price Index	July	0.1%
	US Industrial Production Index	July	0.3%
	US Capacity Utilization Rate	July	75.5%
	Reissuance of the Treasury Bond with 6-month coupon		
17 August	FOMC Minutes	July	
	Treasury's Domestic Debt Redemption (1,507 million TRY)		
18 August	CBRT Survey of Expectations	August	
	Euro Area Consumer Price Index	July	

(A) Actual

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