

## WEEKLY OUTLOOK

### *Moody's downgraded Turkey's rating.*

Moody's lowered Turkey's long term foreign currency rating by one notch, to junk status, with a stable outlook. Moody's told that the increase in the risks related to Turkey's sizeable external funding requirements and the weakening in supportive credit fundamentals, particularly growth and institutional strength were the main drivers of this decision. On July 18th, Moody's put Turkey's rating on review for downgrade. Moody's expects Turkey's real GDP will grow at an average of 2.7% over the 2016-2019 period, as constraints on the externally-funded, consumption-fuelled economy emerge and the investment climate remains weak. After Moody's recent action, Fitch became the only agency rated Turkey as investment grade. Fitch is not anticipated to review Turkey's rating in 2016 according to its review calendar. After the failed coup attempt, S&P has cut Turkey's credit rating one notch to two steps below investment grade. On the first trading day after this decision, TRY denominated assets came under selling pressure as USD/TRY parity rose up to 2.9981. BIST-100 index started the day with a fall of 4.4%.

### *CBRT cut the upper band of the interest rate corridor.*

At its Monetary Policy Committee (MPC) meeting held on last week, CBRT cut the upper band of the interest rate corridor by 25 bps to 8.25%, while keeping the lower band at 7.25%. Thus, CBRT's "measured and cautious step towards simplification" in monetary policy continued and the interest rates were cut for the 7th consecutive month. During this period, CBRT lowered the upper band of the interest rate corridor by 250 bps. In MPC's press release, the assessments regarding the deceleration in economic activity were eye-catching suggesting that CBRT has embraced a "pro-growth stance". In line with the CBRT's willingness to support economic growth, we anticipate that macro-prudential policy framework would be loosened in the coming period via new measures on reserve requirements.

### *Positive outlook in financial markets in last week...*

Last week, CBRT's rate cut and Fed's cautious tone lured investors into TRY denominated assets, especially stock market. Thus, BIST-100 index posted a weekly gain of 4.9% and closed the week at 79,756. Besides, Turkish Lira appreciated against dollar and euro by 0.5% and 0.1%, respectively, as dollar touched its intraweek low of 2.94. In line with the rising demand in TRY denominated assets, the yield curve shifted down as the yield on the 2-year benchmark Treasury bond declined by 24 bps wow, to 8.68%. Moody's recent downgrade on Friday, on the other hand, would likely have a negative impact on Turkish markets as the selling pressure intensifies. Thus, on Monday, at the start of the week, markets seem to lose most of their weekly gains.

#### WEEKLY DATA

	16 Sep	23 Sep	Change		16 Sep	23 Sep	Change
BIST-100 Index	76,020	79,756	4.9 % ▲	EUR/USD	1.1153	1.1222	0.6 % ▲
TRY 2 Year Benchmark Rate	8.92%	8.68%	-24 bp ▼	USD/TRY	2.9799	2.9662	-0.5 % ▼
US 10 Year Bond Rate	1.70%	1.62%	-9 bp ▼	EUR/TRY	3.3200	3.3164	-0.1 % ▼
EMBI+ (bps)	361	343	-18 bp ▼	Gold (USD/ounce)	1,310	1,337	2.1 % ▲
EMBI+ Turkey (bps)	310	295	-15 bp ▼	Brent Oil (USD/barrel)	44.9	45.2	0.7 % ▲

bp: basis point

***Budget surplus in August...***

Central government budget posted a surplus of 3.6 billion TRY in August. Budget revenues rose by 18.9% while budget expenditures surged by 25.9% yoy. Hence, budget surplus reached 4.9 billion TRY in the first 8 months of 2016. Minister of Finance Naci Ağbal emphasized in his speech that strong budget performance has derived from sticking to fiscal discipline. Ağbal expressed that based on the budget realizations in the first 8 months year-end targets are achievable and revenues were the determinant of the solid budget performance in August. Furthermore, the plan to not reduce the minimum wage due to the rise in incomes taxes is projected to cost 1 billion TRY. ([Our Budget Balance report](#))

***Fed maintained interest rates, signaled a December hike.***

At FOMC meeting last week, Fed didn't change interest rates, signaling an interest rate rise at the end of this year. Fed Chair Janet Yellen detailed at her speech after the meeting that the case for a rate increase has strengthened, but they still decided to wait for more evidence of ongoing progress. Yellen expressed that the economy has still room to grow and FOMC members judge the risks to economic outlook as "roughly balanced". Economic projections of the members, published with the meeting statement, indicated that only 3 out of 17 Fed members don't expect any interest rate hikes this year.

***ECB: Downside risks in the global economy are continuing.***

European Central Bank (ECB) noted on an economic bulletin published last week that there are still ongoing downside risks in the global economy. Focusing on continuing risks related to Brexit and emerging market economies, especially China, ECB expects that global economic growth will continue to be gradual, open to uncertainties. It is considered that the statements on the bulletin are mostly similar to minutes of the ECB's September MPC meeting.

***BoJ decided to change its monetary policy.***

The Bank of Japan (BoJ) kept the interest rates at its meeting last week, but announced changes to its monetary policy. The Bank stated that it would follow a framework to target long-term interest rates and said it would make yield-curve control a centerpiece of its new policy framework, instead of targeting base money in asset purchases. It is announced that BoJ would buy government bonds to keep the yields of 10-year bonds at its current level, which is close to 0%. BoJ Governor Kuroda indicated that there is no deflation in Japan's economy adding that the monetary expansion would continue until the core consumer prices rise above the 2% inflation target in a stable manner.

***OECD revised its growth forecasts.***

OECD has revised its growth forecasts for 2016 and 2017. The organization reduced its growth forecast for 2016 to 2.9%, which was 3% in its June report. This rate is the lowest since 2008-2009, when the financial crisis began. The growth forecast for 2017 was also reduced to 3.2% from 3.3%.

***Oversupply in oil market continues.***

OPEC members are expected to meet at the International Energy Forum, which will be held between 26-28 September in Algeria. Venezuelan President Nicolas Maduro said that OPEC and non-OPEC oil exporters are close to reach an agreement which aims the stability of oil market. OPEC member countries, led by Venezuela, argue that oil supply should be reduced at least by 5%. On the other hand, Alexander Novak, Energy Minister of Russia, which is not an OPEC member, said that the offer to maintain a stable oil production will be discussed at the meeting but added that he doesn't expect a 5% reduction proposal.

## INDUSTRY NEWS

***New regulations on consumer loans and credit cards...***

Last week, Deputy Prime Minister Mehmet Şimşek stated that in the second half of the year, there are signs of slowdown in economic activity which grew around 4% in the first half. Şimşek added that in real terms consumer credit volume declined which is well below expectations.

On the other hand, in order to stimulate domestic demand which loses momentum in the second half of the year, the government announced new regulations on consumer loans and credit cards. According to the decisions taken by the Economic Coordination Board, the number of credit card installments increased from 9 to 12 and the installment limit for consumer loans was extended from 36 months to 48 months. Furthermore, the Board decided to increase loan-to-value ratio in housing loans from 75% to 80%. Installment limits for the importer sectors will continue. Moreover, it is decided that credit card and consumer loan debt could be restructured up to 72 months.

***Employment in manufacturing and agriculture sectors decreased.***

In June, unemployment rate increased by 60 bps yoy to 10.2%. Seasonally adjusted unemployment rate recorded the highest value since September 2010. Employment fall in manufacture industry and agriculture contributed to the increase in unemployment rate.

***New agricultural model will be adopted.***

Minister of Food, Agriculture and Livestock Faruk Çelik announced that new basin-based production model will soon be implemented in agriculture sector. Çelik stated that agricultural basins and incentives are set to be announced in the following days, and eventual increase in the production is expected to be as high as 11 billion TRY. While new agricultural basin model is aiming to increase productivity in the sector, incentives will be allocated only to strategically selected products for each of the 41 basins.

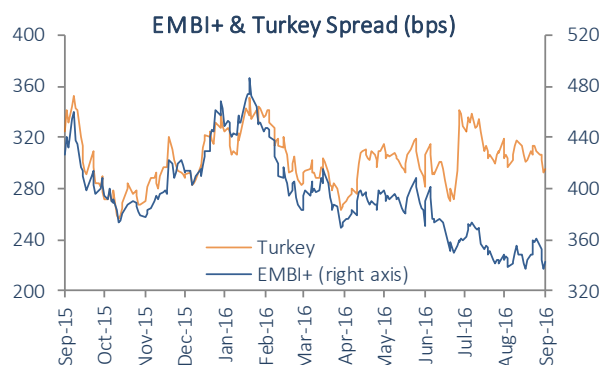
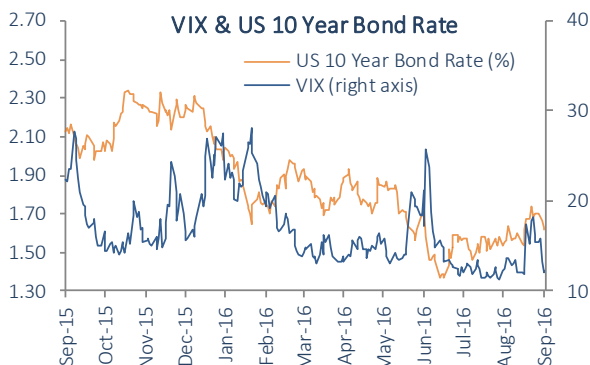
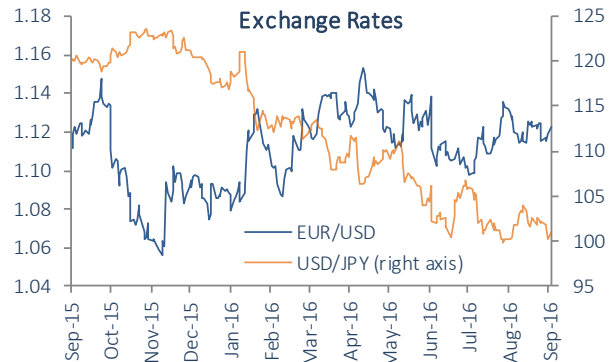
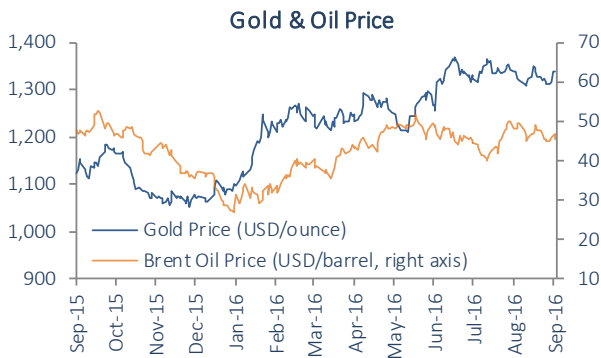
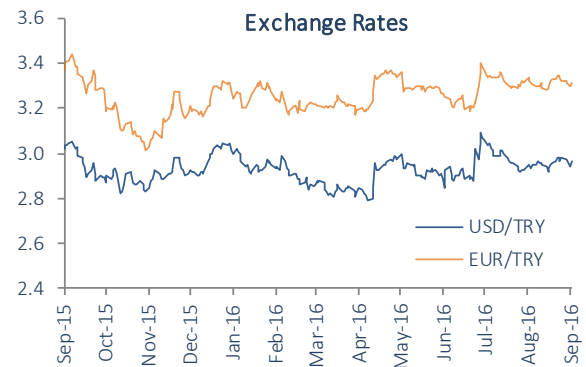
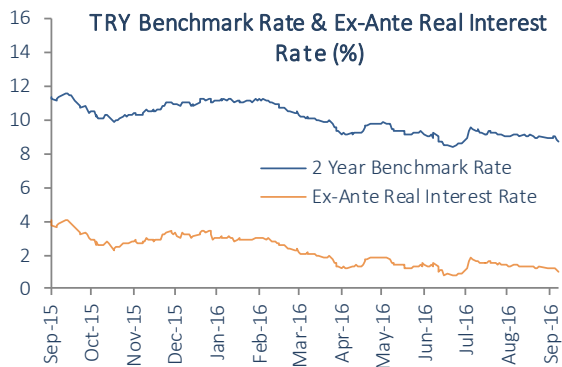
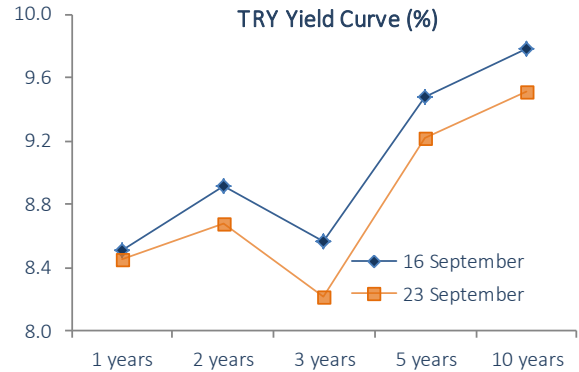
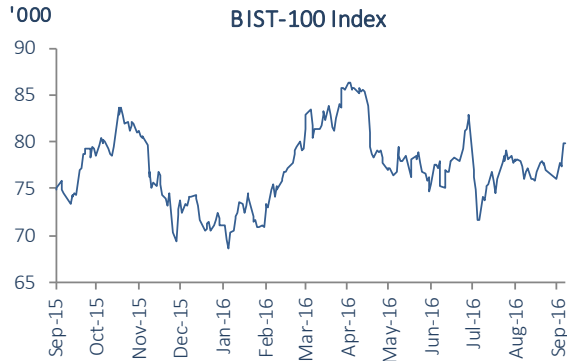
***Private sector's outstanding loans received from abroad...***

Private sector's outstanding long-term loans received from abroad recorded 206.6 billion USD as of July, increasing by USD 11.2 billion ytd, whereas short-term loans realized USD 18.6 billion, decreasing by USD 1.9 billion. Regarding the currency composition, of the long-term loans, %58.4 consists of dollar, %34.5 consists of euro, %5.0 consists of Turkish lira and of the total short-term loans, %48.5 consists of dollar, %30.4 consists of euro, %20.7 consists of Turkish lira. Private sector's total outstanding loans received from abroad based on a remaining maturity basis; point out to principal repayments of 71.1 billion USD for the next 12 months.

***Overseas contracting services are on the decline.***

Turkish overseas contractors have undertaken 45 projects worth 2.8 billion USD in the first half of 2016. Every year for the last 10 years, total worth of the undertaken projects has been over 20 billion USD. The sector is expected to gain momentum in the second half of the year; hence total worth of the projects will be around 7 billion USD.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
<b>26 September</b>	TURKSTAT Sectoral Confidence Indices	September	
	CBRT Capacity Utilization Rate of Manufacturing Industry	September	
	CBRT Business Tendency Survey and Real Sector Confidence Index	September	
	Reissuance of Fixed Coupon Bond with 11.07.2018 Maturity Date	September	
	Reissuance of CPI Indexed Bond with 14.01.2026 Maturity Date	September	
	Reissuance of Fixed Coupon Bond with 11.02.2026 Maturity Date	September	
	USA New Home Sales	August	598K
<b>27 September</b>	New Issuance of Fixed Coupon Bond with 22.09.2021 Maturity Date	September	
	Reissuance of Floating Coupon Bond with 20.04.2022 Maturity Date	September	
	Direct Sale of Lease Certificate with 26.09.2018 Maturity Date	September	
	Direct Sale of CPI Indexed Lease Certificate with 22.09.2021 Maturity Date	September	
	USA The Conference Board Consumer Confidence Index	September	98.8
<b>28 September</b>	Treasury Domestic Debt Redemption (9,916 million TRY)	September	
	USA Durable Goods Orders	August	-1.9%
<b>29 September</b>	CBRT Summary of the Monetary Policy Committee Meeting	September	
	USA GDP Growth (Final)	2016 Q2	1.3%
<b>30 September</b>	TURKSTAT Foreign Trade Statistics	August	
	Eurozone Consumer Price Inflation (Preliminary)	September	
	Eurozone Unemployment Rate	August	
	USA The University of Michigan's Consumer Sentiment Index	September	90.1
	USA Consumer Spending	August	0.2%
	USA Personal Income	August	0.2%

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