

WEEKLY OUTLOOK

In April, industrial production gained momentum.

In April, industrial production increased by 5.9% yoy thanks to the strong performance in the motor vehicles and other transport equipment sectors. The annual increase was 6.7% according to the calendar adjusted figures, while seasonally and calendar adjusted index rose by 2.3% mom. Thus industrial production, which recorded an annual increase of 1.7% in the first quarter of 2017, displayed a strong performance in April hinting the acceleration of GDP growth in the second quarter.

According to calendar adjusted figures, automotive production increased by 19.6% yoy, while the upturn in exporting sectors was noteworthy. Besides, tax reductions in the furniture and white goods sectors have significantly affected the production in these sectors. The growth in durable goods production was 16.2% on an annual basis, while the 28.7% increase in production in the furniture sector was eye-catching.

Turkish economy grew by 5% in the first quarter of 2017.

In the first quarter of the year, the growth in Turkish economy surpassed the 4% market expectations and came in at 5%. In this period, total expenditures pushed the growth rate by 4.4 points. Besides, the contributions of private consumption, net exports and investments were 3.1, 2.2 and 0.6 points, respectively. Change in stocks, on the other hand, pulled down the growth by 2.3 points. As the measures taken to revive the economic activity has started to have a significant impact on the first quarter GDP figures, we anticipate that the growth rate would likely gain momentum in the second quarter of the year. Positive readings on industrial production and manufacturing PMI confirmed our expectation as the effects of the recent measures will become more evident in the second quarter. In addition, the strong performance in the exporting sectors depicted a positive picture for the economic activity ([Our GDP Growth report](#)).

Current account deficit widened in April.

According to CBRT's figures, in April current account deficit widened by 542 million USD yoy to 3.6 billion USD. Consequently, 12-month rolling deficit was realized as 33.2 billion USD. On the financing side, Turkey attracted foreign direct investment of 765 million USD and portfolio investments of 3.1 billion USD in April. Among portfolio inflows, purchases of equities and debt securities became 307 million USD and 2.8 billion USD, respectively ([Our Balance of Payments report](#)).

OECD revised its growth projections.

Organization for Economic Cooperation and Development (OECD) revised its growth forecast for the global economy from 3.3% to 3.5% for this year. Likewise, growth projections for Turkish economy also increased to 3.4% for 2017 and 3.5% for 2018. OECD pointed out the need for a rate hike due to rising risks related to high inflation and exchange rates as well as significant risks related to external corporate debt stock.

WEEKLY DATA

	2 Jun	9 Jun	Change		2 Jun	9 Jun	Change
BIST-100 Index	98,868	98,943	0.1 % ▲	EUR/USD	1.1280	1.1192	-0.8 % ▼
TRY 2 Year Benchmark Rate	10.79%	10.97%	18 bp ▲	USD/TRY	3.5086	3.5363	0.8 % ▲
US 10 Year Bond Rate	2.16%	2.20%	4 bp ▲	EUR/TRY	3.9595	3.9582	0.0 % ▼
EMBI+ (bps)	328	324	-4 bp ▼	Gold (USD/ounce)	1,280	1,266	-1.1 % ▼
EMBI+ Turkey (bps)	288	290	2 bp ▲	Brent Oil (USD/barrel)	48.6	46.5	-4.3 % ▼

European Central Bank kept its monetary policy unchanged.

ECB kept its supportive monetary policy stance in last week's meeting and removed the "lower levels" phrase for interest rates from the statement. ECB did not change its policy rate and confirmed its asset purchase programme in line with the expectations. Besides, inflation and growth projections were revised for 2017-2019 period. In this context, Euro Area growth forecasts revised up by 0.1 points to 1.9%, 1.8% and 1.7%, respectively whereas inflation forecasts revised down to 1.5%, 1.3% and 1.6%, respectively for the period of 2017-19. In his statement after the meeting, ECB President Draghi explained that deflation risk for the Euro Area has been disappeared.

General election in the UK...

Conservative Party led by PM Theresa May couldn't win the absolute majority in the House of Commons at the UK general election last week. The ruling party secured 318 seats out of 650 seats in the Parliament while the main opposition, Labour Party, was behind with 261 seats. UK general election results increased political uncertainties in the European Union right before the Brexit talks. In France, on the other hand, President Macron triumphed at the first round of parliamentary elections by landslide. It is expected that Macron's party will gain a two-thirds majority in the parliament at the second round of elections, scheduled to take place next week.

Tension has revived in the Middle East...

Saudi Arabia, United Arab Emirates, Bahrain and Egypt announced last week to cut their diplomatic ties with Qatar. The Gulf countries accused Qatar of supporting terror groups in the region and cut off land, sea and air transport links with Qatar. Rising regional tension has caused fluctuations in oil prices last week and suppressed the global risk appetite.

This week's agenda...

This week, markets will watch the central banks' meetings. Fed is expected to raise interest rates by 25 bps in its FOMC meeting ending on Wednesday. CBRT's Monetary Policy Committee meeting on Thursday will also be closely followed. The markets expect CBRT to keep policy rates unchanged while the statements will be watched in order to give an idea of what CBRT's next moves will be. Moreover, Turkish Treasury's bond auctions and US manufacturing and inflation data will be on the market's agenda this week.

INDUSTRY NEWS

Production and exports are rising in the automotive industry.

According to data released by Automotive Manufacturers Association, automotive production increased by 23.5% in May and by 22.4% in the first 5 months of the year. On the other hand, sector's exports climbed by 33.3% in May and 31.9% in Jan-May period. Export-oriented newly produced models are contributing the sector's strong export figures. Additionally, relatively moderate economic performance in European Union, sector's main export market, is having a positive impact on Turkey's exports to the region.

Egypt introduced custom duty on steel imports from Turkey.

Egypt introduced custom duty on steel imports from China, Turkey and Ukraine in order to protect domestic producers. According to the statement made by the Egyptian Ministry of Commerce, tax rates will vary on a product basis. Custom duty will be applied at a rate varying from 10-19% for the steel imports from Turkey, 17% for imports from China and 15-27% for imports from Ukraine. Ukraine is in the first place with 830 million USD in Egypt's steel imports while Turkey ranks second with 488 million USD. For Turkey, Egypt is the second largest export destination with a share of 7.9% of the total iron and steel exports.

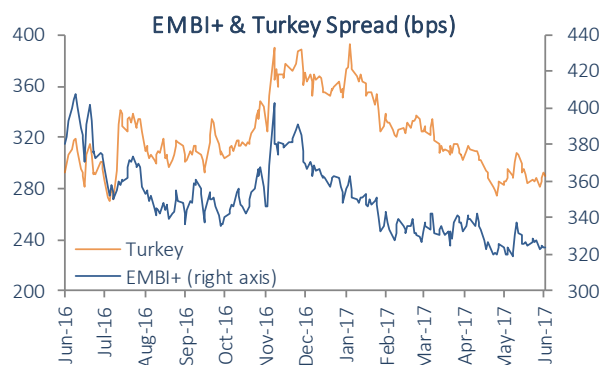
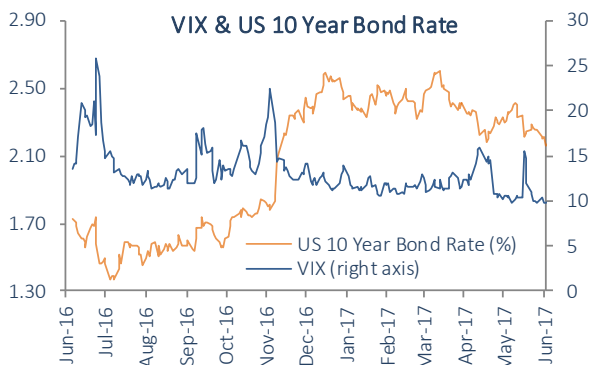
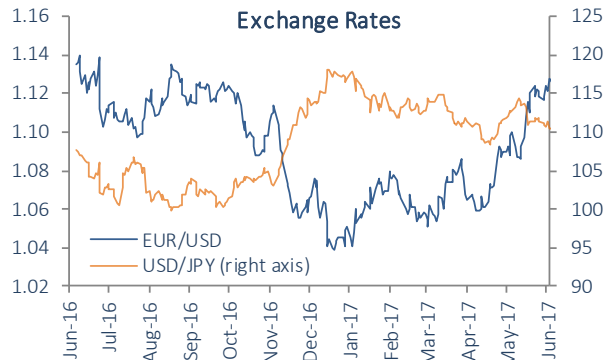
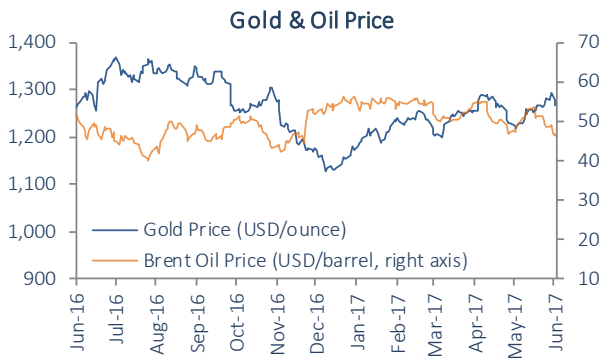
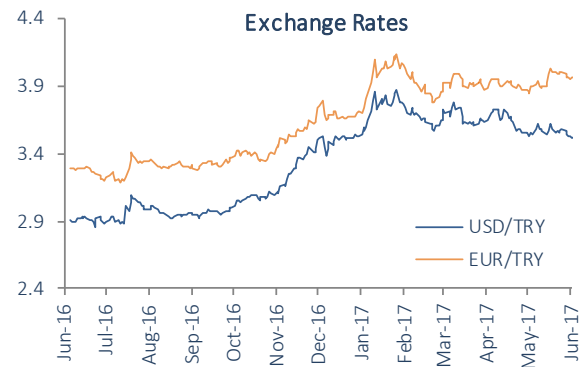
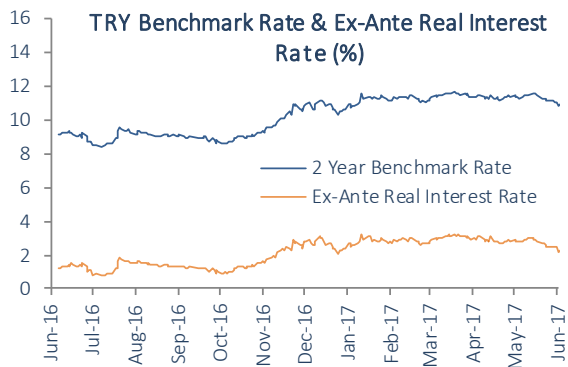
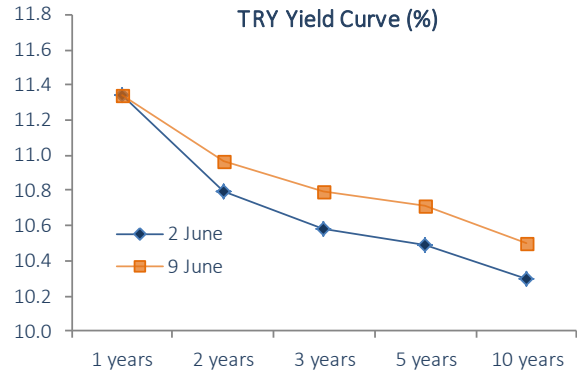
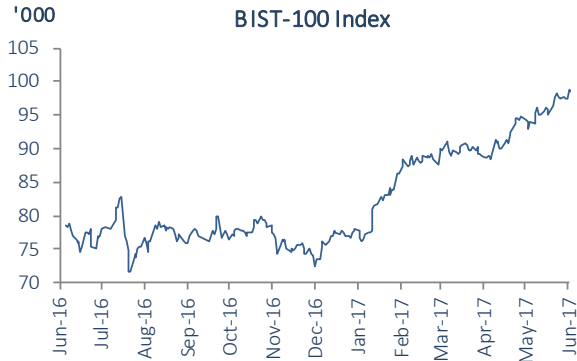
Turkey's 500 largest industrial enterprises were announced.

Istanbul Chamber of Industry (ISO) published the "Turkey's Top 500 Industrial Enterprises 2016" report. According to the report, total sales of the 500 largest industrial enterprises increased by 8.8% yoy in 2016, while operating profit rose by 18.6%. Financing expenditures which are more than half of the operating profit also increased by 3.6% in this period. On the other hand, the ratio of financing expenses to net sales decreased by 0.3 points in 2016 compared to the previous year, indicating that financing costs were effectively managed. When the capital structure of the companies is examined, it is observed that the share of debts in total liabilities has increased to 61.9%. In 2007, this ratio was around 45%. High volatility in interest rates and exchange rates are expected to cause some deterioration in the enterprises' balance sheets; however, this situation is expected to be temporary in the short-term if current performance of economic activity maintained.

Custom duty on food products will be reduced.

Customs duty applied to food products, which currently varies on product basis up to 130%, will be reduced to 20%. Economy Minister Nihat Zeybekçi said that current rates, which had primarily been introduced to protect domestic producers, are too high and the decree to reduce those rates will be published in the following days. Emphasizing that new tax rates will be important in terms of tackling inflation, Zeybekçi noted that the new regulation will act as a natural threshold and prevent high fluctuations in food prices. We think that the new tax regime will have positive effects on inflation and will be positive for the food industry. However, given past experiences, we predict that farmers with very low bargaining power will not be able to compete with imported products in the medium to long term and will be adversely affected.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
12 June	TURKSTAT GDP Growth	2017Q1	%5 yoy (A)
	CBRT Balance of Payments Statistics	April	3.6 million CAD (A)
	CBRT Survey of Expectations	June	
	New Issuance of Zero Coupon Bond with 8.8.2018 Maturity		
	Re-opening of Fixed Coupon Bond with 2.3.2022 Maturity		
	Re-opening of CPI-Indexed Bond with 8.11.2023 Maturity		
13 June	Re-opening of Fixed Coupon Bond with 15.5.2019 Maturity		
	New Issuance of Floating Coupon Bond with 5.6.2024 Maturity		
	Re-opening of Fixed Coupon Bond with 24.2.2027 Maturity		
14 June	USA Producer Price Inflation	May	0.1% mom
	Treasury Debt Redemption (10.349 million TRY)		
	Fed Open Market Committee Meeting		
15 June	USA Consumer Price Inflation	May	0.0% mom
	USA Retail Sales	May	0.2% mom
	TURKSTAT Employment Statistics	March	
16 June	MoF Central Government Budget	May	
	CBRT Monetary Policy Committee Meeting		
	USA Industrial Production Index	May	0.2% mom
	USA Capacity Utilization Rate	May	76.8%
16 June	USA Housing Starts	May	1.2 million units
	USA University of Michigan's Consumer Survey	June	97.1
	Eurozone Consumer Price Inflation	June	

(A)Actual

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