WEEKLY OUTLOOK

Fed increased its policy rate.

Last week Fed meeting was high on the global markets' agenda. Fed raised the policy rate by 25 bps to 1%-1.25% in line with market expectations. Fed also gave a first outline of its plan to balance sheet cuts. According to this plan, Fed will gradually reduce its reinvestment of treasury bonds and mortgage-backed securities. Fed announced that it will start reducing its portfolio by 10 billion USD per month by 2017, and that amount could be gradually raised to 50 billion USD within a year. This indicates that if the Fed starts its balance sheet cuts in September 2017; its assets will be reduced by 350 billion USD over the next twelve months. In addition, normalization process of the balance sheet, which is around 4.5 billion USD as of June 2017, is expected to take place till 2021.

According to the note published after the meeting and the speech of Fed Chair Yellen, it was seen that optimistic expectations for economic activity were gaining momentum. It is emphasized that private consumption expenditures have been increasing rapidly in recent months along with the developments in the labor market, while investment expenditures were robust. Another remarkable point in the published note was the evaluations regarding inflation. Inflation is predicted to hover below 2% in the short run; however, Yellen's statement about the inflation was rather hawkish. Yellen stated that the one-time cuts in health and communication sub-groups had been effective in inflation figures, and once that effect phased out inflation would accelerate again. Along with this development, it was observed that USD recovered most of its losses against developed currencies during the week.

Following the June meeting, FOMC members' forecasts were also released. Accordingly, members' economic growth expectation for 2017 rose from 2.1% to 2.2%, while the inflation forecast fell from 1.9% to 1.6%. 2018 and 2019 inflation expectations remained unchanged at 2%. The new dot plot shows that the policy rate in the US will be increased once more for the remainder of the year, while three rate hikes are expected in 2018.

Weak course in Pound continues.

Pound has been following a relatively weak course against other major developed currencies since June 2016, the date when Britain has decided to leave European Union. While inflation in the country rose due to depreciation of the local currency, risks regarding economic growth remained to be one of the main issues on the agenda in line with escalating uncertainties. Last week's economic data showed that consumer prices in the UK went up by 2.9% on annual terms in May. Therefore, consumer inflation reached its highest level in 4 years. Moreover, accelerated price increases have resulted in cautious attitude in household spending and weakening private consumption expenditures. In May, retail sales in the UK fell by 1.2% mom and realized well below the expectations.

Another major event in the UK, where fragilities related to economic activity have been watched very carefully lately, was the central bank's policy meeting. Bank of England (BoE) kept its policy rate as 0.25% and the decision was voted by a majority of 5-3. This has led to a slight increase in pound as markets took the voting results as a clue for a reassessment of a potential rate hike in the following meeting considering the high inflation in the country. Brexit talks have started on June, 19th.

WEEKLY DATA

	9 Jun	16 Jun	Change			9 Jun	16 Jun	Change	
BIST-100 Index	98,943	98,193	-0.8 %	▼	EUR/USD	1.1192	1.1197	0.0 %	▲
TRY 2 Year Benchmark Rate	10.97%	11.10%	13 bp	▲	USD/TRY	3.5363	3.5017	-1.0 %	▼
US 10 Year Bond Rate	2.20%	2.16%	-4 bp	▼	EUR/TRY	3.9582	3.9222	-0.9 %	▼
EMBI+ (bps)	324	332	8 bp	▲	Gold (USD/ounce)	1,266	1,253	-1.0 %	▼
EMBI+ Turkey (bps)	290	289	-1 bp	▼	Brent Oil (USD/barrel)	46.5	45.9	-1.3 %	▼

Decline in oil prices…

Recent assessments published in an International Energy Agency (IEA) report, saying the imbalance in the global oil markets will continue, have led to a downward pressure on oil prices last week. IEA estimated that non-OPEC countries' daily oil production would increase by 700 thousand barrel in 2017 and 1.5 million barrel in 2018. Last week, an unexpected annual rise in US oil stocks also triggered the fall in oil prices. Brent oil price declined by 1.3% wow to 45.9 USD per barrel on Friday's closing. Likewise, gold prices lost their previous gain as the geopolitical risks have eased. Hence, gold prices fell by 1% on a weekly basis to 1.253 USD/ons.

A favorable budget outcome in May…

In May, budget expenditures increased by 11.4% yoy, while budget revenues rose by 16.1%. Budget expenditures' upward trend for consecutive 3 months lost momentum in May and budget revenues recovered thanks mostly to positive outcome in tax revenues. Hence, the central administration budget surplus of 3.7 billion TL in May 2016 was announced as a surplus of 6.4 billion TL in May this year. Tax revenues climbed by 20.3% yoy during the same period largely due to the rise in corporate taxes. Moreover, restructuring certain public receivables within the scope of the Law No. 6736, contributed to the budget by a significant amount (Our Budget Balance report).

Unemployment rate holds its declining trend.

Significant recovery in domestic economic activity thanks to the measures taken in the first quarter of 2017 is having a positive impact on the labor market. According to data released by TURKSTAT, unemployment rate declined by 0.9 bps compared to last month to 11.7% in the period of March 2017. Seasonally adjusted unemployment rate decreased to 11.5% during the same time. Turkey's total employment surged by 496 thousand in March compared to the previous year while employment figures were different among sectors. Employment at services and construction sectors were up by 372k and 81k whereas manufacturing industry's employment was nearly stable. In addition, it was observed that rising optimism towards the agriculture sector hasn't been effective on the labor statistics yet. We expect that the unemployment rate will keep declining due to seasonal factors and expectations of a recovery in the domestic economic activity in the upcoming months.

Recovery in expectations…

Expectations in the domestic market have been recovering thanks to current robustness of foreign capital inflows to Turkey as well as positive effects of the economy administration's recent measures that are reflected in the leading indicators. CBRT's Survey of Expectations suggested that 2017 year end growth forecast has increased to 3.4% in June. Despite the latest rise in foreign trade deficit along with the acceleration of domestic demand, increase in tourism revenues has limited the upward pressure on the current account deficit. Market expectations on USD/TRY declined to 3.76 which is the lowest level since the beginning of 2017 whereas CPI expectations remained relatively flat with 9.55% for the year-end. Although the depreciation in TRY has lost pace remarkably, volatile course in unprocessed food prices leads to a much gradual improvement in terms of inflation expectations.

CBRT didn't change the interest rates.

The market view that Turkish economy's worst performance is over, as recent modest data also indicated, has lessened the pressure against CBRT, which has been tightening its monetary policy by a significant amount. Indeed, CBRT has raised the weighted average funding rate by around 370 bps to approximately 12% through interest rate hikes and change in its funding composition.

CBRT made no changes in the policy rate, interest rate corridor or late liquidity window rate at its Monetary Policy Meeting held last week. On the press release published after the meeting, CBRT noted that economic activity has gained pace and improving demand from the European Union economies has contributed positively to Turkey's exports. Despite the recent improvements in cost factors, current elevated levels of inflation still poses risks and that's why CBRT decided to maintain its tight stance of monetary policy.

Domestic markets...

Growing interest in TRY-denominated assets, coupled with the strength of the optimistic outlook for the economy, became a determining factor in the course of the domestic markets during last week. After exceeding 100k levels and reaching its historic high in the first half of the week, BIST-100 index declined as investors wanted to realize their profits. Index fell to 98,193 levels on Friday by dropping 0.8% weekly. TRY remained strong last week against foreign currencies. USD/TL parity fell by 1% and closed the week at 3.50.

INDUSTRY NEWS

Investments in the paper sector gained momentum.

Recently, China stated that it will reduce its paper production capacity due to environmental factors. This development kindled concerns over global paper supply/demand and caused prices to rise rapidly. Turkish paper sector, which is dependent on foreign markets for intermediate goods supply, affected adversely from this development. Indeed, since the beginning of the year, the production costs in the paper and paperboard industry increased significantly and reached 49% yoy as of May 2017. Producers are looking for ways to overcome this bottleneck in domestic market and seem to have increased their investment appetite.

Paint and coating sector continued to grow.

The recent upturn in the economic activity, especially in the automotive industry and the housing sector, also affected the paint and coating industry, which supplies intermediate goods to these sectors. Ahmet Yiğitbaşı, Chairman of the Association of Paint Industry, stated that the annual turnover of the industry is about 3 billion dollars and the sector is likely to grow around 3-4% this year. Yiğitbaşı told that Turkey is the 5th biggest producer in Europe with 900k tons production while the 60% of the total production is the construction coatings and the remaining 40% constituted the industry coatings. Chairman also explained that the exports of the sector, which declined by 6% to 650 million dollars in 2016 due to the problems in neighboring countries, could rise to 1 billion dollars in the coming years.

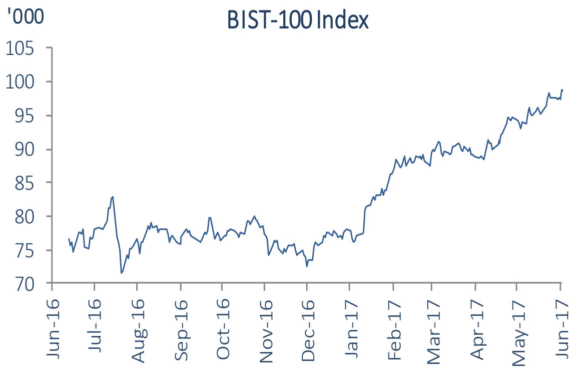
New era in energy investments…

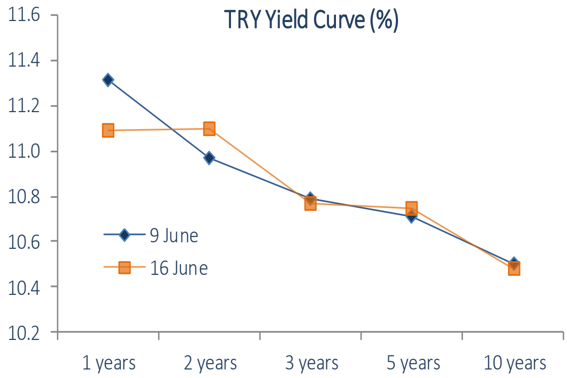
According to a new regulation, energy investors wishing to withdraw from the sector were able to terminate their projects without any further sanctions. In the coming period any energy project, which cannot be completed by the existing contractor, would be allocated to new investors. There are 127 projects in Turkey that are likely to fall into this coverage. While the progress rate is generally lower than 20% in the mentioned investments, hydroelectric power plants and wind energy plants constituted 88 and 6 of those projects, respectively.

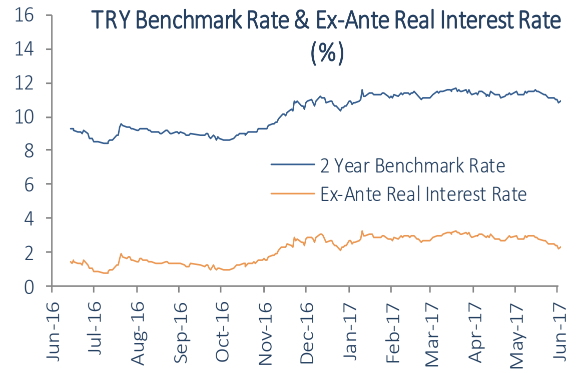
The number of newly established companies increased.

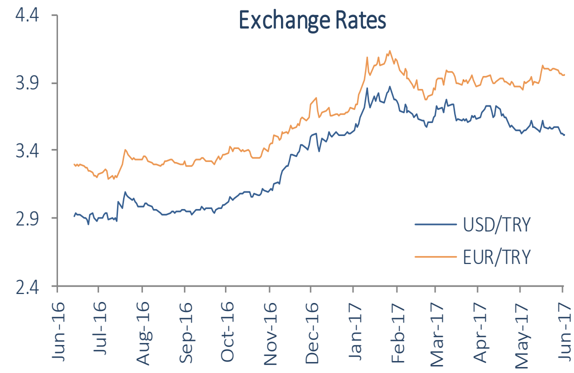
The cautious stance of the real sector due to the turmoil in the financial markets caused a significant decrease in the number of newly established companies during the first quarter of 2017. On the other hand, thanks to the measures taken in this period, the revival in the economic activity has shown itself on many indicators as well as in the number of newly established companies. The number of newly established companies started the second quarter with a double-digit growth and continued to increase in a similar fashion also in May. According to the statistics published by The Union of Chambers and Commodity Exchanges of Turkey, in May, the number of newly established companies increased by 15.1% yoy to 6,158. Almost half of those companies are operating in trade and construction sectors. In the same period, the number of closed companies was recorded as 792 though.

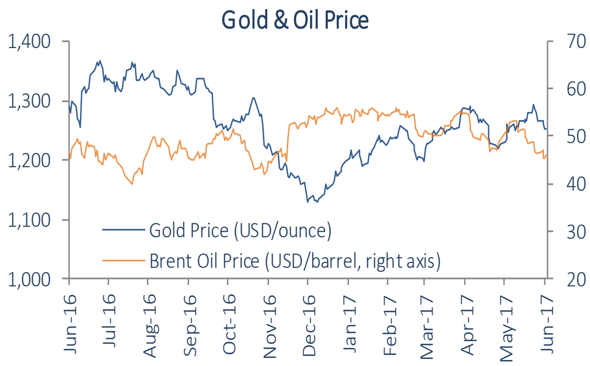
FINANCIAL MARKETS

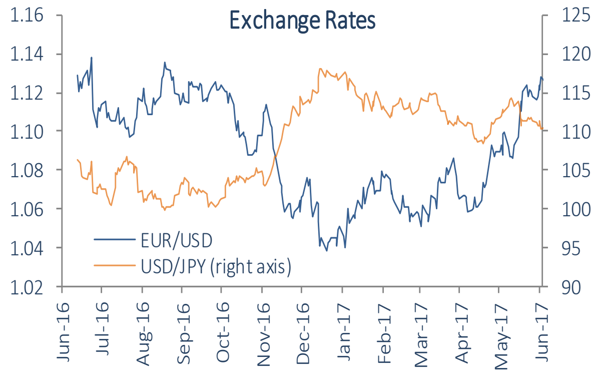


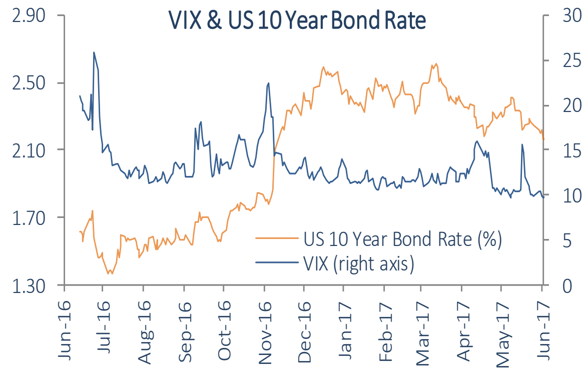


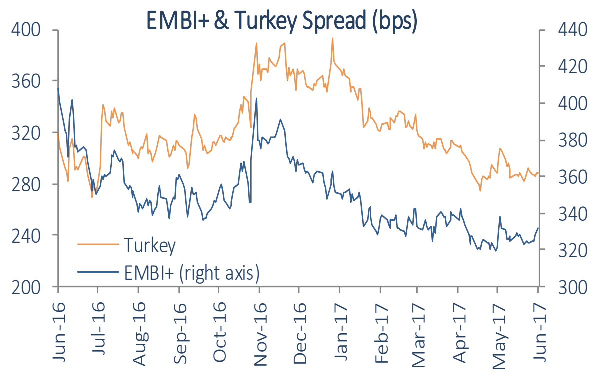












WEEKLY DATA RELEASES

		Period	Consensus
21 June	US Existing Home Sales	May	5.55 million units
	Treasury Domestics Debt Redemption (543 million TRY)	June	
22 June	Turkstat Consumer Confidence	June	
23 June	US Manufacturing PMI (Preliminary)	June	
	US New Home Sales	May	600k units
	Euro Area Manufacturing PMI (Preliminary)	June	56.7
	Turkstat Home Sales	May	
	CBRT Capacity Utilization	May	

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