

DenizBank Economic Update

August 2016

- **Economy**
- **Financial Markets**
- **Banking Sector**

Economic Research and Strategy

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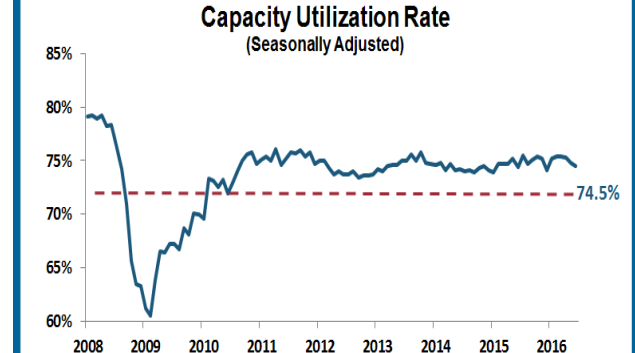
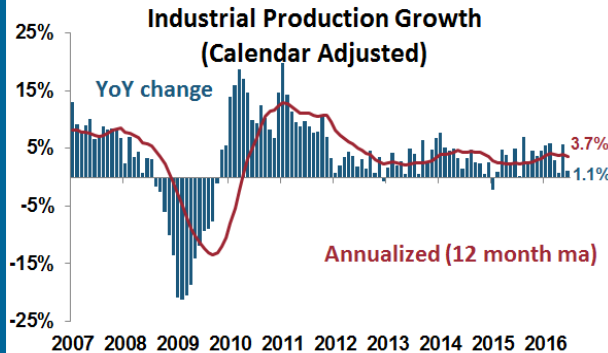
DenizBank 



DenizBank Economic Update

Economy (I)

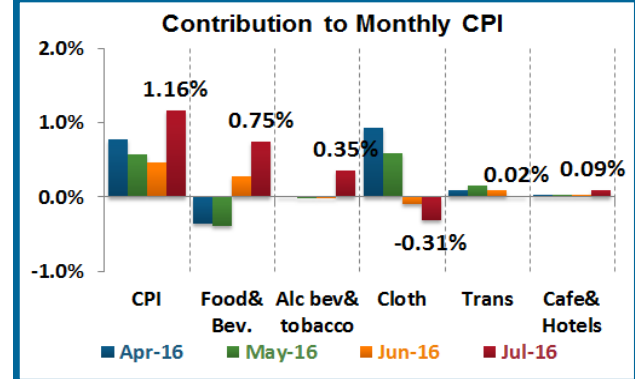
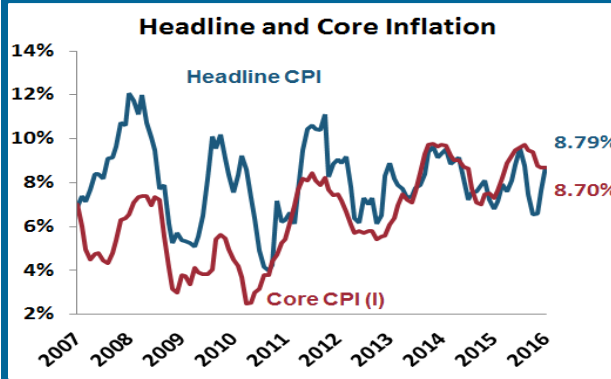
Growth



June industrial production came in lower than expected...

- Industrial production index rose YoY by 1.1% in June below the market expectation of 3.7%. On a monthly basis, the index contracted by 1.4%. In annualized terms, index was up by 3.7%. Industrial production slowed down in the second quarter as quarterly average increase was down to 2.6% from %4.6 in Q1 16.
- Along with June industrial production data, leading indicators suggest that there could be a slowdown especially in the second half of the year. Capacity utilization rate retreated to 74.5% as it continued to fall in July. July PMI slightly increased to 47.6 from 47.4 a month ago. PMI continues to stay under the 50 threshold for five months in a row, which indicates a contraction in the economic activity.
- After 4.5% growth in the first quarter of the year, a slowdown in the pace of growth may be observed in the remainder of the year.

Inflation



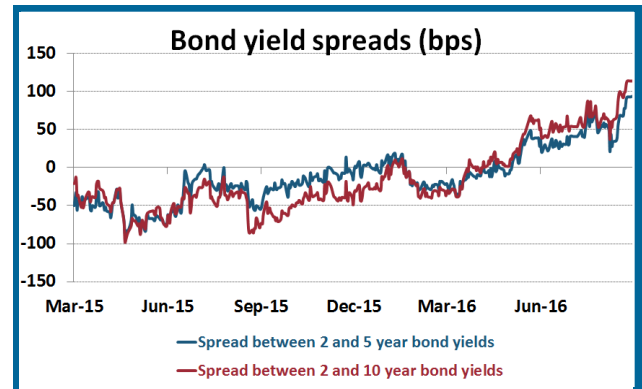
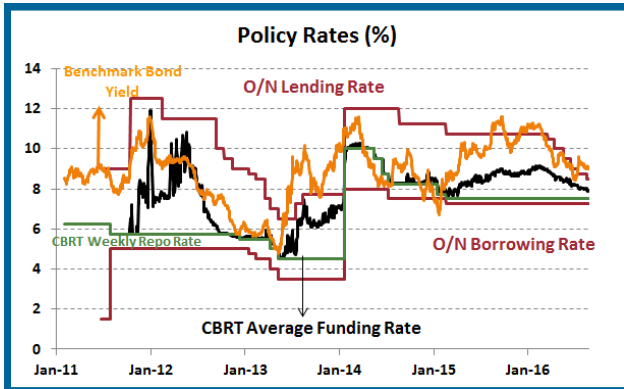
Headline inflation continued to rise in July, driven by increasing food prices...

- CPI in July rose MoM by 1.2%, in line with the market expectation. There was a sharp increase in food prices, as they rose by 3.15%. Annual food inflation jumped to 9.69% from 6.63% a month ago.
- Annual inflation increased to 8.79% from 7.64% in June. Core inflation, I index, which had been on downward trend between February and June, rose slightly in July to 8.70% from 8.67%. Developments in core index should be watched closely in order to observe how, if at all, pricing behavior changes in the coming months.
- The volatility in food prices has taken its toll on headline inflation in the last two months. In the remainder of the year several factors will be influential on food prices. Rapprochement with Russia may push food prices up as it may increase food exports. On the other hand, the slowdown in tourism sector and the joint efforts of CBRT and government authorities to bring food prices down may cause downward pressure. The stable performance of Turkish Lira may contribute to the further improvement of core indices.

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Economy (II)

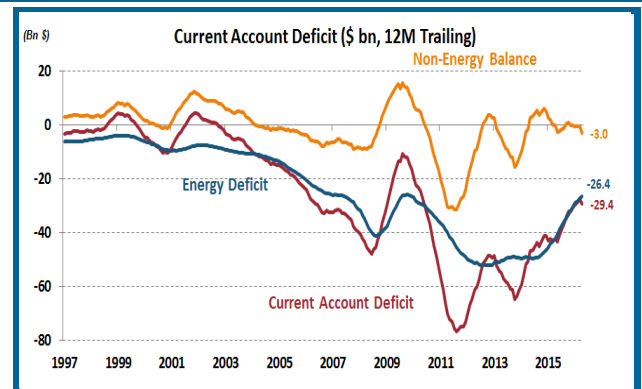
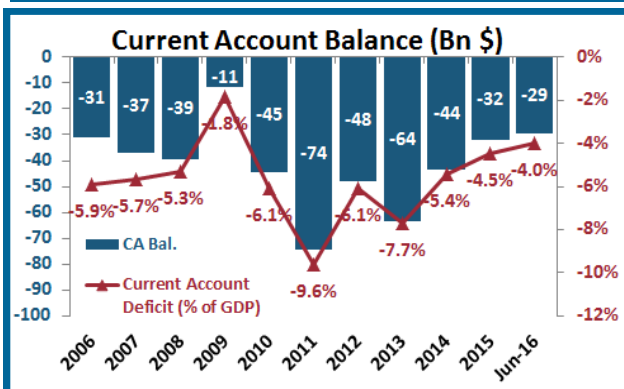
Monetary Policy



Global backdrop allows CBRT to continue the simplification process with a 0.25% cut in the upper band of the interest rate corridor...

- In its monthly MPC Meeting, CB left the policy rate (one week repo rate) unchanged at 7.5%, in line with the market expectation. O/N lending rate was cut by 0.25% to 8.50%
- Despite the increase in inflation, CBRT continued to cut the upper band of the corridor. The bank mentioned that the negative implications of the domestic developments in mid-June were compensated by the measures authorities took and the positive sentiment towards EM in global markets. With the move interest rate corridor narrowed to 125 bps and average funding cost decreased to 7.9% in the last month of the week.
- The increasing risk appetite towards EM has enabled CBRT to exercise continuous cuts to the overnight lending rate, but as inflation remained high the bank was cautious in reflecting these cuts on average funding rate. However, the global tailwinds that have supported EM thus far, may be reversed as FED's rate hike probabilities have gone up, causing CBRT to hold off further cuts in the coming months.

External Sector



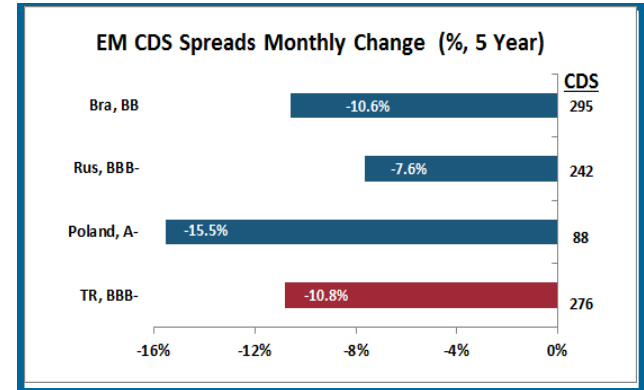
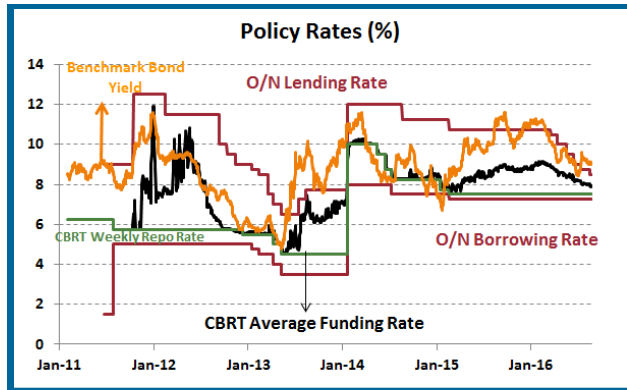
Annual current account deficit increased for the first time since July 2015...

- Current account deficit (CAD) in June came at \$4.9 bn. 12 month cumulative CAD increased to \$29.4 bn (4.0% of GDP) from \$27.7 bn in May.
- On the financing side, there has been a net FDI inflow of \$0.3 bn in June. There has been an inflow of \$0.9bn in portfolio flows, thanks to bonds issued abroad by the government and banks. Outflows in the local bond and equity markets were limited. Reserve assets increased in June by \$3.7bn.
- 12 month cumulative energy deficit in June shrank by 37% on an annual basis to \$26.4 bn.
- The deterioration first time after almost a year in the current account balance was caused by the drop in tourism revenues. Net tourism revenues in the first half of the month was down by 41% compared to the first half of 2015.

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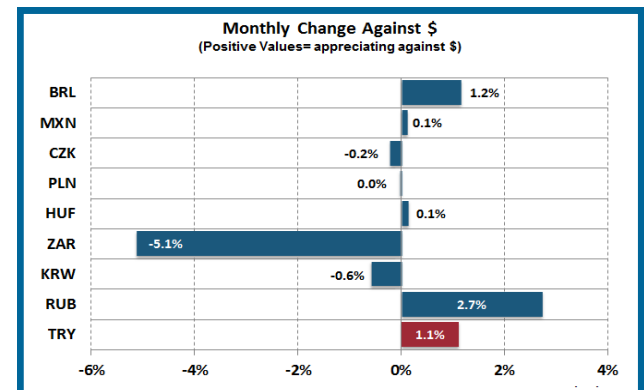
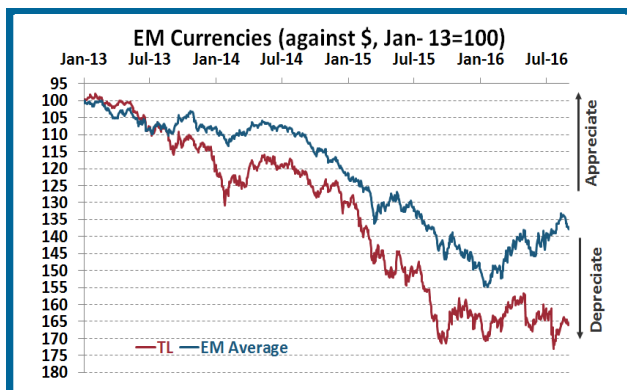
Financial Markets

Debt Market



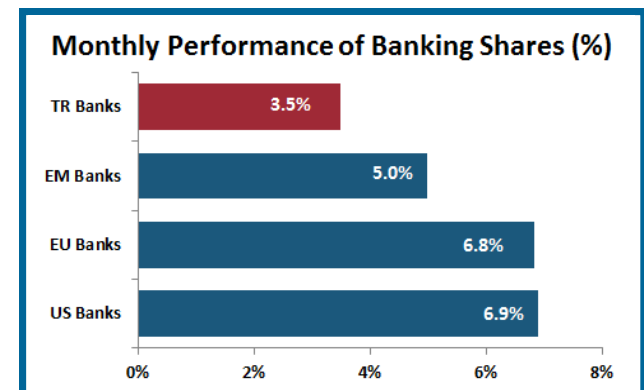
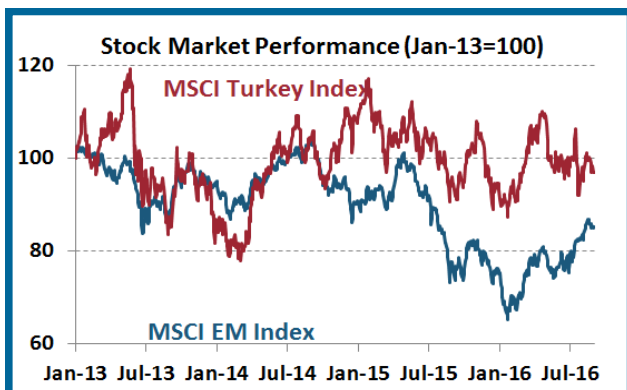
Benchmark bond yield is at 9.07%.

Currency Market



EM currencies depreciated on average, while Turkish Lira appreciated in August.

Stock Market

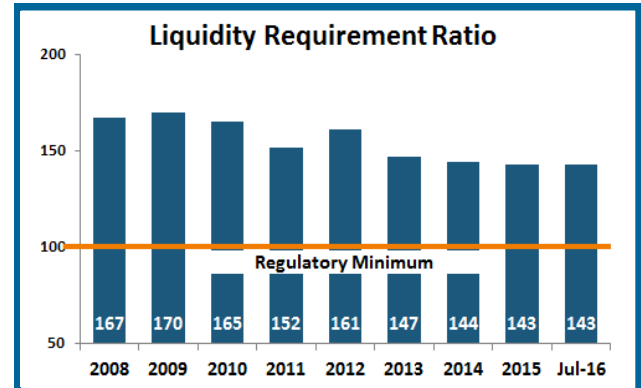
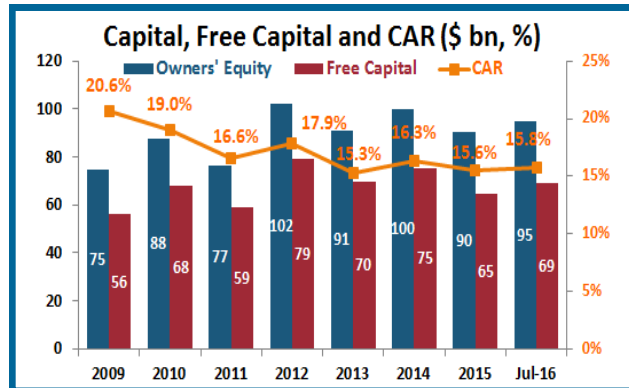


EM stock markets performed positively in August.

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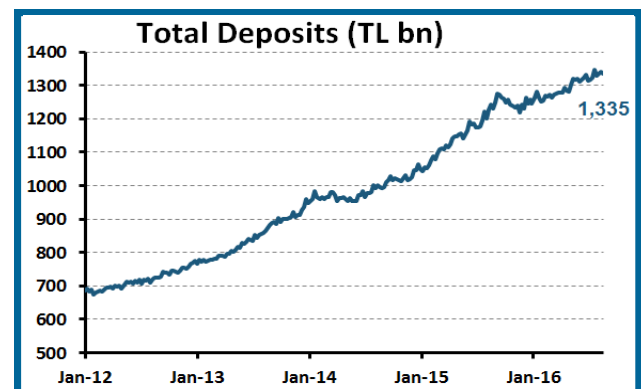
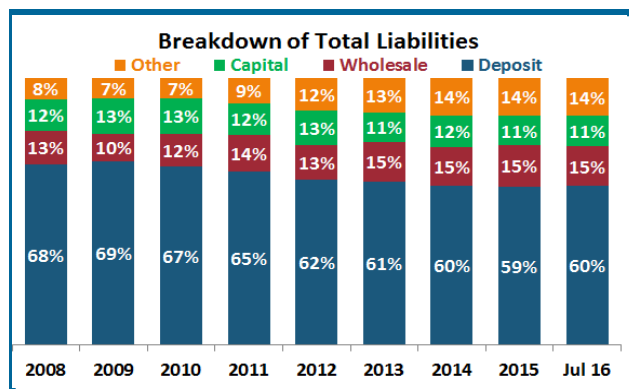
Banking Sector (I)

Capital



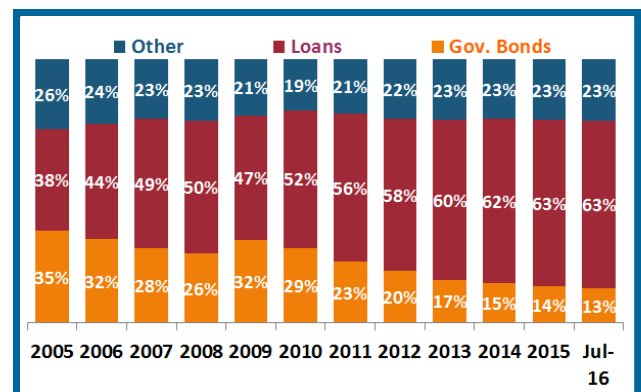
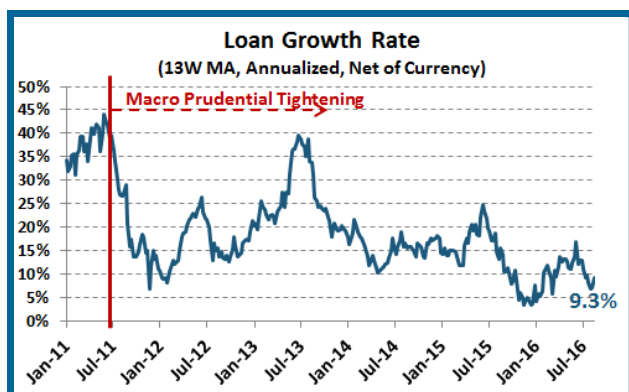
CAR is at 15.8% in July, compared to 15.6% as the end of 2015.

Funding



Share of deposits in funding was at 60% as of Jul 16.

Lending

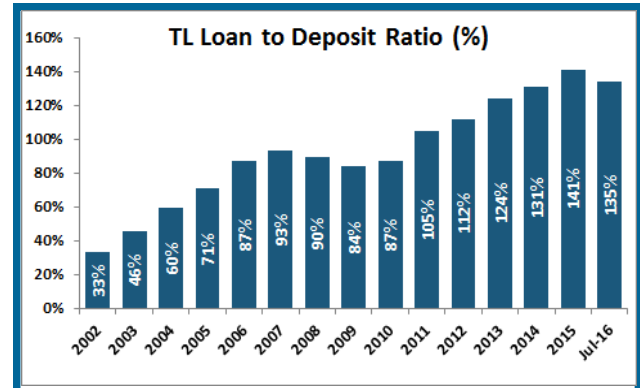
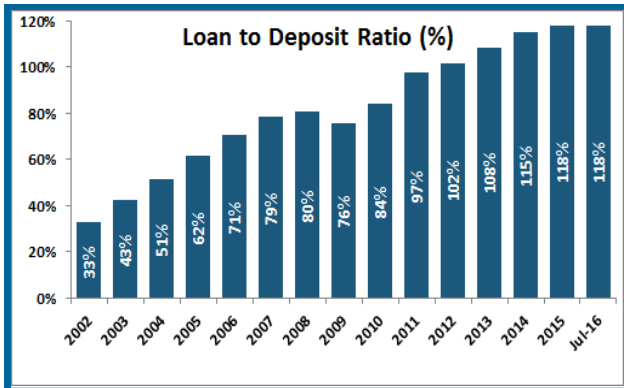


Annualized loan growth is at 9.3% as of August 19th.

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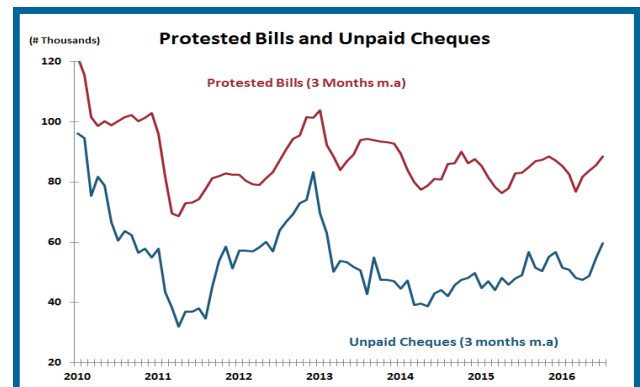
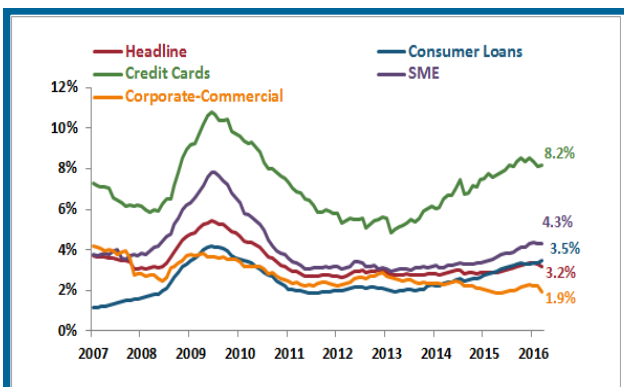
Banking Sector (II)

Loan to Deposit Ratios



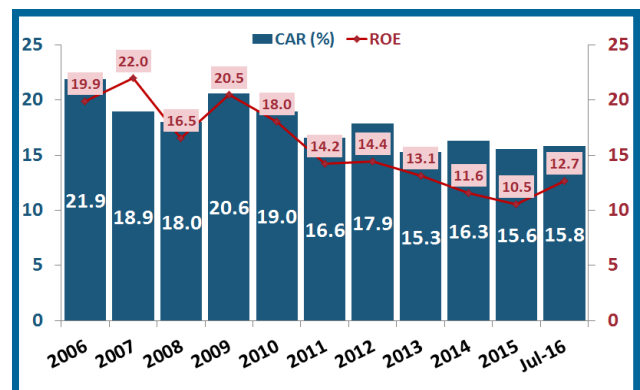
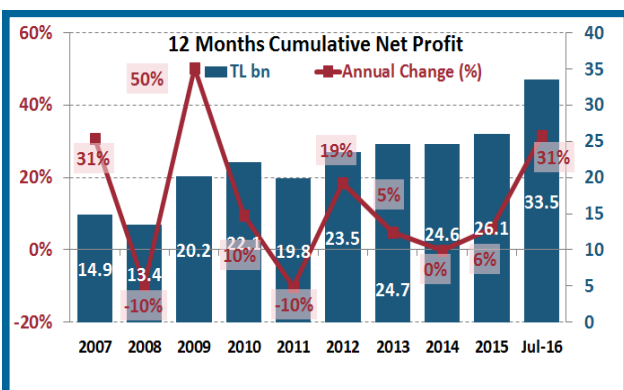
Loan to deposit ratio is 118% in July.

Loan Quality



Headline NPL ratio for the sector is at 3.2% as of Jul-16.

P & L



As of Jul-16, sector's 12 month cumulative profit increased YoY by 31%. ROE is at 12.7%.