

DenizBank Economic Update

August 2015

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

Economic Research and Strategy

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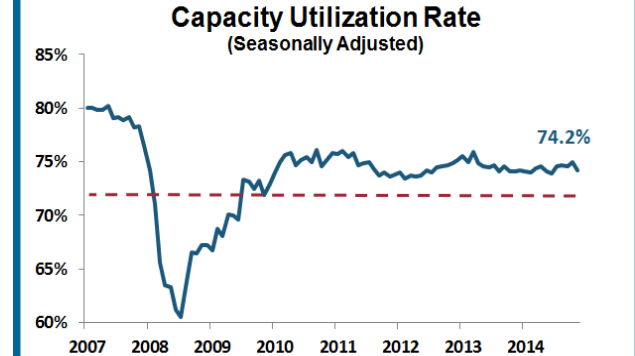
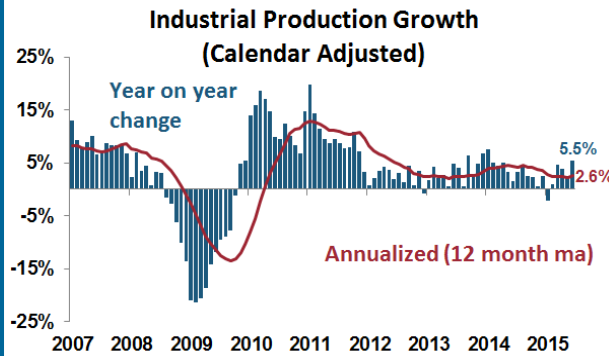
İnci Şengül



DenizBank Economic Update

Economy (I)

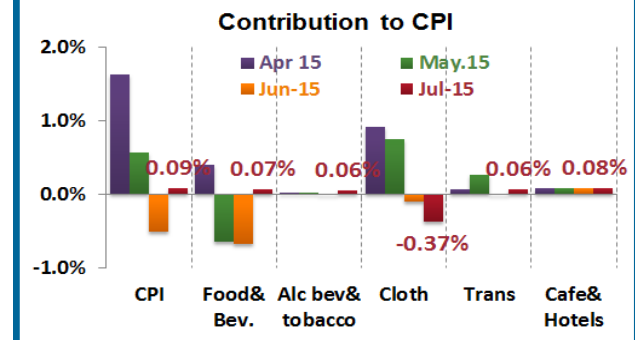
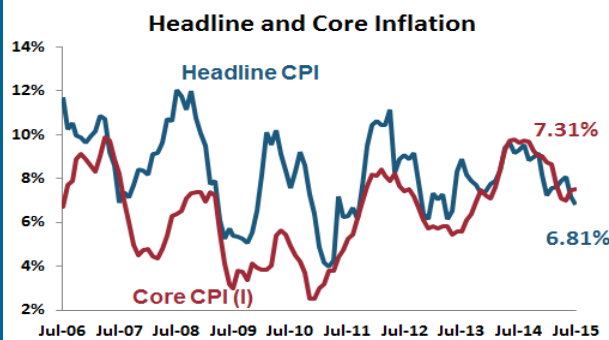
Growth



Industrial production rebounded in June...

- The calendar adjusted industrial production index posted above consensus YoY growth of 5.5% in June. In seasonally adjusted terms MoM growth was also strong at 2.4% in June following decline of 2% in May. Overall, YoY growth in 2Q15 was 3.9%. This is mostly due to base effect and underlying growth momentum (annualized 12 month moving average) stays at 2.6%.
- Leading indicators do not point to an acceleration in economic activity in the second half of the year. Seasonally adjusted capacity utilization declined to 74.2% in August compared to second quarter average of 74.6%. PMI manufacturing index continue to point to weak growth with the manufacturing PMI stays on average close to 50 levels (PMI index is at 50.1, as of July).
- Moreover, global financial market volatility stemming from worries about Chinese economy, uncertainty about Fed's rate hike timing and local political scene raises uncertainty and deteriorates business confidence. As we are likely to see acceleration in second quarter, we keep our year end growth forecast at 3%.

Inflation



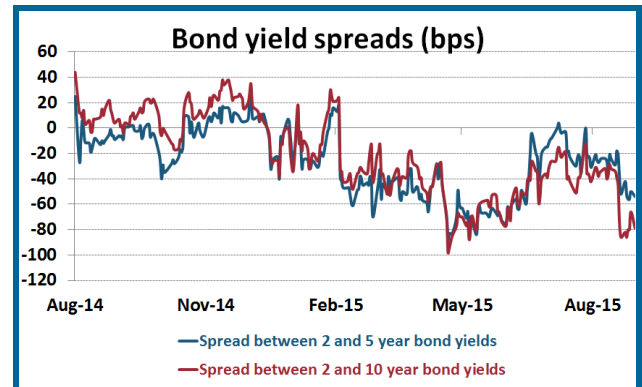
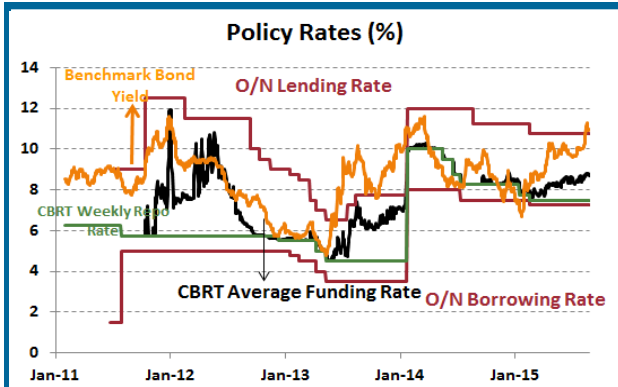
Annual inflation fell down to 6.8% in July...

- CPI in July increased MoM by 0.09% which was in line with market expectation. While the food prices rose by 0.3%, seasonal decline in clothing group balanced this increase.
- Annual inflation went down to 6.81% from 7.2% due to the strong base effect. Annual food inflation remained unchanged at 9.3%. Annual core inflation, an important indicator of inflationary pressures, was also weaker. Annual Core I indicator went down to 7.31% from 7.51%.
- FX pass through remains as the main inflationary force in the coming period. Weakness in currency limits the disinflationary impact of lower global energy prices. Hence, year-end inflation expectation of the market remains elevated at 7.65 % compared to 6.9 % of the Central Bank.

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Economy (II)

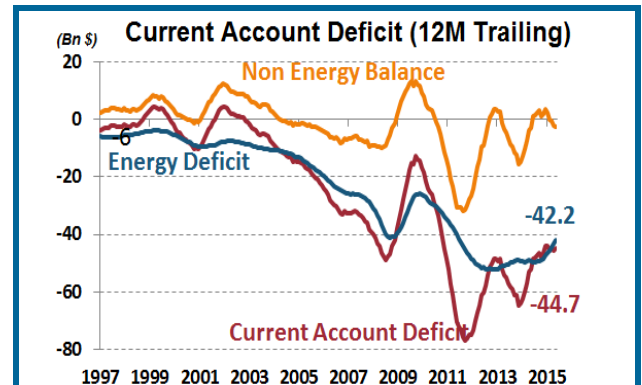
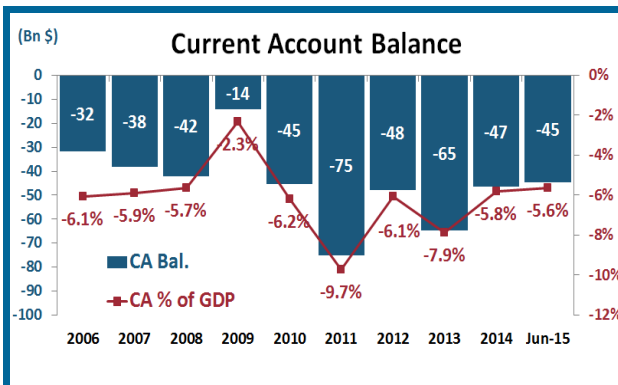
Monetary Policy



Central Bank (CB) kept the policy rate unchanged ...

- In its monthly MPC Meeting, CB left the policy rate (one week repo rate) unchanged at 7.5%. The statement published after this month's meeting was pretty much the same as previous month's. CB emphasized that volatility in the exchange rates was the main source that is delaying the improvement in the core indicators.
- CB also gave an outline of monetary policy normalization process. According to the statement, monetary policy around the globe normalizes, CB will narrow the interest rate corridor, continue using one week repo rate as the policy rate and exercise tighter liquidity conditions.
- We expect the bank to keep its tight monetary stance, until a solid improvement in CPI is realized.

External Sector



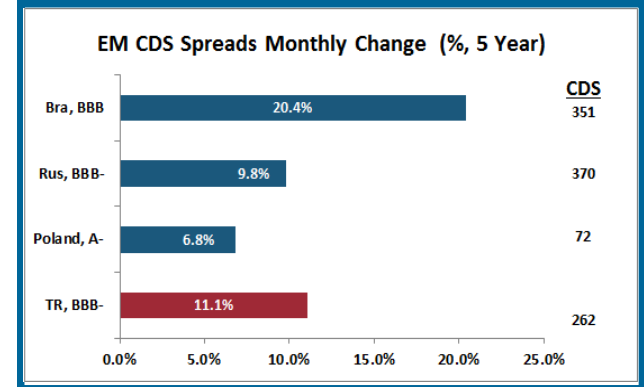
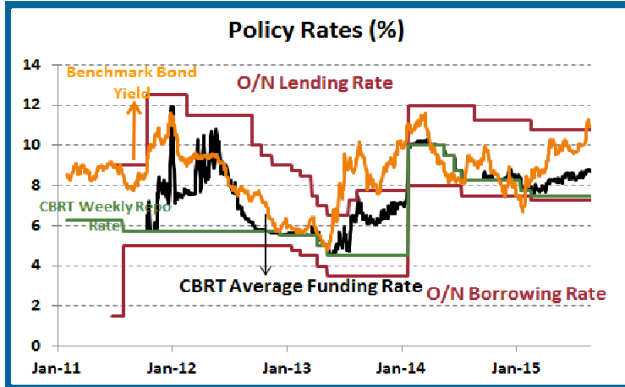
Current account continues narrowing in June...

- Current account deficit came slightly above expectations (\$3.0 bn) at \$3.4 bn in June, as slowdown in exports continued. However, 12 month cumulative current account deficit decreased to \$44.7 bn (5.6% of GDP) in June from \$45.5 bn (5.7% of GDP) in May.
- On the financing side, there has been a limited FDI inflow of \$0.6 bn and portfolio investment outflow of \$0.7 bn in June. While outflow from bond market reached to 1.5 mn in the first half of the year, there was inflow of \$0.1 bn to the equity market. Reserves continued to decline in June (\$0.8 bn) and depleted by \$4.5bn since the beginning of the year.
- We expect current account deficit to ease to 5.0% of GDP this year driven by the slowdown in imports with weaker domestic demand and falling oil prices.

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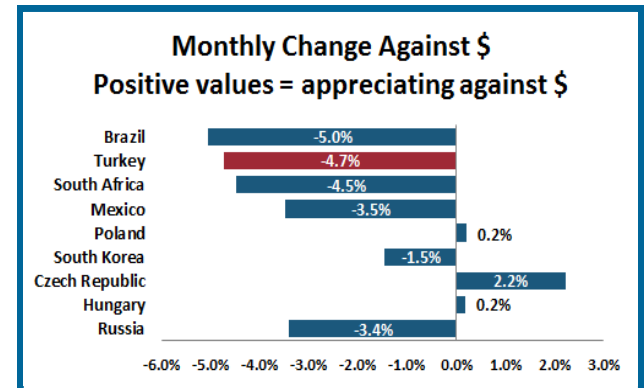
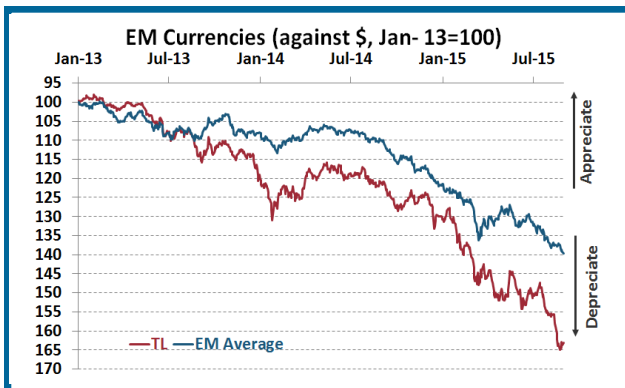
Financial Markets

Debt Market



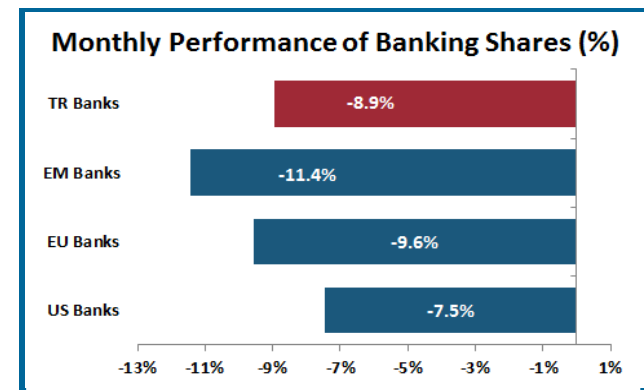
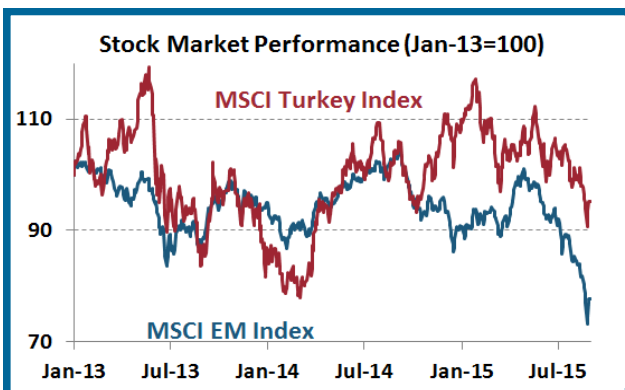
Benchmark bond yield is close to 11%.

Currency Market



Most of EM currencies depreciated against dollar in August. TL gained some of its losses towards the end of the month.

Stock Market

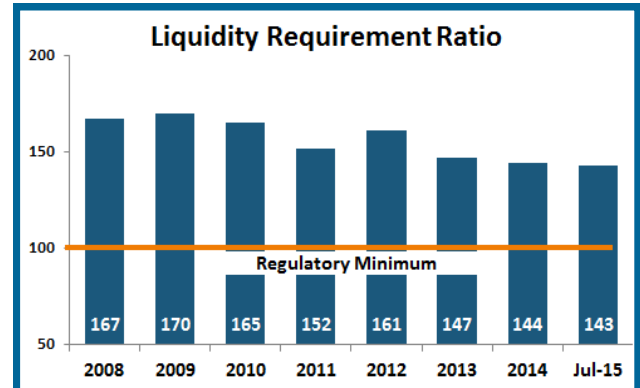
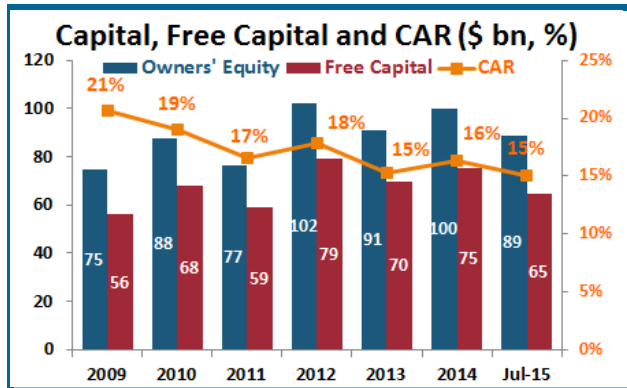


Istanbul Stock Exchange declined in line with other emerging markets. There was slight improvement in the last days of the month.

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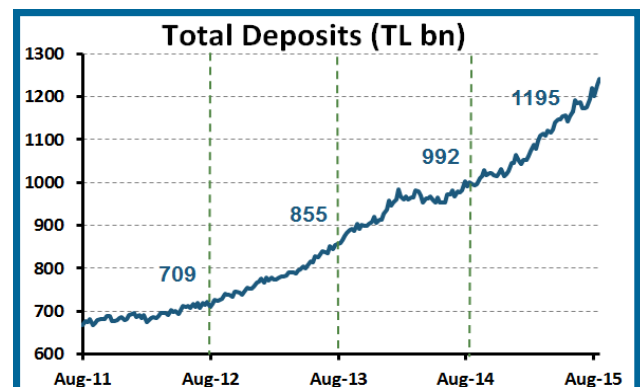
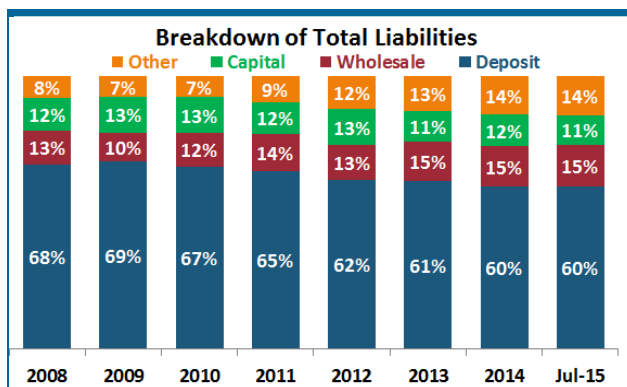
Banking Sector (I)

Capital



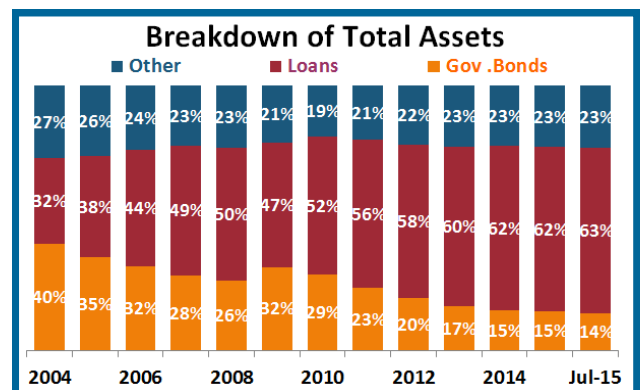
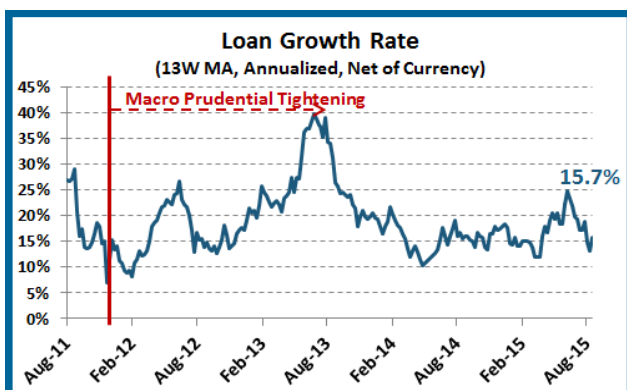
CAR remained at 15% in July, compared to %16 as the end of 2014.

Funding



Share of deposits in funding has remained stable at 60% as of Jul-15.

Lending

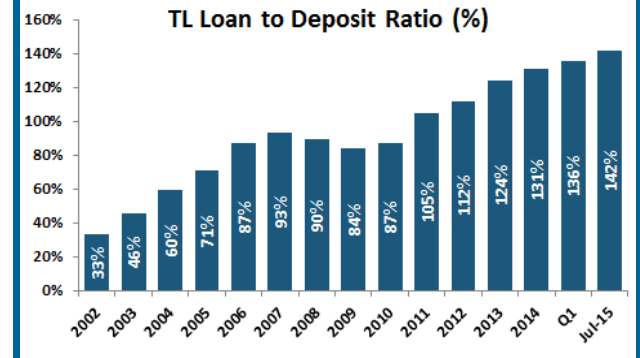
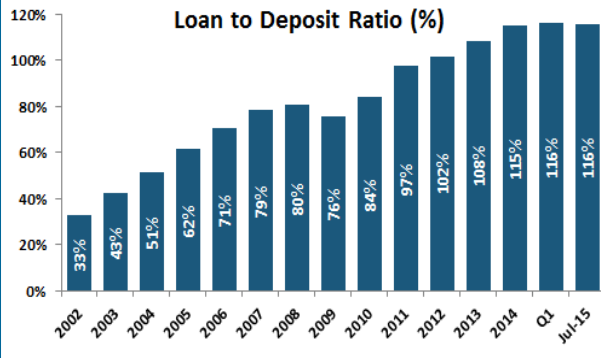


Annualized loan growth decelerated to 15.7% as of August 21st.

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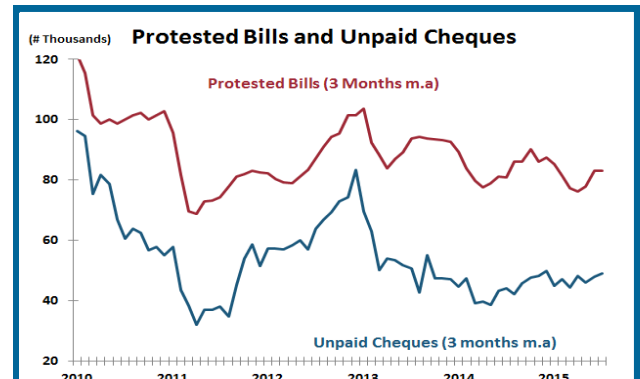
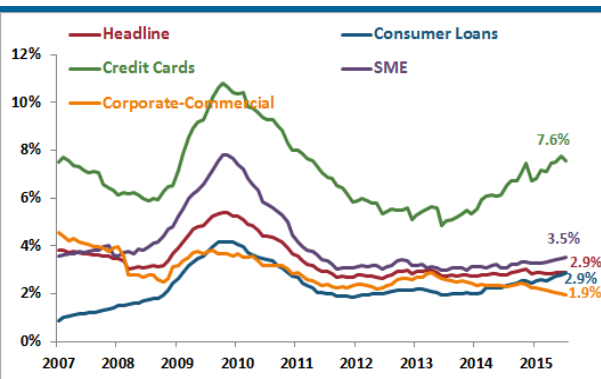
Banking Sector (II)

Loan to Deposit Ratios



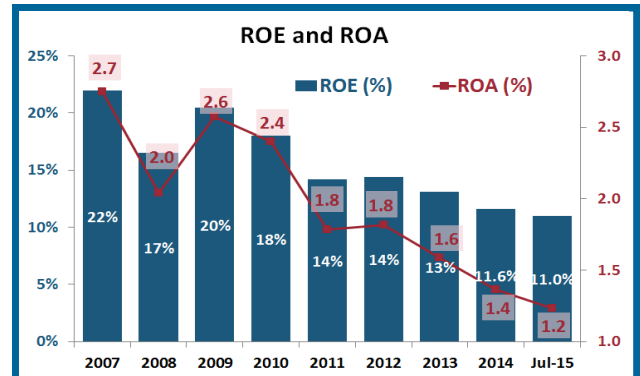
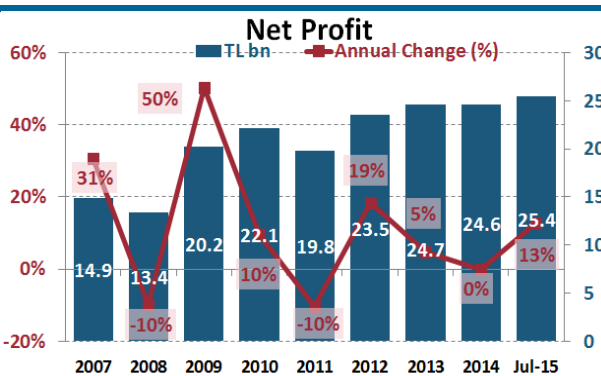
Loan to deposit ratio is 116% in June.

Loan Quality



Headline NPL ratio for the sector is at 2.9%. Protested bills and unpaid cheques are in an increasing trend.

P & L



As of May, sector's 12 month cumulative profit increased YoY by 13%. However, ROE is still below 12%.