

DenizBank Economic Update

July 2015

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

Economic Research and Strategy

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Orhan Kaya

İnci Şengül

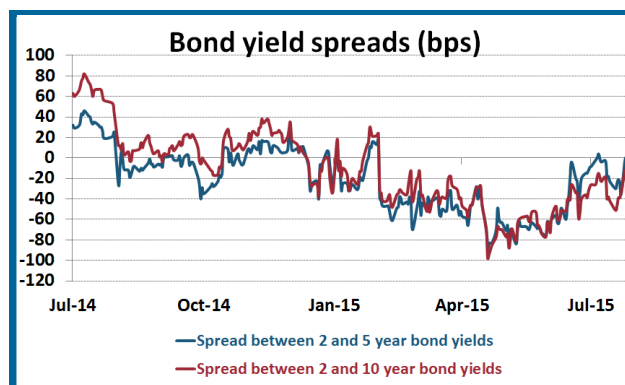
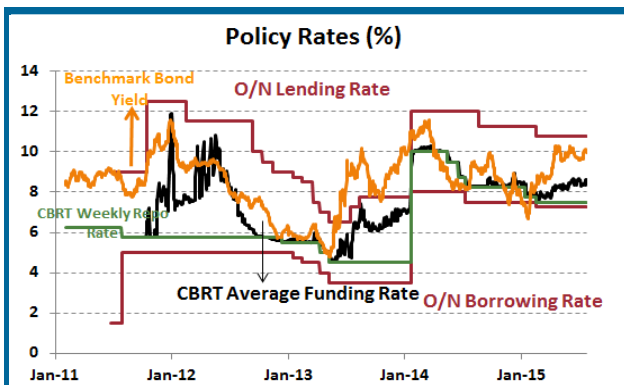
DenizBank 



DenizBank Economic Update

Economy (II)

Monetary Policy

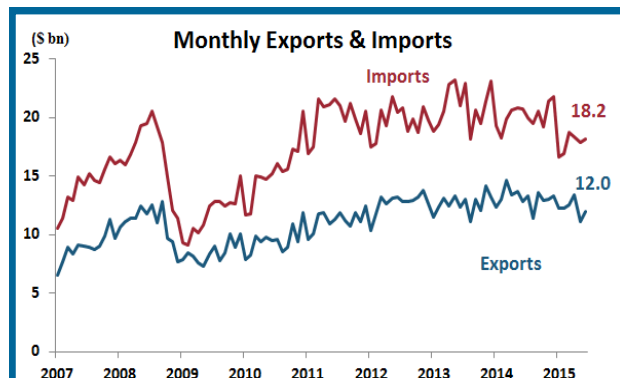


Central Bank (CB) kept the policy rate unchanged ...

- 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.
- During the third Inflationary Outlook presentation, CBT governor Başçı stated that the Bank might simplify its policy by adopting a single rate instead of the current interest rate corridor. The simplification process may begin as early as August, if the technical studies can be completed.
- We expect the bank to keep its tight monetary stance, until a solid improvement in CPI is realized.

External Sector

Bn \$	Monthly		Annual	12Month Trailing		Annual
	Jun-14	Jun-15	% Ch.	Jun-14	Jun-15	% Ch.
Exports	12.9	12.0	-7%	157	151	-4%
Imports	20.8	18.2	-12%	246	229	-7%
Investment Goods	2.9	3.1	4%	37	36	-2%
Intermediate Goods	15.4	12.5	-19%	179	164	-8%
Consumption Goods	2.4	2.6	11%	30	29	-2%
Foreign Trade Balance	-7.9	-6.2	-22%	-89	-78	-12%



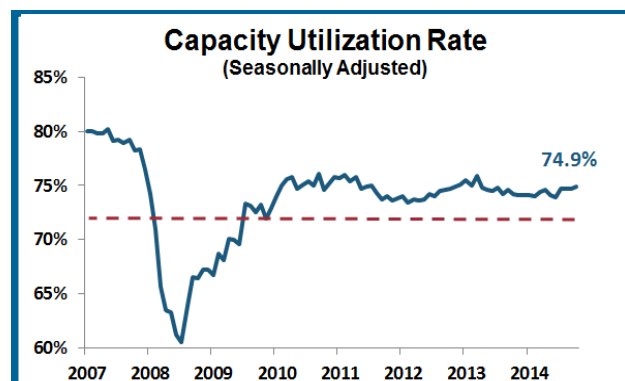
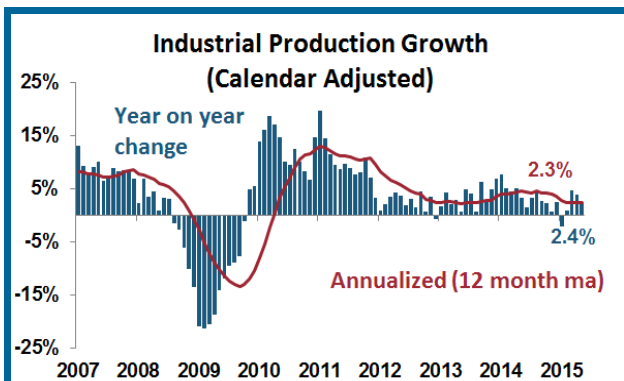
Trade deficit in June came better than market expectations (TL -6.3 bn) with TL 6.2 bn

- Turkish imports decreased by 12% reaching \$18.2 bn compared to June 2014. Exports declined by %7 down to \$12.0 bn. Ratio of exports to imports rose from 62.2% in May to 65.9% in June. Annual trade deficit narrowed 12% down to \$78 bn.
- When we look at export items, we observe a decrease in the 3 main categories: intermediate goods by 12%, capital goods by 6% and consumption goods by 0.4%. Looking at the exports to EU region, which makes up 46% of total Turkish exports, there has been a 17% increase compared to May 2015. Compared to June 2014, exports to EU fell by 6.6% and to non-EU countries by 7.1%. Turkish imports have fallen by 12% on an annual basis driven by a 19% drop in intermediate goods. Energy imports have fallen by 27%.
- Falling energy prices and macro prudent measures to curb imports help Turkish trade deficit continue to narrow.

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Economy (I)

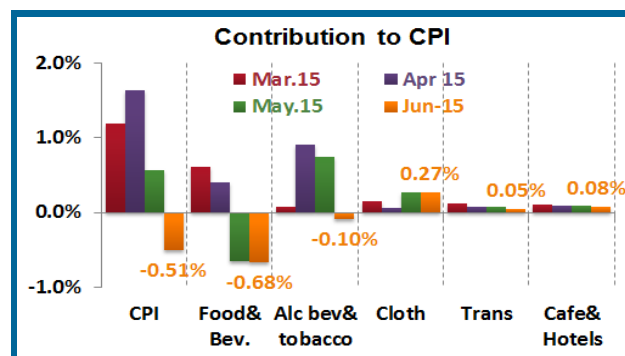
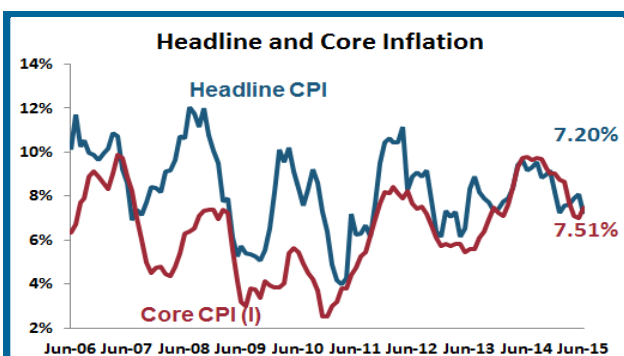
Growth



Economic activity indicators signal a slowdown in economic activity in Q2...

- Industrial production has posted a 2% decrease in seasonally adjusted terms in May after staying unchanged in April. Annual increase went down to 2.3% from 4.6% in May 2014. Likewise, in the first 5 months of the year there was an increase around 2.1% whereas industrial production rose up by 5.1% between January and May 2015.
- Capacity utilization in seasonal adjusted terms rose to 74.7 from 73.9 in April. In May and June, the data has remained unchanged. We have observed a slight increase in July with the capacity utilization rate going up to 74.9.
- Although leading indicators show no sign of acceleration in economic activity, auto sales, which drove growth rate in Q1 to come better than market expectation, has continued to increase. With that affect, domestic demand will have a positive contribution in overall growth. We keep our year end growth forecast as 3%.

Inflation



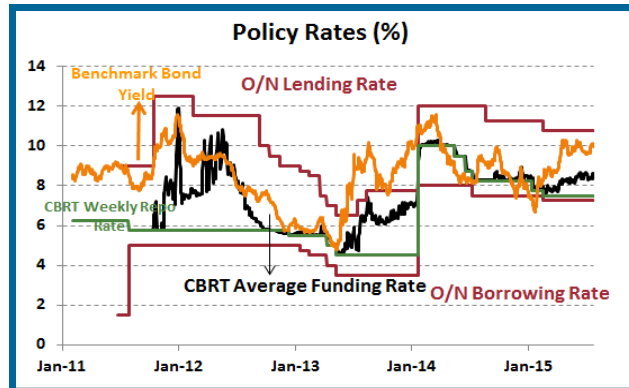
Inflation is slowing down with a little help from food prices...

- June inflation fell by -0.51% more than market expectation of -0.20%. Annual inflation went down to 7.2% from 8.1%, while core inflation (I index) rose to 7.51% from 7.48%.
- The slowdown in inflation was mainly driven by falling food prices. Food prices fell second time in a row this month, by 2.7% bringing headline inflation figure 0.68p down. Annual food inflation came down to 9.3%. The improvement in headline and food inflation has not been reflected in core figure, because of exchange rate volatility.
- In this month's Inflation Outlook report, CBRT revised end of year inflation forecast up to 6.9% from 6.8. The bank expects the improvement in CPI to continue until August, but start going up with September.

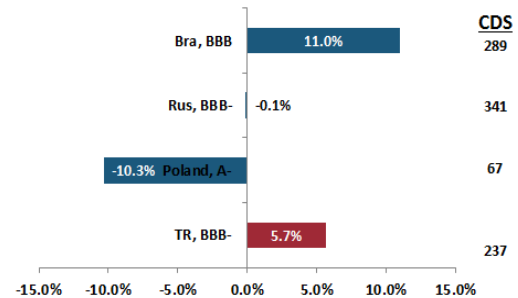
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Financial Markets

Debt Market

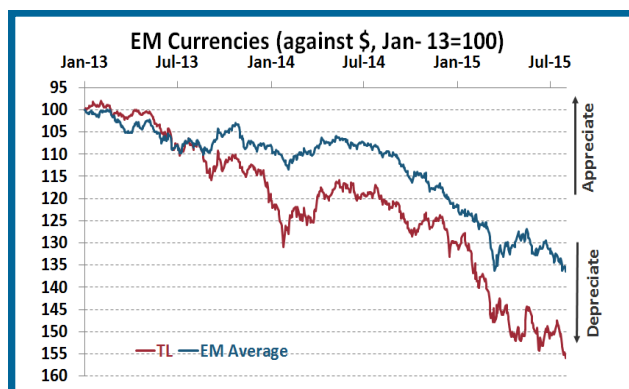


EM CDS Spreads Monthly Change (% , 5 Year)

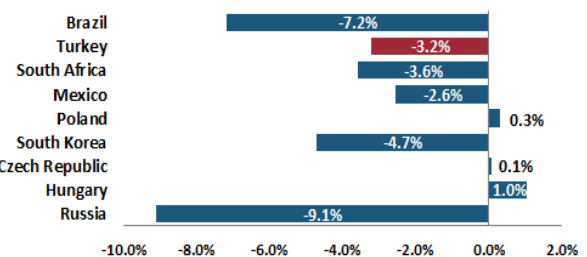


Benchmark bond yield is around 10%.

Currency Market

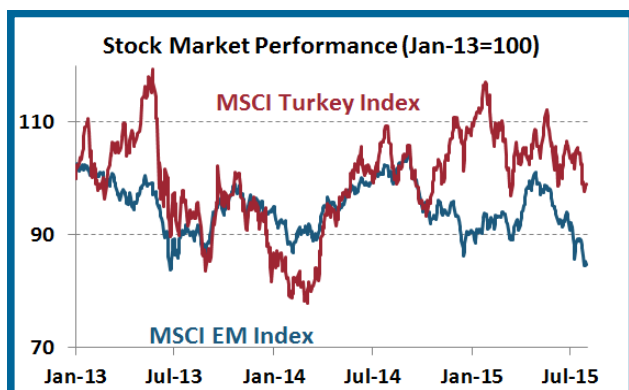


Monthly Change Against \$
Positive values = appreciating against \$

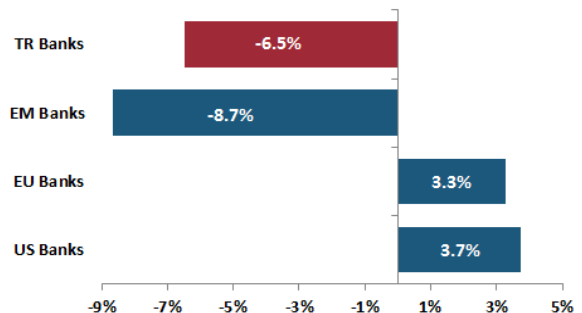


Most of EM currencies depreciated against dollar in July, Turkish Lira was on the negative side.

Stock Market



Monthly Performance of Banking Shares (%)

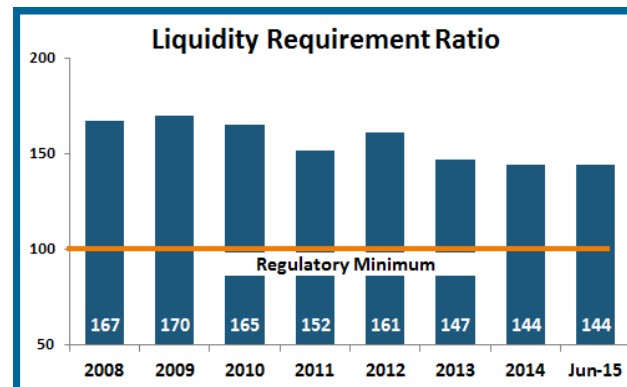
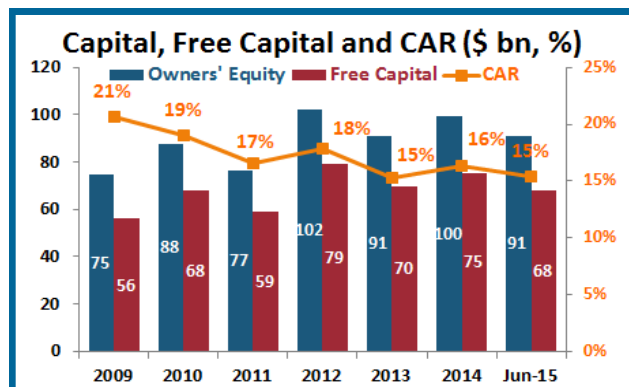


Istanbul Stock Exchange declined in line with other Emerging markets.

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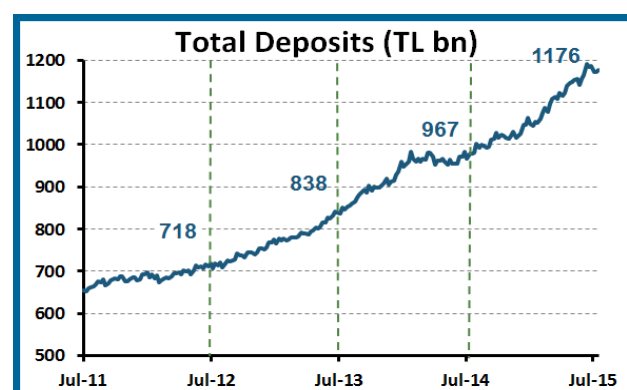
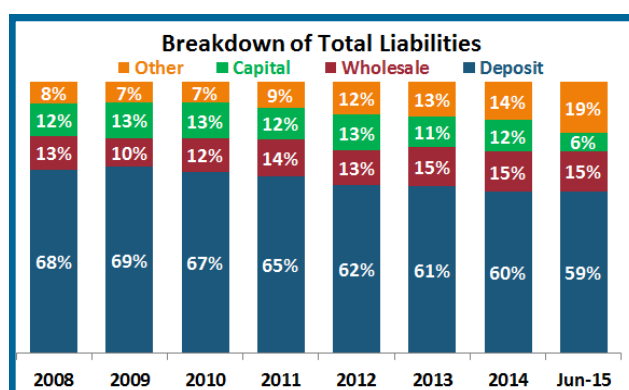
Banking Sector (I)

Capital



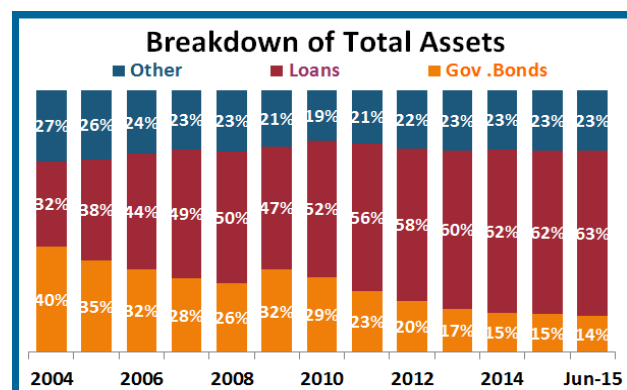
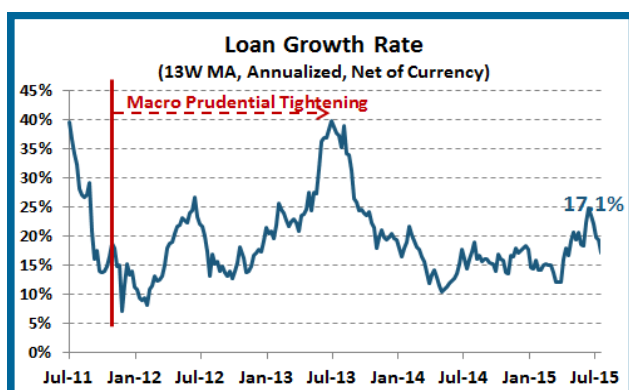
CAR dropped to 15% compared to %16 as the end of 2014.

Funding



Share of deposits in funding has dropped down to 59% as of Jun-15.

Lending

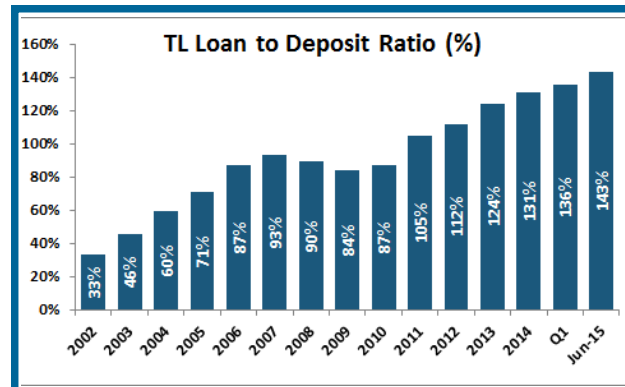
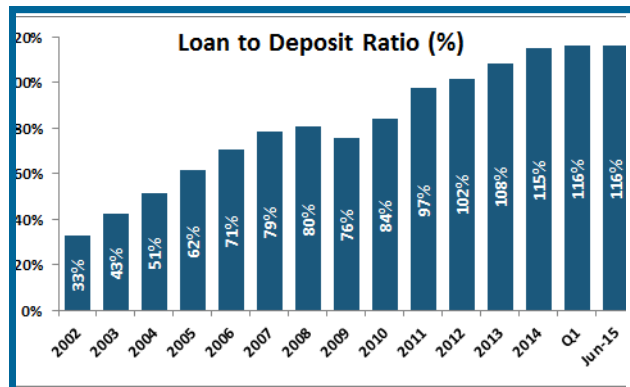


Annualized loan growth reached 17.1% with the support of commercial loans.

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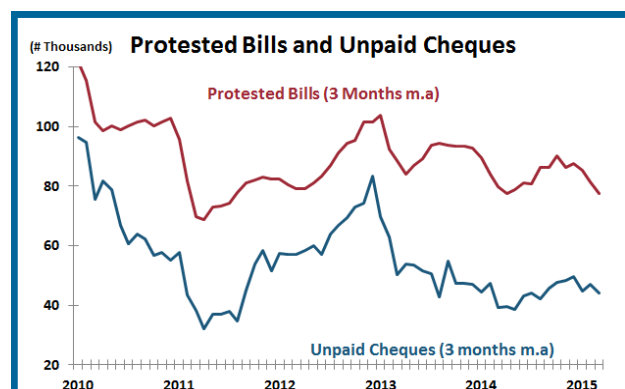
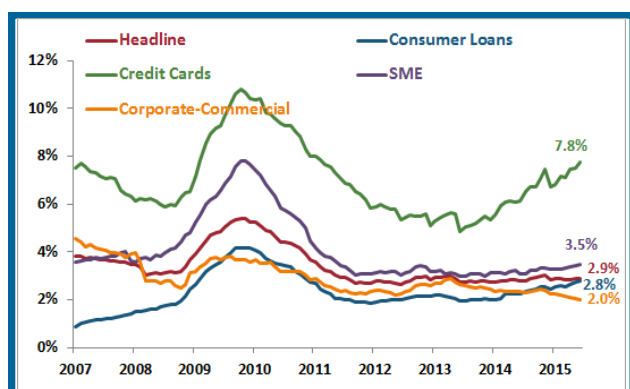
Banking Sector (II)

Loan to Deposit Ratios



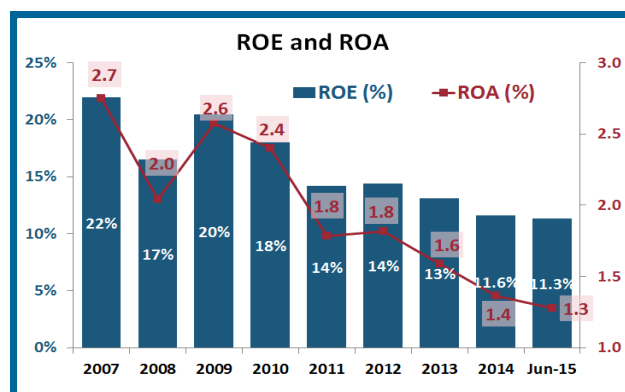
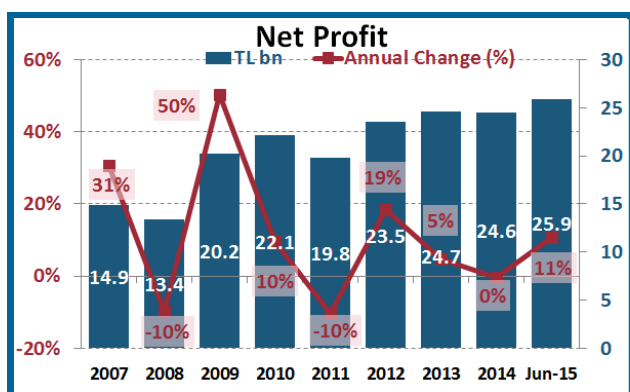
Loan to deposit ratio is 116% in June.

Loan Quality



Headline NPL ratio for the sector is at 2.8%. Protested bills and unpaid cheques don't signal a deterioration on outlook for the next months.

P & L



As of May, sector's 12 month cumulative profit increased YoY by 11%. However, ROE is still below 12%.