

DenizBank Economic Update

July 2016

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

Economic Research and Strategy

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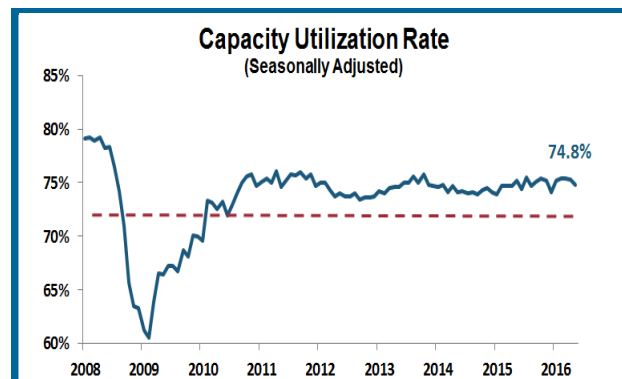
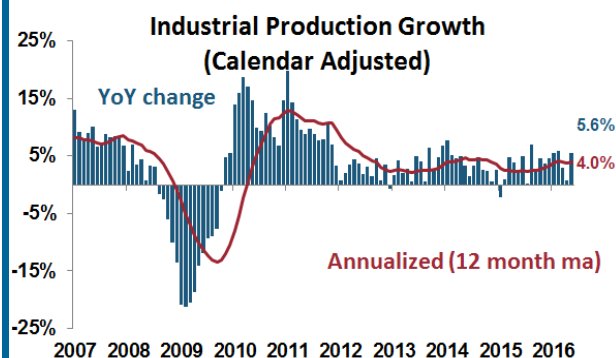
DenizBank 

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DenizBank Economic Update

Economy (I)

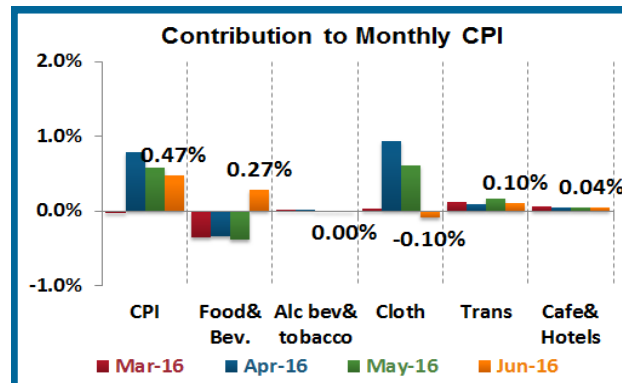
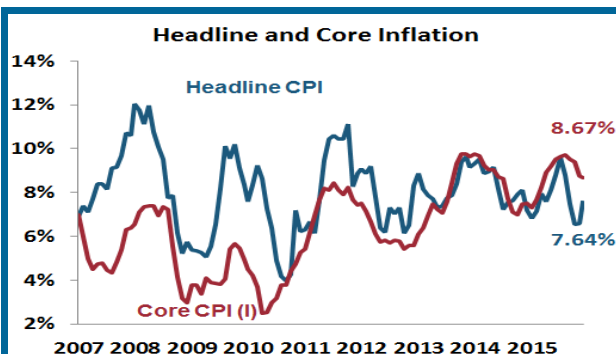
Growth



May industrial production beat expectations...

- Industrial production index rose YoY by 5.6% in May above the market expectation of 3.6%. On a monthly basis, the index increased by 1.6%. In annualized terms, index was up by 4.0%. After a slowdown in April, the index showed a strong recovery that was widespread to all sectors.
- While industrial production signals a pickup in economic activity, leading indicators suggest that there may be a slowdown especially in the second half of the year. After remaining almost flat since April, capacity utilization rate fell to 74.8% in July. June PMI data decreased to 47.4 from 49.4 a month ago. PMI continues to stay under the 50 threshold for four 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



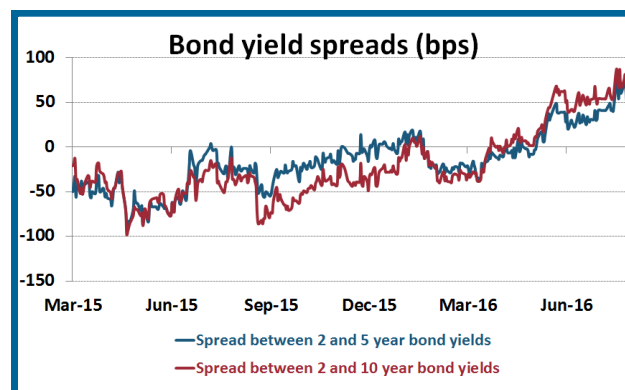
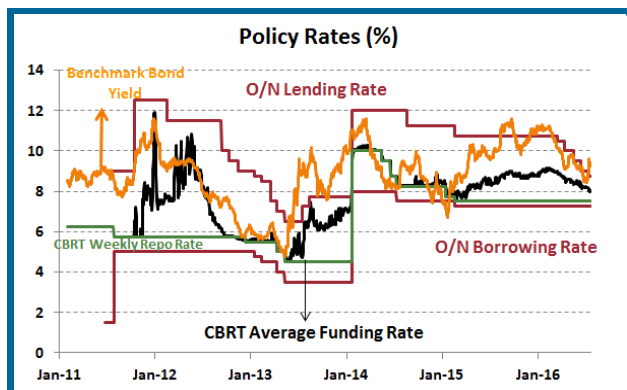
Headline inflation jumps up in June, core inflation continues to improve gradually...

- CPI in June rose MoM by 0.47%, higher than the market expectation of 0.0%. After contributing negatively to inflation since March food inflation rose by 1.16% on a monthly basis. Annual food inflation jumped to 6.63% from 2.47%.
- Annual inflation increased to 7.6% from 6.6% in May. The improvement in price behavior continued gradually in June as well as core inflation I index retreated to 8.67% from 8.77% a month ago.
- In its July Inflation Report, the Central Bank (CB) kept its year end inflation forecast at 7.5%, indicating that the rise in price levels could spike, driven by food prices going up but come down later in the year. The CB expects slowdown in tourism sector to put downward pressure on food prices and services sector prices in the following months. Thus the bank revised its year end food inflation forecast down to 8% from 9% in the earlier inflation report.

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Economy (II)

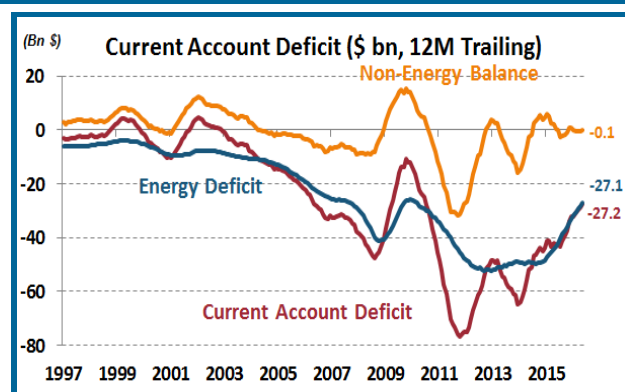
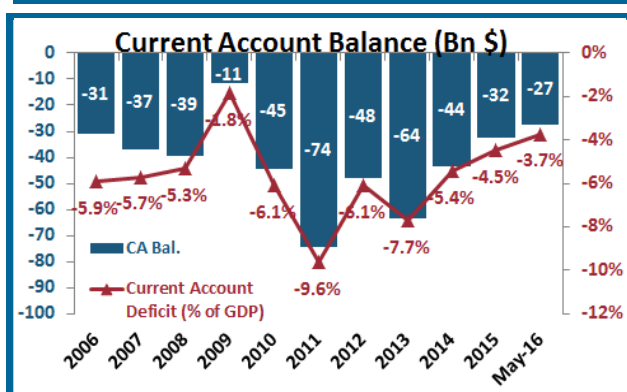
Monetary Policy



The simplification process may be nearly completed as Central Bank (CB) slows rate cuts...

- 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 8.75%
- As inflation rose to over 7% in June and is expected to continue to increase in July, the bank decided to continue its simplification process with a more cautious step this month. With this move, the interest rate corridor has narrowed down to 150 bps. The CB may complete the simplification process by one last 25 bps cut to the upper end, bringing overnight lending rate to 8.50%.
- CBT has made no commitment regarding the timing and magnitude of future moves. Governor made it clear in the inflation report presentation that as a symmetric corridor and a single policy rate will make monetary policy foreseeable, CBT would like to complete the process as quickly as market conditions allow.

External Sector



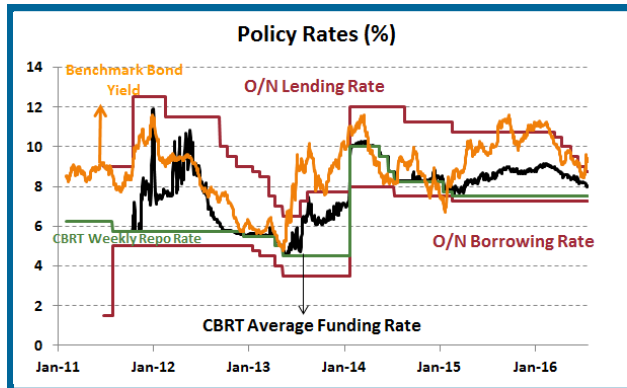
Annual current account deficit continues to narrow reaching the lowest level since July 2010..

- Current account deficit (CAD) in May came at \$2.9 bn. 12 month cumulative CAD narrowed down to \$27.2 bn (3.7% of GDP) from \$28.7 bn in April.
- On the financing side, there has been a net FDI inflow of \$0.6 bn in May. Due to Brexit fears bringing down risk appetite for EM in May, there has been an outflow of \$0.8bn from the equity market and a limited inflow to bonds in the amount of \$0.2 bn. Reserve assets increased in May by \$2.3bn.
- 12 month cumulative energy deficit in May shrank by 37% on an annual basis to \$27.1 bn.
- Net tourism revenues shrank by 32% in the first 5 months of the year compared to 2015. The magnitude of the decline in revenues can be expected to increase in summer months. Thus the long running improvement in the current account may come to end.

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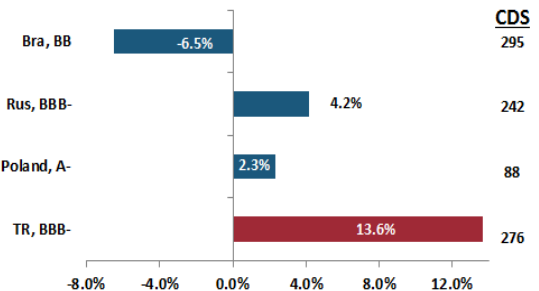
Financial Markets

Debt Market

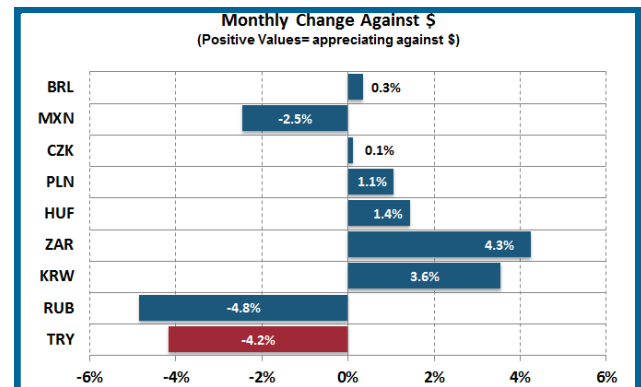
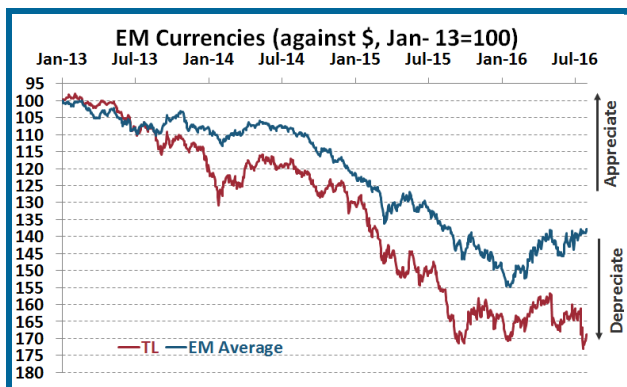


Benchmark bond yield is at 9.28%.

EM CDS Spreads Monthly Change (% , 5 Year)

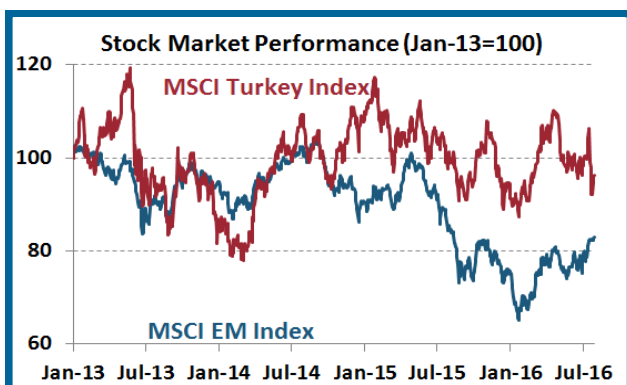


Currency Market

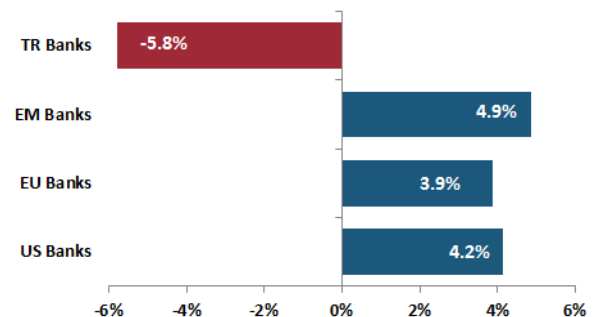


EM currencies appreciated against US Dollar in July, Turkish Lira differentiated negatively.

Stock Market



Monthly Performance of Banking Shares (%)

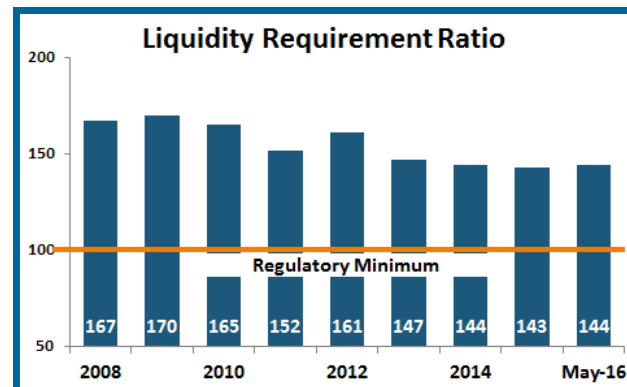
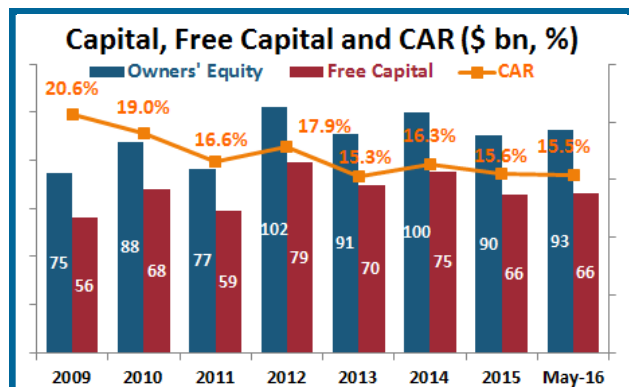


MSCI Turkey equity index differentiated negatively from other EMs in July.

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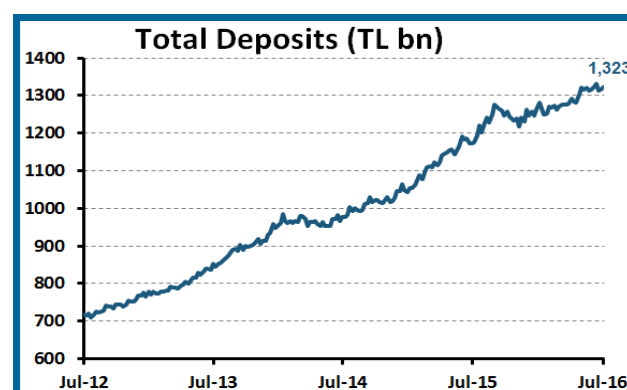
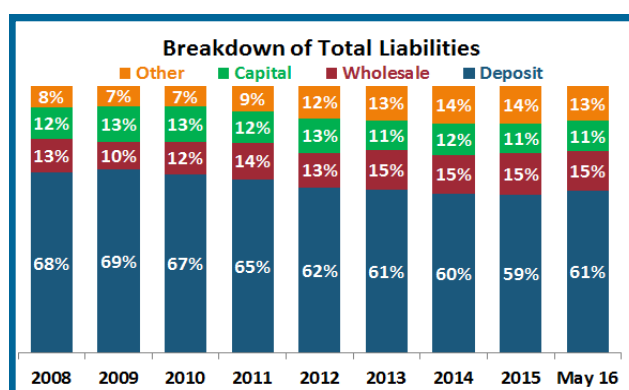
Banking Sector (I)

Capital



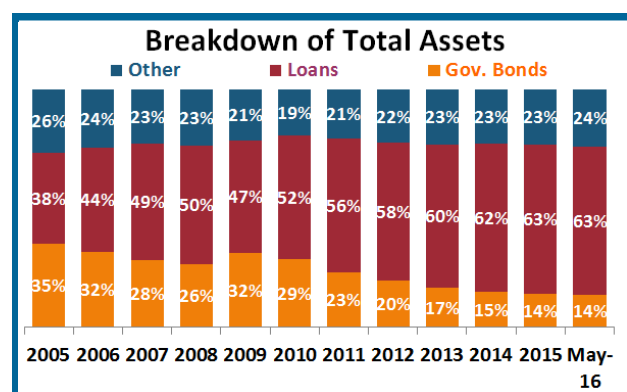
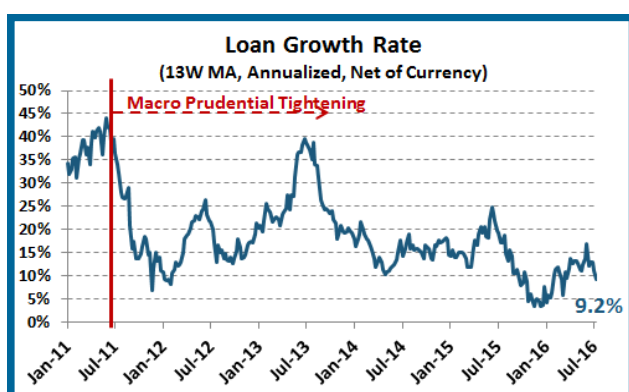
CAR is at 15.5% in May, compared to 15.6% as the end of 2015.

Funding



Share of deposits in funding was at 61% as of May 16.

Lending

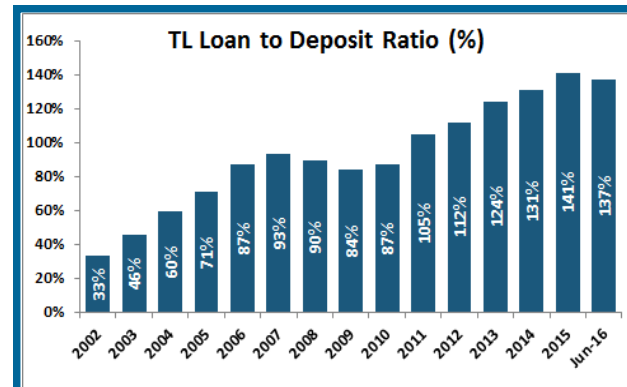
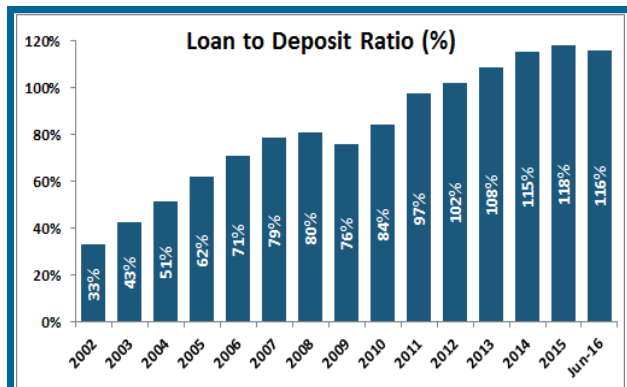


Annualized loan growth is at 9.2% as of July 15th.

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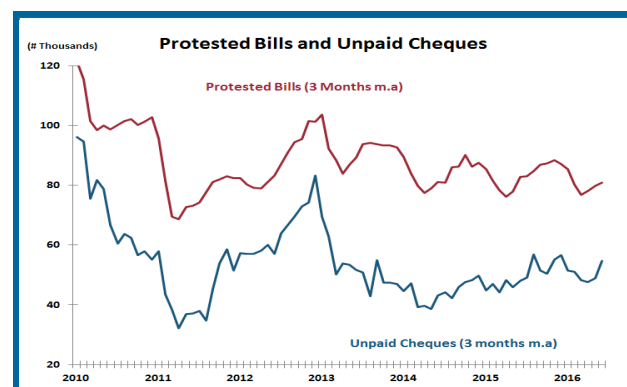
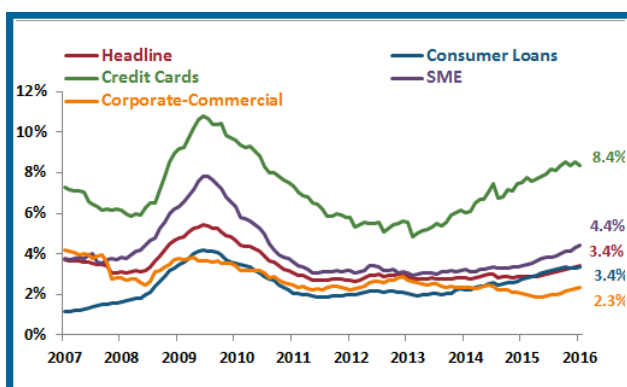
Banking Sector (II)

Loan to Deposit Ratios



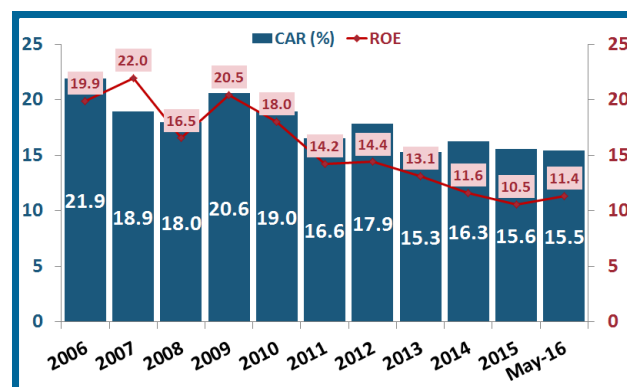
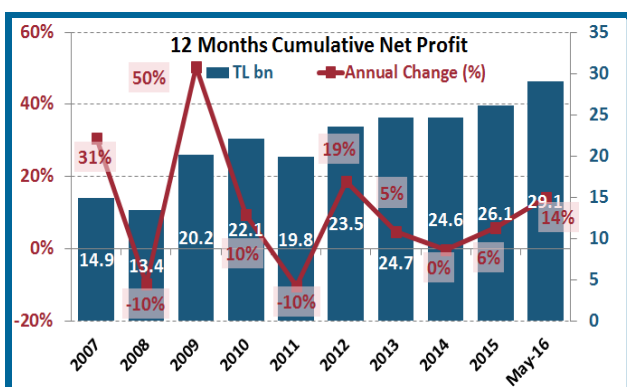
Loan to deposit ratio is 116% in June.

Loan Quality



Headline NPL ratio for the sector is at 3.4% as of May-16.

P & L



As of May, sector's 12 month cumulative profit increased YoY by 14%. ROE is at 11.4%.