DenizBank Economic Update

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Economic Research and Strategy
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Industrial production decreased in September, leading to a contraction in the index in Q316...

- Industrial production index (Calendar and Seasonally adjusted) decreased MoM by 3.8% in September after rising 8.8% in August. Compared to the previous year the index contracted by 3.1% in September. The industrial production index fell sharply in July and September. The pick-up in August was not strong enough to compensate the fall in the remainder of the quarter. In annualized terms, index was up by 2.3%

- Early indicators suggest a relatively stronger start to the last quarter of the year. Manufacturing PMI beat expectations in October rising to 49.8 from 48.3 a month ago. Despite remaining below the threshold of 50, October PMI reading is at the highest level since February and signals that economic activity may be start-
ing to pick up.

- Industrial production data signals that after 27 quarters of expanding, Turkish economy may show no growth or a little contraction in the third quarter of 2016.

Downward trend in inflation continued in October...

- CPI in October increased MoM by 1.44%, below the market expectation of 1.68%. Food prices increased by 1.76% bringing annual food inflation to 5.2% from 4.16% a month ago.

- Annual inflation continued to approach CBT’s target range as it moved down to 7.16% from 7.28% in September. There was a significant improvement in core inflation as it dropped to 7.04% from 7.69%.

- The moderate move in food prices allowed inflation to drop for the third time in a row. However, the de-
preciation in Turkish Lira in November may cause this trend to end. CBT’s year end annual inflation fore-
cast stands at 7.5%. The volatility in food prices and sharp upwards movements in currency may cause price index level to rise slightly beyond this forecast at year end.
Monetary Policy

Central Bank (CBT) tightened its monetary policy more than expected...
- In its monthly Monetary Policy Meeting, CBT increased the policy rate (one week repo rate) by 50 bps to 8.0% and O/N lending rate by 25 bps to 8.50%. Market expectation was that all rates would be left unchanged.
- The negative turn for EM assets in global financial markets had led to a pause in CBT’s simplification process in October. In November, sharp depreciation in Turkish Lira has caused the bank to tighten its monetary policy, foregoing any mention of simplification.
- Turkish Lira has been the worst performer among EM currencies in November and this has caused a deterioration in inflation expectations. 12 months ahead annual inflation expectation rose to 7.87% from 7.61 and 24 months ahead expectation to 7.27% from 7.01% according to latest CBT expectations survey. CBT can be expected to keep monetary policy tight, unless an improvement in expectations is observed.

External Sector

Current account deficit widens with growing trade deficit and falling tourism revenues...
- Current account deficit (CAD) in September came at $1.68bn. 12 month cumulative CAD increased to $32.4 bn (4.5% of GDP) from $30.6bn in August.
- On the financing side, there has been an FDI inflow of $0.7bn in September. There has been an outflow of $1.6bn in portfolio flows as there was a net payment of $2bn regarding bond issues in international capital markets. Reserve assets decreased in September by $4.8bn.
- 12 month cumulative energy deficit in August shrank by 33% on an annual basis to $24.1 bn. 12 month cumulative tourism revenues dropped by 34% to $14.8 bn.
- As trade deficit continued to widen in October, current account deficit may be expected to increase.
Debt Market

Benchmark bond yield is at 10.46%.

Currency Market

EM currencies depreciated against USD on average.

Stock Market

EM stock markets were down in November.
CAR is at 16% in October, compared to 15.6% at the end of 2015.

Share of deposits in funding was at 58% as of Oct 16.

Annualized loan growth is at 6.8% as of November 18th.
Loan to deposit ratio is 118% in October.

Headline NPL ratio for the sector is at 3.3% as of Oct—16.

As of Oct-16, sector’s 12 month cumulative profit increased YoY by 47%. ROE is at 13.4%.