

DenizBank Economic Update

October 2016

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

Economic Research and Strategy

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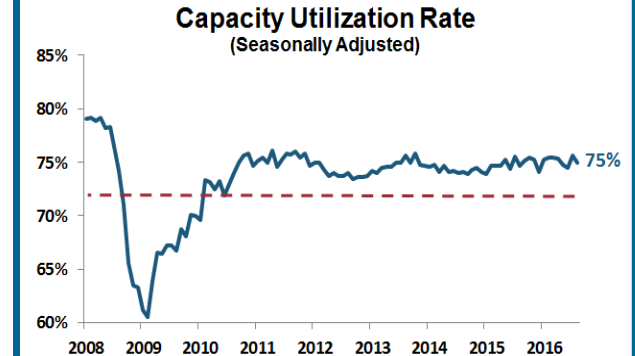
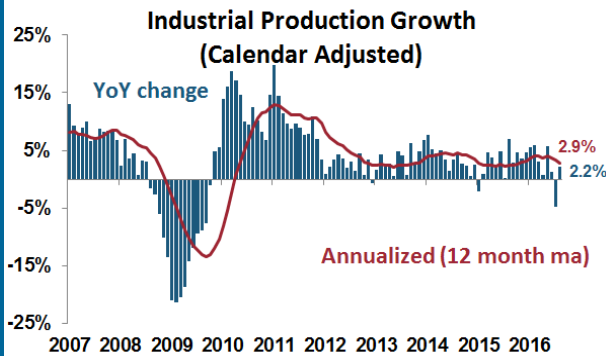
Deniz Bayram



DenizBank Economic Update

Economy (I)

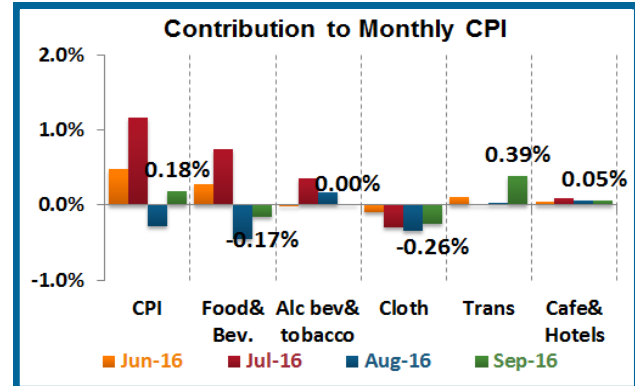
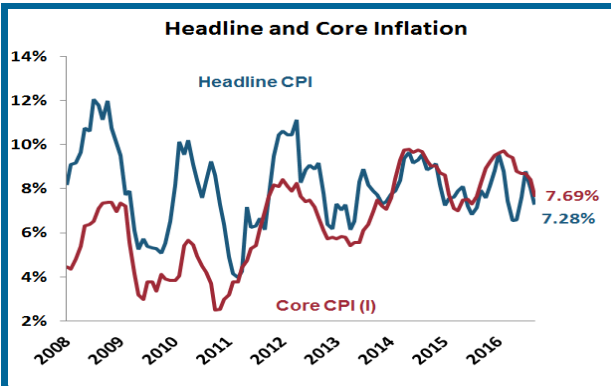
Growth



Industrial production recovered partially in August...

- Industrial production index rose by 9.4% in August after contracting 7% in July. YoY the index increased by 2.2%. In annualized terms, index was up by 2.2%. Despite the pickup in August, the sharp decrease in July and a possible weak data for September—due to holiday— signals that there may be a limited contribution to growth from industrial production in the third quarter.
- There has been a limited recovery in PMI Manufacturing data in September as the index increased to 48.3 from 47 a month ago. However, the index has remained below the threshold of 50 since February, indicating a lack of expansion in economic activity in the manufacturing sector.
- The slowdown in economy has been reflected in government's new Medium Term Plan. Growth forecast for 2016 has been reduced to 3.2% from 4.5%.

Inflation



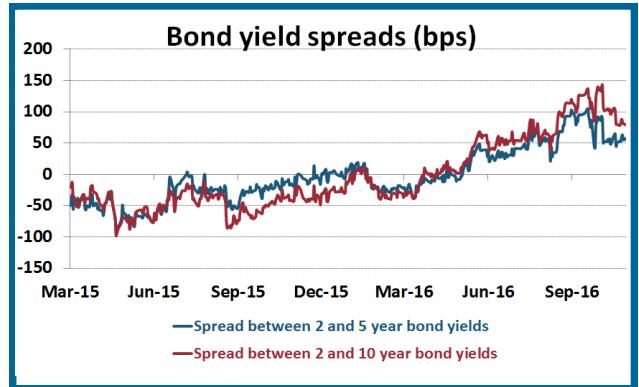
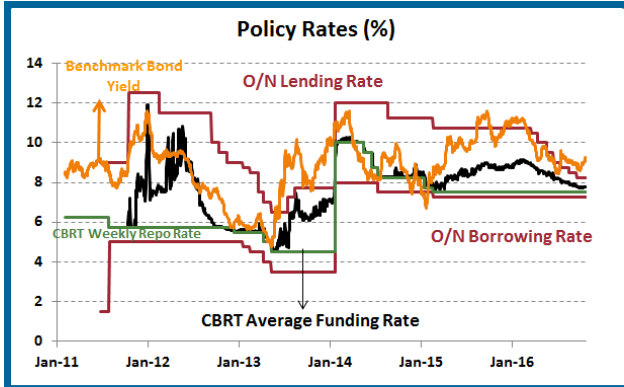
Annual inflation continued to come down in September...

- CPI in September increased MoM by 0.18%, below the market expectation of 0.70%. Food prices decreased by 1.92% bringing annual food inflation to 4.16% from 6.19% a month ago.
- Annual inflation decreased to 7.28% from 8.05% in August. Improvement in core inflation continued as the I index decreased to 7.69% from 8.41%. Index fell below 8% for the first time since August 2015.
- CBRT held its 2016 year end inflation forecast unchanged at 7.5% and increased 2017 forecast to 6.5% from 6% in this year's last inflation outlook report. Food inflation forecast for 2016 has been reduced to 6% from 8%, and to 7% for 2017. Despite the significant slowdown in food inflation, the depreciation in Turkish Lira prevents a sharp decrease in headline inflation and core inflation.

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Economy (II)

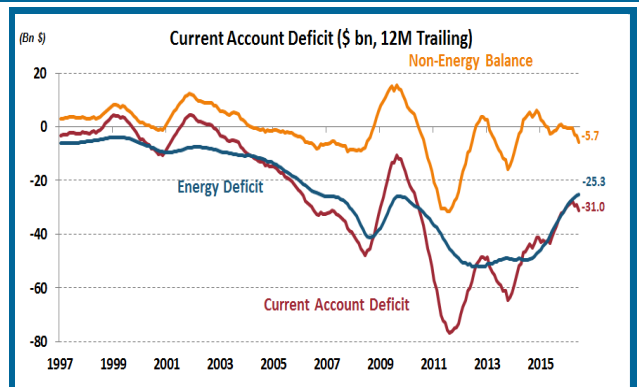
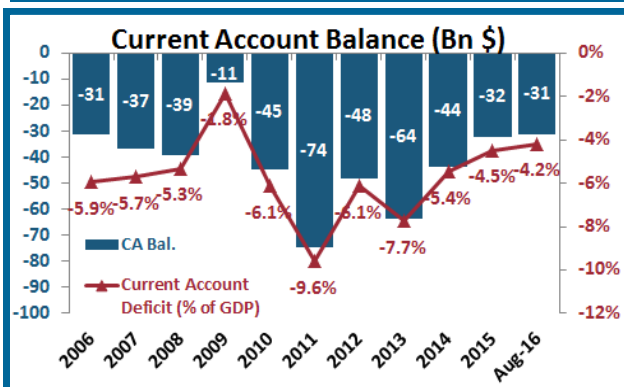
Monetary Policy



Central Bank (CB) took a break from cuts to the upper end in October...

- In its monthly Monetary Policy Meeting, CB left both policy rate (one week repo rate) and O/N lending rate unchanged at 7.5% and 8.25% respectively. Market expectation was a 0.25% cut in O/N lending rate.
- The reason for the hold in October was the depreciation in Turkish Lira and developments in other cost factors. The recent developments in these two items restrain the improvement in inflation outlook and require the bank to maintain a cautious stance in monetary policy. In the inflation outlook report presentation, CB governor stated that the bank was nearing the end of simplification process, yet did not give a pre-determined schedule, saying decisions would be based on data announced.
- The downturn in global risk appetite has affected EMs including Turkey negatively. CB may choose to hold further monetary policy action until after Fed increases its policy rate at the end of this year.

External Sector



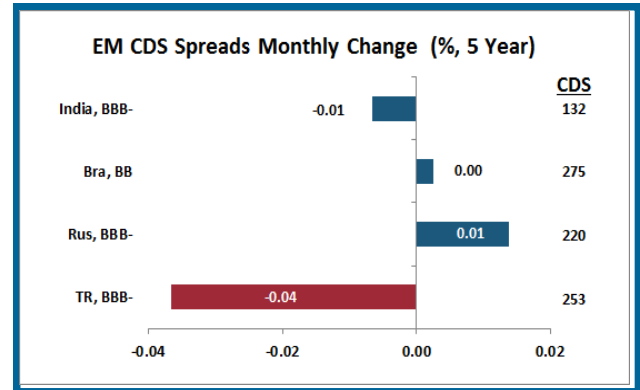
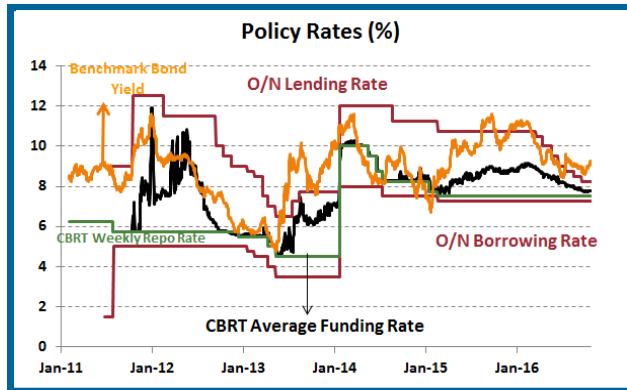
Current account deficit widens as tourism revenues drop...

- Current account deficit (CAD) in August came at \$1.78bn. 12 month cumulative CAD increased to \$31 bn (4.2% of GDP) from \$29bn in July.
- On the financing side, there has been an FDI inflow of \$0.9bn in August. There has been an inflow of \$0.5bn in portfolio flows. In the equity markets, there was a limited inflow of \$31 mn. Reserve assets increased in August by \$3.7bn.
- 12 month cumulative energy deficit in August shrank by 35% on an annual basis to \$24.5 bn. 12 month cumulative tourism revenues dropped by 32% to \$15.4 bn.
- Current account deficit may be expected to increase in September because of further fall in tourism revenues and decline in exports.

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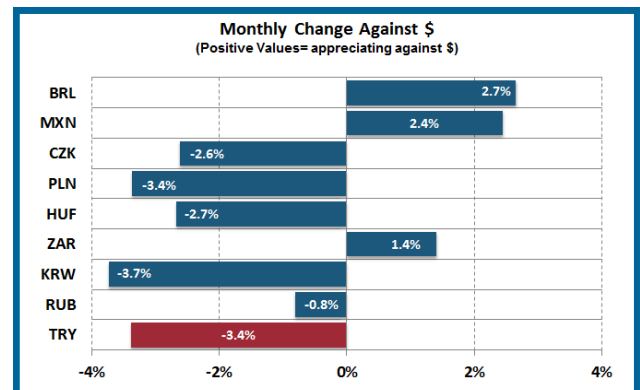
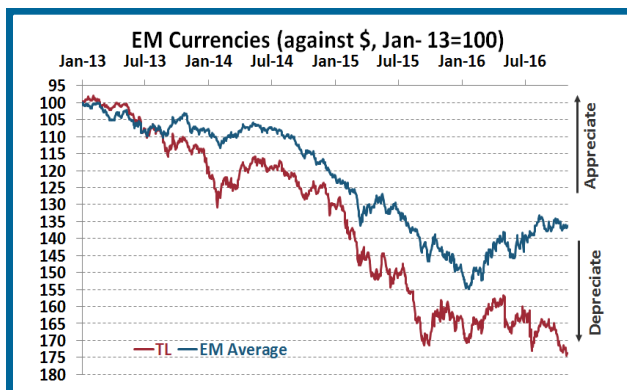
Financial Markets

Debt Market



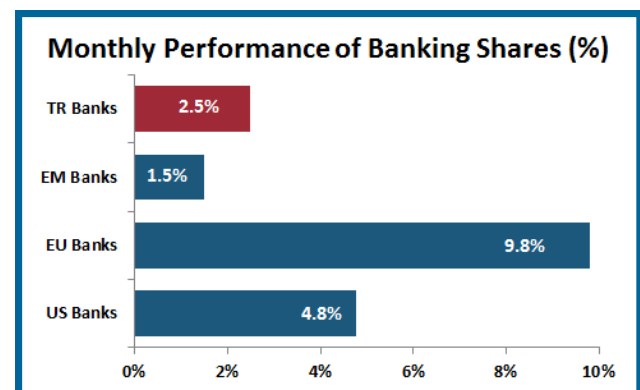
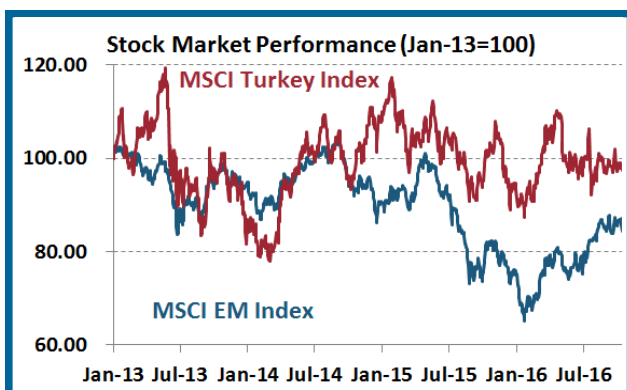
Benchmark bond yield is at 9.24%.

Currency Market



EM currencies depreciated against USD on average.

Stock Market

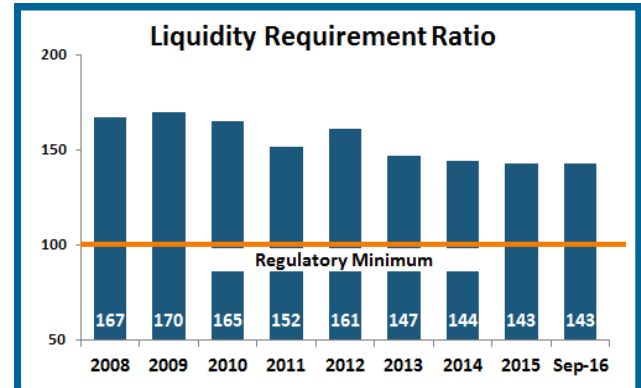
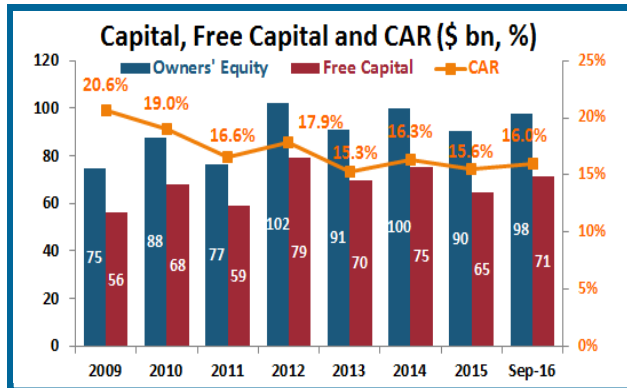


EM stock markets were flat in October.

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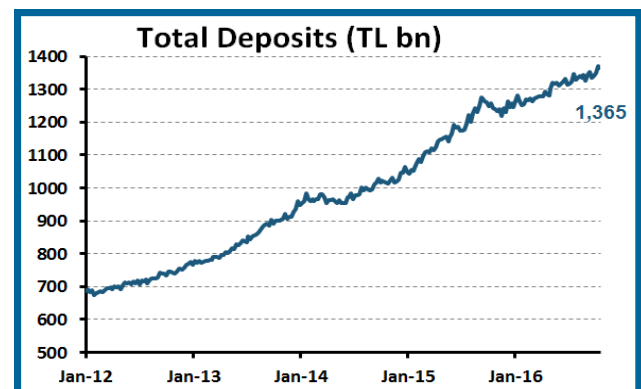
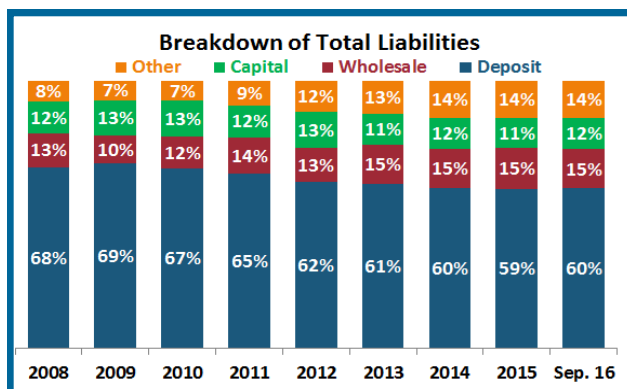
Banking Sector (I)

Capital



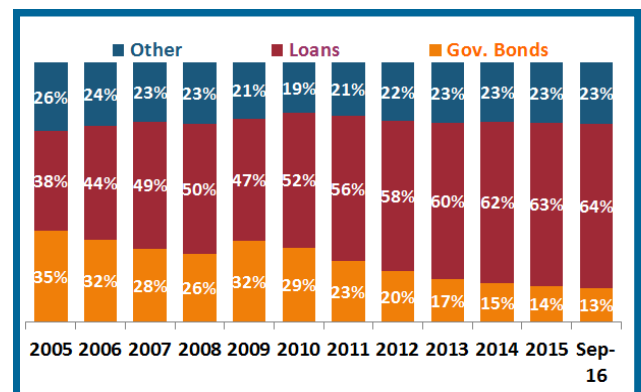
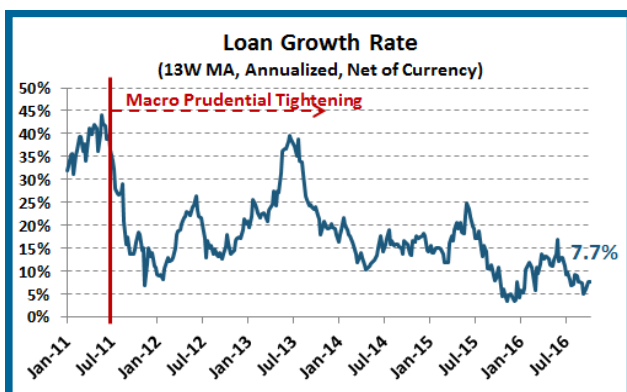
CAR is at 16% in September, compared to 15.6% at the end of 2015.

Funding



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

Lending

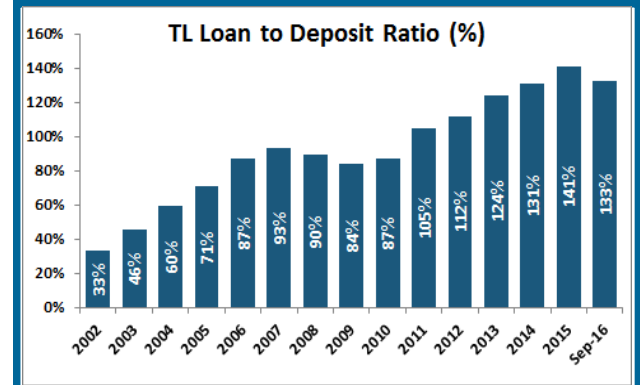
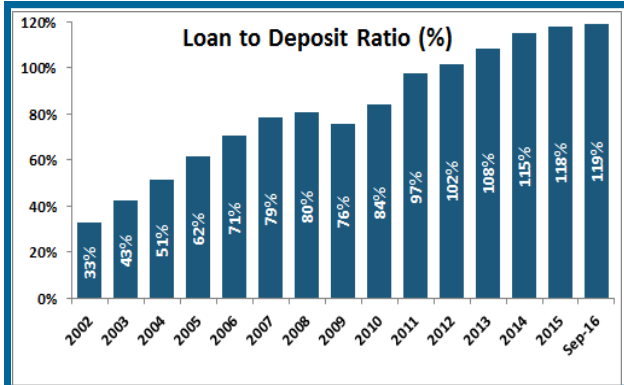


Annualized loan growth is at 7.7% as of October 21st.

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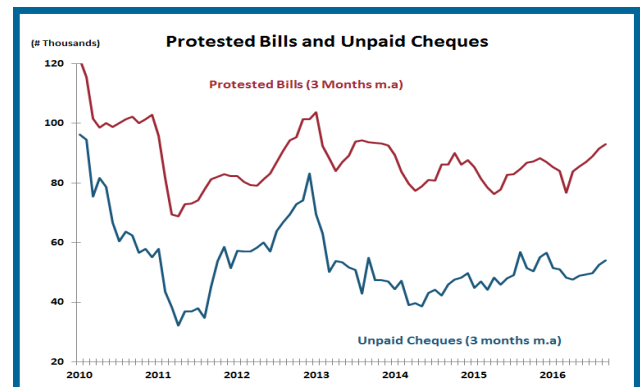
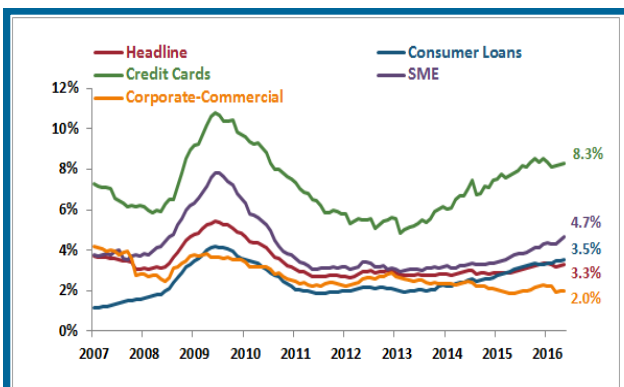
Banking Sector (II)

Loan to Deposit Ratios



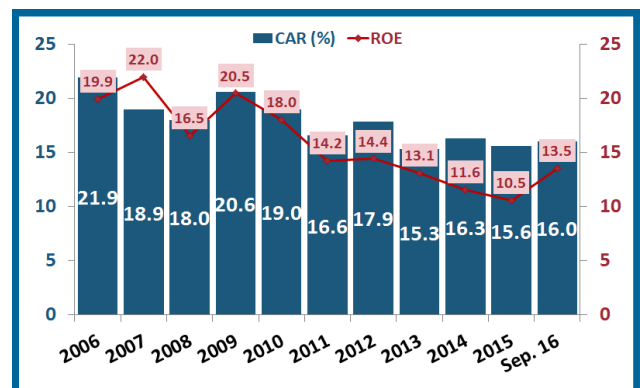
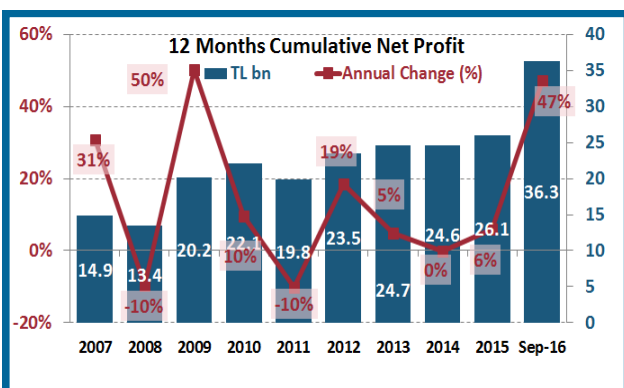
Loan to deposit ratio is 119% in September.

Loan Quality



Headline NPL ratio for the sector is at 3.3% as of Sep-16.

P & L



As of Sep-16, sector's 12 month cumulative profit increased YoY by 47%. ROE is at 13.5%.