

DenizBank Economic Update

September 2015

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

Economic Research and Strategy

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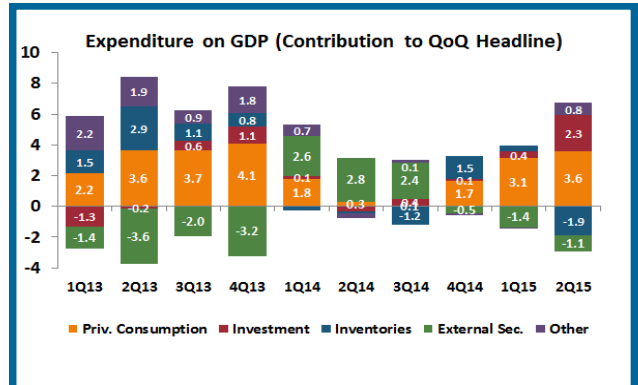
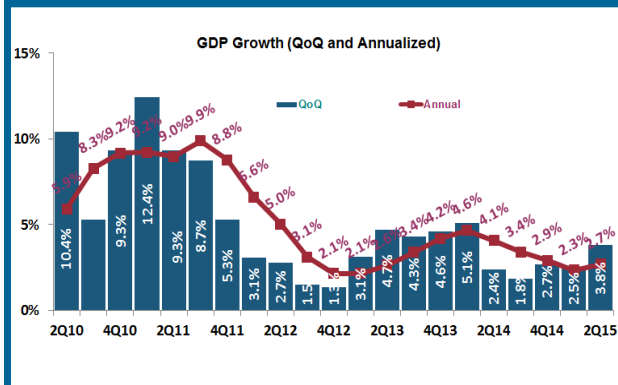
DenizBank 

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DenizBank Economic Update

Economy (I)

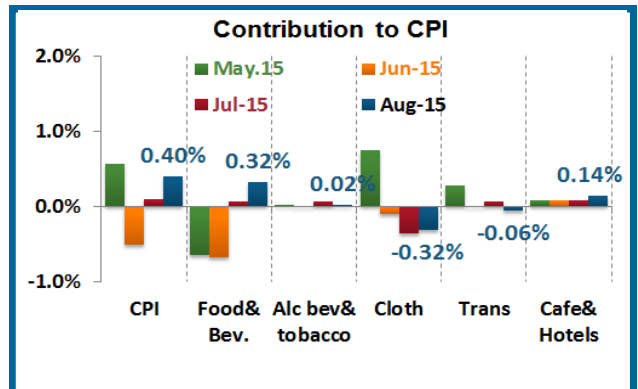
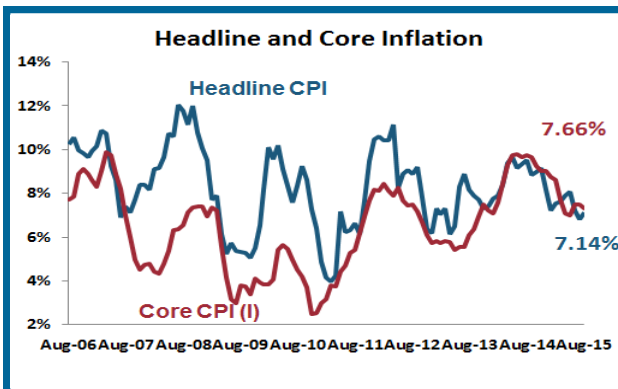
Growth



Growth continued to beat expectations in the second quarter...

- Turkish economy grew by 3.8% in 2Q15 beating the market expectation of 3.1%. Growth in Q1 was revised up to 2.5% from 2.3%, bringing growth in the first half of the month to 3.1%.
- Domestic private demand continued to be the driver of the growth, as it made a 3.6 pps contribution. Net exports contributed negatively (-1.1 pps) third time in a row. Contribution from government expenditure was 0.8 pps compared to 0.3 in Q1. Contribution from public sector investment was neutral, while private sector investment made a 2.3 pps positive contribution.
- Strong domestic demand, despite political uncertainty and TL depreciation, has been a positive surprise in the first half of the year. However, we do not expect it to continue in the second half. Weakening in domestic demand may be offset by improving foreign demand, especially due to recovery in EU economic activity. We keep our year-end GDP growth forecast at 3.0%

Inflation



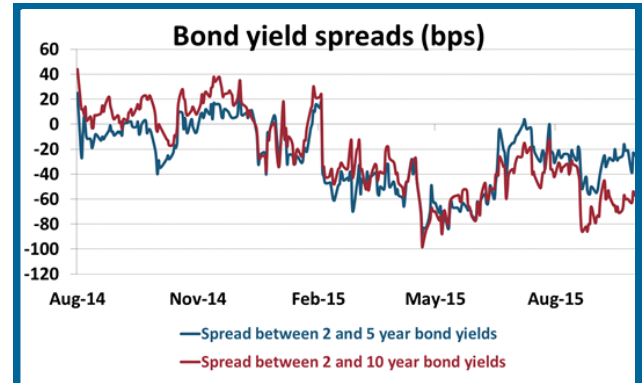
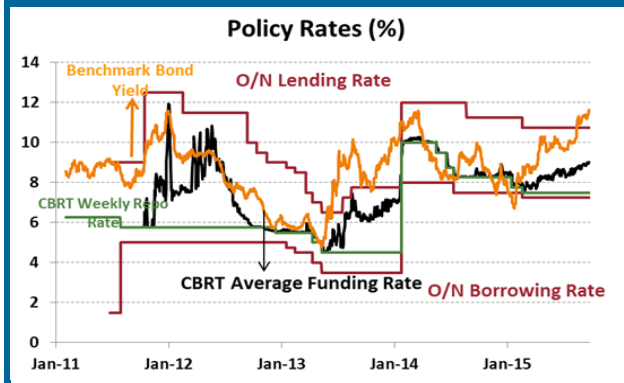
The downward trend in inflation reversed in August...

- CPI in August increased MoM by 0.4% above the market expectation. The food prices rose by 0.3%. Seasonal decline in clothing group continued with a 0.3% decrease in prices.
- Annual inflation went up to 7.14% from 6.81%. Annual food inflation increased to 9.7% from 9.3%. Annual core inflation indicators deteriorated, as well. Annual Core I indicator went up to 7.66% from 7.31%.
- Looking at Central Bank (CB)'s expectations survey, we see a worsening in 24 month ahead CPI expectations. Mean of expectations in September increased to 6.91% from 6.78%. Depreciation in Lira continues to be the main source of upward pressure in inflation level. The relieving affect of falling energy prices remains limited. We see a very low probability that year-end inflation will remain below CB's upper limit of 7%. Unless Turkish Lira goes through a significant appreciation, our year-end forecast is 7.6%.

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Economy (II)

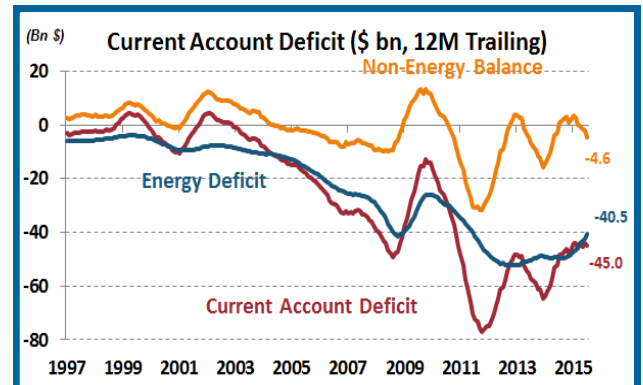
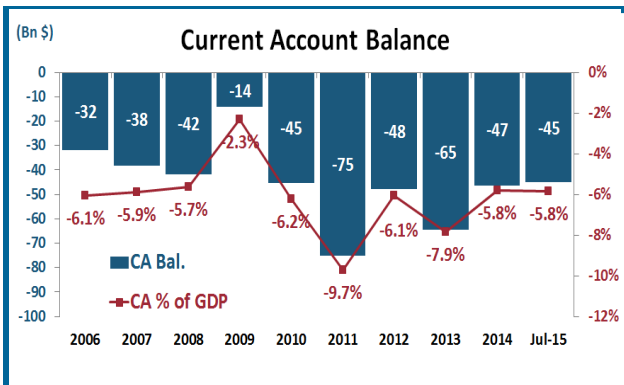
Monetary Policy



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%. CB emphasized that volatility in the exchange rates was the main source that is delaying the improvement in the core indicators.
- CB has been signaling that until political uncertainty fades on the domestic front and global monetary policy begins the normalization process, changes to its monetary policy will be held off. Following the rate hike from Fed, we expect CBT to start its normalization process which was announced in August meeting.
- We expect the bank to keep its tight monetary stance, until a solid improvement in CPI is realized.

External Sector



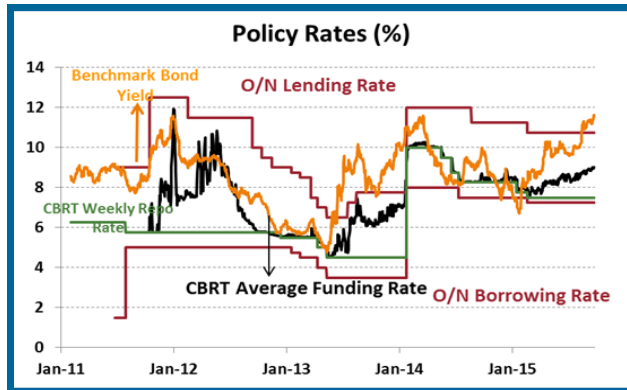
Current account continues narrowing in June...

- Current account deficit came below expectations (\$3.5bn) at \$3.2bn in July. However, 12 month cumulative current account deficit increased to \$45.0 bn (5.8% of GDP) in July from \$44.7 bn in June.
- On the financing side, there has been an FDI inflow of \$2.5 bn. While outflow from bond market reached to 4.9 bn in the first 7 months of the year, the outflow from the equity market was \$0.4bn. In July, reserves increased by \$2bn bringing year to date depletion to \$2.5bn since the beginning of the year, from \$4.5bn a month ago.
- 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.

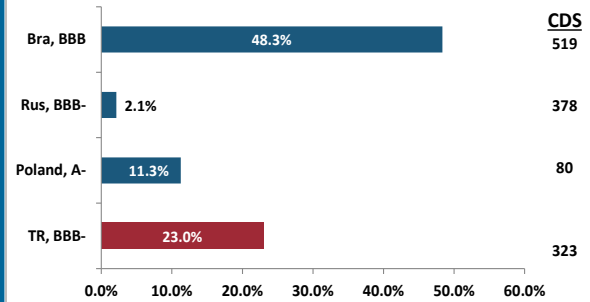
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Financial Markets

Debt Market

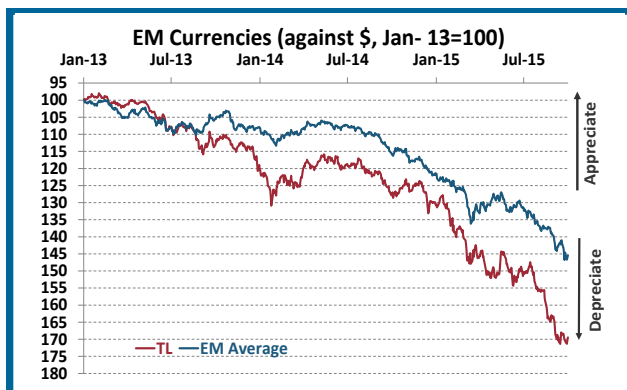


EM CDS Spreads Monthly Change (% , 5 Year)

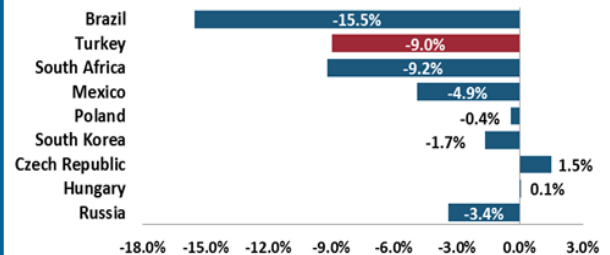


Benchmark bond yield is above to 11%.

Currency Market

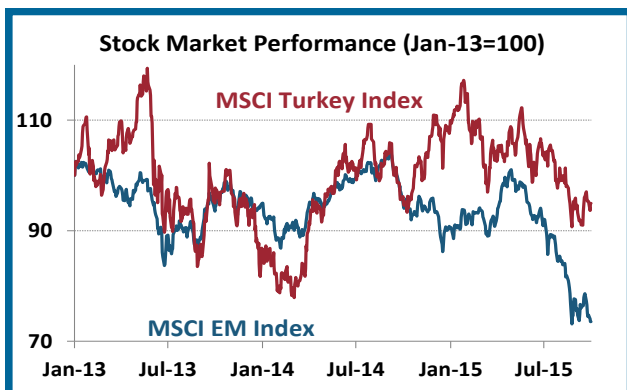


Monthly Change Against \$
Positive values = appreciating against \$

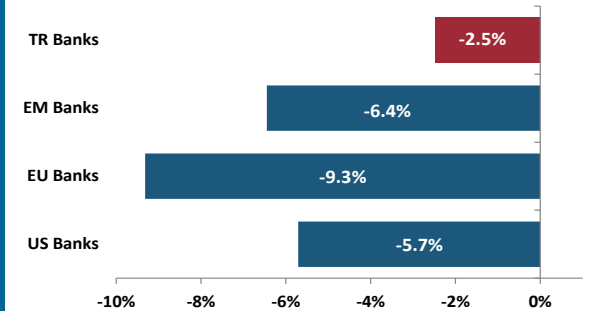


EM currencies depreciated against dollar in September.

Stock Market



Monthly Performance of Banking Shares (%)

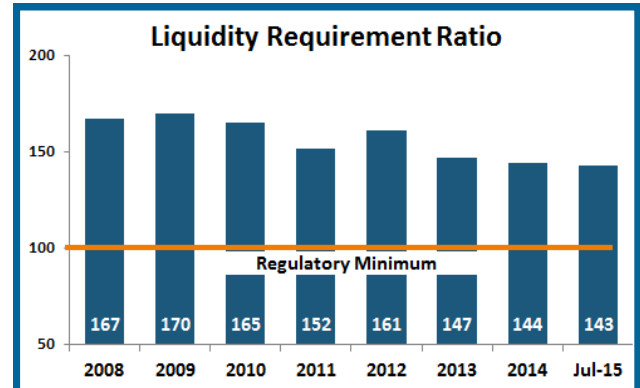
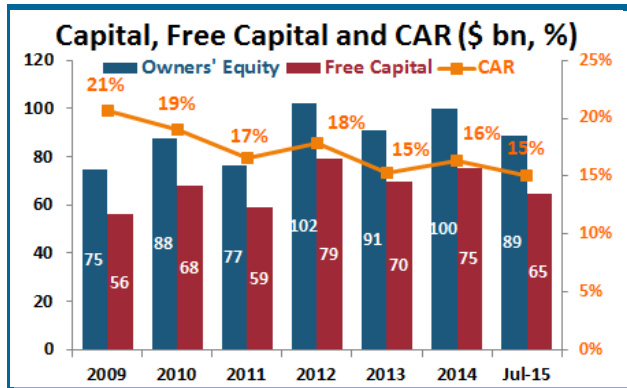


Istanbul Stock Exchange declined in line with other emerging markets.

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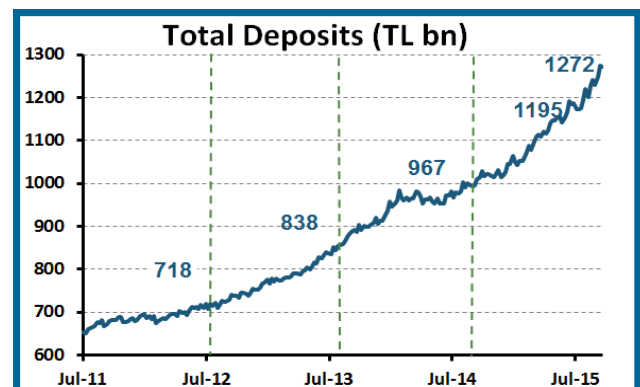
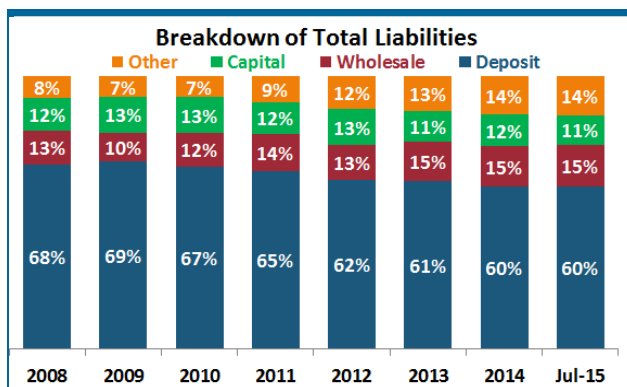
Banking Sector (I)

Capital



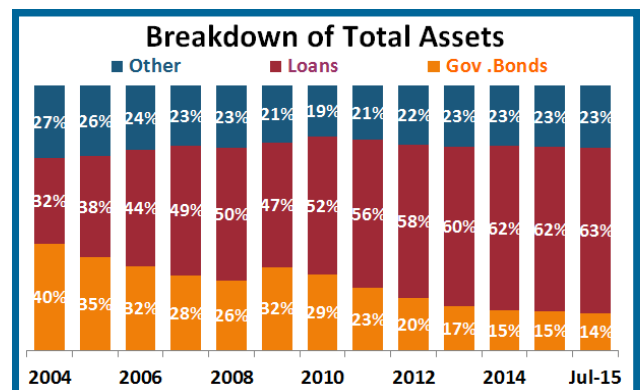
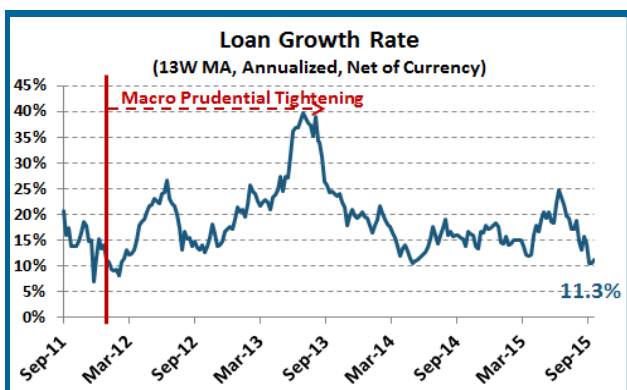
CAR remained at 15% in July, compared to %16 as the end of 2014.

Funding



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

Lending

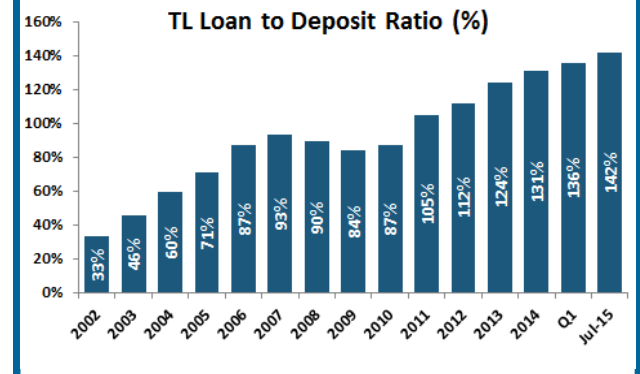
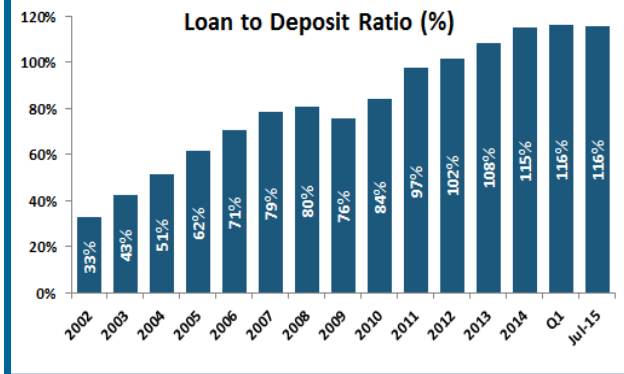


Annualized loan growth decelerated to 11.3% as of September 18th.

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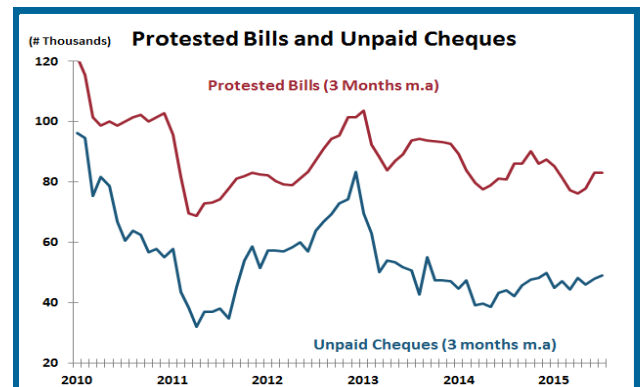
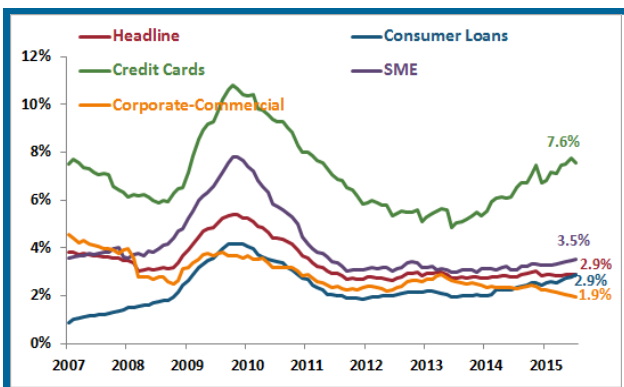
Banking Sector (II)

Loan to Deposit Ratios



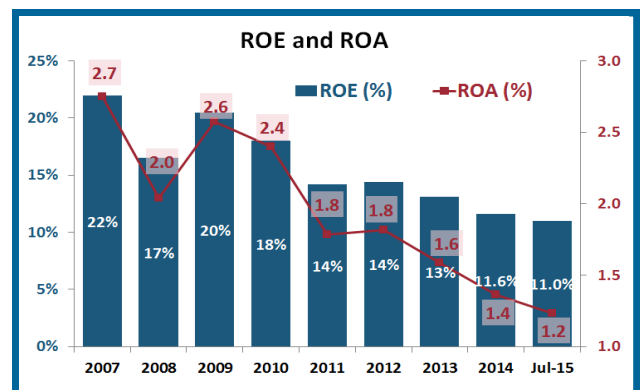
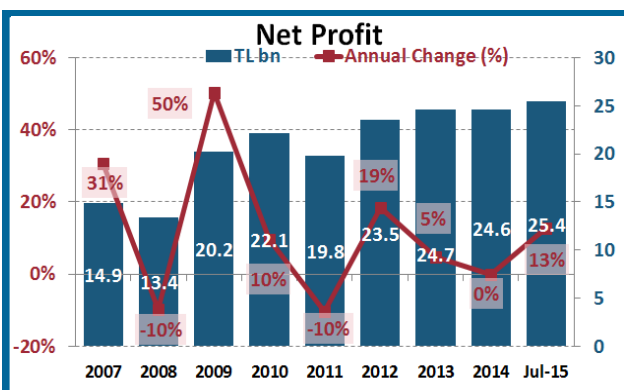
Loan to deposit ratio is 116% in July.

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