RESEARCH

October 26th

October

Monthly Economic Monitor

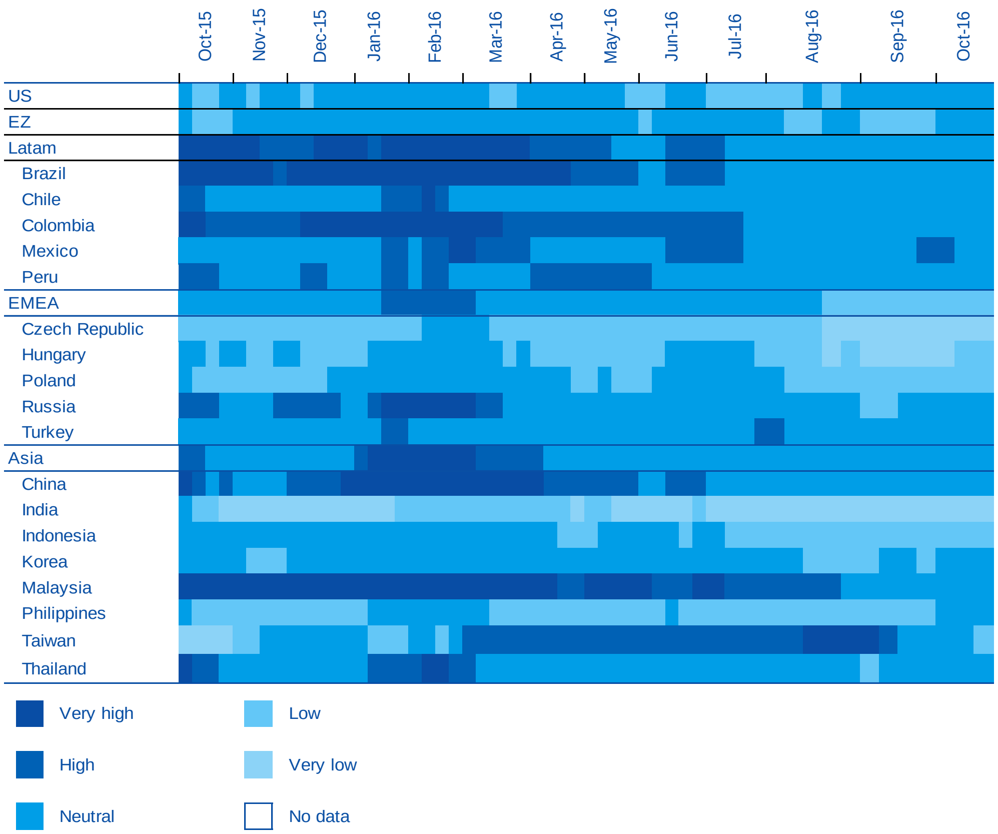
Turkey

Global Developments

Although the market is pricing a next move by the Fed (75% probability) in December, financial stress remains somehow contained.

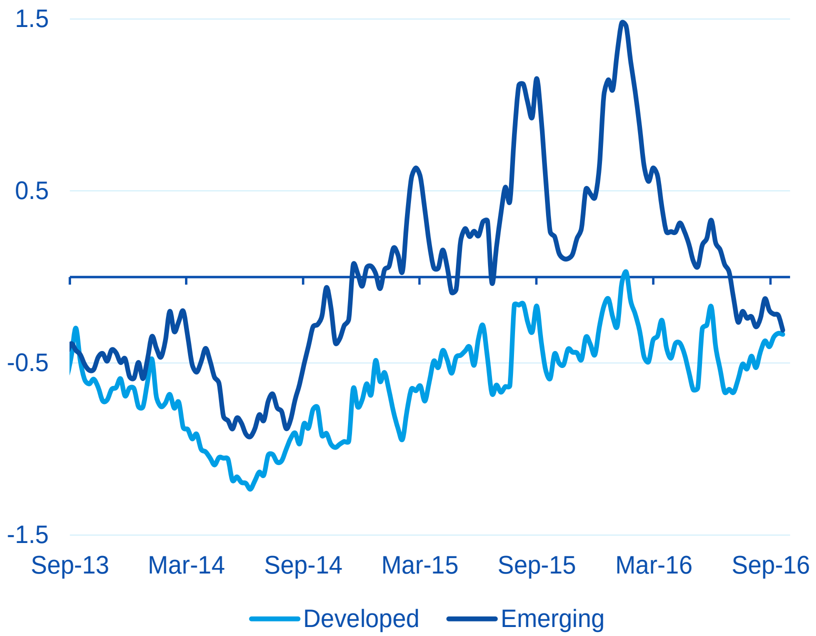
Financial Stress Index Regional Map

Standard deviation ≈ (-1, 1)



BBVA Research Financial Stress Index

normalized index

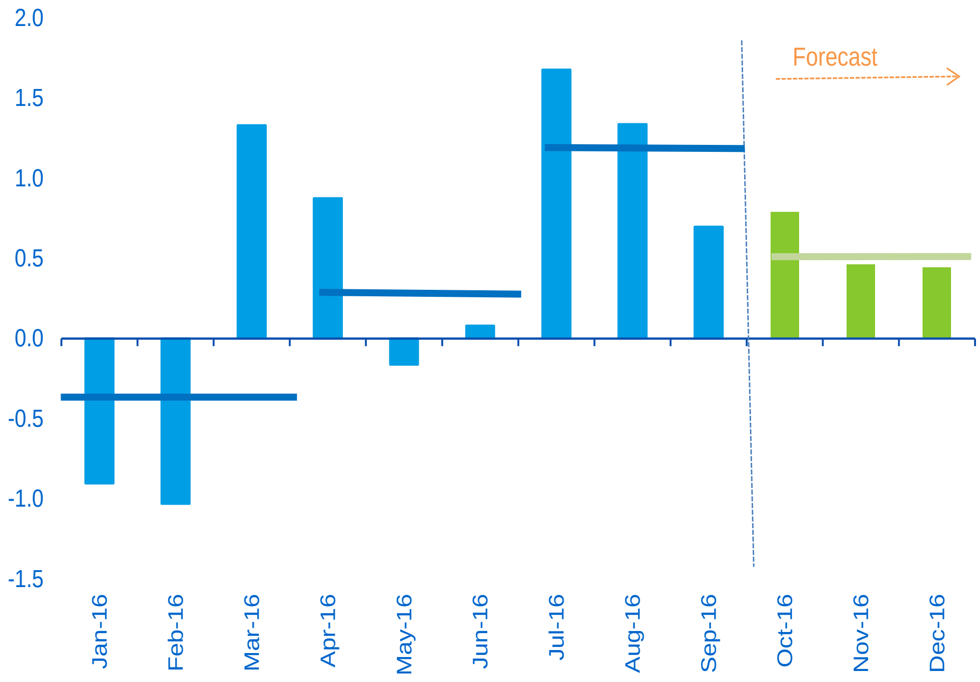


Source: BBVA Research & Bloomberg

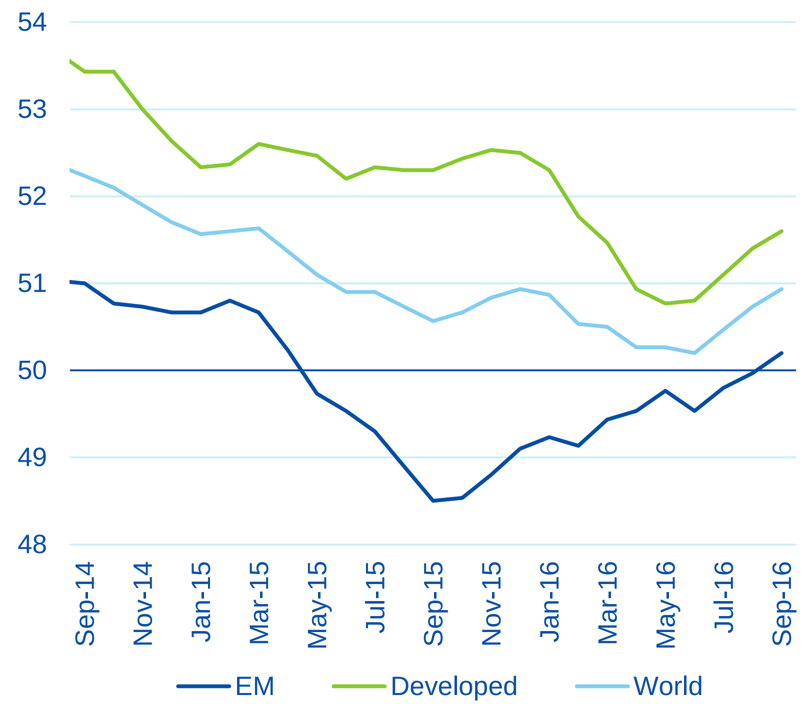
Global Developments

Global factors continue to support EM portfolio flows, but to a slower pace. World economic activity is picking up moderately.

EM Portfolio Flows
(monthly change in % of total assets under management)



Manufacturing PMI
(50 is the threshold for growth)



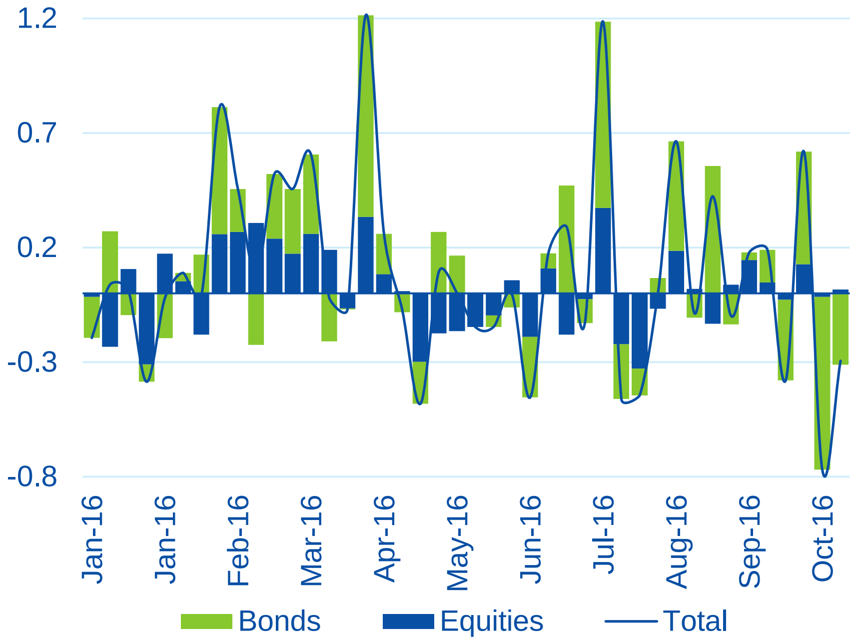
Source: BBVA Research & Markit

Flows to Turkish Assets

There were outflows in the first two weeks of October, especially on the bonds side while the 5y CDS spread maintained near the 250bps levels.

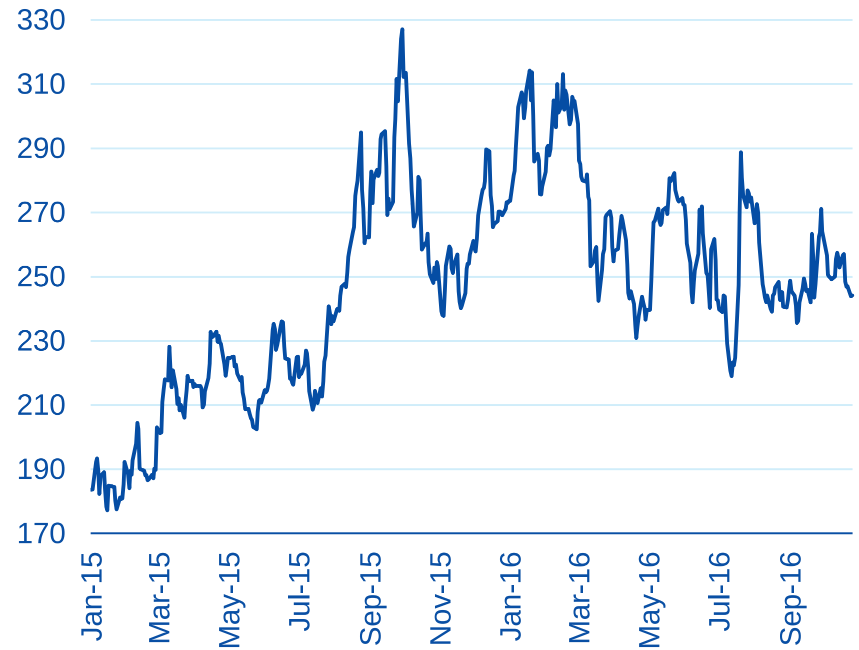
External Fund Flows

Weekly net change, USDbn



Risk Premiums, 5-year CDS

Level



Source: CBRT, Garanti Research, Bloomberg

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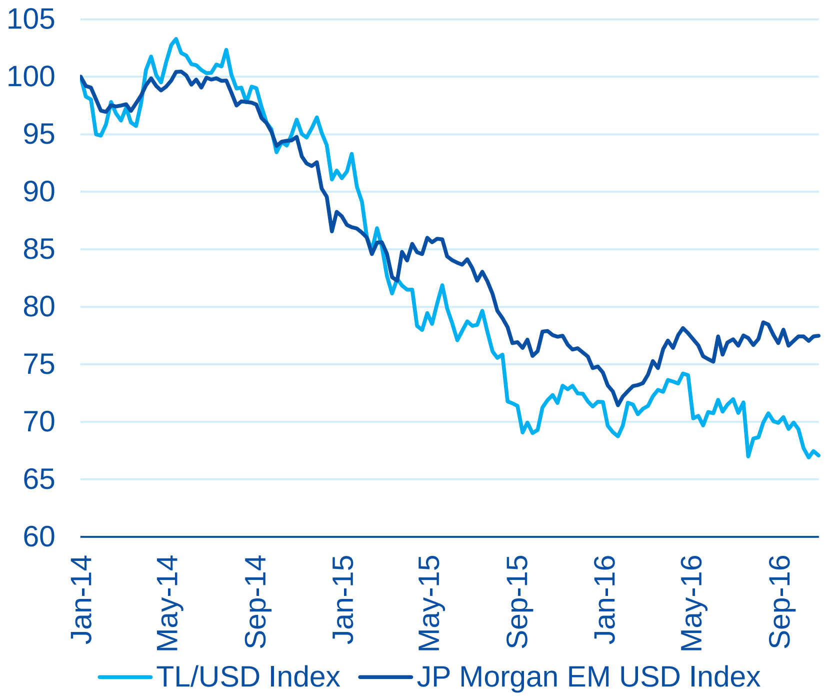
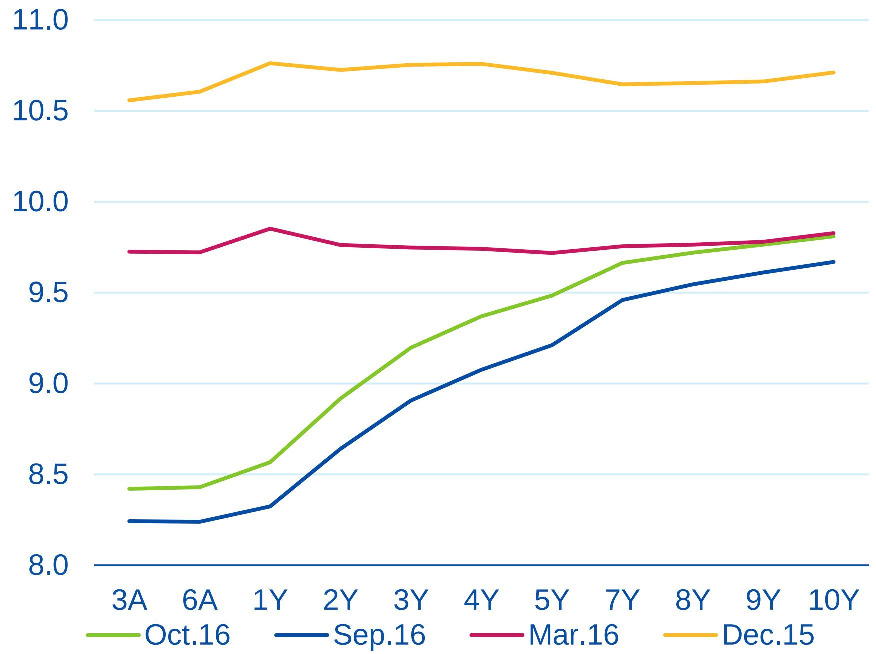
Exchange & Interest Rates

Turkish lira depreciated to record lows during the month as global and also local factors stressed the markets. The yield curve shifted upwards after the "wait and see" decision by the Central Bank.

USD/TL vs Avg. of Emerging Markets
January 2014 = 100



Yield Curve, %



Source: Garanti Research, Bloomberg

Economic Activity: GDP

Our monthly GDP indicator points to a rapid slowdown in Q3, monetary and fiscal policy stimulus will prompt a recovery in the last quarter.

Activity Indicators

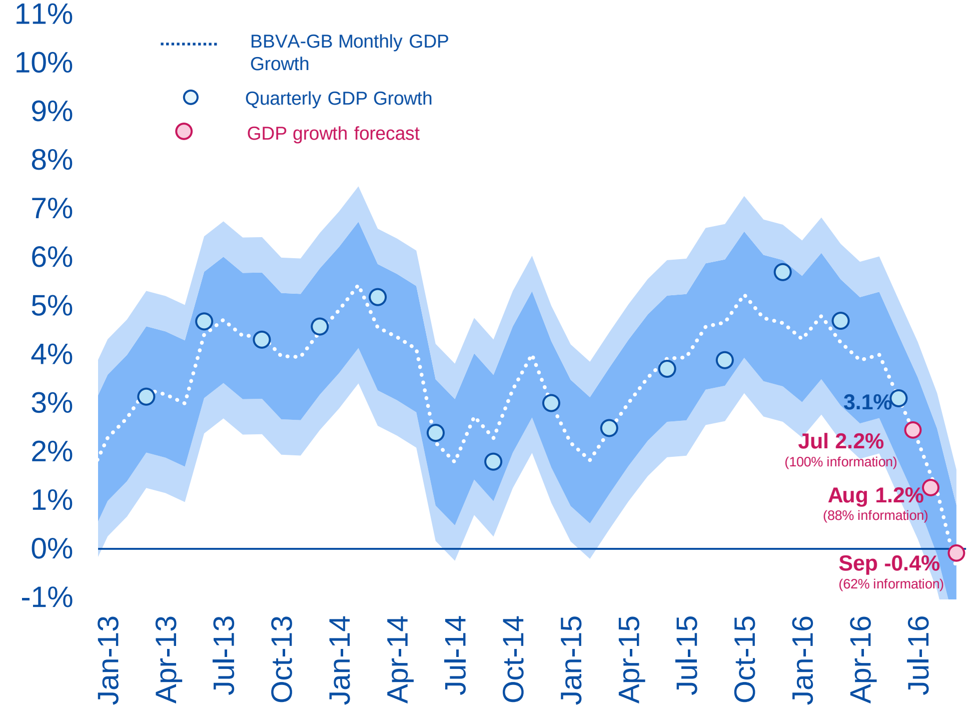
3 MA, YoY Change, %

		2015	2016								
	Mean	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Industrial Production	3.9	7.5	4.0	5.5	5.6	4.5	4.1	2.9	0.1	-14	
Non-metal Mineral	16	5.4	2.0	6.5	5.6	6.0	13	0.4	-3.3	-15	
Electricity Production	4.1	6.5	5.4	6.1	4.7	4.2	4.1	6.5	5.9	5.8	18
Auto Sales	3.9	3.5	3.9	0.9	-6.0	-6.8	-0.3	2.5	-4.6	-13.3	-15.2
Tourist Arrivals	14	-3.9	-4.5	-8.0	-10.3	-18.7	-27.6	-35.6	-37.4	-38.3	
Number of Employed	3.8	3.1	3.1	3.1	3.2	3.3	3.2	2.5	19		
Number of Unemployed	3.9	18	12	10	0.1	0.0	13	4.4	7.9		
Auto Imports	6.4	5.6	5.7	2.8	0.2	-2.0	0.8	2.6	-3.5	-9.7	-10.2
Auto Exports	7.3	23.1	5.0	7.3	6.6	13.9	22.4	216	24.3	14.7	12.2
Financial Conditions	75.8	80.5	79.1	79.3	84.8	87.0	85.3	86.7	912	88.4	88.6
Credit Growth-13Week	20.6	10.2	6.2	9.6	9.4	12.1	113	13.5	8.8	9.1	4.7
PMI Manufacturing	515	52.2	50.9	50.3	49.2	48.9	49.4	47.4	47.6	47.0	48.3
Real Sector Confidence	107.4	108.8	105.9	105.2	104.1	105.7	105.7	104.3	106.3	103.0	107.1
MICA Forecast									2.2%	1.2%	-0.4%
GDP YoY		5.7%			4.7%			3.1%			

Contraction | Slow-down | Growth | Boom

Monthly GDP Growth & Estimate

YoY Change, %

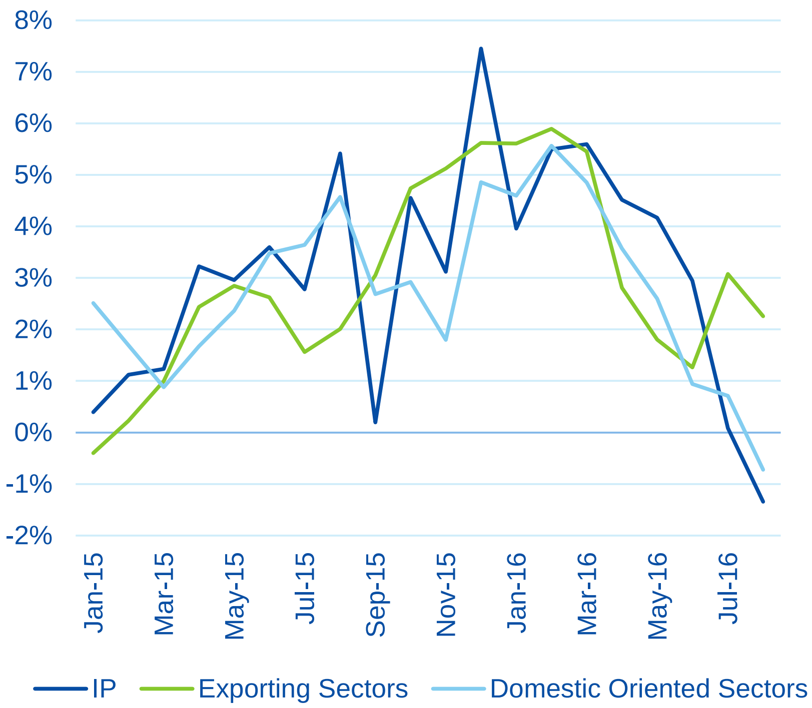


Source: Garanti Research, Turkstat, Bloomberg

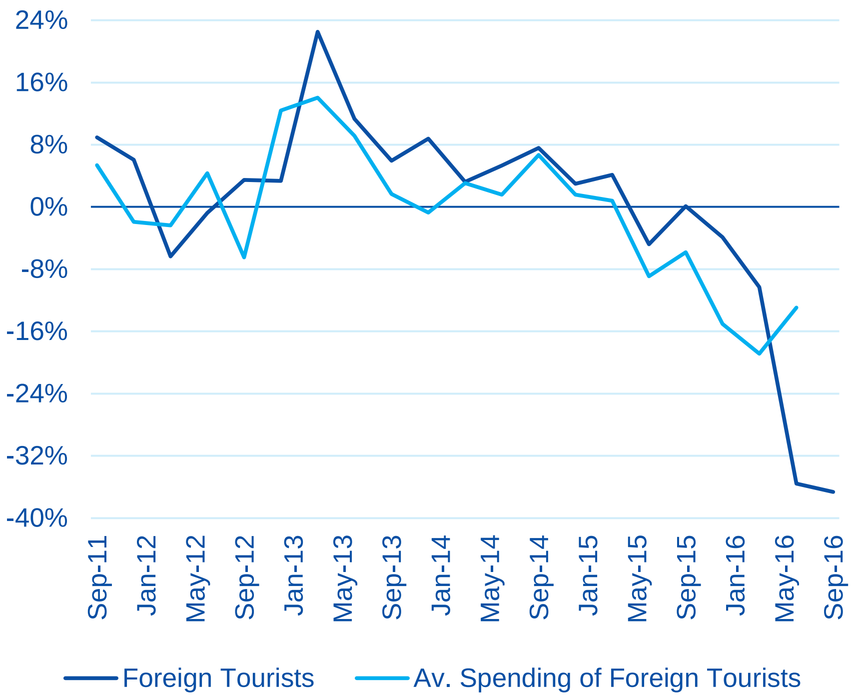
Economic Activity: Sectors

Industrial Production and domestic oriented sectors slow down, while the sharp decline in tourist arrivals continue.

Sectors in Industrial Production (IP)
3MA, YoY



Tourism Sector*
YoY



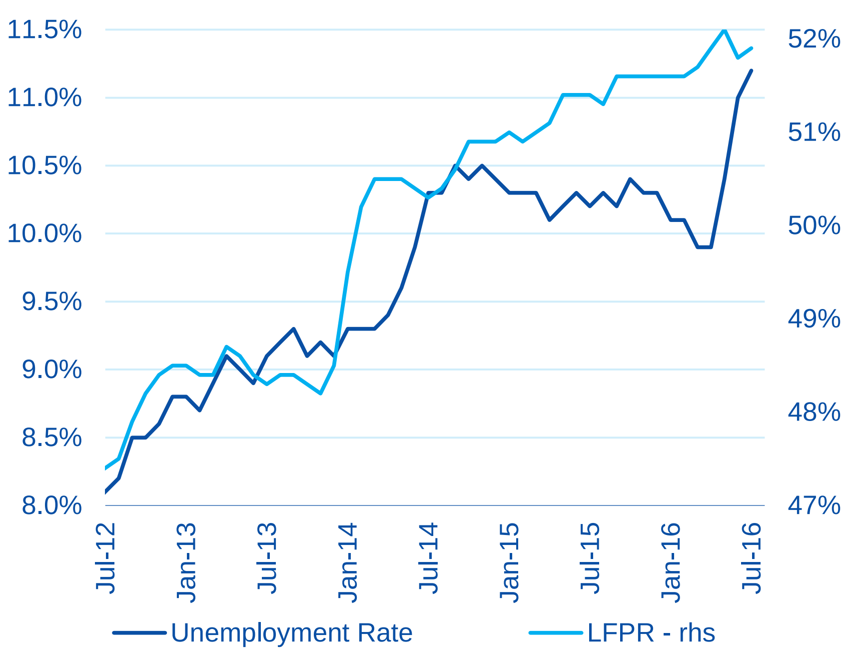
Source: Garanti Research, Turkstat, CBT, Ministry of Culture and Tourism
**September tourist arrivals is the estimation of Garanti Research*

Economic Activity: Employment

Unemployment rate rose to 11.2% (sa) in July, with non-farm unemployment rate climbing up to 13.2%. Construction employment suffer the most, services sector still growing above 4%.

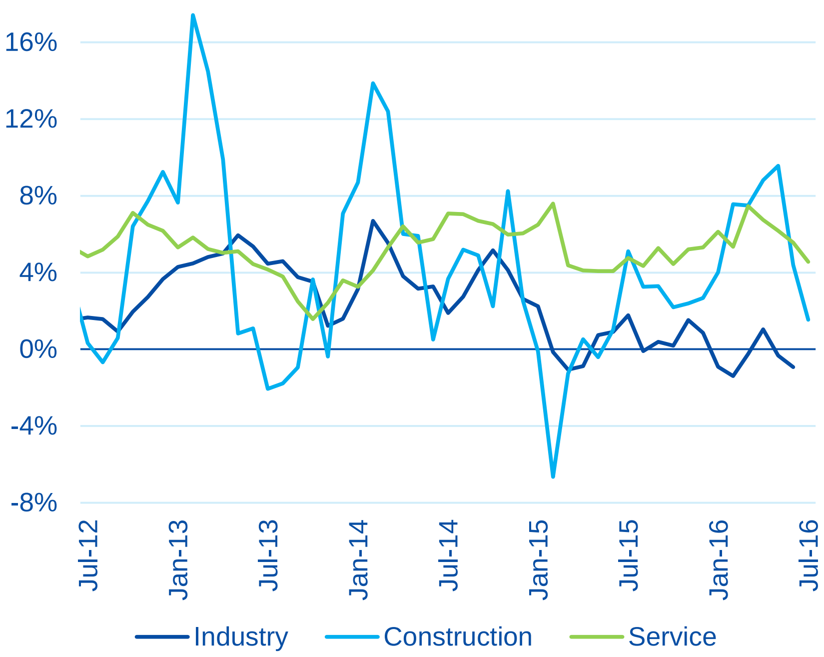
Unemployment & Labor Force Part. Rate

SA



Employment Growth in Sectors

YoY



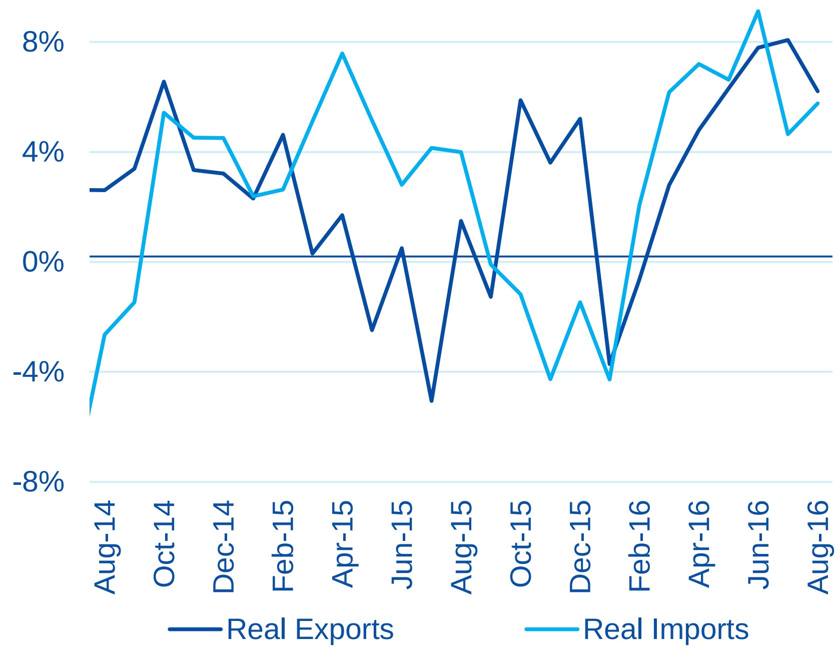
Source: Garanti Research, Turkstat

Economic Activity: Trade

Fall in exports to the strategic partners, Russia and Iraq, still continue, while exports to the main partner, EU, continues its latest increasing trend.

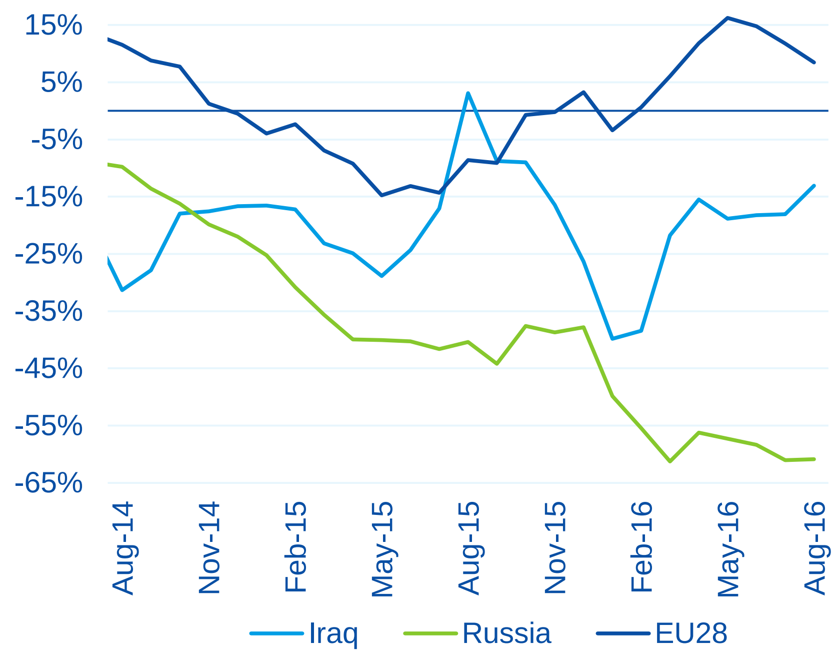
Foreign Trade Figures

3MA, YoY Change



Foreign Trade Figures

3MA, YoY Change

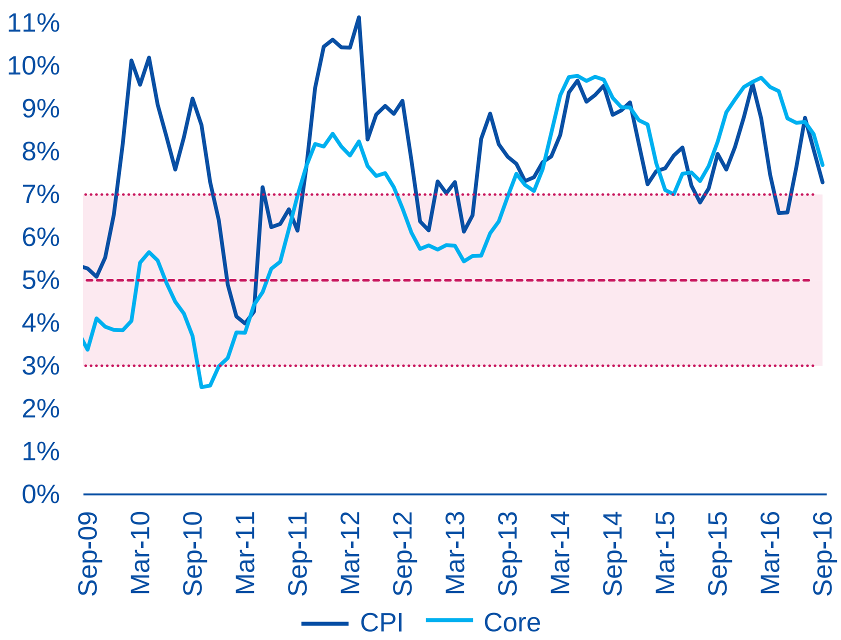


Source: Garanti Research, Turkstat

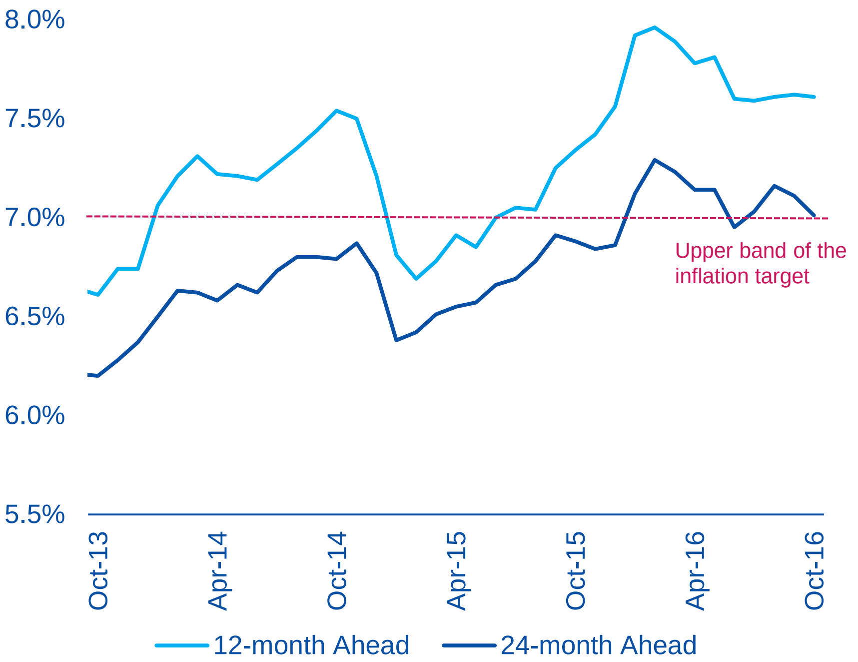
Inflation

The headline inflation continued to improve in September, market expectations were shaped accordingly.

CPI & CBT's Core Inflation
YoY



Inflation Expectations
YoY

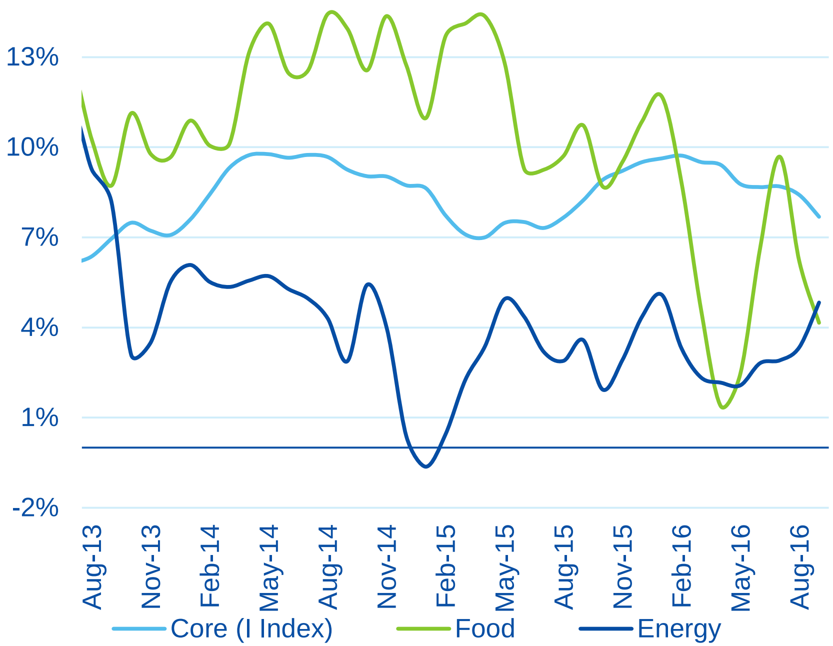


Source: Garanti Research, Turkstat, CBrT

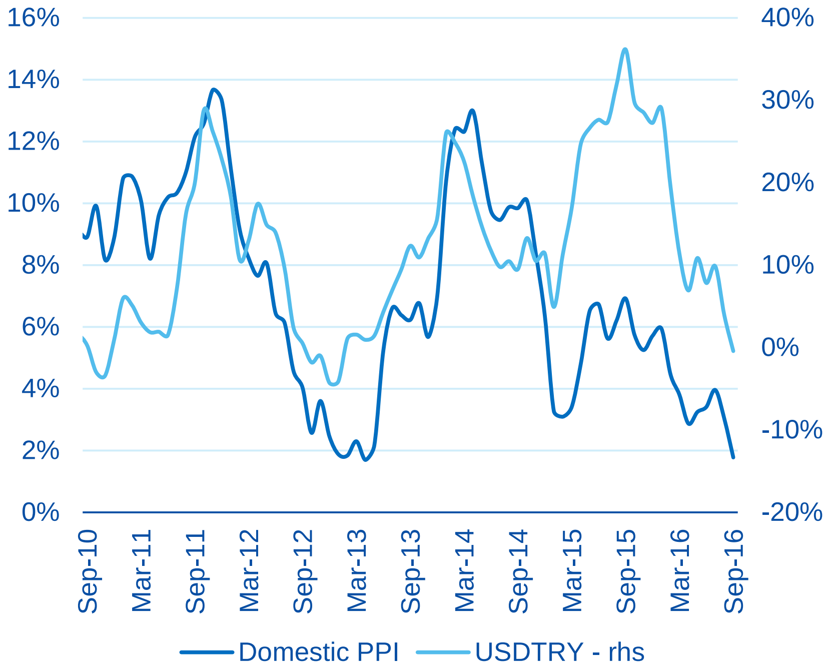
Inflation

Headline CPI inflation improved in September thanks to still low food prices while core items helped on the back of weak domestic demand.

CPI Inflation Components
YoY



Domestic PPI & USD/TL
YoY

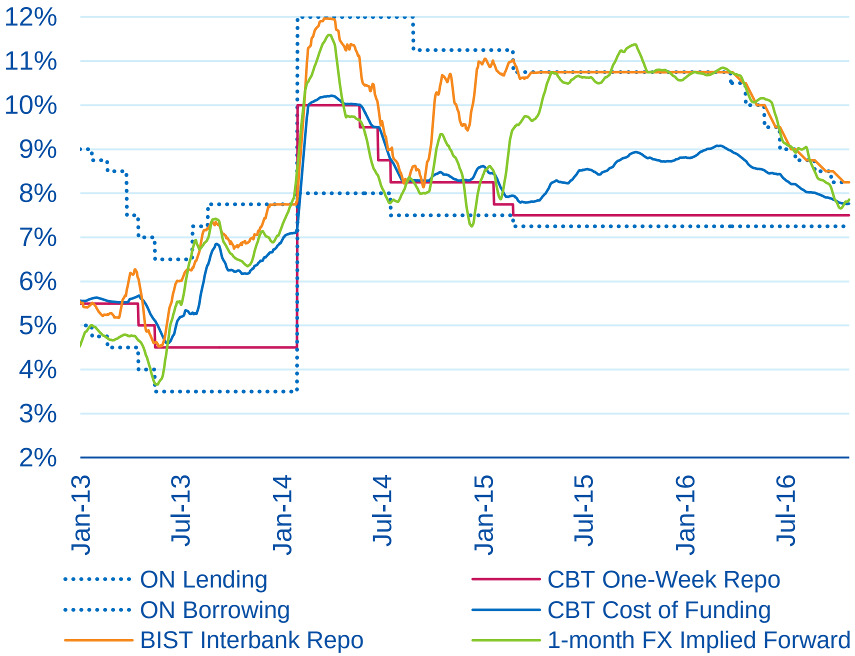


Source: Garanti Research, Turkstat, CBRTt

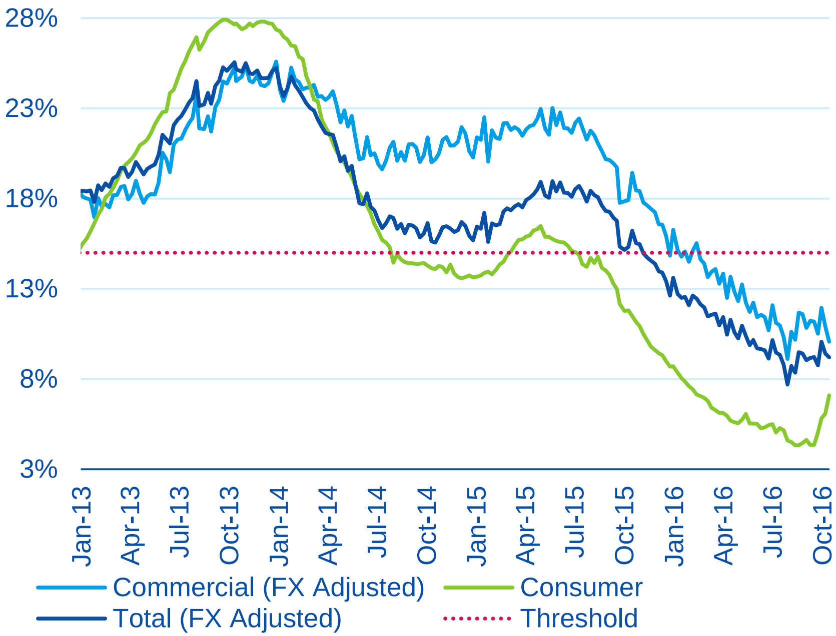
Monetary Policy

The CBRT held its key interest rates intact in its October Meeting, following the 7-month easing cycle with 250 bps cut in total. The latest volatile outlook on exchange rate was behind the decision. Consumer loans bounced back.

Interest Rate Corridor
Levels



Loan Growth Rates
YoY



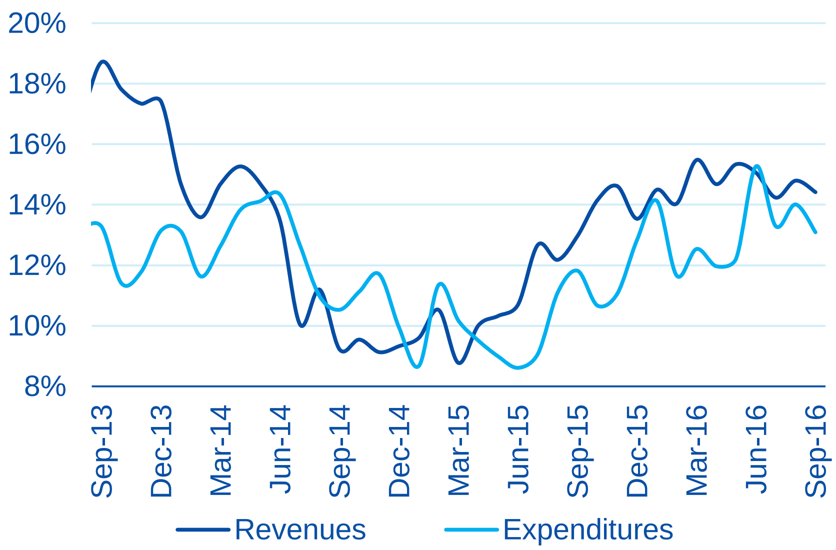
Source: Garanti Research, Turkstat, CBT, BRSA, Bloomberg

Fiscal Policy

Central Government budget deficit and primary deficit both increased annually in September. Tax revenues signaled consumption weakening.

Budget Expenditures & Revenues

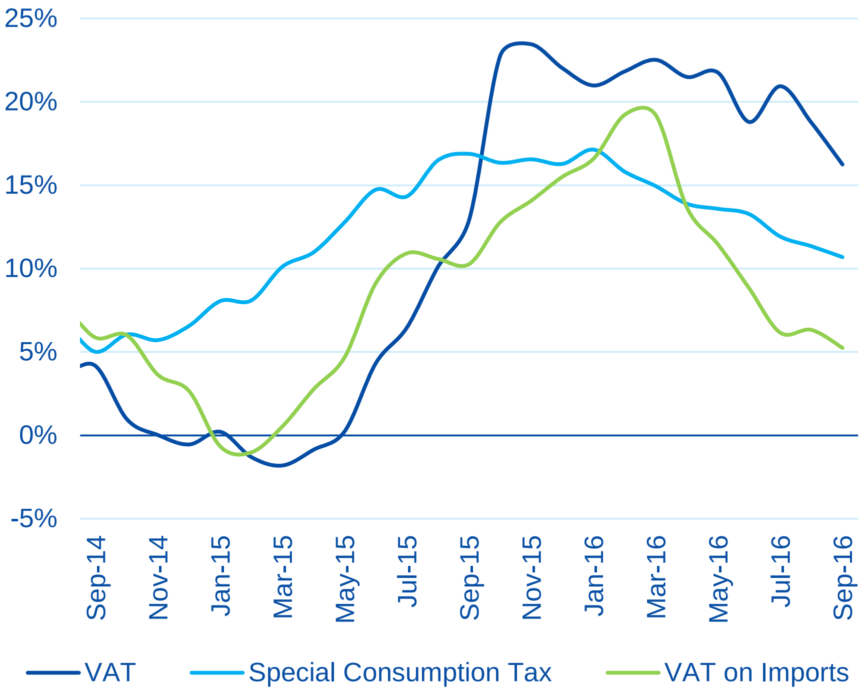
12-month sum, YoY Change



% GDP	2014	2015	2016 MTP R
Primary Balance	1.6%	1.6%	0.8%
Budget Balance	-1.3%	-1.2%	-1.6%

Tax Revenues

12-month sum, YoY Change



Source: Garanti Research, Turkstat, The Ministry of Finance

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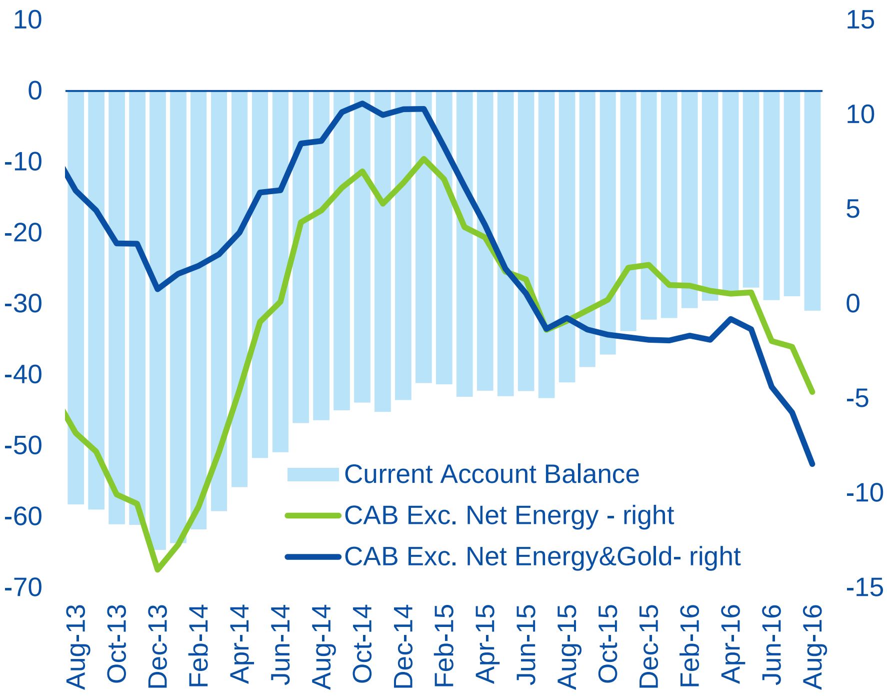
External Balance: CAB & Financing

Current account deficit deteriorated as favorable base effect disappeared and deficit in core items increased mainly due to the worsening services outlook.

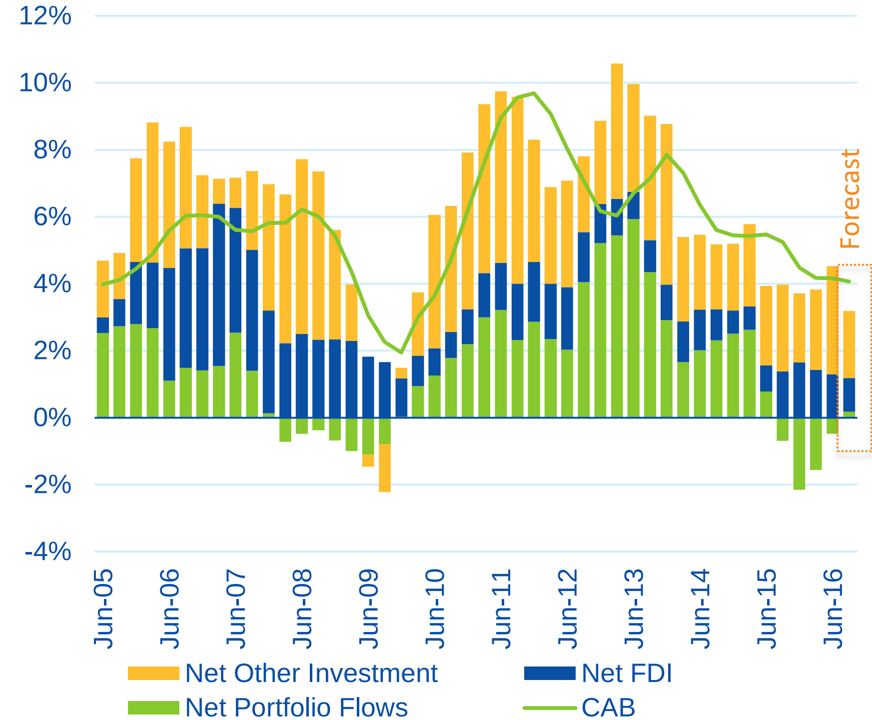
Current Account Balance

12-month sum, bn USD



Current Account Net Financing

12-month sum, % GDP



Source: Garanti Research, Turkstat, CBRT

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Garanti – BBVA Research

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