

DenizBank Economic Update

January 2016

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

Economic Research and Strategy

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Orhan Kaya

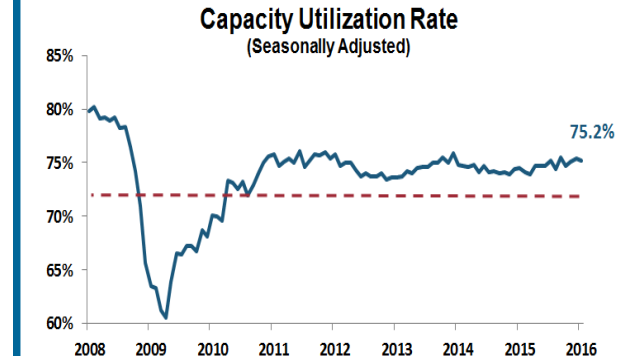
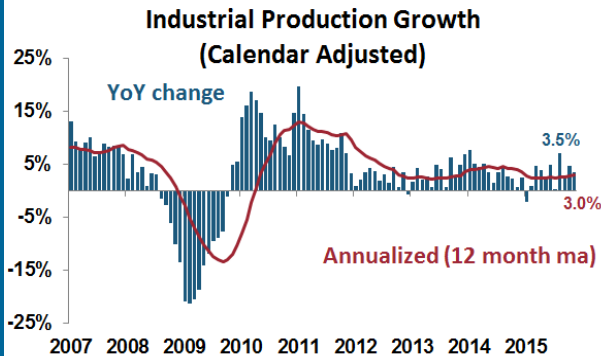
İnci Şengül



DenizBank Economic Update

Economy (I)

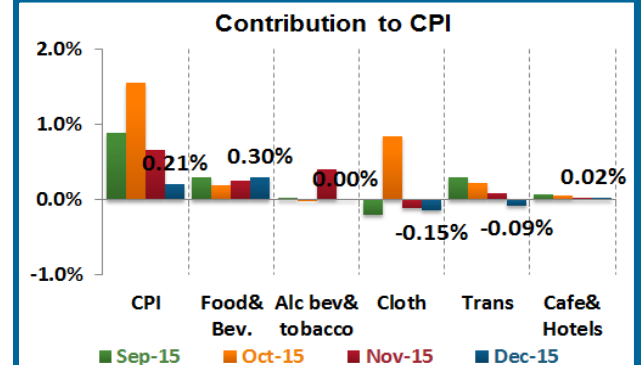
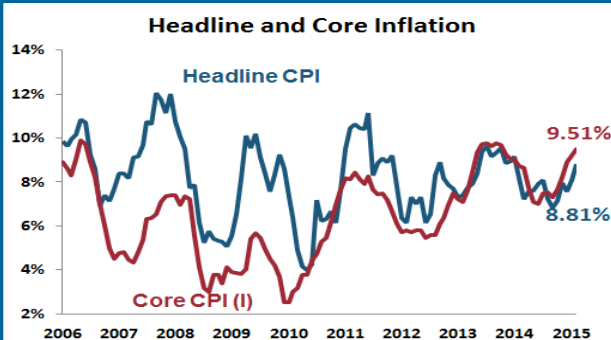
Growth



Industrial production remained below expectations in November...

- Industrial production index rose YoY by 3.5% in November below the market expectation of 4.3%. On a monthly basis, the index decreased by 0.9%. In annualized terms, index was up by 3%.
- Leading indicators, on the other hand, signal economic activity picked up in December. Seasonally adjusted capacity utilization increased to 75.4% in December from 75.1% in November. Capacity utilization is at 75.2% as of January 2016. In December, PMI manufacturing index increased to 52.2 from 50.9 signaling the economy is expanding for two months in a row for the first time in 2015.
- Although the rise in November industrial production index is below expectations, the index rose by 4.1% on average in October and November, indicating economic activity continued to be strong in the last quarter of 2015. Annual GDP growth is expected to be around 3.5%.

Inflation



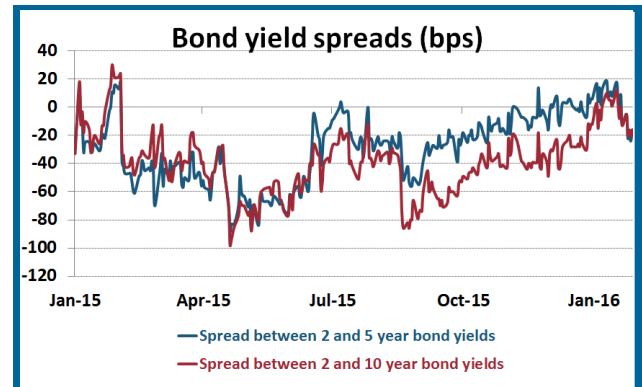
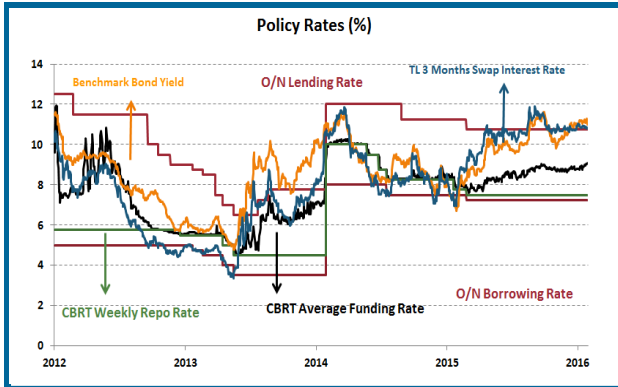
2015 inflation came above Central Bank's target range...

- CPI in December increased MoM by 0.21% bringing annual inflation to 8.81%, which is above Central Bank's (CB) target range of 3—7% and 2015 forecast of 7.9%. CB stated the reason for the significant variance between the forecast and realization was the cumulative affect of TL depreciation and the increase in food prices.
- Food prices rose by 1.2% in December, making a 0.3 points contribution to headline CPI. Annual food inflation reached 10.87% from 9.51% in November. The deterioration in core indices continued in December. The I core index increased to 9.51% from 9.22%.
- In the first Inflation Report of 2016, CB stated that its tight monetary policy stance will continue and serious effort will be spent to stop inflation from reaching double digits. Although the details were not provided, the bank stated that they were working on policy solutions to minimize effects of shock to currency on inflation.

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Economy (II)

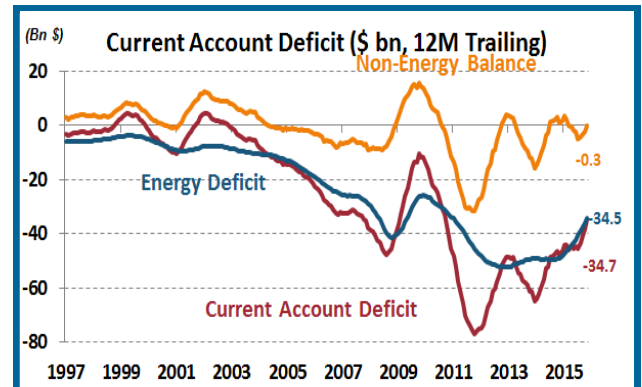
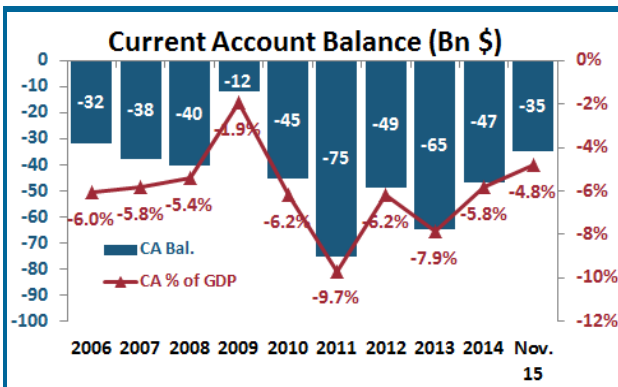
Monetary Policy



Central Bank (CB) kept the policy rate unchanged again...

- In its monthly MPC Meeting, CB left the policy rate (one week repo rate) unchanged at 7.5%, in line with the market expectation.
- The sharp increases in volatility indices VIX and MOVE (20% and 11% YTD respectively) and global financial turmoil led by China have caused CB to postpone the simplification process. CB has stated that daily adjustable monetary policy through interest rate corridor mechanism works to Turkey's advantage at times of high volatility, despite negative criticism from market in general.
- In the Inflation Report presentation CB governor has restated that current monetary stance is sufficiently tight, with average funding rate surpassing 9% slightly in the last week of January. CB will likely keep its monetary policy unorthodox until market volatility decreases.

External Sector



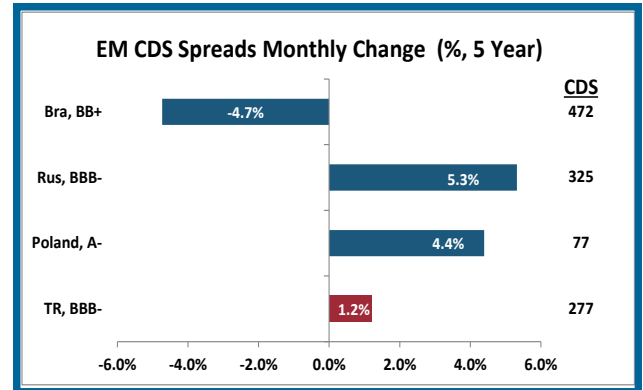
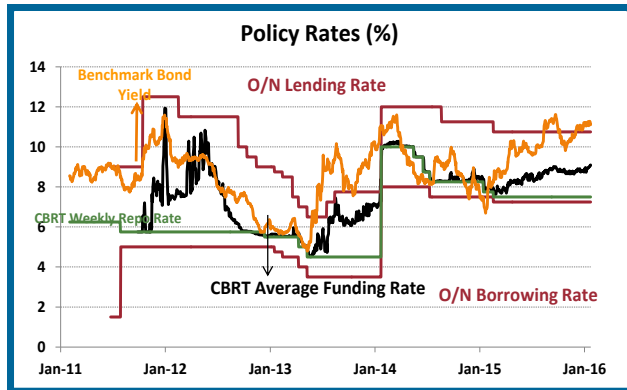
Slowdown in imports and low energy prices continue to bring CAD / GDP down...

- Current account deficit (CAD) in November was \$2.1 bn. 12 month cumulative CAD improved by \$3.7bn compared to the previous month and came down to \$34.7 bn (4.8% of GDP), lowest since August 2010.
- On the financing side, there has been an FDI inflow of \$0.1 bn. While outflow from bond market reached \$ 6.4bn in the first 11 months of the year, the outflow from the equity market was \$1.98 bn. In November, reserves decreased by \$0.2bn bringing year to date depletion to \$5.2bn since the beginning of the year.
- 12 month cumulative energy deficit in November shrank by 30% on an annual basis to \$34.5 bn.
- We expect current account deficit to ease to 4.6% of GDP at the end of 2015 driven by the slowdown in imports with weaker domestic demand and energy prices remaining at low levels.

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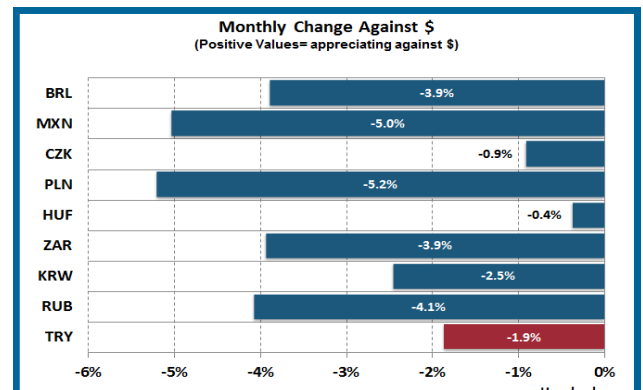
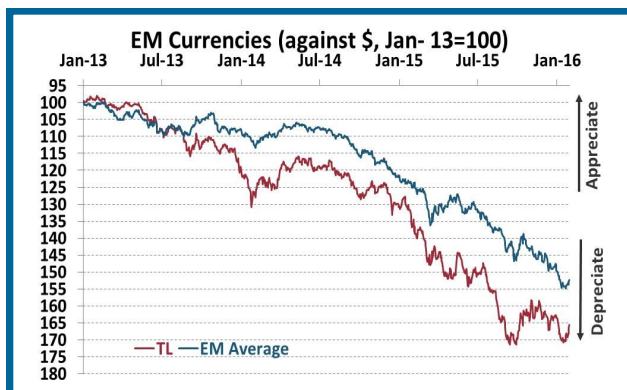
Financial Markets

Debt Market



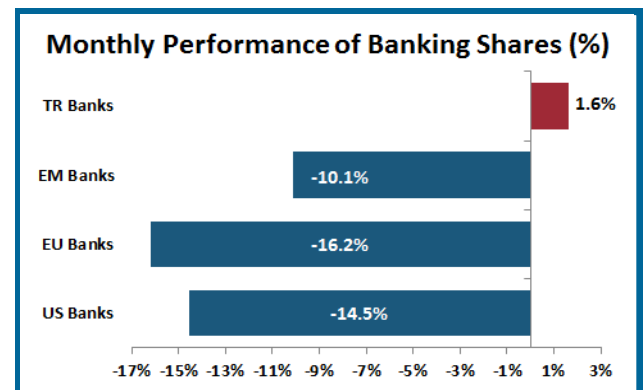
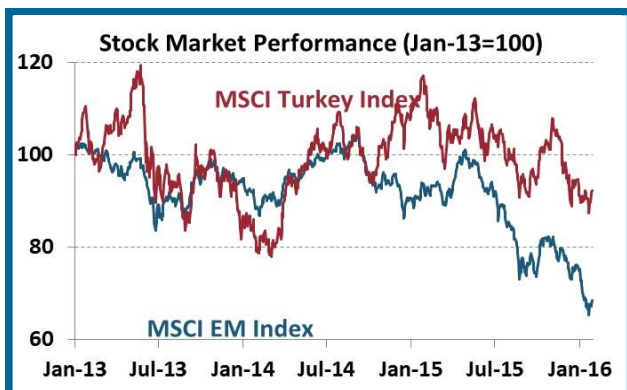
Benchmark bond yield is above 11%.

Currency Market



EM currencies depreciated against US Dollar in January.

Stock Market

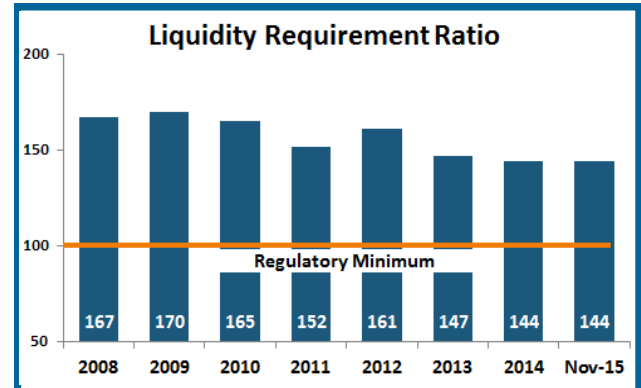
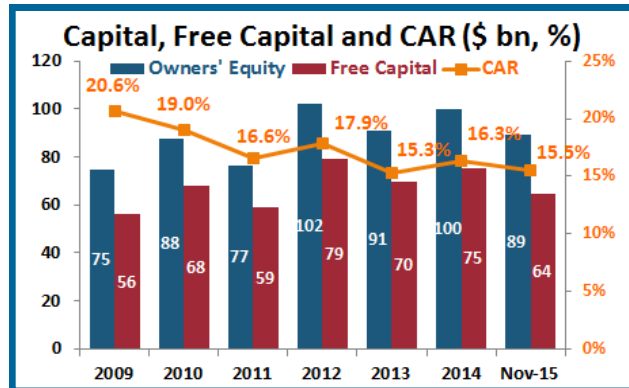


MSCI EM has decreased, MSCI Turkey equity index has increased in January.

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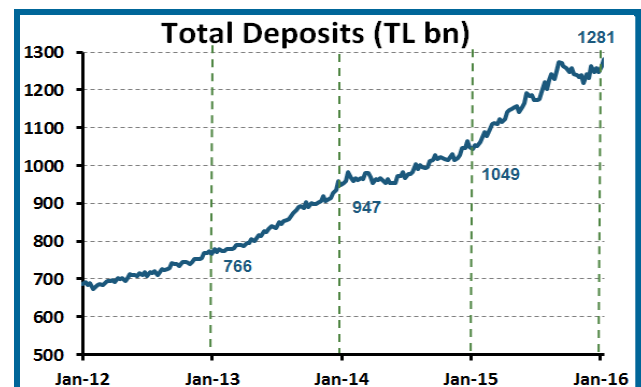
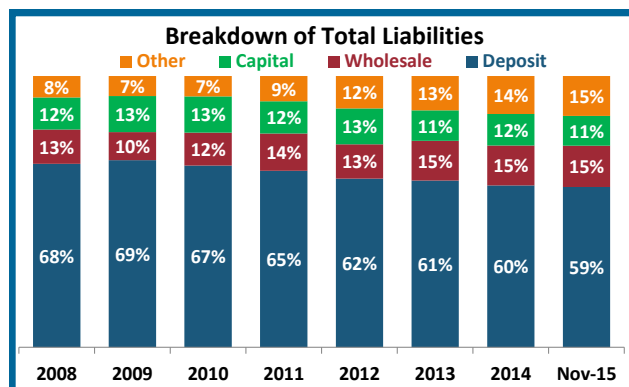
Banking Sector (I)

Capital



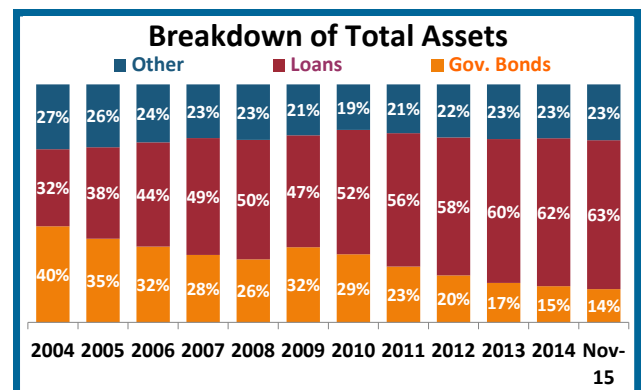
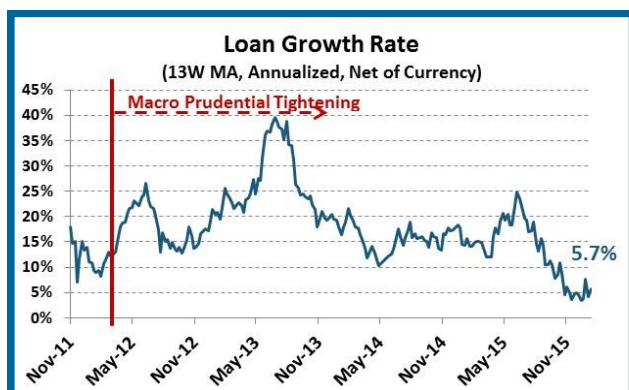
CAR is 15.5% in November, compared to %16.3 as the end of 2014.

Funding



Share of deposits in funding has declined to 59% as of Nov15.

Lending

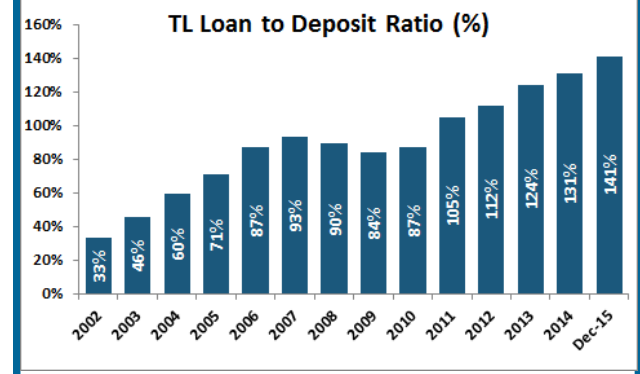
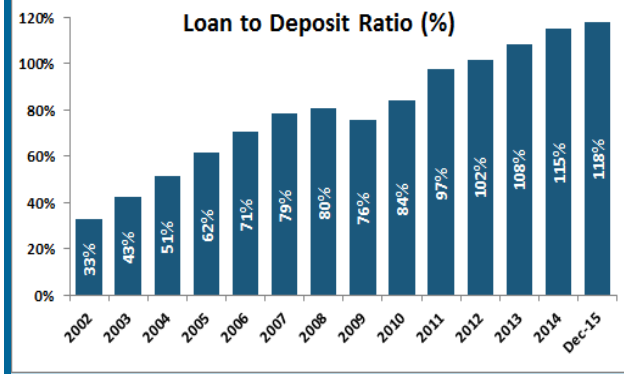


Annualized loan growth is at 5.7% as of January 15th.

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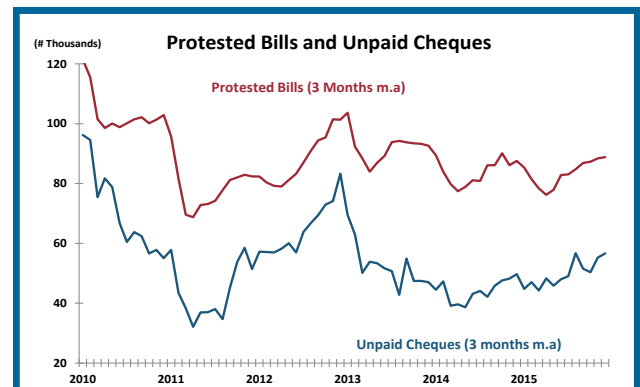
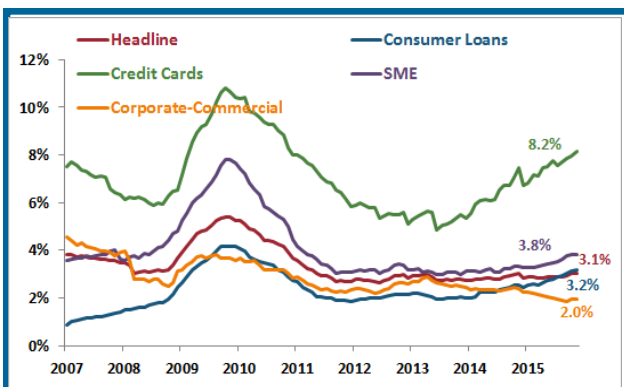
Banking Sector (II)

Loan to Deposit Ratios



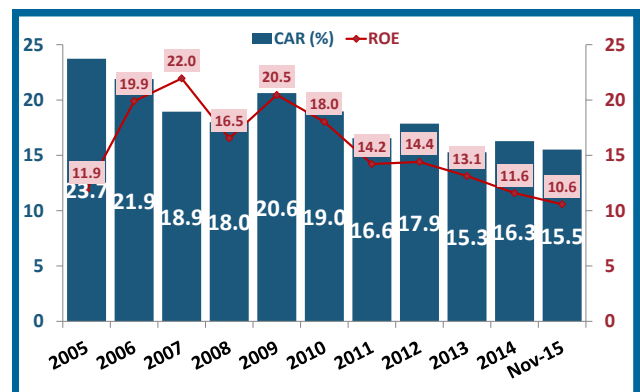
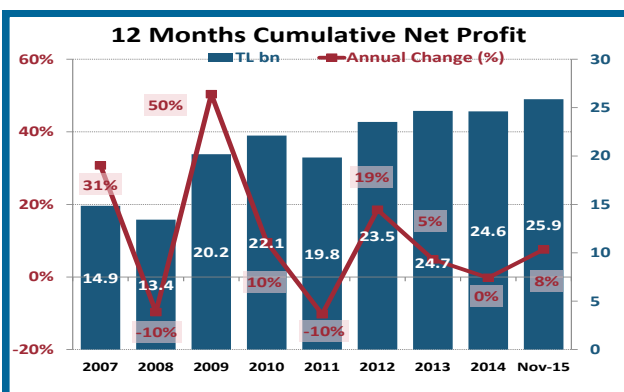
Loan to deposit ratio is 118% in December.

Loan Quality



Headline NPL ratio for the sector is at 3.1%.

P & L



As of November, sector's 12 month cumulative profit increased YoY by 8%. ROE is at 10.6%.