DenizBank Economic Update

November 2015

- Economy
- Financial Markets
- Banking Sector

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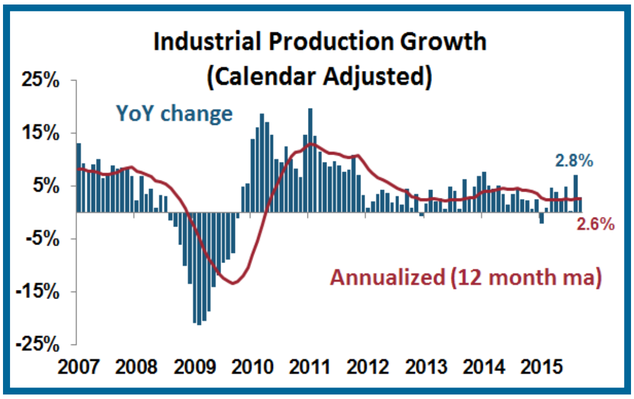
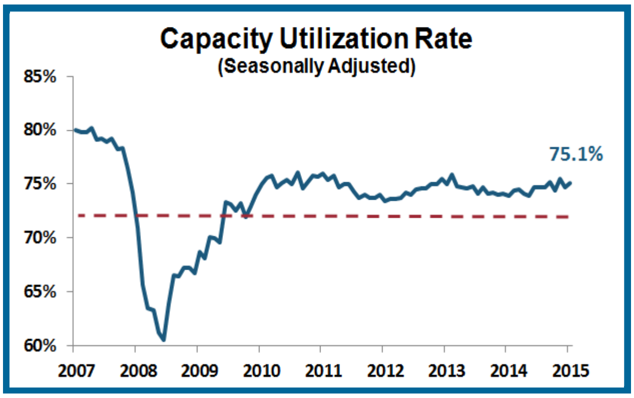
DenizBank Economic Update

Economy (I)

Growth





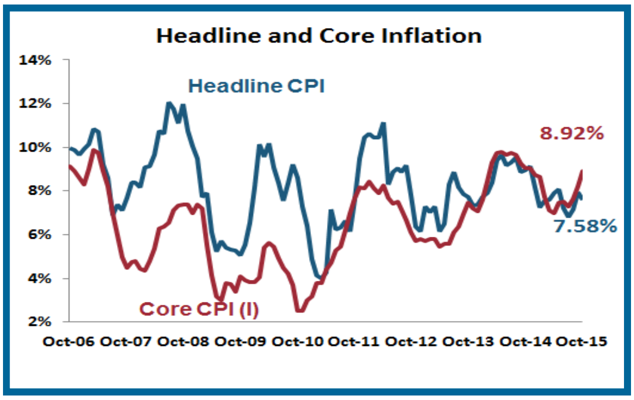
Industrial production continued to increase in September, albeit slower than August…

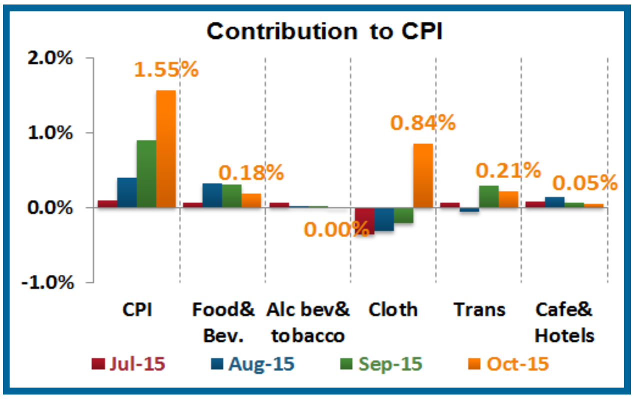
● After a sharp increase (YoY 7.2%) in August, the calendar adjusted industrial production (IP) index posted a moderate YoY increase of 2.8% in September. In seasonally adjusted terms index remained flat following an increase of 3% in August. Annualized (12 month MA) IP growth is almost stable at 2.6%.

●Leading indicators do not point to an sharp acceleration in economic activity in the last quarter of the year. Seasonally adjusted capacity utilization increased to 75.1% in November compared to average of 75% in the 3Q15. In October, PMI manufacturing index increased to 49.5 from 48.8 but it is still below the critical level of 50.

● IP growth in the 2Q was at 3.7% YoY, while the GDP growth was 3.8%. In the third quarter IP growth of 0.3% indicates much lower GDP growth. However, due to improved real sector confidence following elections and an expected recovery in foreign demand, we keep our year end growth estimate at 3%.

Inflation





Inflation came down in October thanks to high base effect and surprise decline in food prices...

● CPI in October increased MoM by 1.55% in line with the market expectation. The contribution of food prices was limited to 0.18%, bringing annual food inflation down to 8.7% from 10.7% from a month ago. Clothing group contributed 0.8% as decline in prices in summer period was over.

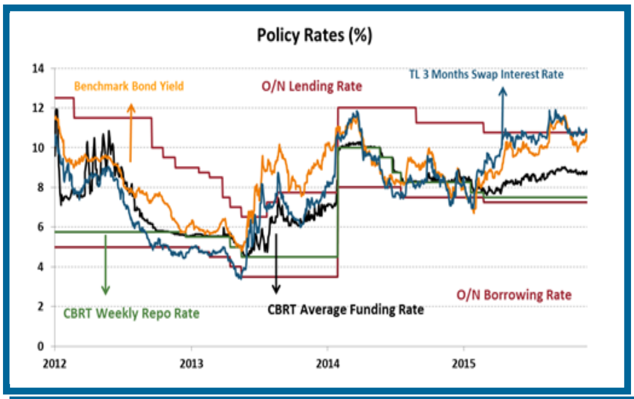
● Annual inflation went down to 7.58% from 7.95% due to base effects. However, deterioration in core indices continued as well as the I index increased to 8.92% from 8.23%.

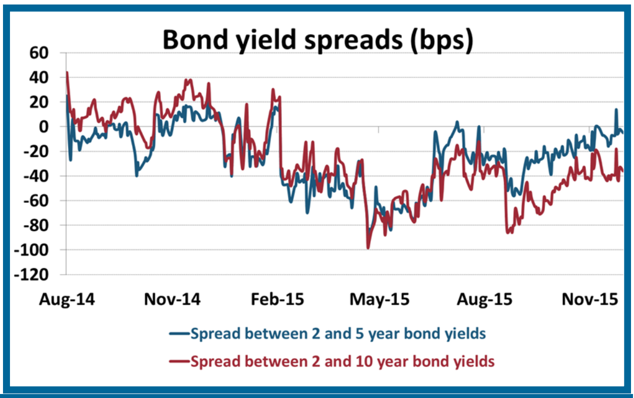
● The worsening in the short term outlook is mainly driven by TL's depreciation. Unless, there is a significant appreciation in TL, upward pressure on inflation will continue. Risks are on the upside for next year as government might follow expansionary policies (i.e. increase in minimum wage) after elections. Central Bank will have to keep its tight monetary stance, until long term expectations converge to its target of 5%.

DenizBank Economic Update

Economy (II)

Monetary Policy

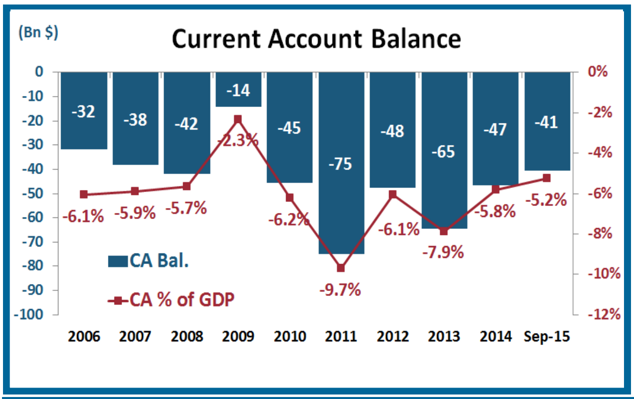


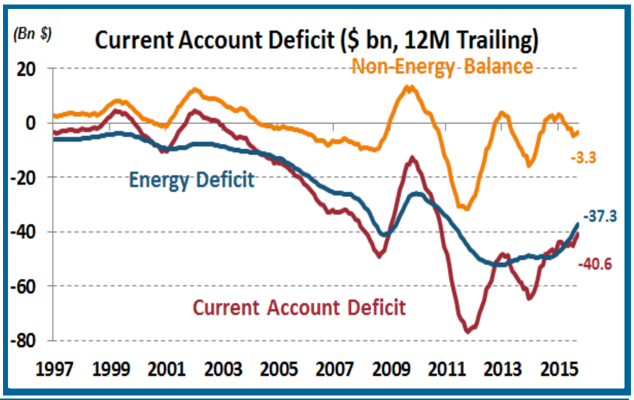


Central Bank (CB) kept the policy rate unchanged ...

- In its monthly MPC Meeting, CB left the policy rate (one week repo rate) unchanged at 7.5%. CB emphasized that the volatility in the exchange rates was the main source that is delaying the improvement in the core indicators.
- With the increased probability of Fed to start tightening in December, CB is expected to simplify its monetary policy following Fed's meeting. The simplification is expected to come as narrowing down the interest rate corridor and setting policy rate close to the average funding rate, which was 8.75% in the last week of November.
- We expect the bank to keep its tight monetary stance, until a solid improvement in CPI is realized.

External Sector





Thanks to low energy prices, current account deficit continues to narrow...

● Current account gave surplus of $95 mn in September. 12 month cumulative current account balance improved significantly as the deficit came down to $40.6 bn (5.2% of GDP) from $43 bn in August.

● On the financing side, there has been an FDI inflow of $0.3 bn. While outflow from bond market reached 5.7 bn in the first 9 months of the year, the outflow from the equity market was $0.95bn. In September, reserves decreased by $0.8bn bringing year to date depletion to $3.8bn since the beginning of the year.

● We expect current account deficit to ease to 5.1% of GDP this year driven by the slowdown in imports with weaker domestic demand and falling oil prices.

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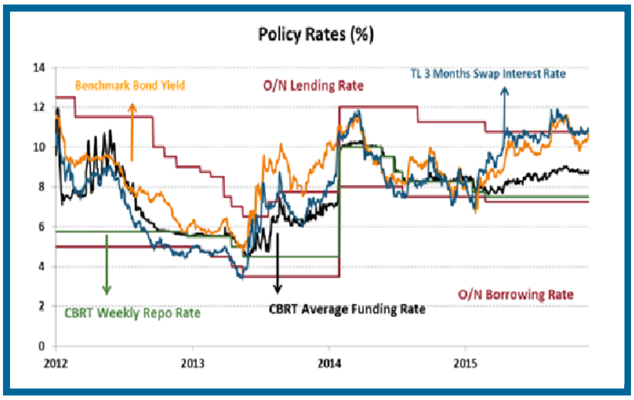
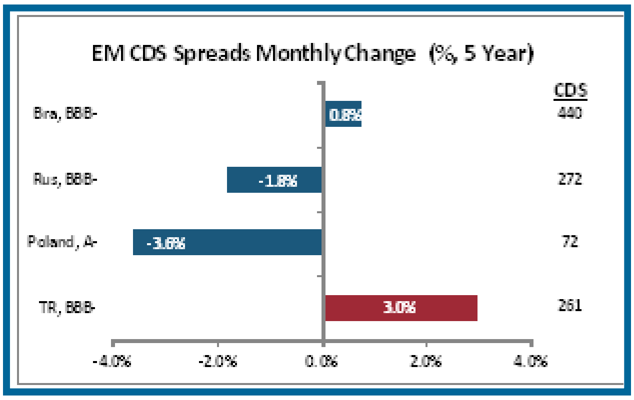
Financial Markets

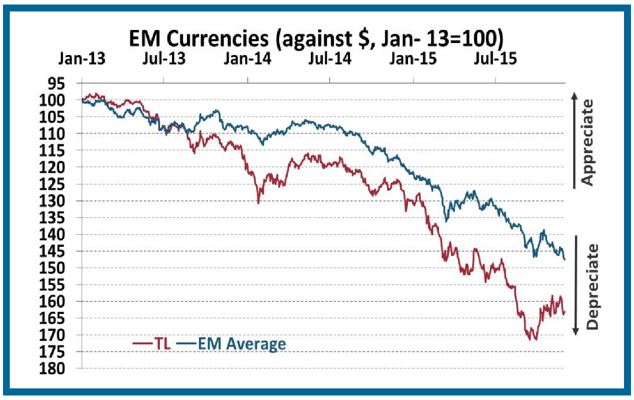
Debt Market

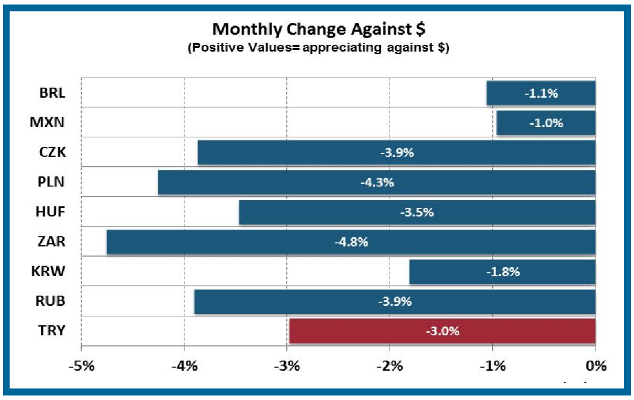




Benchmark bond yield is above 10%.

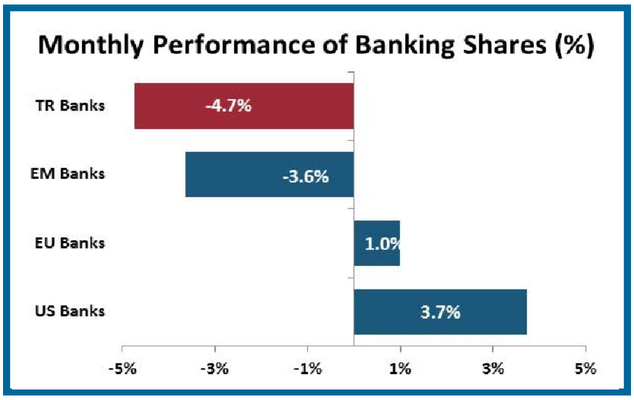
Currency Market





EM currencies on average depreciated against US Dollar in November.

Stock Market



Both MSCI EM and MSCI Turkey equity indices have decreased in November.

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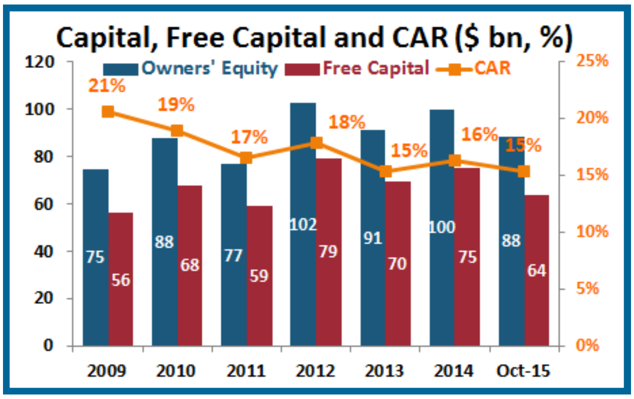
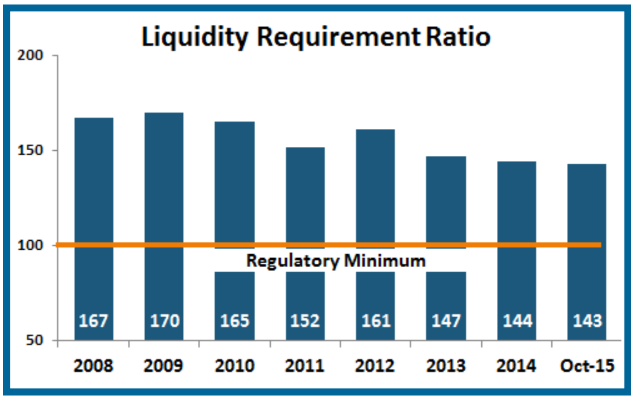
Banking Sector (I)

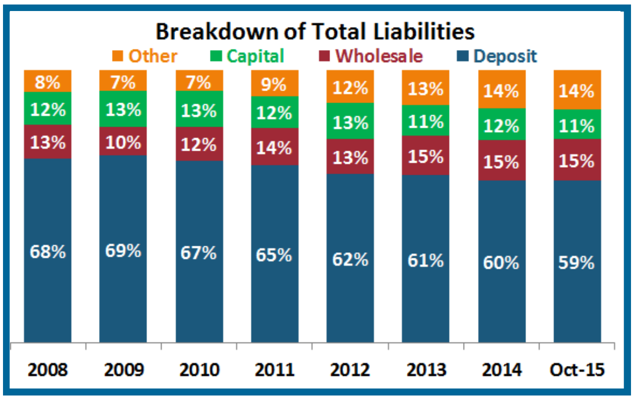
Capital

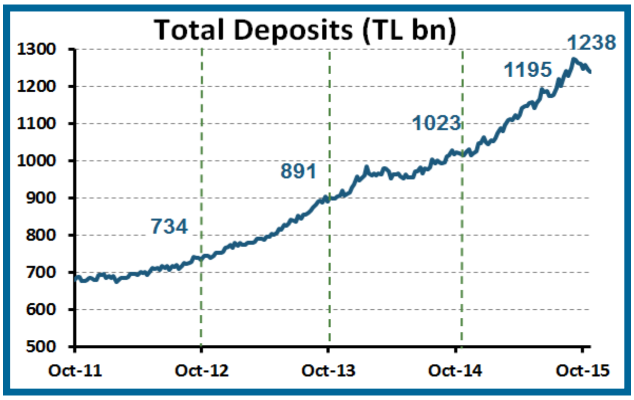




CAR remained at 15% in October, compared to %16 as the end of 2014.

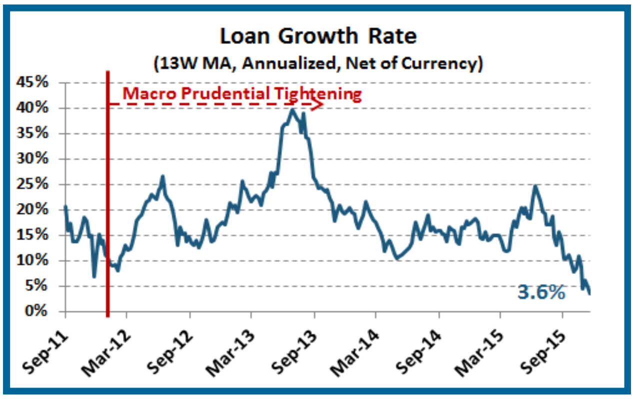
Funding

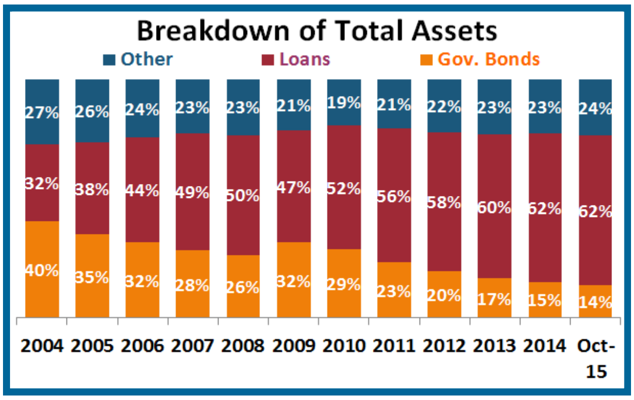




Share of deposits in funding has declined to 59% as of Oct-15.

Lending





Annualized loan growth is at 3.6% as of November 20th.

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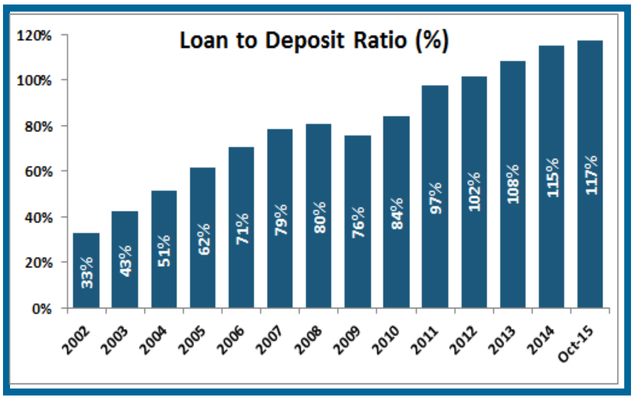
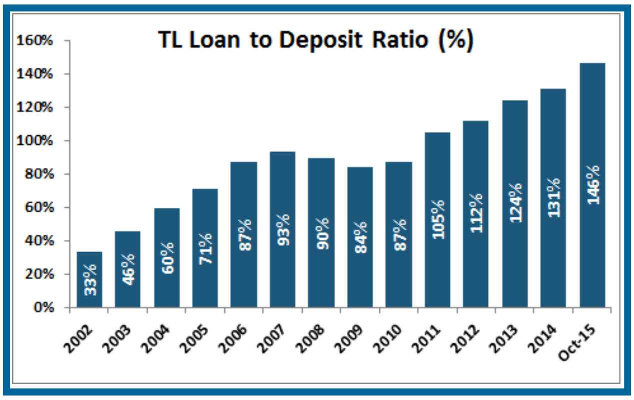
Banking Sector (II)

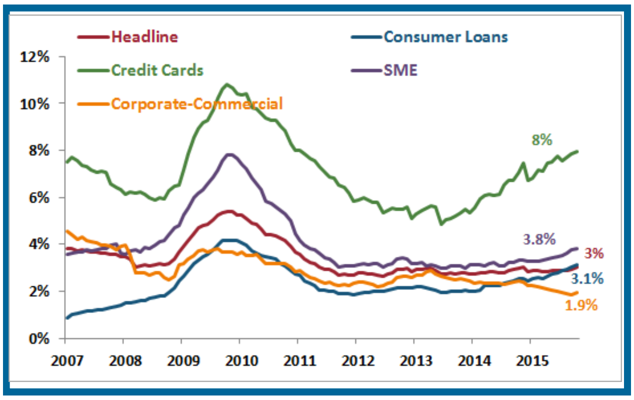
Loan to Deposit Ratios

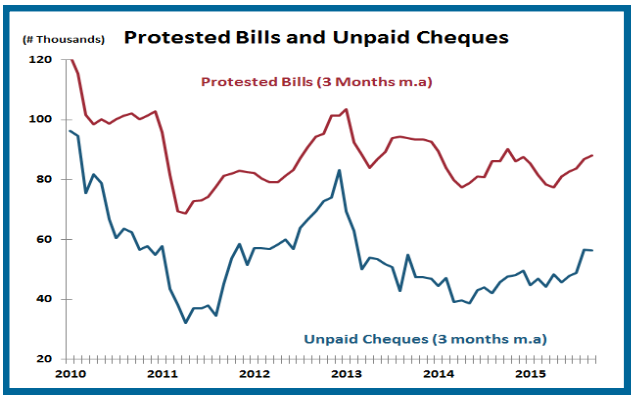




Loan to deposit ratio is 117% in October.

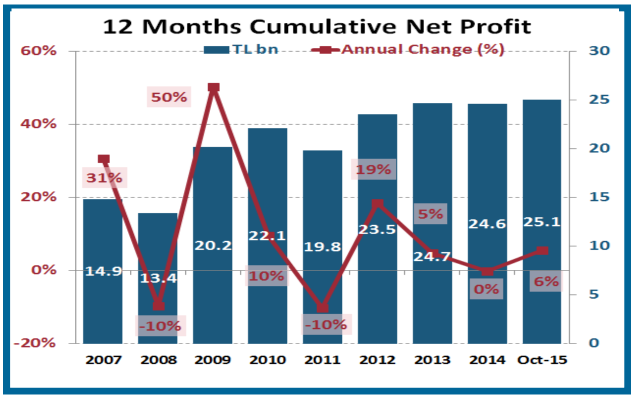
Loan Quality

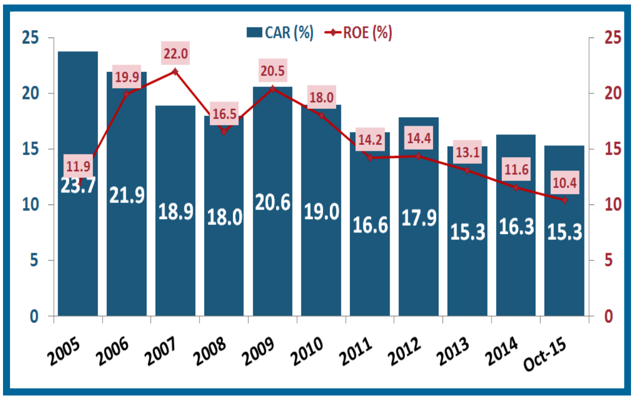




Headline NPL ratio for the sector is at 3%.

P & L





As of October, sector's 12 month cumulative profit increased YoY by 6%. ROE is at 10.4%.