

WEEKLY OUTLOOK

US GDP growth in Q1 was revised up.

Financial markets followed a heavy agenda in the US last week. US GDP growth in Q1, previously announced as 1.2%, was revised up to 1.4%. New orders for durable goods fell by 1.1% in May while orders for capital goods showed a decline as well. Flash estimates indicated that manufacturing PMI in June was realized as 52.1, below the expected level. Consumption indicators showed that personal income and consumer spending was up by 0.3% and 0.1% mom, respectively. The consumer sentiment in June gained some momentum thanks to the improvement in the labor market and rising income expectations. Thus, data signalled a positive trend for consumption expenditures in the upcoming period.

New York Fed President Dudley emphasized that the US economy is close to full employment and encouraged Fed to continue tightening its monetary policy. Likewise, San Francisco Fed President Williams noted that some transitory factors have pulled inflation down and as these factors waning, he projected that inflation will reach Fed's 2% goal, supporting the monetary tightening. Moreover, Fed Chair Yellen at her speech last week pointed to the "somewhat rich" asset valuations while she added that the financial system is not likely to experience another significant financial crisis in the short-term.

Draghi's speech caused fluctuations in the financial markets.

President of the European Central Bank (ECB) Mario Draghi told that "there are strong grounds for prudence in the adjustment of monetary policy parameters especially in times of global uncertainty" in his speech last week. Draghi also underlined that any adjustments in ECB's monetary policy stance has to be made gradually and when the improving economic dynamics appear sufficiently secure. The financial markets perceived Draghi's speech as a signal that ECB is ready to withdraw from its current monetary stimulus; hence, the market's risk perception deteriorated. On the other hand, some ECB officials calmed down the markets explaining that the market over-interpreted Draghi's speech. Speaking at the ECB forum in Portugal, Bank of England (BoE) governor Carney signalled that monetary policy tightening might be in the BoE's agenda in the upcoming period. Carney expressed that "some removal of monetary stimulus is likely to become necessary as spare capacity erodes and added that these are the issues to be discussed in the coming months". Pound jumped after Carney's interest rate hike signal. He had formerly argued that it is not yet the time to begin for a rate hike due to weak wage growth and Brexit's challenging impact on households.

Economic data released in Euro Area last week was considered positive. In June, manufacturing PMI climbed to its highest level in more than 6 years with 57.3 while services PMI kept its strong stance despite a monthly decline. Annual CPI inflation in June was down to 1.3% from 1.4% a month ago. However, rise in core CPI implied that domestic demand has kept its relatively improving trend. In the Euro Area's largest economy, Germany, IFO business climate index rose to 115.1 in June and retail sales in May beat the market expectations, boosting the region's positive economic outlook.

WEEKLY DATA

	23 Jun	30 Jun	Change		23 Jun	30 Jun	Change
BIST-100 Index	99,639	100,440	0.8 % ▲	EUR/USD	1.1192	1.1423	2.1 % ▲
TRY 2 Year Benchmark Rate	11.10%	11.12%	2 bp ▲	USD/TRY	3.5076	3.5202	0.4 % ▲
US 10 Year Bond Rate	2.14%	2.30%	16 bp ▲	EUR/TRY	3.9259	4.0243	2.5 % ▲
EMBI+ (bps)	339	334	-5 bp ▼	Gold (USD/ounce)	1,256	1,241	-1.2 % ▼
EMBI+ Turkey (bps)	295	294	-1 bp ▼	Brent Oil (USD/barrel)	44.1	47.2	7.1 % ▲

Capacity utilization rate in Turkey increased.

According to seasonally adjusted figures, capacity utilization rate (CUR) declined by 0.3 points mom to 78.6% in June. Among manufacturing industries, highest CUR increase occurred in the manufacture of other transport equipment by 6.8 points, while the sharpest decline observed in manufacture of tobacco products by 15.3 points.

In June, the real sector confidence index increased monthly by 3.2 points to 112.4 and seasonally adjusted index increased by 4 points to 108.8. Sub-indices suggested that domestic demand and export orders had followed a positive course, while total orders in the next 3 months had been expected to slow down. Regarding the sub-details of the index, domestic demand has followed a positive course in export orders in the last 3 months, but a slight slowdown in total orders is expected for the next 3 months.

Foreign trade deficit increased.

According to TURKSTAT data, exports increased by 12.5% yoy to 13.6 billion USD and imports increased by 21.7% to 20.9 billion USD in May. Thus, foreign trade deficit increased by 43.3% yoy to 7.3 billion USD. Excluding seasonal and calendar effects, imports rose by 9%, while exports declined by 0.2% in May on a monthly basis. In this period, the export/import coverage ratio decreased by 5.3 points to 65.1%. In January-May 2017, increase in intermediate goods import by 22.4% was noteworthy, while consumption goods imports declined. On sectoral breakdown, manufacture of motor vehicles sector which increased its exports in the first 5 months of the year by 27% yoy, remained to be the top exporting sector in Turkey. On the other hand, total exports in the two main exporting sectors, manufacturing of wearing apparels and electrical equipment, posted a decline ([Our Foreign Trade Balance report](#)). According to Ministry of Customs and Trade preliminary data, exports increased by 2.1% in June, while imports fell by 1.5%, therefore foreign trade deficit was realized around 6 billion USD.

Consumer confidence declined.

Consumer confidence index fell monthly by 3.8% to 70 in June. According to sub-indices, considerable deterioration in financial situation expectation over the next 12 months, employment expectation and expectation for wage increase contributed to the decline in the overall index. In this period, it was noteworthy that the possibility of buying houses and cars decreased dramatically. As a result of these developments, expectation for economic situation depicted the most negative outlook since the beginning of the year, indicating that domestic demand pulled forward by government incentives could slow down somewhat in the second half of the year. Economic confidence index, which fell below the reference level of 100 in June by declining to 98.9, also supported the views that consumption spending could slow down.

CBRT published its MPC meeting minutes.

CBRT published its Monetary Policy Committee (MPC) meeting minutes which was held on June 15th. It was stated that despite the recent cost developments and the expected partial improvement in food prices, inflation remained high. CBRT said that this posed a risk in terms of pricing behaviors and stated that it will continue its tight monetary policy until a significant improvement in the inflation outlook is displayed. Emphasizing Turkey's recent improvement in terms of exchange rate and risk premium indicators, CBRT maintained its view that recovery in the economy will gain momentum from the second quarter of the year. CBRT noted that the measures taken to support consumption and investment spending and the incentive packages played an important role in this development. CBRT also stated that the recovery in risk perception and the relative improvement in financial conditions supported the GDP growth. On the other hand, it was emphasized that the pace of recovery in tourism revenues, uncertainties regarding monetary policies of advanced economies, the course of capital flows and geopolitical developments constituted downside risks to growth in 2017.

Decline in annual inflation...

In June, CPI decreased by 0.27% on monthly basis, while D-PPI increased by 0.07%. Thus, annual inflation in CPI and D-PPI fell to 10.9% and 14.87%, respectively. Analyzing the sub-groups, the fastest monthly increase in CPI was recorded in education with 1.05%, while the sharpest decrease was in clothing and footwear group with 1.25%. According to the sub-groups of D-PPI, the fastest price increase was recorded in the manufacture of textile products, while motor vehicles and electric equipment sectors followed it ([Our Inflation Report](#)).

Volatile course in the financial markets...

Following Mario Draghi's comments, which created a perception that the ECB is moving towards monetary tightening, euro appreciated against other major currencies. Germany's 10-year Treasury bond yield reached its highest level since mid-March. Pound also appreciated as BoE Chairman Carney signaled that interest rate hikes might be on the table in the coming period. In this context, euro/USD and pound/USD increased by 2.1% and 2.4%, respectively. Besides, Brent crude oil price rose by 7.1% w/w in line with the production decrease in the US. On the other hand, gold prices, which were under pressure due to the tight monetary policy rhetoric in developed countries, closed the week down by 1.1% at 1,241 USD/ounce.

Domestic markets, which followed a flat course before the holiday, moved parallel to the global markets last week. USD/TRY parity remained around 3.50, while EUR/TRY increased by 2.5% w/w to 4.02. BIST-100 index gained strength thanks to the improvement in risk appetite and increased by 0.8% to 100,440.

INDUSTRY NEWS

House sales lost pace in May...

TURKSTAT figures showed that house sales in Turkey rose by 1.5% yoy in May. In this period, mortgaged house sales increased by 17.8% yoy while other house sales dropped by 5.7%. Rise in house sales throughout Turkey lost pace in May as mortgaged sales which accounts for almost 36% of total sales decelerated. Moreover, second hand sales went up by 8.2% whereas first house sales declined by 5.5% indicating that mostly existing houses were traded in the market and demand for first time-sales remained limited compared to the same period of last year. On the other hand, house sales to foreigners increased by 10.1% yoy in May and Saudi Arabian buyers were on the top of the list.

Number of foreign visitors increased...

According to Ministry of Culture and Tourism, number of foreign arrivals in Turkey rose by 16.3% yoy in May and by 5.5% yoy in January-May period. In the first 5 months of this year, Russia, Germany, Georgia, Iran and Bulgaria were the top 5 countries from where visitors arrived most. In January-May 2017, number of visitors from Russia surged by almost 6 times yoy thanks to improved relationship between the two countries. European visitors, on the other hand, dropped by 17.1% yoy during the same period.

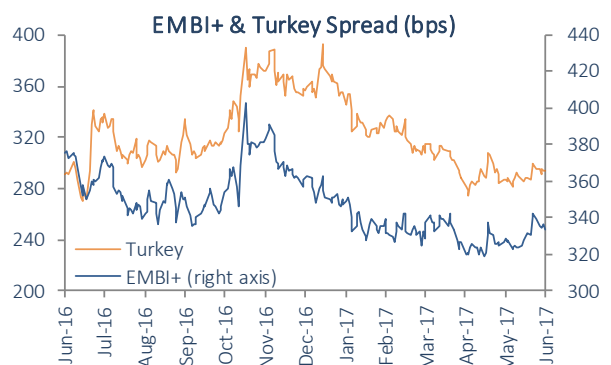
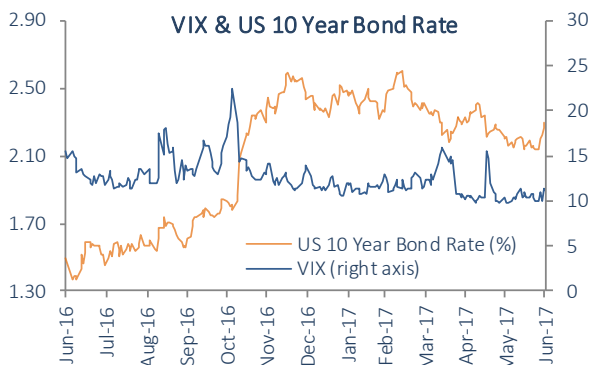
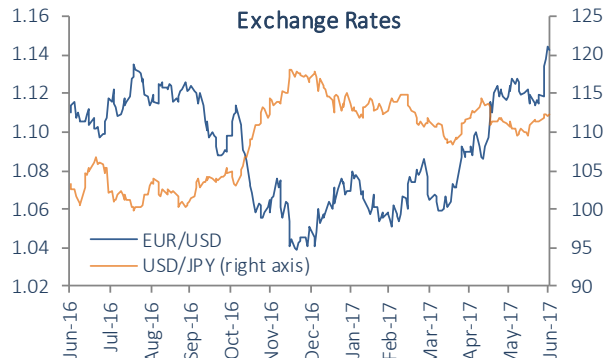
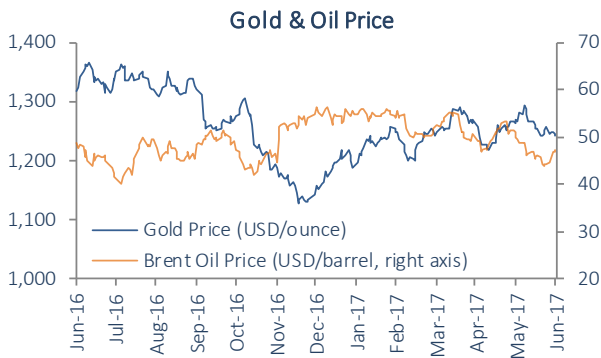
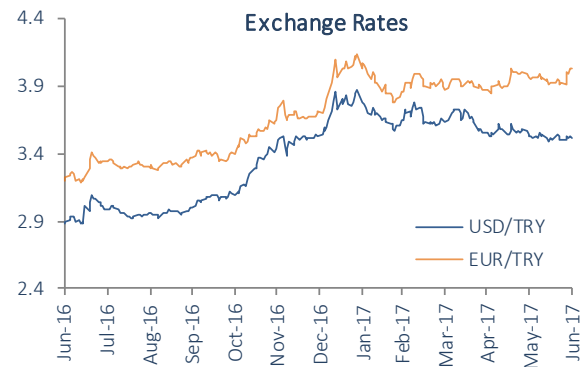
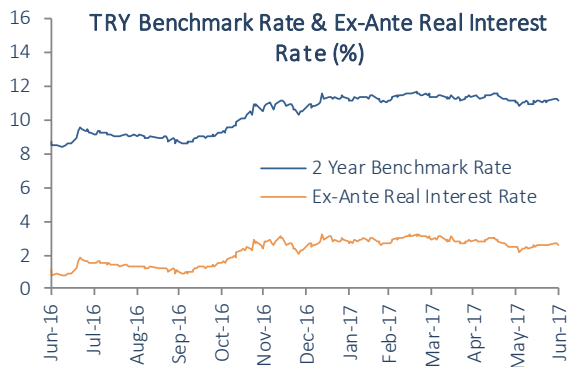
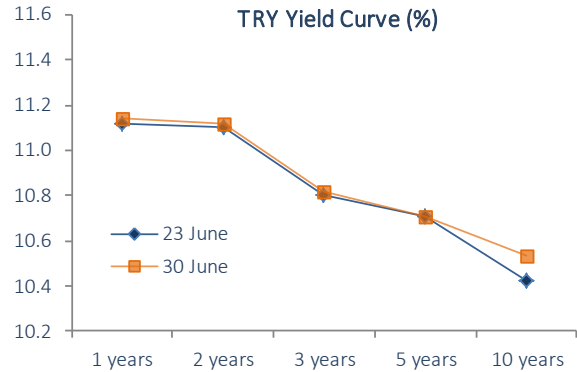
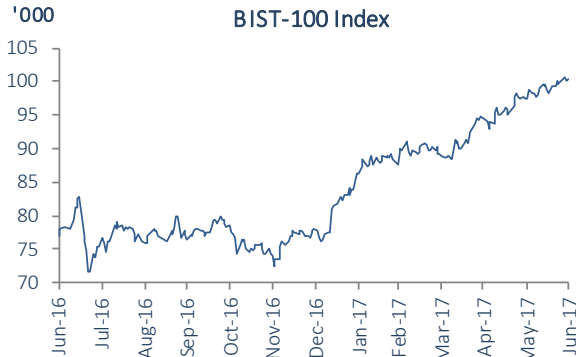
Tariff cut on agricultural and livestock products...

Due to the new regulations, customs tax on livestock imports was cut from 135% to 26% and tax on carcass meat imports was discounted from 100%-225% to 40%. Moreover, the subsidiary payments to producers that were applied since 2011 for butchering the local livestock have been cancelled. Furthermore, tariffs on certain types of wheat and barley imports were reduced to 0% for the products that are imported from Bosnia-Herzegovina and to 35%-45% for the products imported from EU-EFTA, South Korea and other countries. Tariff on corn and other related products imported from countries excluding Bosnia-Herzegovina were also cut to 25%. Minister of Food, Agriculture and Livestock Faruk Çelik announced that imports of livestock to be butchered and carcass meat would be performed under the supervision of the ministry. Additionally, another regulation imposed a regulatory supervision for the import of carcass meat, wheat, barley and corn starting from July, 30th.

New regulation on house and car rentals...

According to Ministry of Finance, payments on one-day house and car rentals have been obliged to be made via banks and similar intermediaries from July, 1st. Turkey Real Estate Chambers & Associations Chair Mr. Taylan supported the new regulation as it is expected to reduce the size of informal economy. Auto Leasing and Rental Companies Association Chair Mr. Oktay also made positive comments on this new regulation such that it will help clarifying people's identification and their capacity of financial payment systems' usage during the transaction. On the other hand, he emphasized that the regulation may have negative effects on short-term rentals mainly preferred by foreign tourists.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
3 July	Consumer Price Index (CPI)	June	-0.27% mom (A)
	Domestic Producer Price Index (D-PPI)	June	0.07% mom (A)
	US ISM Manufacturing PMI	June	55
	Euro Area Markit Manufacturing PMI	June	57.4 (A)
	Euro Area Unemployment Rate	May	9.2%
	China Caixin Manufacturing PMI	June	50.4 (A)
4 July	Euro Area Producer Price Index	May	-0.2% mom
5 July	US Factory Orders	May	-0.6% mom
	Fed FOMC Minutes	May	-
	Euro Area Markit Services PMI	June	54.7
	Euro Area Retail Sales	May	0.2% mom
6 July	US ISM Non-Manufacturing PMI	June	56.5
	European Central Bank (ECB) Minutes	June	-
7 July	US Unemployment Rate	June	4.3%
	US Nonfarm Payrolls	June	170 thousand
	Germany Industrial Production	May	0.4% mom

(A)Actual

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