

WEEKLY OUTLOOK

FOMC meeting minutes were published.

The minutes of the Federal Open Market Committee (FOMC) meeting on June 13-14 indicated that Fed members expressed different views regarding the appropriate timing of reducing the balance sheet. Several members wanted to start shrinking of the balance sheet in a couple of months while the others desired to wait until later this year to assess the economic activity and inflation. On the other hand, some Fed members, who proposed that rising risk appetite leads to asset overpricing, seemed concerned about soaring risks at the equity market. Markets perceived the meeting minutes as “bullish”, which supported USD throughout the last week.

Employment data in the US..

222,000 new jobs were added to US nonfarm payrolls in June, above the market consensus of 170,000. The figures gave a positive signal over the US economic activity. On the other hand, unemployment rate was 4.4% in June and average hourly earnings rose by 0.2% mom, not meeting the expectations.

ECB discussed to remove its pledge to increase its asset purchase program if needed.

Minutes of the ECB’s June meeting were released last week. The minutes showed that ECB policy makers argued to remove a pledge to increase the size and/or duration of its asset purchase program if needed. However, ECB didn’t drop the pledge at the last meeting since the economic recovery has not yet secured stronger inflation dynamics. In addition to the minutes indicating the possibility of a faster-than-expected normalization in the ECB’s monetary policy, ECB officials’ comments that dropping of the pledge will be rediscussed in July’s meeting boosted EUR against other currencies. Germany’s 10-year government bond yields reached to its highest level since the beginning of 2016.

Food inflation remained high in June.

CBRT published its Monthly Price Developments Report for June. Food inflation slowed down in this period, thanks to the price developments in fresh fruit and vegetable. Excluding the fruit and vegetable subgroup, on the other hand, food prices continued to increase. CBRT stated that the cost pressures eased to some extent in June, as the core inflation indicators have improved. According to the report, goods inflation was 11.67% in June, while services inflation remained at 9.18%. According to the data released in previous week, the annual consumer inflation continued to decline and fell to 10.90% in June.

WEEKLY DATA

	30 Jun	7 Jul	Change		30 Jun	7 Jul	Change
BIST-100 Index	100,440	100,084	-0.4 % ▼	EUR/USD	1.1423	1.1400	-0.2 % ▼
TRY 2 Year Benchmark Rate	11.12%	11.44%	32 bp ▲	USD/TRY	3.5202	3.6172	2.8 % ▲
US 10 Year Bond Rate	2.30%	2.39%	9 bp ▲	EUR/TRY	4.0243	4.1245	2.5 % ▲
EMBI+ (bps)	334	342	8 bp ▲	Gold (USD/ounce)	1,241	1,213	-2.3 % ▼
EMBI+ Turkey (bps)	294	312	18 bp ▲	Brent Oil (USD/barrel)	47.2	46.3	-2.0 % ▼

Industrial production index rose on an annual basis.

According to the calendar adjusted data, industrial production increased by 3.5% yoy in May, while the seasonal and calendar adjusted figures printed a monthly decline of 1.5%. The sluggish performance of the index was mainly due to the 2% decline in manufacturing industry output, while electricity production and distribution item increased by 1.7% and limited the decline in industrial production index. In May, capital goods production declined by 9.4% and painted a bleak picture for capital formation, while the 5.3% decline in durable goods production hinted that the effects of SCT and VAT reductions were fading. Analyzing the manufacturing sectors, the highest monthly increase was seen in the manufacture of machinery and equipment and the fastest decline was registered in the manufacture of other transportation equipment.

Financial markets...

Last week emerging country currencies were under pressure mainly due to the hawkish signals from ECB and Fed. The adverse developments in Syria, Qatar and North Korea, as well as the news on the nationalization of South African Central Bank, hurt the risk appetite. In this context, dollar and euro appreciated against emerging country currencies, while remaining relatively flat against other major currencies.

In addition to the deterioration in global risk appetite, the European Parliament's recommendation to suspend Turkey's EU accession negotiations put further pressure on domestic markets. TRY depreciated against dollar and euro by 2.8% and 2.5%, respectively. The BIST-100 index declined by 0.4% but continued to hover over the 100k threshold.

INDUSTRY NEWS

Production Package Law was published in the Official Gazette.

Reform Package Law, which is aiming to improve investment climate, reduce bureaucracy, distribute incentives efficiently and reduce financial burden on producers, was published in the Official Gazette. The law targets to intensify production incentives in the medium and high-tech sectors, as well as facilitating transition to domestic and innovative production. In this context, 15% price advantage is given to medium and high technology domestic products. The law also eliminates TRT share from the electricity consumption of industrial companies, while proposing exceptions and exemption in certain taxes and duties in some sectors and in planned industrial zones.

Automotive market shrank.

Automotive Distributors' Association (ODD) released sector data for June. Accordingly, automobile and light commercial vehicle sales were 401,158 units in the first half of the year, down by 8.6% from the same period last year. In the same period, automobile sales declined by 9.6%, while the light commercial vehicle market shrank by 5.1%. While the share of imported cars in the first half of this year was 64%, the same rate in the same period of last year was 68.4%.

Besides, Automotive Manufacturers Association (OSD) has updated its forecasts for automotive industry. Accordingly, the year-end production target of the industry, with an installed capacity of 1.9 million vehicles a year, was raised to 1.7 million units from 1.65 million units announced in March. The year-end export target of the sector rose to 1.4 million vehicles from 1.35 million on unit basis, and to 28 billion USD from 27 billion USD in terms of value. New forecasts point to an increase of 23% in terms of unit and a 16% increase in terms of value, compared to last year.

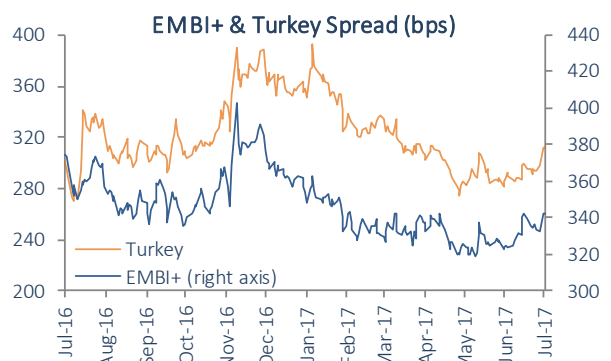
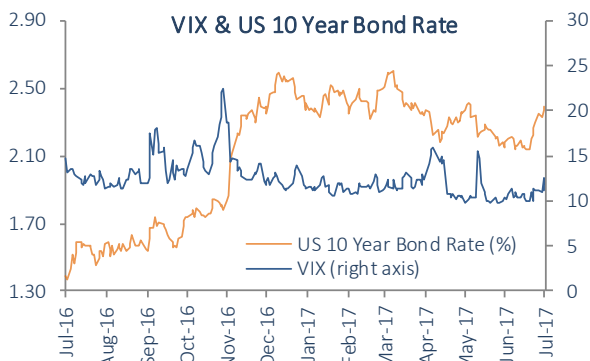
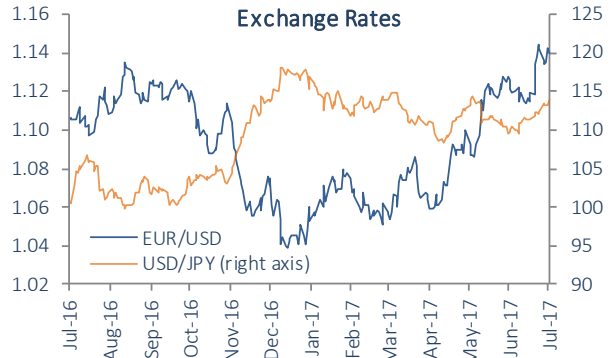
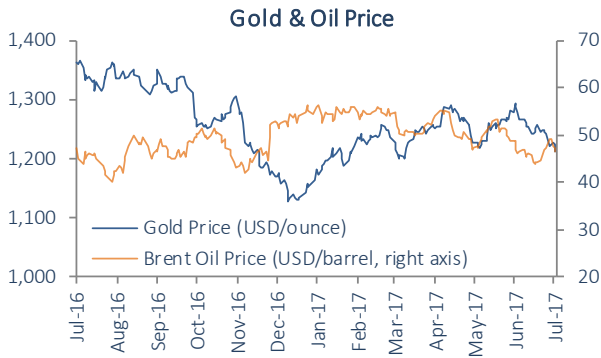
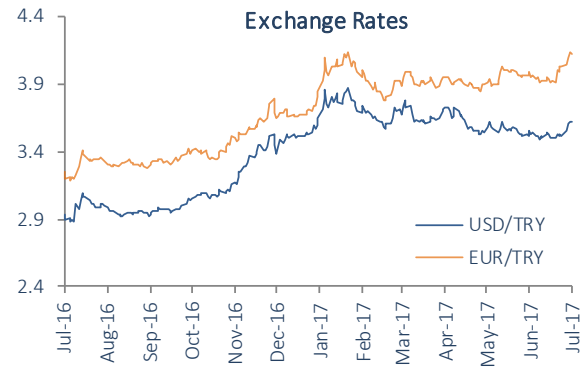
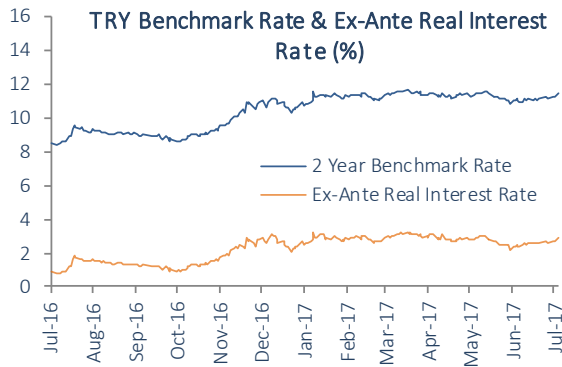
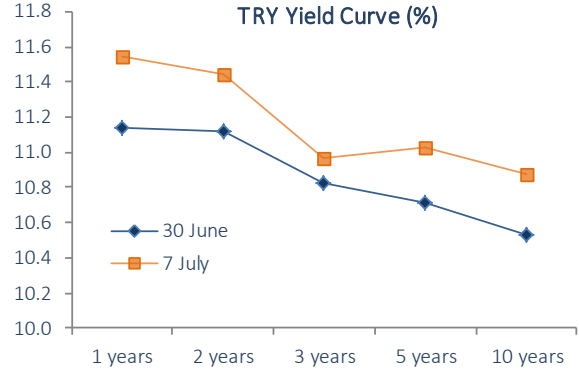
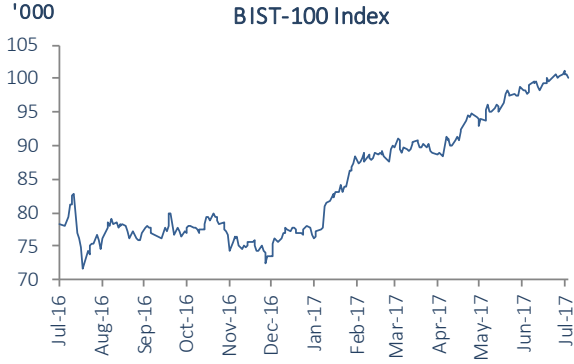
New raw milk reference price has been set.

National Milk Council increased the price of raw milk reference per liter by 9 kuruş to 1.30 TL from July 1st, 2017 to February 1st, 2018. Slaughtering cattle due to high meat prices reduces the milk supply while rising exports to nearby countries, especially Qatar, and the beginning of the tourism season increases demand for milk. These developments put upward pressure on milk prices. Despite the demands of the raw milk producers for a higher price, increase was limited due to concerns regarding the production cost of the dairy industry. While several precautions are being implemented to prevent high volatility and level of meat prices, balance in raw milk sector has a great importance in regulating the meat market.

Planned Areas Reconstruction Regulation changed.

Planned Areas Reconstruction Regulation was published in the Official Gazette. Studio flats designed as 1+0 will no longer be permitted according to the new regulation which comes into force on October 1st, while smallest flat will be at least 28.5 m². Regulation increases the ratio of the construction floor area from 40% to 60% in order to support horizontal planning. It is also intended to reduce the number of floors. With the regulation, basement floors must now access to day-light. According to the regulation, 30% of a project can be disregarded in built-up area. It is stated that this regulation responds to the needs of the sector in general; however, it can cause problems in the urban transformation projects.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
10 July	TURKSTAT Industrial Production Index	May	yoy 3.5% (A)
11 July	Re-opening of Fixed Coupon Bond with 15.5.2019 Maturity Date		
12 July	Treasury Debt Redemption (2,106 million TRY)		
	Fed Beige Book		
13 July	CBRT Balance of Payments Statistics	May	
	USA Producer Price Index	June	mom 0.0%
	China Trade Statistics	June	
14 July	USA Consumer Price Index	June	mom 0.0%
	USA Retail Sales	June	mom 0.1%
	USA Industrial Production Index	June	mom 0.3%
	USA Capacity Utilization Rate	June	76.8%
	USA University of Michigan's Consumer Sentiment Index (Preliminary)	July	95.1

(A) Actual

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