

## WEEKLY OUTLOOK

**"Dovish" statements by Yellen...**

Last week, Fed Chair Yellen's testimony at the Congress was followed closely. Noting that the labor market conditions remained solid, Yellen told that the economy was revived in the second quarter, mainly due to the increase in household spending and the recovery in fixed capital investments. Yellen stressed that inflation is still below the long-term target of 2%, while emphasizing the recent "soft" data on consumer inflation were temporary due to price cuts in certain products. Yellen said that "Because the neutral rate is currently quite low by historical standards, the federal funds rate would not have to rise all that much further to get to a neutral policy stance". Yellen also explained that the Fed balance sheet normalization program would likely begin this year, as the shrinkage in Fed's 4.5 trillion USD assets is projected to be gradual and would have a negligible impact on financial markets. Yellen's recent "dovish" tone pointed a December hike. Fed also has FOMC meetings in July, September and November this year.

After Yellen's statements, the markets focused on inflation data to get further clues on Fed's next step. The annual change in producer price inflation declined on a monthly basis in June, while the closely watched CPI figures missed the expectations. In this context the DXY index, that represents dollar's value against other six developed market currencies, recorded a weekly decline of 0.9%.

**Robust data in Euro Area...**

According to the data released last week, industrial production in the Euro Area rose more than expected in May, 1.3% compared to the previous month and 4% yoy thanks to increases in capital and durable goods production. In addition, investor confidence index reached the highest level in 10 years, depicting a positive outlook for the region.

**China's economic growth exceeded expectations.**

Second quarter growth in China surpassed expectations and came in at 6.9% year on year. China's economy also grew by 6.9% in Q1 of 2017 following the lowest growth performance in 26 years with a growth rate of 6.7% in 2016. While strong global and domestic demand lifted the economic activity, robust industrial production, fixed capital formation and retail sales in June resulted in better-than-expected growth rate. Economic growth target for 2017 is 6.5% in China. On the other hand, before the growth data released, China's National Bureau of Statistics changed GDP calculation framework. It has been reported that "new changes" to the economy as well as health and tourism have been introduced in the calculation.

## WEEKLY DATA

	7 Jul	14 Jul	Change		7 Jul	14 Jul	Change
BIST-100 Index	100,084	105,176	5.1 % ▲	EUR/USD	1.1400	1.1467	0.6 % ▲
TRY 2 Year Benchmark Rate	11.44%	11.37%	-7 bp ▼	USD/TRY	3.6172	3.5371	-2.2 % ▼
US 10 Year Bond Rate	2.39%	2.32%	-7 bp ▼	EUR/TRY	4.1245	4.0569	-1.6 % ▼
EMBI+ (bps)	342	332	-10 bp ▼	Gold (USD/ounce)	1,213	1,229	1.3 % ▲
EMBI+ Turkey (bps)	312	291	-21 bp ▼	Brent Oil (USD/barrel)	46.3	48.2	4.0 % ▲

***Crude oil prices rose on a weekly basis.***

US Energy Information Administration (EIA) revised down its forecast for global crude oil production growth for 2017, while oil prices were supported by the announcement that global oil demand was on an uptrend in the second quarter of the year. The more than anticipated decrease in crude oil inventories in US also affected oil prices to rise by 4% last week. On the other hand, oil prices remained under pressure as International Energy Agency's (IEA) monthly "Oil Market Report" suggested that oil production increased in June even though production cut deal has been extended further until March 2018. According to the report, OPEC's compliance with the agreement fell to 78% in June from 95% in May.

***In May, the current account deficit widened.***

According to the Balance of Payments data released by the CBRT, in May current account deficit increased by 68.4% yoy to 5.2 billion USD. While the rise in non-monetary gold import was effective in widening the deficit, tourism revenues limited the deterioration. 12-month cumulative current account deficit rose by 2.1 billion USD mom to 35.3 billion USD in May. Due to the borrowing of domestic banks from abroad, there was a net portfolio investment inflow of 5.5 billion USD. Following a high growth of 5% in the first quarter of 2017, it is expected that there will be upward pressure on current account deficit if economic activity continues to accelerate ([Our Balance of Payments report](#)).

***Unemployment rate declined on a monthly basis.***

Unemployment rate was realized as 10.5% in the April period, which covers March, April and May. After reaching the highest level since 2010 with 13% in January, unemployment rate declined for the last three months. Compared to the previous month, the labor force increased 313k while the number of unemployed people decreased by 355k. In addition, non-agricultural and youth unemployment rates have fallen to the lowest levels for one year. Despite the employment incentive package and the recovery in domestic economic activity, improvement in unemployment rate is relatively limited though. In addition, most of the employment increase (668k persons) in April period was provided by agricultural (235k persons) and services (223k persons) sectors. On the other hand, the seasonally adjusted unemployment rate fell by 0.2 points compared to last month to 11.3% during this period.

***Financial markets...***

As the rising expectations that Fed's monetary tightening will take place more slowly led to an increase in global risk appetite, most of the stock exchanges closed the week at historical high levels. Foreign trade statistics in China, which were realized above expectations, also supported the favorable atmosphere in the markets. While USD depreciated globally after Yellen's testimony, news that ECB might announce a tapering plan at the September meeting, supported EUR. EUR reached its highest level against USD in the last 14 months with 1.1489.

BIST-100 also reached historical high levels by exceeding 105,000. USD/TRY parity, which rose to 3.65 at the beginning of the week, decreased to 3.53 after Yellen's statements and US CPI data. This week, domestic markets will focus on Treasury's bond issuance programme and Fitch's assessment on Turkish economy on Friday. In January, Fitch has lowered Turkey's foreign currency long-term credit rating below the "investment grade", stating that "political and security developments have undermined economic performance and institutional independence".

## INDUSTRY NEWS

***22nd World Petroleum Congress was held in Istanbul...***

World Petroleum Congress (WPC) was held on 9-13 July in Istanbul. Leaders and energy sector officials made important statements about the future of energy sector. In his speech at the Congress, Minister of Energy and Natural Resources Berat Albayrak, emphasized that Turkey's annual natural gas storage capacity will reach to 11 billion cubic meters by 2023 thanks to Turkey's ongoing efforts to secure natural gas supply. Moreover, Albayrak met Israel's energy minister and agreed to sign a landmark deal, which will initiate the construction of a pipeline between two countries, in order to diversify Turkey's natural gas import partners and to search new markets for Israel to sell gas drilled from its recently discovered reserves. It was announced at the Congress that the first phase of Turkey's first nuclear power plant, majority of whose shares belong to Russian Rosatom, is planned to be in operation as of 2023 in Akkuyu, Mersin. It was also underlined that the progress for the third nuclear power plant was initiated.

***Growing interest for solar power plants...***

Ministry of Energy and Natural Resources has been recently promoting local production of solar panels, wind turbines and wings, used at solar and wind power plants, through a mechanism called Renewable Energy Designated Areas (YEKA) to reduce foreign trade deficit at the energy sector and increase the share of locally produced parts in electricity generation. First of all, investment incentive documents given to imported solar panels were cancelled in June 2016 and then anti-dumping duties were imposed on imported solar panels from China, both of which supported local production of solar panels. This development has also helped local energy firms to establish partnerships with Chinese investors to start producing solar panels in Turkey. It is expected that the cost of producing solar panels will decline thanks to the economies of scale and panel producers will be ready to export in time.

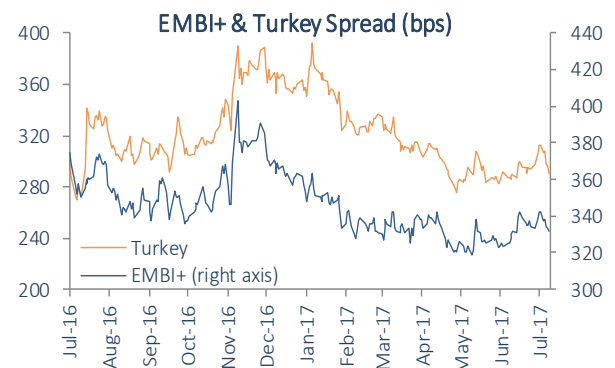
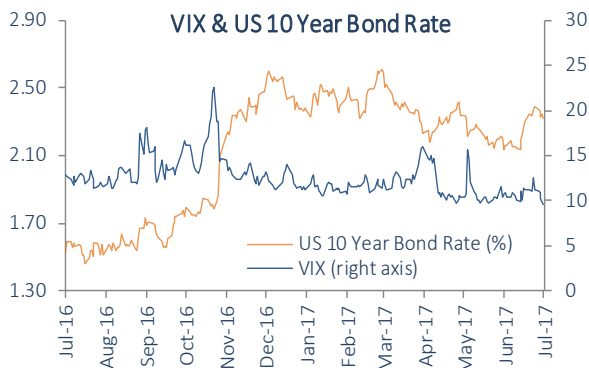
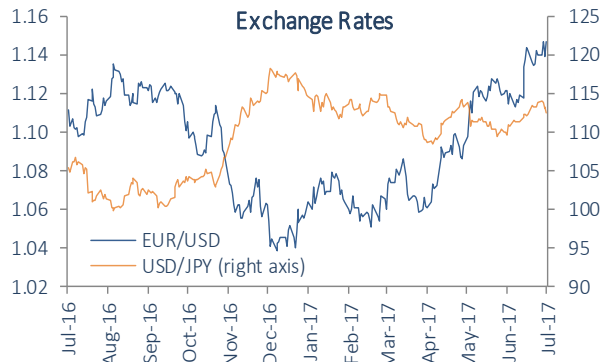
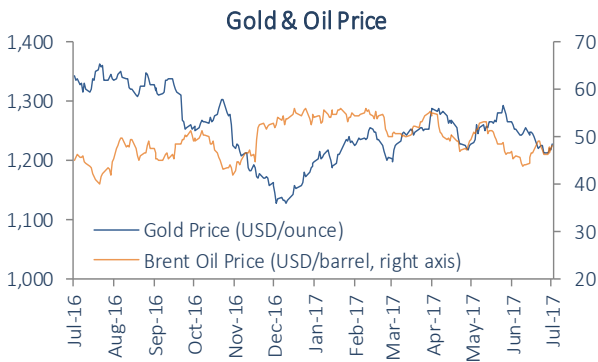
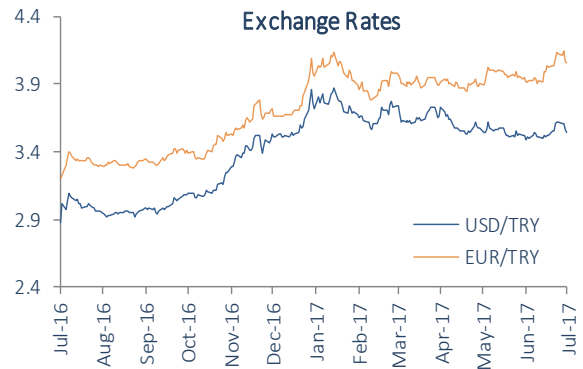
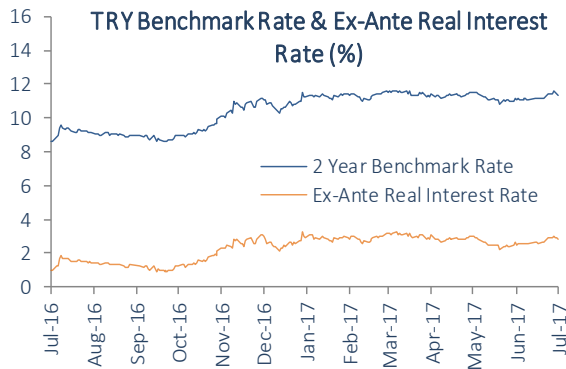
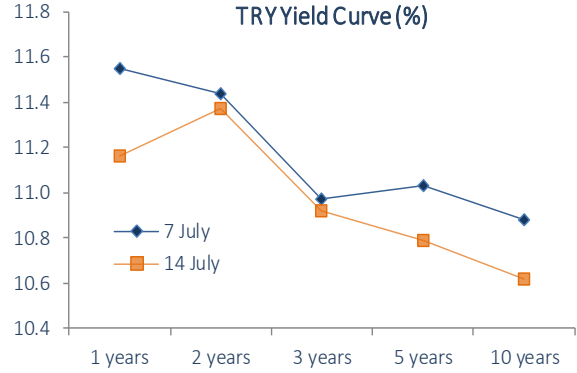
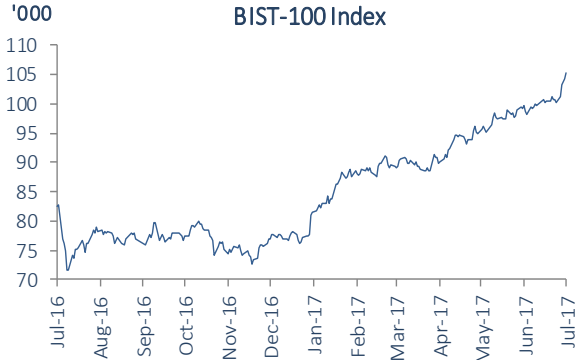
***New cargo terminal at İstanbul New Airport...***

Leasable areas at İstanbul New Airport, first phase of which is planned to be in operation as of October 2018, are continued to be tendered. Last week İstanbul Grand Airport (IGA) signed 25-year leases valued at 250 million EUR with six different companies in order to set up a campus for a new cargo city and ground services. MNG, PTT, Çelebi, HAVAŞ, Sistem Logistics and Bilin Logistics will be the companies to be operating for cargo transportation at the new airport. Compared to Atatürk Airport, which had a cargo transportation capacity of 918,000 tons in 2016, once opened, the new airport will have a capacity of 2.5 million tones and 5.5 million tones when all phases are in operation. Hence, the new airport will leave the Hong Kong Airport behind in terms of its cargo transportation capacity.

***US will be taxing steel imports.***

US President Trump's speech last week on US's possible implementation of dumping duties for imported steels has concerned iron and steel industry officials in EU countries and Turkey. US is the main export market of the industry especially for rebar with the share of 14%. US declared on April 20th that they will announce in 270 days whether or not to activate the Section 232, which lets US president to take initiative without the approval of Congress in case of a national security issue. As the deadline approaches, it is estimated that domestic steel prices will rise in the US by the implementation of anti-dumping duties to the countries like Turkey, Brazil and Mexico and EU countries and the construction sector which uses steel as an input will be negatively affected. Although Minister of Economy Zeybekçi stated that they have made a complaint to the World Trade Organization about the issue, it is highly possible that Turkish steel producers will be adversely affected by a fall in domestic steel prices in the short-term.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
17 July	TURKSTAT Employment Statistics	April	10.5% (A)
	Ministry of Finance Central Administration Budget	June	13.7 billion TL deficit (A)
	CBRT Survey of Expectations	July	
	China GDP Growth Data	2017 Q2	6.9% (A)
	Reissuance of Zero Coupon Bond with 8.8.2018 Maturity Date		
	Reissuance of Floating Coupon Bond with 5.6.2024 Maturity Date		
18 July	Eurozone Consumer Price Inflation	June	1.4%
	Reissuance of Fixed Coupon Bond with 2.3.2022 Maturity Date		
	Reissuance of Fixed Coupon Bond with 24.2.2027 Maturity Date		
	Issuance of CPI Indexed Bond with 7.7.2027 Maturity Date		
19 July	US New Home Sales	June	1.19 million
	Treasury Domestic Debt Redemption (8,425 million TL)	July	
20 July	TURKSTAT Consumer Confidence Index	July	
	European Central Bank (ECB) Meeting and Interest Rate Decision	July	
	Japanese Central Bank (BoJ) Meeting and Interest Rate Decision	July	

(A) Actual

## İŞBANK - Economic Research Division

**İzlem Erdem - Division Head**  
izlem.erdem@isbank.com.tr

**Alper Gürler - Unit Manager**  
alper.gurler@isbank.com.tr

**H. Erhan Gül - Asst. Manager**  
erhan.gul@isbank.com.tr

**Dilek Sarsın Kaya - Asst. Manager**  
dilek.kaya@isbank.com.tr

**Aslı Göksun Şat Sezgin - Economist**  
goksun.sat@isbank.com.tr

**Bora Çevik - Economist**  
bora.cevik@isbank.com.tr

**Ahmet Aşarkaya - Economist**  
ahmet.asarkaya@isbank.com.tr

**Ayşe Betül Öztürk - Asst. Economist**  
betul.ozturk@isbank.com.tr

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