

WEEKLY OUTLOOK

Heavy agenda in the US...

Last week various counter-measures taken by Russia, following Trump's new sanctions triggered tension. This escalation also casted uncertainty over the future of Russian oil and gas projects with European Union. Trump's recent assessments hinting a pressure on China, to change its trade practices and do more to stop North Korea's weapons program were also closely followed.

Last week, the economic data released in the US displayed a mixed outlook. The manufacturing PMI with 53.3, indicated that the US economy maintained its strong performance in the beginning of the third quarter. The increase in non-farm payrolls was well above the expectations with 209k persons, confirming that the US labor market is approaching to full employment. The average hourly earnings increased by 0.3% mom in July, highest for the last five months. Thus, the annual increase in wages was recorded as 2.5%, maintaining its strong pace. In the same period the unemployment rate came in at 4.3%, in line with expectations. The jobless claims data, which remained below the threshold of 300k for the last 126 weeks, had also painted a positive outlook for the US labor market.

Last week, St. Louis's Bullard and Cleveland's Mester told that the interest rate hikes should be gradual. While the US dollar was mainly under pressure throughout the week on the back of political developments, greenback pared some of its early losses after the US employment data. The yield of 10 year Treasury bond declined by 2 bps wow.

Strong economic data from Euro Area...

In Euro Area, consumer price inflation rose by 1.3% yoy in line with expectations in July, but remained below the European Central Bank's (ECB) 2% target. The unemployment rate for June was 9.1%, the lowest level since 2009, signaling a moderate recovery in the region's labor market. The economic growth gained momentum in the Q2 with 0.6%, as the previously announced Q1 GDP growth revised to 0.5% from 0.6%.

Despite the sluggish performance of inflation indicators, the recovery in economic activity hinted that ECB might scale back stimulus by the end of 2017. This development supported the appreciation in euro. Last week, EUR/USD parity tested new highs of 1.19.

Bank of England did not change its monetary policy.

Bank of England (BoE) kept the policy rate unchanged in its meeting last week. Minutes of the meeting revealed that the Monetary Policy Committee which had voted 5-3 in the previous meeting, has voted 6-2 in favour of keeping the rates on hold this time. This was a bit disappointing for the markets as it pointed out there is still time for BoE to tighten its monetary policy. After the announcement of BoE's decision, sterling/euro parity hit 9-months low. Moreover, BoE revised its economic growth projections downwards; from 1.9% to 1.7% for 2017 and from 1.7% to 1.6% for 2018.

WEEKLY DATA

	28 Jul	4 Aug	Change		28 Jul	4 Aug	Change
BIST-100 Index	107,700	108,545	0.8 % ▲	EUR/USD	1.1750	1.1768	0.2 % ▲
TRY 2 Year Benchmark Rate	11.53%	11.60%	7 bp ▲	USD/TRY	3.5269	3.5269	0.0 % ●
US 10 Year Bond Rate	2.29%	2.27%	-2 bp ▼	EUR/TRY	4.1466	4.1534	0.2 % ▲
EMBI+ (bps)	335	330	-5 bp ▼	Gold (USD/ounce)	1,269	1,258	-0.9 % ▼
EMBI+ Turkey (bps)	285	272	-13 bp ▼	Brent Oil (USD/barrel)	52.0	52.5	0.8 % ▲

bp: basis point

Oil prices remained flat.

The price of Brent crude oil surged above 52 USD/barrel at the beginning of last week, the highest levels since May. This development was influenced by the decision of OPEC and non-OPEC representatives to meet in Abu Dhabi on August 7th-8th in order to discuss the reasons for not complying with production cut commitments. Oil prices remained flat last week due to decreasing number of oil rigs in USA and some OPEC members' failure to meet the commitments of production deal. On the other hand, US's decision to impose economic sanctions against Venezuela raised a concern for future oil exports of this country.

In Turkey, annual consumer inflation fell to single digit in July.

In July, Consumer Price Index (CPI) rose by 0.15% mom in line with the expectations, where Domestic Producer Price Index (D-PPI) posted a relatively rapid rise by increasing 0.72%. The annual CPI has lost steam for the third consecutive month and fell to single digit level by 9.79% for the first time since January 2017. The annual D-PPI inflation, however, accelerated by 15.45% during the same period. While price increases in hotels & restaurants and recreation & culture triggered the rise in monthly CPI, decline in clothing and food & non-alcoholic beverages prices actually pulled the inflation down in July. On-going rise in core inflation along with the narrowing of the gap between core inflation and headline inflation indicate that annual CPI may climb to double-digit levels again in the coming months. Furthermore, the fact that recent tax cuts on furniture, white goods and the housing sector are going to end by September also puts an upward pressure on inflation in the last quarter ([Our Inflation Report](#)).

CBRT released the third Inflation Report of the year.

Minutes of the CBRT Monetary Policy Meeting held on July 27th was published last week. According to the minutes, CBRT thinks that highest level for inflation has already been reached and inflation should follow somewhat volatile course for the remainder of the year. CBRT reiterated that tight stance in monetary policy will be maintained until inflation outlook displays a significant improvement. In the third Inflation Report of the year, CBRT revised up its inflation forecast for 2017 by 0.2 percentage points to 8.7%. Maintaining its inflation target at 5% for medium term, CBRT kept its 2018 inflation forecast unchanged at 6.4%. Year-end food inflation forecast was revised to 10% from 9%. 2017 inflation forecast was limited by 0.1 points mainly because the projected raise for the lump-sum SCT taxes on cigarettes and other tobacco products under the automatic mechanism was withheld and TRY-denominated import prices remained relatively stable.

Economic activity keeps its moderate course.

Manufacturing PMI which hit 43-months high in June, reduced by 1.1 points mom to 53.6 in July. PMI preserved its strength by remaining above the 50-threshold level. As for the sub-groups, annual growth in production and employment has lost pace moderately while the decline in company's input costs and final goods' prices continued. According to preliminary figures released by Ministry of Customs and Trade, in July, exports and imports rose by 28.7% and 45.8% respectively. Hence, foreign trade deficit rose by 80.4% reaching USD8.79 billion. Low base effect as a result of the coup attempt in July 2016 as well as Ramadan holiday season had an impact on the surge in exports this year. On the other hand, CPI-based Real Effective Exchange Rate fell in July, indicating that TRY has depreciated against the currency basket including the currencies of Turkey's major trade partners. In July, the index dropped to 89.39, hitting its lowest value since March.

Domestic markets...

After following a volatile course at the beginning of the week, BIST-100 rose 0.8% weekly due to relatively optimistic global markets and better-than-expected financial statements from domestic firms. DXY index, which shows the value of US dollar against other developed country currencies, was hovering around the lowest levels since May 2016 last week. This development and CBRT's announcement that tight monetary stance will be maintained supported TRY against dollar. On the other hand, EUR/TRY, which rose to 4.20 with the expectations that ECB might change its expansionary monetary stance before year end, weakened to 4.15 levels following US payroll data. Two-year benchmark bond interest rate rose 7 basis points to 11.60% weekly.

INDUSTRY NEWS

Customs duty exemptions on the import of some agricultural products and red meat...

According to the regulation published in the Official Gazette on July 29th, 2017, Turkish Grain Board (TMO) was given the permission to import 750k tons of wheat and adulterated wheat, 700k tons of barley and maize and 100k tons of rice with 0% customs duty till May-August 2018. The government also defined customs-free quotas to Meat and Milk Board (ESK) for the import of 500k live cattle, 475k live sheep-goat, 75k tons of beef and 20k tons of quarter carcass meat. Customs-free imports of quarter carcass meat will be valid until the year-end while the deadline for the others is December 2018. Given that yields for the related agricultural products are expected to rise this year, the regulation might have a negative impact on the farmers, who are now busy with the harvest season. TMO relieved the sector officials noting that they will not be using the quotas at this harvest season. Similarly, TMO had not used its import quotas in 2012, having used half of it in 2014 despite a fall in yields at that time. In the first half of 2017, Turkey's import of related grains increased by 2.4% yoy to USD751.2 million. Russia became the main import market of the products with 28% share during the same period.

Final price: 3.48 USD cent/kWh at YEKA tender...

In order to decrease energy sector's import dependence, Turkey continues to support the electricity generation from local & renewable energy sources and local production of the equipment used at the power plants. Within this framework, the consortium of Siemens-Türkerler-Kalyon won the tender for wind energy Renewable Energy Resource Areas (YEKA), which was implemented through the method of dutch auction last week. The group will sell the electricity at the price of 3.48 USD cent/kWh for 15 years to the market, where the recent spot price is around 5.1 USD cent/kWh. It is expected that total project will cost about USD 1 billion and minimum 65% of wind turbines will be locally produced in Turkey. The plants with the total installed power of 1,000 MW will be set up at five different locations, Bilecik-Kütahya-Eskişehir, Edirne-Kırklareli-Tekirdağ, Ankara-Çankırı-Kırıkkale, Kayseri-Niğde and Sivas.

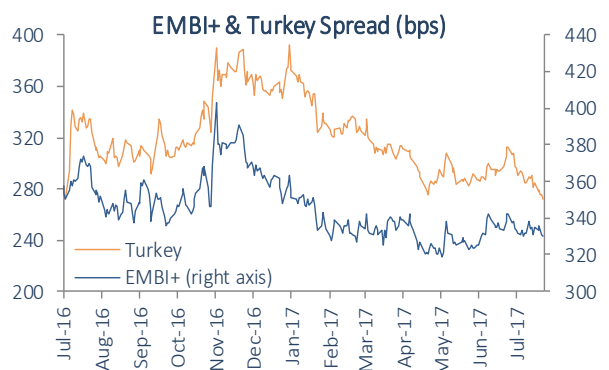
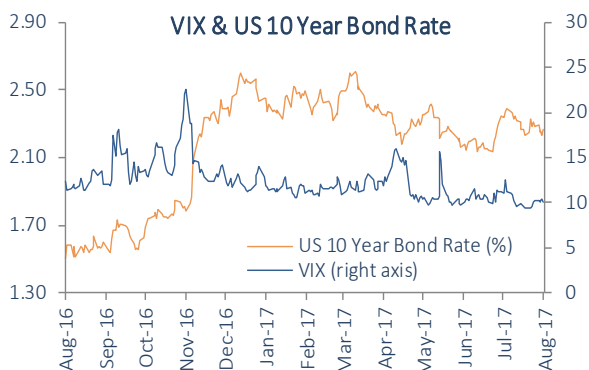
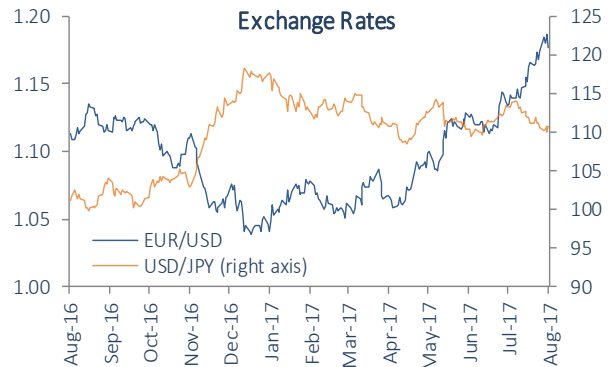
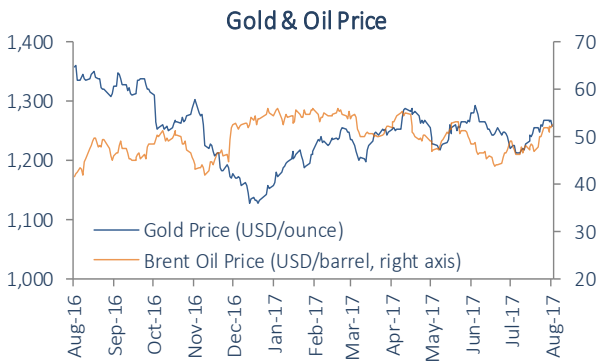
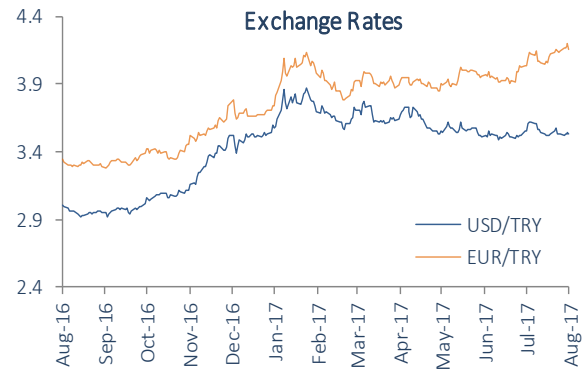
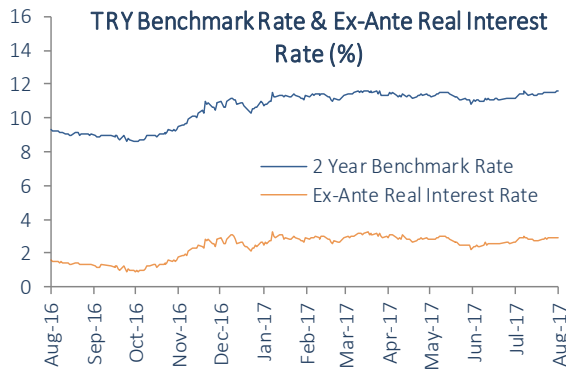
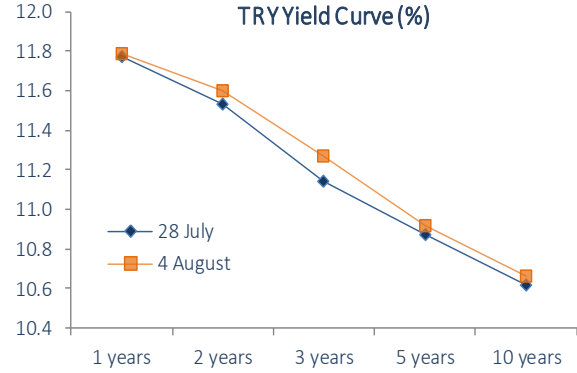
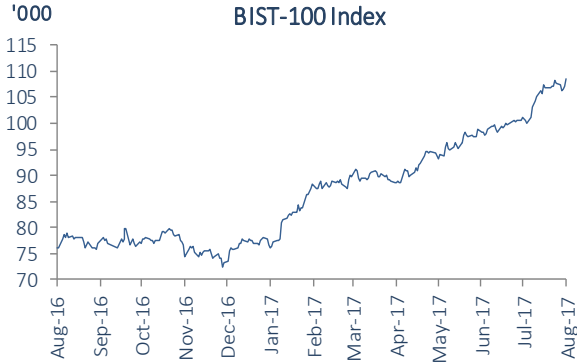
Average expenditure per foreign visitor is declining.

According to data released by Ministry of Culture and Tourism, the number of foreign visitors to Turkey climbed by 14.1% yoy to 12.2 million in the first half of 2017. Russia became the country Turkey hosted the most foreign visitors from with the share of 13.8%, while Germany and Georgia followed it with 10.2% and 8.8% respectively. Russia was also the country with the highest annual increase in the number of incoming foreign visitors, whereas number of tourists from Qatar, which has recently had political crises with four different countries in the Middle East, rose by 21.4% yoy in the same period. Turkey's tourism receipts were up by 8.7% yoy to USD 5,413 million in the second quarter. On the other hand, average expenditure per foreign visitor has lately been declining. It was around USD633 in 2016, but fell to USD592 in the first half of this year.

Automobile market showed a fast recovery in July.

Last week Automotive Distributors' Association published the data on automotive sector's sales in July. Passenger car sales, which narrowed by 7% yoy in June, surged by 36.9% yoy to 62,384 in July. Light commercial vehicle sales, on the other hand, had shrunk by 14.4% yoy in June and showed a fast climb by 53.6% yoy in July to 19,913. While passenger car sales declined by 4.1% and light commercial vehicle sales increased by 1.6% yoy during the January-July period, total passenger car and light commercial vehicle sales grew by 2.8 yoy to 483,455. It is projected that total automotive sales will be between 875,000-925,000 in 2017. Up to now, total automotive sales have come up to 53.7% of its target.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
07 August	Germany Industrial Production Data	June	-1.1% (A)
08 August	China Foreign Trade Statistics	July	+45 billion USD
	TURKSTAT Industrial Production Data	June	
09 August	Treasury Domestic Debt Redemption (676 Million TL)	August	
10 August	USA Domestic Producer Price Index	July	+2.0% yoy
11 August	USA Consumer Price Index	July	
	CBRT Balance of Payments	June	

(A) Actual

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