

	30/Mar	6/Apr	Change		30/Mar	6/Apr	Change
BIST-100 Index	114,930	114,738	-0.2 % ▼	EUR/USD	1.2321	1.2281	-0.3 % ▼
TRY 2 Year Benchmark Rate	14.03%	14.39%	36 bp ▲	USD/TRY	3.9542	4.0428	2.2 % ▲
US 10 Year Bond Rate*	2.74%	2.78%	3 bp ▲	EUR/TRY	4.8732	4.9691	2.0 % ▲
EMBI+ (spread)*	343	338	-5 bp ▼	Gold (USD/ounce)*	1,324	1,333	0.7 % ▲
EMBI+ Turkey (spread)*	323	318	-5 bp ▼	Brent Oil (USD/barrel)*	69.3	66.2	-4.4 % ▼

(*) Changes compared to March 29

Last week, news flow on protectionist trade policies continued to be closely monitored. The tariffs levied and to be levied on imported products by the US and China have caused the risk perception to remain fragile. On the domestic front, other than the global agenda, inflation data and the government's new economic measures were followed. Both bond and stock markets performed poorly in most of the week due largely to global developments while foreign exchange rates reached new peaks.

Trade tensions have risen between US and China.

China continued to retaliate against the protectionist trade measures adopted by the United States which are in an effort primarily to reduce the foreign trade deficit with China. China announced that they will bring 25% additional tariffs on 106 US goods including automobiles, soya beans and chemical substances. This move corresponds to a 50 billion USD worth imports a year. As a warning shot to the US, China had previously introduced additional tariffs on 128 product groups worth of 3 billion USD. In response to China's latest measure, Trump fueled trade war concerns announcing that they consider imposing additional tariffs on 100 billion USD of Chinese goods. Aside from these, China filed the World Trade Organization complaint over the US's tariffs measures. Despite these moves, the two parties continued to keep the door open for negotiations. Although this sort of conciliatory expressions occasionally calms trade war fears, the improvement in investors' risk appetite remains limited.

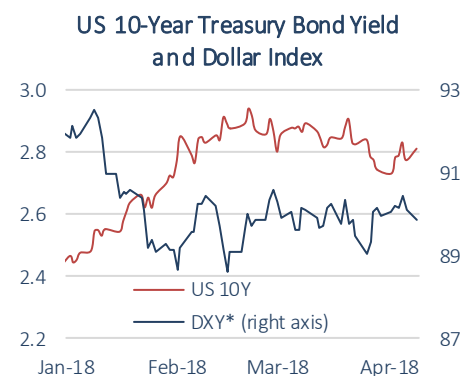
Protectionist policies put pressure on markets.

Having deteriorated sharply at the beginning of the last week, global risk perception recovered somewhat in the following days. Global stock markets have performed well since the middle of the week. US 10 year Treasury bond yield, which touched 2.90% in February, dropped to 2.73% on April 2, due to rising demand for safe investment instruments. In whole week, the interest rate of the bond rose by 3 basis points to 2.78%. Besides, last week US dollar appreciated in the international markets.

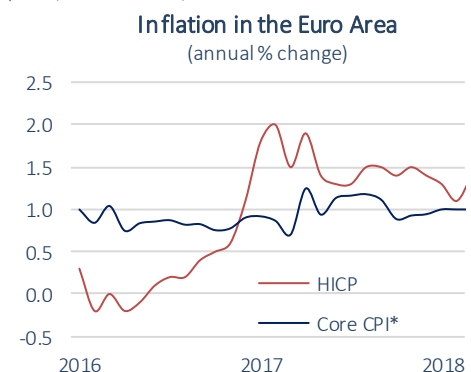
Economic activity is generally strong in developed countries.

While PMI data in the US show that economic activity largely kept its pace in the last month of the first quarter, labor markets continued to tighten albeit losing momentum. Average hourly earnings, being monitored closer than the change in nonfarm payrolls (+103 thousand people), increased by 2.7% in March yoy (prior 2.6%). In general, the March employment figures did not put pressure on Fed to take further steps in normalizing its monetary policy in the coming period.

In Euro Area, the manufacturing industry and service sector continued to grow. Although worse-than-expected retail sales data disappointed the markets to some extent, acceleration of annual inflation was perceived as positive. In March, annual HICP inflation increased by 0.3 point compared to February, in line with expectations, and realized as 1.4%



(*) DXY index keeps track of the US dollar's performance against a basket of six currencies (euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc).



(*) Excluding energy, food, tobacco and alcohol

Source: Datastream, PII

Chinese PMIs signaled loss of momentum.

Despite the strong data in developed economies, manufacturing and service PMI data in China signaled the loss of momentum in the economy. Manufacturing PMI performed weaker than the expectations by declining to 51, the lowest level of last four months.

Rapid decline in oil prices last week...

Last week, oil prices were under pressure amid rising oil production in Russia despite the production cut agreement and the news that Saudi Arabia would cut the prices of crude it sells to Asian countries. However, Saudi Arabia increased oil prices rather than decreasing. That rise limited the downward pressures. Brent crude oil price completed the week as 66.2 USD/barrel.

In March, CPI inflation remained at double digits while Turkish lira fell to the lowest level in its history in real terms.

In March, monthly CPI inflation was realized as 0.99% in parallel with expectations. Annual CPI and D-PPI inflation were realized as 10.23% and 14.28%, respectively. Food and energy prices put upward pressure on inflation ([Our Inflation Report](#)).

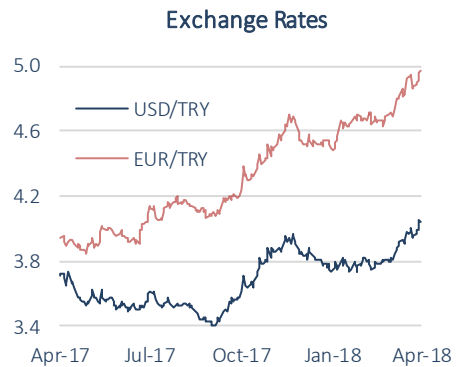
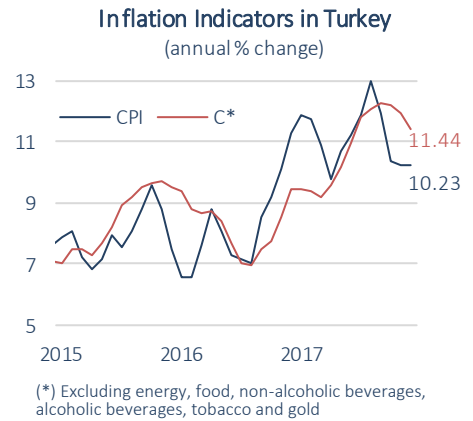
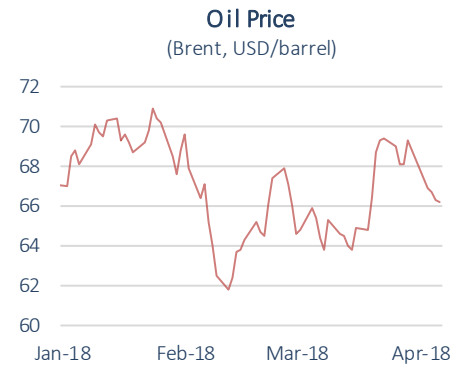
CPI based real effective exchange rate, which shows the price level in Turkey relative to its counterparts' that have share in Turkey's foreign trade, declined to record low with 83.4.

Fluctuating course in domestic markets...

The deterioration in the global markets stemmed from trade war concerns mirrored in domestic markets. While BIST-100 index decreased on a weekly basis also due to the domestic factors, bond yields rose. USD/TRY and EUR/TRY hit new record highs with 4.0428 and 4.9691, respectively.

New week's agenda...

US inflation data, Fed and ECB meeting minutes will be high on the global markets' agenda this week. Developments regarding protectionist policies will also continue to be effective on the course of markets. New economic incentives and February balance of payments figures will be closely monitored in domestic front. In January, current account deficit had reached 51.6 billion USD, its highest level since April 2014.



Data Releases

		Period	Consensus	Prior
9 April	Euro Area Sentix Index	April	20.3	19.6 (A)
	Japan Consumer Confidence Index	March	-	44.3
10 April	US PPI (mom)	March	0.1%	0.2%
	US Core PPI (mom)	March	0.2%	0.2%
11 April	UK Industrial Production	February	0.3%	1.3%
	US CPI (mom)	March	0.1%	0.2%
	US Core CPI (mom)	March	0.2%	0.2%
	CBRT Current Account Deficit	February	-4.2 billion USD	-7.1 billion USD
	Fed FOMC Minutes	March	-	-
	ECB Minutes	March	-	-
12 April	Euro Area Industrial Production	February	-	-1%
13 April	Germany CPI (final)	March	1.6%	1.6%
	US Michigan Consumer Confidence Index (preliminary)	April	101	101.4

(A) Actual

Source: Datastream, Turkstat

Sectoral Developments

News flow about economic measures...

The project-based incentive package was unveiled. Through these investment incentives of 135 billion TRY, 23 projects in various sectors including petrochemical, defense, transportation systems, energy technologies, aviation and space industries will be promoted. These projects are expected to create employment directly over 35,000 persons and indirectly 134,000 persons. It was announced that 75% of the incentives in the project-based incentive system will be channeled to high and medium-high technology projects. Once the projects are completed, the annual current account deficit will decline by 19 billion USD. The "2018 Action Plan" is also eagerly anticipated. In addition, Prime Minister Binali Yıldırım stated that a new package of 67 items aiming to improve the investment climate is soon to be presented to the Grand National Assembly of Turkey. Yıldırım said that the new measures aimed at facilitating access to credit will be publicized in the coming days.

With the new reform package, the Treasury single account system in the latest reform package, which entered into force on March 27, will be enacted. This system is expected to ease the upward pressures on interest rates as the impact of Treasury borrowings on bond markets will subside. In addition, some measures targeting to reduce inflation are also on the agenda. For instance, it is planned that the central and local authorities will take the "target inflation" into consideration in procurement of services.

Economy administration announced that they are preparing a new regulation that provides the "loyal" financially stressed taxpayers with the opportunity to pay their VAT liabilities in installments up to 60 months.

Recovery in automotive sales...

Sales of automobiles and light commercial vehicles in Turkey increased 3.4% yoy in March, according to the Automotive Distributors Association. The annual rise in the first quarter was 1.5%. Automobile sales increased by 5.5% yoy in the first quarter, while light commercial vehicle sales fell by 10% yoy. Automotive market had contracted by 7.4% yoy in the same period of 2017.

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