

	13/Apr	20/Apr	Change		13/Apr	20/Apr	Change
BIST-100 Index	109,604	110,932	1.2 % ▲	EUR/USD	1.2329	1.2286	-0.3 % ▼
TRY 2 Year Benchmark Rate	14.36%	14.14%	-22 bp ▼	USD/TRY	4.0959	4.0756	-0.5 % ▼
US 10 Year Bond Rate	2.83%	2.95%	12 bp ▲	EUR/TRY	5.0507	5.0070	-0.9 % ▼
EMBI+ (spread)	335	335	0 bp ●	Gold (USD/ounce)	1,345	1,335	-0.8 % ▼
EMBI+ Turkey (spread)	317	308	-9 bp ▼	Brent Oil (USD/barrel)	73.1	75.2	2.8 % ▲

bp: basis point

Last week domestic markets have focused on early election to be held on June 24th. USD/TRY and EUR/TRY have declined to 4.00 and 4.96, respectively, after the announcement of early election. Global risk appetite was supported by the decline in geopolitical concerns, in line with the news that US could postpone sanctions on Russia. The rise in oil prices throughout the week was closely followed. This week, ECB, BoJ and CBRT meetings are on the top agenda, while the developments regarding the elections will be monitored in domestic markets.

Domestic markets...

Early presidential and parliamentary elections to be held on 24th June 2018 are expected to ease political uncertainties and thus supported investors interest in TRY assets. BIST-100 index closed the week with 1.2% increase. After the announcement of the early elections decision, the USD/TRY and EUR/TRY went back to 4.00 and 4.96 levels, respectively, but rose again to some extent in the second half of the week.

Budget posted a deficit in March.

In March, central government budget deficit increased by 3.6% yoy and amounted to 20.2 billion TRY. Budget revenues and expenditures expanded by 23.4% and 16.8% yoy respectively ([Our Budget Balance Report](#)). Steps towards a tighter monetary policy from the central banks of developed countries have actually led to a rise in borrowing costs for domestic instruments. Investors return on the issue of a 10-year security worth of 2 billion USD has risen to 6.2% from an earlier rate of 5.2%

Unemployment rate declined as market expectations deteriorated.

In the January period which covers the December to February period, unemployment rate in Turkey declined by 2.2 basis points yoy to 10.8%. Along with the annual rise of 1.4 million in the number of persons employed, employment rate went up to 46.4%. On the other hand, CBRT's Expectation Survey revealed that prospects on current account, inflation and foreign exchange have all deteriorated in April.

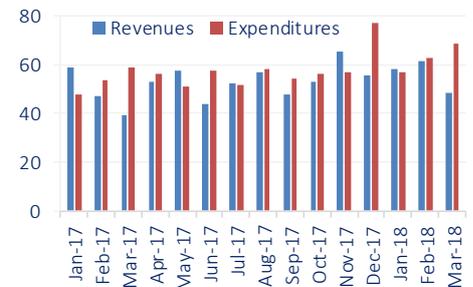
US bond yields rose rapidly.

According to the statements by the US United Nations Representative, US was expected to announce new sanctions against Russia on last Monday. US President Trump's statement that this situation is not going to happen anytime soon relieved the global markets at the beginning of the week. In the first half of the week US stock markets displayed a positive performance thanks to the decline in geopolitical tensions and the positive balance sheet announcements, while selling pressure was intensified in the technology stocks on the following days.

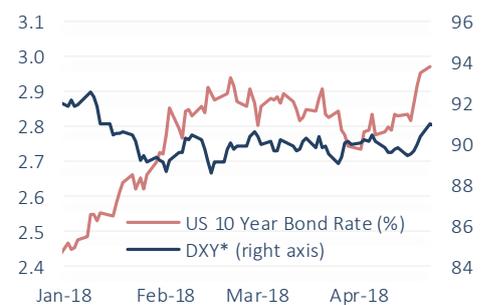
In US, preliminary manufacturing PMI reading for April surpassed expectations and reached to 43 months high. As well as the expectations that the recent increase in oil prices will lift the US inflation further, positive assessments regarding the US economy continued to boost bond yields. US 10-year benchmark bond yield hit the highest level since January 2014 with 2.998% on April 23rd. In line with the appreciation in US dollar, EUR/USD parity fell below 1.22 on April 24th.



Budget Revenues & Expenditures (billion TRY)



US 10 Year Bond Rate and DXY*



(*) 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. A fall in the index represents a depreciation in USD.

Source: Datastream

Oil prices rose to 75 USD/barrel...

Last week, news that Saudi Arabia would be happy to see the oil prices rise to 80-100 USD/barrel was on the top of the agenda. Besides, after the surprisingly drop in US oil inventories, oil prices surpassed 75 USD/barrel on Friday, the highest since November 2014. Moreover, decision on whether to renew sanctions on Iran by May 12th loomed the oil markets and kept the oil prices at high levels.

Inflation figures in Euro Area and UK...

Annual consumer prices inflation in the Euro Area has been revised to 1.3% as the final figure for March, down from the flash estimate of 1.4%. Yet, consumer prices in March have risen above the previous month's realization of 1.1%. In his speech on last Friday, ECB President Draghi stated that despite the acceleration in inflation, they need to be patient, wise and persistent against the monetary policy uncertainties. ECB is not expected to change its monetary policy whatsoever in its upcoming meeting scheduled for April, 26th.

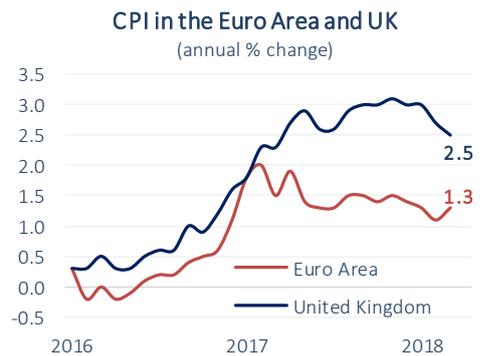
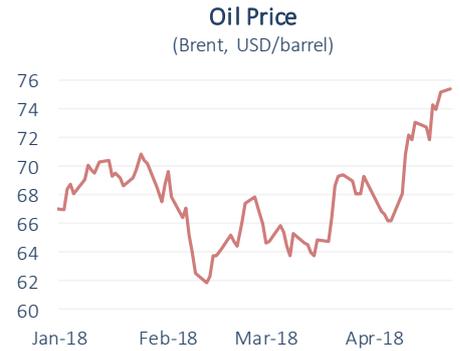
In UK, as well as the consumer inflation which realized as 2.5% in March, the Bank of England (BoE) President Mark Carney's comments revealing that he does not prefer to focus on when exactly the Bank would raise interest rates, created a market perception that BoE would probably not take the rate hike as an option in its meeting in May. This caused sterling to depreciate against dollar last week.

Economic growth in China...

In the first quarter of 2018, China's economy grew by 6.8% yoy which is slightly above the expectations of 6.7%. Despite the rising debt burden, solid course of domestic demand and real estate investments had a positive impact on the economic activity. On the other hand, the fact that net exports to GDP ratio has turned to negative in Q1 from positive in 2017 was noticeable. Although the probable negative outcomes of protectionist-economic measures applied by the US over China will be watched closely, economic growth in China is expected to meet the government's target of 6.5% in 2018.

This week...

This week, domestic markets will closely monitor the CBRT's monetary policy meeting as well as the developments regarding the elections. Global markets will focus on the meetings of the ECB and the Bank of Japan.



Data Releases

		Period	Consensus	Prior
23 April	Japan Manufacturing PMI (flash)	April	-	53.3 (A)
	Euro Area Manufacturing PMI (flash)	April	56.1	56 (A)
	USA Manufacturing PMI (flash)	April	55.2	56.5 (A)
24 April	USA Existing Home Sales	March	5.513 million	5.6 million (A)
	USA New Home Sales	March	629 K	618 K
	Real Sector Confidence Index of Turkey	April	-	109.5
25 April	TR - Capacity Utilization Rate of the Manufacturing Industry	April	-	77.8%
	CBRT Monetary Policy Committee Meeting	April		
	Treasury's Domestic Debt Redemption (823 million TL)	April		
26 April	USA Durable Goods Orders, mom	March	1.6%	3.1%
	European Central Bank's (ECB) Governing Council Meeting	April		
27 April	USA University of Michigan Consumer Sentiment (flash)	April		97.8
	United Kingdom GDP (%), yoy	2018 Q1	-	1.4%
	Bank of Japan (BoJ) Monetary Policy Board Meeting	April		
	TR - Economic Confidence Index	April	-	100.2

(A) Actual

Source: Datastream, NBS

Sectoral Developments

Decline in house sales...

House sales, which declined in February, were also down in March. Sales tumbled by 14% to 110.9K units in March. Annual fall in house sales in the first quarter of 2018 was realized as 6.7%. Mortgaged house sales, which have been on a annual downward trend for the last seven months had a share of 29.6% in total house sales in March.

House prices in Turkey rose by 9.5% yoy in February. In Istanbul and Ankara, annual increases in house prices hovered below the consumer inflation while there was a strong growth in Izmir by 16.7% yoy. According to statements made by the officials of The Association of Real Estate and Real Estate Investment Companies, there have been no price-ups in the sector for a long time and will not be any in the immediate future despite rising input costs.

Early reservation campaigns at the tourism sector...

Early reservation campaigns at Turkey's tourism sector were initiated in December last year to be due at the end of April this year. Last week, Turkish Hoteliers Federation announced that around 5 million tourists are expected to visit Turkey considering the early reservations made so far. The sector which had 32.4 million foreign visitors in 2017 targets to reach 38 million tourists in 2018. Sector officials claim that pound's depreciation against euro within the Brexit process has led British tourists to shift their interest from Euro Area to Turkey. Additionally, increase at hotel prices in Spain have made holidays in Turkey relatively cheap and more attractive. Thanks to boosting demand for Turkey, international companies' risk appetite for accommodation investments have significantly increased as well.

Economic Research Division

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

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

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

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

Our reports are available on our website <https://research.isbank.com.tr>

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş., accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.