

	20/Apr	27/Apr	Change		20/Apr	27/Apr	Change
BIST-100 Index	110,932	107,614	-3.0 % ▼	EUR/USD	1.2286	1.2128	-1.3 % ▼
TRY 2 Year Benchmark Rate	14.14%	14.36%	22 bp ▲	USD/TRY	4.0756	4.0412	-0.8 % ▼
US 10 Year Bond Rate	2.95%	2.96%	1 bp ▲	EUR/TRY	5.0070	4.9032	-2.1 % ▼
EMBI+ (spread)	335	347	12 bp ▲	Gold (USD/ounce)	1,335	1,322	-1.0 % ▼
EMBI+ Turkey (spread)	308	318	10 bp ▲	Brent Oil (USD/barrel)	75.2	75.4	0.3 % ▲

bp: basis point

Last week data releases in the US supported the country's positive economic outlook. Rise in US 10-year Treasury bond yield, strengthening US dollar and meeting between North Korea and South Korea leaders was at the top of the global markets' agenda. Also monetary policy meetings of ECB and BoJ were closely monitored. In domestic markets, CBRT's meeting and developments regarding the elections to be held on June 24th were followed. This week, inflation data would be high on domestic agenda, while global markets will be focused on Fed meeting which will be held on 1-2 May.

### Economic data releases in the US...

In the first quarter of the year, US economy grew by 2.3% annually exceeding expectations. Limited increase in real consumer spending with 1.1% was quite noteworthy. While durable goods orders surpassed the expectations, lowest weekly jobless claims for the last 49 years reiterated that labor market has been improving. Manufacturing PMI data for April increased and consumer confidence improved although it was expected to decline. Recent data releases have continued to display a positive outlook for the US economy.

### Global markets followed a volatile course.

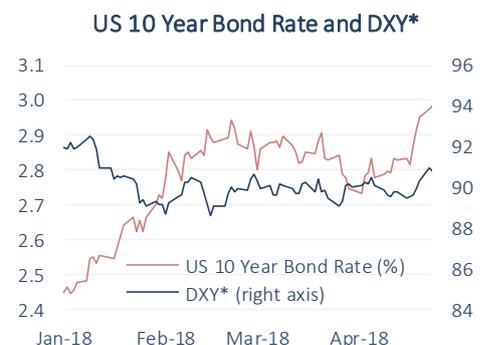
Following the increase in US 10-year Treasury yields as a result of increased expectations that inflation will gain momentum and Fed will have to raise interest rates faster than originally anticipated, global markets were under pressure in the first half of the week. On the other hand, outlook was positive in the markets in the second half due to strong balance sheets announcements and the meeting between South and North Korean leaders for the first time in last 10 years. US 10-year yield closed the week at 2.96% after reaching 3.04% on April 25<sup>th</sup>. DXY index, which shows the value of USD against other developed currencies, continued to rise.

### ECB has not changed its monetary policy.

ECB, in line with expectations, did not change interest rates and asset purchasing programme at its meeting on April 26th. In the statement after the meeting, President Draghi underlined that economic activity will continue to grow somewhat despite momentum loss expectations. Draghi also emphasized that inflation would reach 2% target over the medium term although there was no convincing increase. While Draghi's optimism on growth is noteworthy, ECB is expected to move slowly on its normalization policy. Having appreciated slightly after the ECB meeting, EUR/USD declined as the US dollar strengthened, hitting the lowest value of approximately last 3.5 months on April 27th with 1.2053.

### BoJ left its monetary policy unchanged.

Bank of Japan (BoJ) kept its interest rates and dropped its reference that the inflation will hit 2% target "around fiscal 2019" from its statement. BoJ Governor Kuroda stressed that there is no change in the BoJ's commitment to overshooting its inflation target; however, the timing was considered only as a forecast, not a driver of policy decisions.



(\*) 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).

Source: Datastream

**CBRT hiked late liquidity window rate by 75 bps.**

CBRT's Monetary Policy Committee, at its meeting held on April 25th, raised its late liquidity window (LLW) rate by 75 bps to 13.5%. The press release published after the meeting pointed out that the current elevated levels of inflation and inflation expectations while it was emphasized that the rise in import prices have posed risks on the pricing behavior.

**CBRT increased its 2018 year-end inflation forecast.**

CBRT, at its second Inflation Report of 2018, revised its year-end inflation forecast for this year up to 8.4% from 7.9% while keeping its forecast for 2019 at 6.5%. CBRT Governor stated that the upward revision in forecasts stemmed from change in CBRT's assumptions on TRY-denominated import prices mainly due to oil prices and exchange rate developments.

**In March, foreign trade deficit became 5.9 billion USD.**

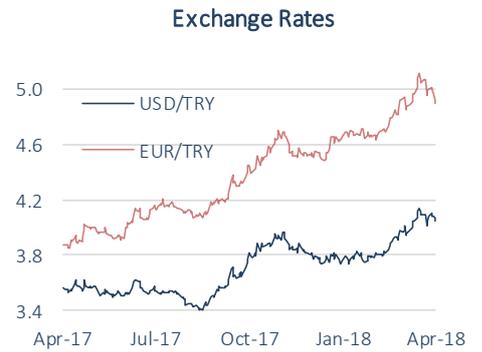
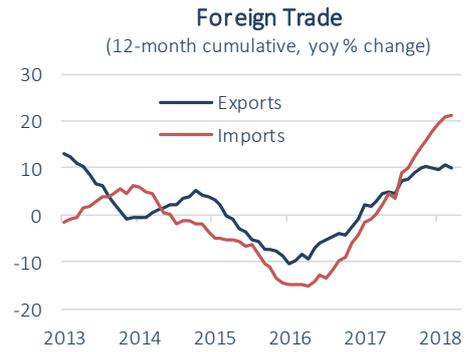
In March, foreign trade deficit expanded by 28.8% yoy and came in at 5.9 billion USD. In this period, exports and imports rose by 7.7% and 12.7%, respectively. The import coverage ratio decreased by 3.4 points yoy to 72.7%. While the largest export volume was recorded in motor vehicles, iron and steel made the highest contribution to the rise in imports

**Domestic confidence indices fell in April.**

Real sector confidence index fell by 0.7 points on monthly basis and was realized as 111.2 in April. While there was an improvement in total amount of order for last 3 months, general business situation posted rapid deterioration. In this period, capacity utilization ratio and economic confidence index also declined. Besides, sectoral confidence indices pointed out that confidence in services, retail trade and construction sectors have worsened.

**Domestic markets...**

Last week, while BIST-100 index fell by 3%, 2-year benchmark interest rate increased by 22 basis points to 14.36%. EUR/TRY declined by 2.1% on a weekly basis. The decrease in USD/TRY was relatively limited as the strengthening US dollar put pressure on emerging market currencies. EUR/TRY and USD/TRY closed the week at 4.90 and 4.04, respectively. This week, Fed meeting come to the fore in global markets. In Turkey, April inflation figures will be watched closely.

**Data Releases**

		Period	Consensus	Prior
<b>30 April</b>	US Personal Consumption	March	0.4%	0.2%
	US Core PCE, yoy	March	1.9%	1.6%
	TURKSTAT Trade Balance	March	-	-5.9 billion USD (A)
	CBRT Inflation Report	April	-	-
<b>1 May</b>	USA ISM Manufacturing PMI	April	58.4	59.3
	<b>2 May</b>	USA FOMC Meeting	May	-
Euro Area GDP, flash, yoy		Q1	2.5%	2.7%
Euro Area Unemployment Rate		March	8.5%	8.5%
TR - Manufacturing PMI		April	-	51.8
<b>3 May</b>	Treasury's Domestic Debt Redemption (170 million TL)	May	-	-
	USA International Trade Balance	March	-50.0 billion USD	-57.6 billion USD
	USD ISM N-Mfg PMI	April	58.2	58.8
	Euro Area HICP, flash, yoy	April	1.3%	1.4%
<b>4 May</b>	TURKSTAT CPI, monthly	April	1.6%	0.99%
	USA Non-Farm Payrolls	April	195 thousand	103 thousand
	USA Unemployment Rate	April	4.0%	4.1%
	Euro Area Services PMI, final	April	55.0	54.9

Source: Datastream

## Sectoral Developments

### Rise in foreign tourist arrivals...

Ministry of Culture and Tourism data showed that the number of foreign visitors went up by 34.9% in the first quarter of 2018 yoy. In this period, Iran became the top tourism market for Turkey with a share of 14.4% in total, followed by Georgia, Germany, Bulgaria, and Russia. Among country groups, number of visitors from European and Asian countries increased by %30.1 and %52.1 yoy, respectively.

According to Turkstat, tourism revenues surged up by 31.3% yoy to 4.4 billion USD in the first quarter of 2018. While foreign visitors provide 76.1% of revenues, the share of citizens residing abroad was 23.9%.

### SCT discount in automotive sector...

According to the draft law prepared by the Revenue Administration, companies in the automotive industry will be able to take back Special Consumption Tax (SCT) on products which were used in production such as radio, speakers and monitors. After buying the inputs by paying the SCT amount, the producers will claim the SCT as the production phase is over. SCT will have to be requested within one year from vehicles' taxation period. This draft law is expected to increase automotive production by decreasing production costs.

### Turkey's crude steel production increased by 7.6% yoy in March.

According to World Steel Association data, Turkey's crude steel production increased by 7.6% yoy to 3.4 million tons in March. In the same period, growth rate in world steel production was 4%. In January-March period, Turkey's total crude steel production surged up by 7.9% compared to the same period of previous year, reaching 74 million tons while 148.3 million tons of crude steel were produced globally in the same period.

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