

	18-May	25-May	Change		18-May	25-May	Change
BIST-100 Index	102,410	103,200	0.8 % ▲	EUR/USD	1.1775	1.1650	-1.1 % ▼
TRY 2 Year Benchmark Rate	16.91%	17.48%	57 bp ▲	USD/TRY	4.4907	4.7061	4.8 % ▲
Turkey 5-Year CDS	277.4	262.8	-15 bp ▼	EUR/TRY	5.2874	5.4830	3.7 % ▲
MSCI EM Equity Index	1,138	1,137	-0.1 % ▼	Gold (USD/ounce)	1,292	1,301	0.7 % ▲
US 10-Year Bond Rate	3.07%	2.94%	-13 bp ▼	Brent Oil (USD/barrel)	77.7	76.6	-1.4 % ▼

bp: basis point

Last week, against the high volatility and depreciation in Turkish lira, CBRT hiked the late liquidity window (LLW) rate; updated the calendar for TRY-settled forward FX sales auctions and allowed the repayments of rediscount credits for exports at fixed FX rates. Although the related measures were taken positively by the markets, they had a limited impact on the FX rates. Fed minutes released in the US reinforced market expectations for a June rate hike. On the other hand, economic data releases in Euro Area, which signaled weakening in the economic activity, created a market perception that a rate rise in the Area tends to be postponed. This week, global markets will watch out the US GDP data for the first quarter of 2018 and in Turkey the trend of domestic markets will be closely monitored.

CBRT raised the LLW rate at its emergency meeting.

Following the high volatility and depreciation in TRY at the beginning of last week, CBRT held an emergency meeting last Wednesday night and hiked the LLW rate by 300 bps to 16.5%. On the press release published after the meeting, it was stated that the unhealthy price formations in the markets were being closely monitored and CBRT decided to implement a strong monetary tightening against the rising risks on the pricing behavior due to the current elevated levels of inflation expectations. It was also added that new data releases or information may lead CBRT to revise its stance.

Additional measures from CBRT...

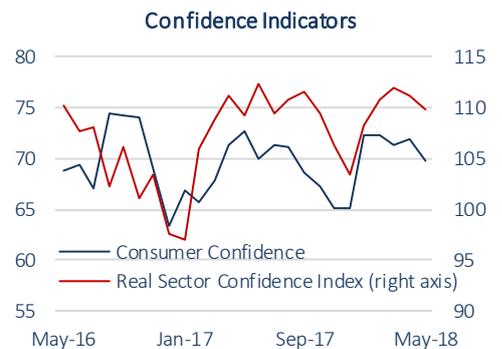
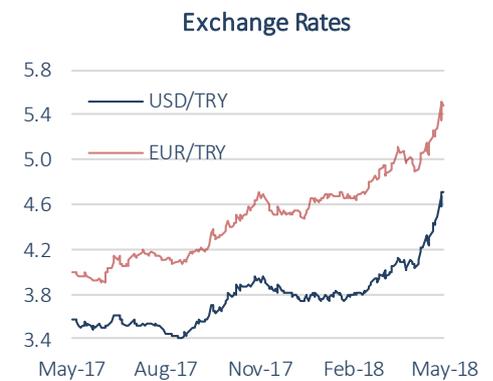
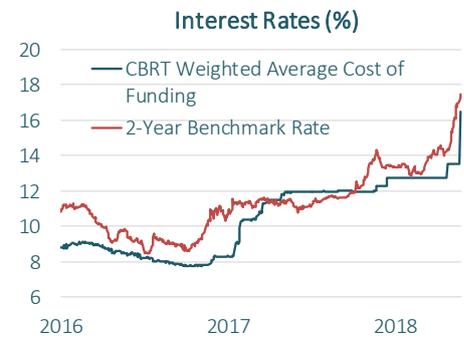
In addition to the hike in LLW rate, CBRT took some additional measures in order to respond to recently rising volatility in the market. According to the updated calendar for TRY-settled forward FX sale auctions, it was announced that maximum total amount of forward FX sale position, which is currently around 6,15 billion USD may be increased to 8 billion USD. Hence, the upper limit for the total amount of forward FX sale position was determined to be USD 10 billion for 2018. Moreover, it was decided that the repayments of rediscount credits for export and FX earning services that have been extended before 25 May 2018 and which will be due by 31 July 2018 (included), can be made in TRY at an exchange rate of 4.20 for the USD, 4.90 for the EUR, and 5.60 for the GBP, in case that they are paid at their maturity. It was also released that the FX rate on the date of credit extension will be applicable in credit repayment provided that the FX rate on the date of credit extension is higher than these rates. CBRT also announced this morning that it has completed the simplification process with regards to the operational framework of the monetary policy and it will initiate the implementation as of June 1st. Therefore, CBRT re-identified one-week repo rate as the policy rate and detailed that this rate will be equal to CBRT's current funding rate (16.5%) while overnight borrowing and lending rates will be decided at 150 basis points below/above the one-week repo rate.

Decline in confidence indices...

Capacity utilization rate (CUR) of the manufacturing industry increased by 0.6 bps mom to 77.9% in May. CUR rose by 0.5 bps according to seasonally adjusted data. Growth in CUR at 14 out of 24 sectors painted a positive picture with regards to the activity of manufacturing industry. On the other hand, real sector confidence index fell in May following its decline in April. Despite the positive outlook in total amount of orders over the past 3 months, expectations on the volume of output, export orders and fixed investment expenditures over the next 3 months showed deteriorations. Similarly, consumer confidence index decreased by 2.8% mom to 69.9, its lowest level in 2018. General economic situation and the probability of saving over the next 12 months worsened significantly in May.

Domestic markets...

Last week, domestic markets displayed a mixed outlook. In the first half of the week, depreciation in TRY accelerated due to the heavy selling pressure in the market. In this development, as well as the deterioration in global risk appetite, the assessments made



Source: Datastream

by credit rating agencies were crucial. After CBRT's decision to raise the LLW interest rate, domestic markets recovered some of its early losses. BIST-100 index rose by 0.8% w/w, while benchmark bond yield increased 57 basis points to 17.48%. USD/TRY, which tested its historic high at 4.92 on Wednesday, closed down at 4.70 on Friday, although it slipped to 4.53 after the hike. This morning, TRY gained strength as CBRT stated that it would simplify the monetary policy.

Expectations for a rate hike at Fed's June meeting gained strength.

PMI composite reading for May hinted a solid outlook for the US economy. On the other hand, durable goods orders fell by 1.7% in April. In the same period, new and existing house sales also fell short of expectations. Consumer confidence data released below expectations in May also pointed out that consumption expenditures might be under pressure in the coming period.

In addition to that, FOMC meeting minutes published last week suggested that interest rate hikes would be appropriate in the coming period, should the US economy maintained its current momentum. In an interview, Philadelphia Fed President Patrick Harker said that he could support a total of four rate hikes in 2018 if inflation continues rebounding. These announcements strengthened the expectations for a rate increase at Fed's June meeting.

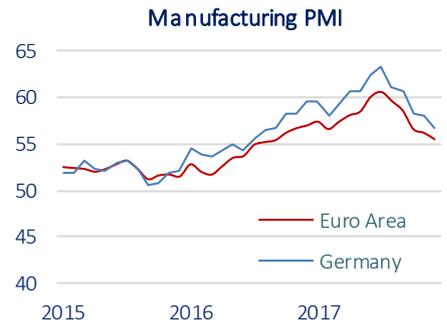
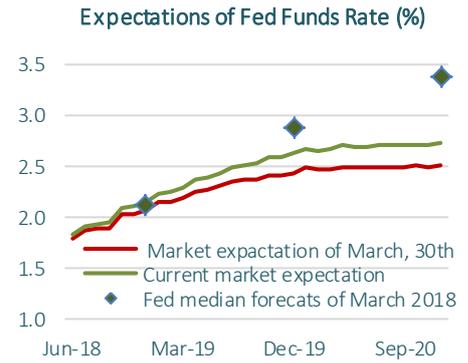
Euro Area signaled slowdown...

In Euro Area, flash PMI data for the manufacturing industry remained below the expectations at 55.5 in May, declining for fifth time in a row. In the same period, services PMI reading and consumer confidence were also weaker than forecasts. Increasing uncertainties in the global markets, as well as the recent data signaling slowdown in economic activity, fostered the views that ECB might postpone the tightening in its monetary policy.

Decline in oil prices...

Last week's announcement that the meeting between US President Trump and North Korean leader Kim Jong Un will be canceled kindled concerns in global markets. Due to the increased geopolitical risks, gold prices increased with safe haven demand. The announcements that the sanctions on Venezuela and Iran will be tightened, supply side shocks loomed the markets recently. However, Russia and Saudi Arabia told that they might reconsider their oil production strategy. In this context, oil prices were headed for a weekly decline.

This week news that the US and North Korean leaders could still meet supported global risk perception, while the failed coalition talks in Italy could put pressure on euro denominated assets. First quarter growth in the US and personal consumption spending data, as well as labor market reports in the US and Euro Area, are on the top of the agenda. In the domestic market, the pace of the markets after CBRT's recent steps would be crucial.



Data Releases

		Period	Consensus	Prior
30 May	Economic Confidence Index	May	-	98.3
	US GDP Growth, qoq (preliminary)	2018Q1	2.2%	2.3%
	Germany CPI, yoy (preliminary)	May	1.9%	1.6%
31 May	Foreign Trade Balance	April	-	-5.86 billion USD
	US Core PCE, mom	April	0.1 %	0.2%
	US Pending Home Sales, mom	April	0.7 %	0.4%
	Euro Area CPI, yoy (preliminary)	May	1.6 %	1.2%
	Euro Area Unemployment Rate	April	8.4 %	8.5 %
1 June	Turkey Manufacturing PMI	May	-	48.9
	US Nonfarm Payrolls	May	185K	164K
	US Unemployment Rate	May	3.9 %	3.9 %
	US ISM Manufacturing PMI	May	58.4	57.3
	Euro Area Markit Manufacturing PMI	May	55.5	55.5
	Germany Markit Manufacturing PMI	May	56.8	56.8
	China Caixin Manufacturing PMI	May	51.0	51.1

Source: Datastream

Sectoral Developments

Construction permits declined in the first quarter.

Construction permits declined due to the recent slowness in the housing market which constitutes almost 60% share in total construction sector. Turkstat figures revealed that the number of dwelling units that were given construction permits by municipalities reduced by 41.9% yoy in the first quarter of 2018. In this period, İstanbul had the highest share in the given permits with 19,114 and it was followed by Kocaeli (7,199) and İzmir (7,096). On the other hand, dwelling units given occupancy permits in housing grew by 2.4% yoy. In the same period, the number of permits for office construction was also down by 56.6%. This significant decline indicated a slowdown in new office construction projects as well, due to existing stock. The gap between construction and occupancy permits is expected to close somewhat in the coming period as a result of slowdown in the production along with the measures taken by private and public sectors to boost the domestic demand.

White goods sales fell by 20% in the first 4 months.

According to the figures of White Goods Manufacturers' Association of Turkey, domestic white goods sales fell by 20% yoy in January-April 2018. Deterioration in the domestic sales, starting from the expiration of tax cuts by end-September 2017, has continued so far. Slowdown in the construction sector led by housing market also contributed to this slowdown in sales. On the other hand, exports of white goods rose by 9% yoy in the same period. This robust performance in exports is projected to continue for the rest of the year thanks to the expansion in the EU economies.

Retailers fixed the exchange rate.

Some retailers announced that they have fixed the exchange rates as a result of the steep rise and the ongoing volatility. In this context, some of the companies which do business in white goods, electronic goods, automotive, tourism and airline transport sectors have announced that they have fixed the exchange rates at certain levels. This way, companies aim to avoid price increases stemming from the rise in exchange rates, especially in the sectors where imports have an important share in sales.

Price increase in certain drugs...

It is decided to impose a 2.5% rise in the prices of 'low-price drugs' which are under public discount. Accordingly, a recovery in the public discount rates is provided by raising the prices of drugs which are under discount and whose warehouse-sales price are equal or above 9.31 TRY. According to the regulation in Turkey, current year's drug prices are determined at the beginning of the year, based on 70% of previous year's average euro exchange rate. At the beginning of 2018, an additional regulation which limited the price increases by 15% was imposed in order to prevent the transfer of the surge in EUR/TRY rate back in 2017 to drug prices. With this new regulation, the downside pressure on firms' profit margins which was caused by the earlier one is expected to weaken.

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