

	25-May	1-Jun	Change		25-May	1-Jun	Change
BIST-100 Index	103,200	99,171	-3.9 % ▼	EUR/USD	1.1650	1.1660	0.1 % ▲
TRY 2 Year Benchmark Rate	17.48%	17.74%	26 bp ▲	USD/TRY	4.7061	4.6498	-1.2 % ▼
Turkey 5-Year CDS	262.8	279.4	17 bp ▲	EUR/TRY	5.4830	5.4209	-1.1 % ▼
MSCI EM Equity Index	1,137	1,130	-0.6 % ▼	Gold (USD/ounce)	1,301	1,293	-0.6 % ▼
US 10-Year Bond Rate	2.94%	2.90%	-4 bp ▼	Brent Oil (USD/barrel)	76.6	74.9	-2.3 % ▼

bp: basis point

Last week political developments in Italy and Spain and US protectionist measures drove the markets. Non-farm payrolls in the US were above expectations while unemployment rate continued to decline. Inflation in Euro Area increased above anticipations and came close to with ECB's "inflation rates below, but close to, 2%" medium-term target. In domestic markets, CBRT's announcement that it has completed the simplification process supported Turkish Lira. However, TL depreciated on the last trading day of the week as the rating downgrade concerns weighed on market. Also, foreign trade and inflation data were closely monitored.

Political developments drove global markets.

Deepening political crisis in Italy put a pressure on markets while political worries cooled down as the possibility of an early election was ruled out at the end of the week. Along with Italy, the political turmoil in Spain led EUR/USD parity to fell to the lowest level in last 11 months with 1.1506 during the week. On the other hand, US' announcements regarding the foreign trade relations with China led the trade war to come back to agenda. Also, US announced that tariffs will be put on steel and aluminium imports from EU, Canada and Mexico from June 1. Possible retaliations from the countries subject to tariffs increased trade war worries. These concerns put pressure on global stock markets.

US non-farm payrolls increased more than expectations.

Non-farm payrolls in the US increased above forecasts by 223 thousand in May while unemployment rate declined to 3.8%, remaining at its lowest level in the 19 years. Annual change in average hourly earnings increased 0.1 points mom and recorded as 2.7%. These data supported rate hike expectations in June. Consumer spending in US rose above forecasts in April. ISM manufacturing index hit 58.7 in May, indicating acceleration in the sector.

Inflation in Euro Area rose above forecasts.

According to flash data, Euro Area's inflation has exceeded expectations with 1.9% in May. Core inflation also exceeded forecasts, drawing a positive picture of consumption expenditures. While the rise in energy prices was effective in the upward trend in inflation outlook, inflation came in parallel with ECB's "below, but close to, 2%" medium-term target. Also, unemployment rate in the region fell to 8.5% in April.

Manufacturing PMI in China gave a positive signal about economic activity.

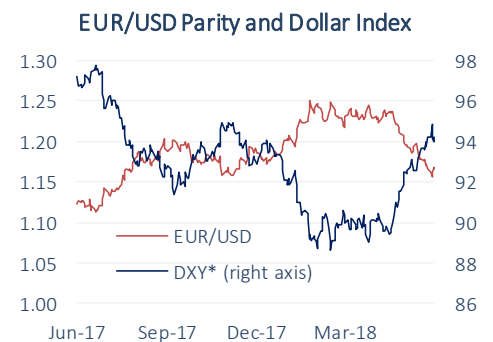
In May, official manufacturing PMI data came in above forecasts with 51.9, the highest level in the last 8 months. Manufacturing PMI signaled a positive outlook for the economy, alleviating some concerns about the trade war with the US.

Moody's and OECD revised down their growth forecasts for Turkey.

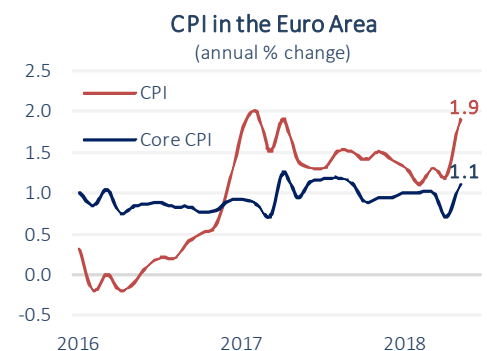
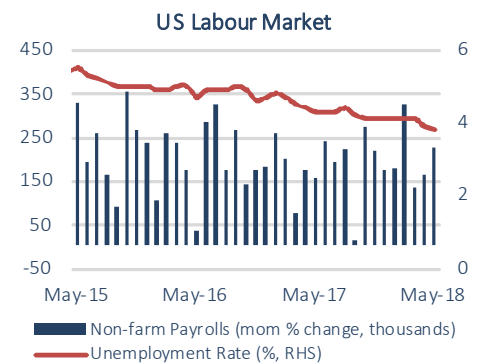
Having indicated that risks on growth rose with deteriorating external conditions, Moody's pulled down growth forecasts for Turkey in 2018 and 2019 to 2.5% and 2.0%, respectively. Institution remarked that depreciation in TL and inflationary pressures would weigh on growth. In OECD's Economic Outlook Report in May, growth expectation for Turkey in 2018 was lowered to 5.1% from 5.3% while its growth forecast for 2019 was kept as 5%.

CBRT published first Financial Stability Report of the year.

In the Financial Stability Report published by CBRT, it is stated that domestic financial conditions have tightened compared to the previous report period. Also, it is



(*) Index showing the value of USD against a basket of other developed countries currencies



Source: Datastream

indicated that macroeconomic policies applied to manage the real sector's risk will increase the resistance of economy to the shocks. It was also emphasized that the measures to reduce FX debt burden of firms without FX income are important for financial stability. It is also predicted that the moderate slowdown in loan growth is expected to continue.

Foreign trade deficit was realized as 6.7 billion USD in April.

Foreign trade deficit posted an annual increase of 35.6% and became 6.7 billion USD in April. In this period, export and import volumes expanded by 7.8% and 15.6%, respectively ([Our Foreign Trade Balance Report](#)). According to provisional data released by the Ministry of Customs and Commerce, the annual increase in foreign trade deficit lost momentum in May. In this period, foreign trade deficit increased by 5.4% yoy to 7.7 billion USD.

CPI rose above expectations; annual D-PPI increase exceeded 20%.

In May, CPI increased by 1.62% on a monthly basis, while the annual inflation reached 12.15%, the highest level in this year. Due to seasonal factors, the fastest monthly increase in May was recorded in clothing and footwear subgroup. The annual increase in core inflation indicators continued to accelerate. While the D-PPI rose by 3.79% in May on a monthly basis, the annual increase in D-PPI became 20.16% ([Our Inflation Report](#)).

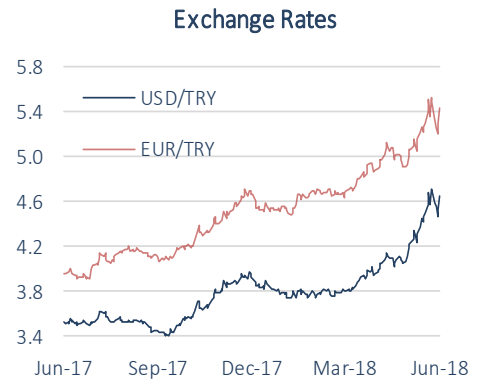
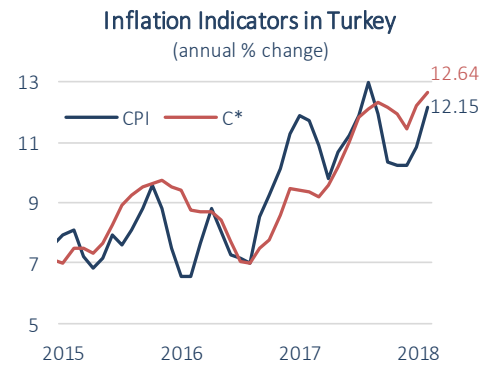
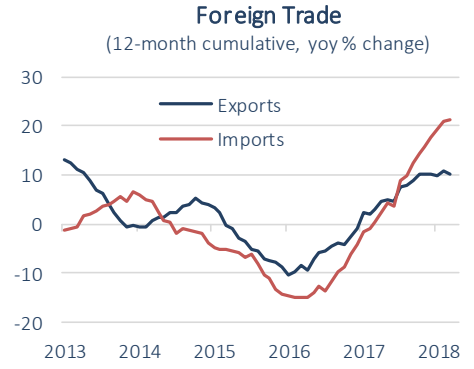
Leading indicators in manufacturing industry...

Manufacturing PMI declined to 46.4 in May, the lowest level since April 2009. Negative performance in the output and new orders played important role in this slowdown. Inflationary pressures due to the rising production costs drew a negative picture regarding price developments in the coming period.

Domestic markets...

Having lowered Turkey's credit rating in March, Moody's put Turkey's rating on review for another downgrade on Friday, showing the uncertainty of macroeconomic policies future as a reason. In addition, Fitch announced that it placed long-term foreign-currency issuer default ratings of 25 Turkish banks on negative watch for a possible downgrade.

Last week, BIST-100 index declined by 3.9% while 2-year benchmark bond yield was realized as 17.74%. TL appreciated rapidly thanks to the CBRT's announcement that it has completed the simplification process and the visit of Deputy Prime Minister Mehmet Şimşek and CBRT's governor Murat Çetinkaya in London. However, TL diverged negatively from other emerging market currencies on Friday as new rating downgrade concerns increased.



Data Releases

		Period	Consensus	Prior
4 June	US Factory Orders	April	-0.5%	1.6% (A)
	Euro Area Producer Prices, monthly	April	0.3%	0.1% (A)
	TR CPI, monthly	May	1.45%	1.62% (A)
5 June	US ISM N-Mfg PMI	May	57.5	56.8
	US Services PMI, final	May	-	55.7
	Euro Area Services PMI, final	May	53.9	53.9
	Euro Area Retail Sales, monthly	April	0.5%	0.1%
6 June	US International Trade	April	-49.1 billion USD	-49 billion USD
7 June	US Initial Jobless Claims	28 May-2 Jun	225 thousand	221 thousand
	Euro Area GDP, revised	Q1	0.4%	0.4%
	CBRT Meeting	June	-	-
8 June	China Trade Balance	May	-	28.8 billion USD

(A) Actual

Source: Datastream

Sectoral Developments

Turkey's biggest industrial enterprises were announced.

According to "Turkey's Top 500 Industrial Enterprises Survey" published by Istanbul Chamber of Industry (ICI), Turkish Petroleum Refineries Corporation (TUPRAS) was Turkey's largest industrial enterprise with a total production-based sales of 51.1 billion TRY. In 2017, production-based sales of ICI 500 increased by 33.2% to 653 billion TRY, highest growth of the last 13 years. Growth in domestic and foreign demand as well as the increase in exchange rates drove the rise in sales. Exports of the top 500 industrial enterprises surged up by 17% to 64.5 billion USD in this period.

Rising number of foreign visitors...

Ministry of Culture and Tourism data showed that the number of foreign visitors went up by 32.5% yoy in the first four months of 2018. In this period, Iran became the top tourism market for Turkey with a share of 11% in total, followed by Germany, Georgia, Bulgaria and Russia. Among country groups, number of visitors from European and Asian countries increased by %28.2 and %46.1 yoy, respectively. In April, while the number of tourists increased by 28.3%, the highest number of visitors was from Russia.

Construction costs increased by 17.9% in March.

According to the data of TURKSTAT, the construction cost index surged up by 1.7% mom and by 17.9% yoy. Material index drove the constructions costs up, rising by 19.4% yoy. In this period, construction costs for buildings and non-buildings increased by 17.6% and 18.8%, respectively, compared to the same month of the previous year.

Capital adequacy ratio in banking sector was 16.4% in April.

According to BRSA, assets and loans of banking sector increased by 5.5% and 6.8% ytd, respectively. In this period, sector's capital adequacy ratio was 16.4% while NPL ratio came in 2.9%. In the first four months of the year, sector's net profit was 18.8 billion TL.

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