

	1-Jun	8-Jun	Change		1-Jun	8-Jun	Change
BIST-100 Index	99,171	95,876	-3.3 % ▼	EUR/USD	1.1660	1.1766	0.9 % ▲
TRY 2 Year Benchmark Rate	17.74%	18.72%	98 bp ▲	USD/TRY	4.6498	4.4730	-3.8 % ▼
Turkey 5-Year CDS	279.4	271.3	-8 bp ▼	EUR/TRY	5.4209	5.2621	-2.9 % ▼
MSCI EM Equity Index	1,130	1,135	0.5 % ▲	Gold (USD/ounce)	1,293	1,298	0.4 % ▲
US 10-Year Bond Rate	2.90%	2.94%	4 bp ▲	Brent Oil (USD/barrel)	74.9	75.0	0.2 % ▲

bp: basis point

Last week, developments in the global markets had a positive effect on investors' risk appetite and global stock indices kept on rising, especially led by the US. In the domestic markets, CBRT decided for an additional tightening in monetary policy by raising policy rate to 17.75%. Upon the rate hike Turkish lira extended its gain against foreign currencies but evaluations from Moody's regarding Turkish banking system limited this positive outlook in the domestic markets. This week, in addition to the meetings of Fed, ECB and BoJ, US-North Korea summit will be high on the agenda. Domestic markets will focus on robust GDP growth figures as well as Treasury's borrowing programme.

Strong economic data in the US...

Last week, data released in the US pointed out acceleration in the economic activity, thus supporting the rise in stock indices. In May, PMI and ISM indices came in above the expectations and the increases in input costs became more visible. Moreover, in line with the buoyant economic activity, employment conditions in the US also got better. Positive signals from the US economy actually strengthened the expectations for a rate hike from Fed at its upcoming meeting scheduled for June 13th.

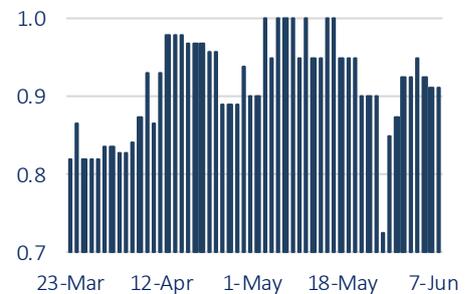
Political uncertainty has been diminishing in the Euro Area.

Data flow from the Euro Area pointed out the fact that problems in the economic activity still continues whereas global investors' mainly focused on diminishing uncertainties related to Italian and Spanish politics. Furthermore, news suggesting Germany and France have been working on a wide range of reforms in order to strengthen the stability in the region also helped the recovery in risk appetite. The idea that ECB's asset purchase programme is coming to an end was another major issue shaping the markets last week. Rising expectations that policy makers will consider a reduction in financial support at ECB's next meeting on the 14th of June caused a sell-off in German Treasury bonds which are considered as safe haven instruments and drove euro to appreciate. EUR/USD parity which tested the lowest level for the last one year with 1.15 the previous week, closed last week over 1.17.

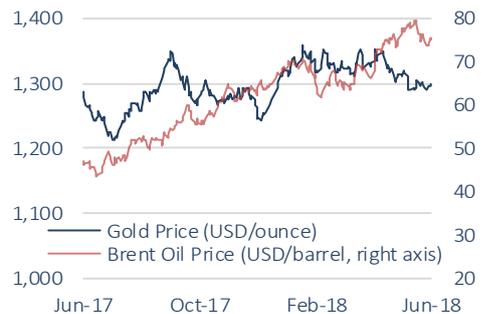
Volatility in oil prices...

News indicating that US President Trump asks for a production increase from OPEC members, Saudi Arabia in particular, as a result of rising production costs led by the recent upturn in oil prices has been watched closely. Expectations on a decision to increase the daily oil supply by about 1 million at the OPEC meeting scheduled for the end of this month where medium term prospects for oil production will be discussed still keep their ground. Oil prices which fell in the first half of the week recovered for the remaining half with the data on US oil inventories as well as rising worries regarding the potential supply cuts from Venezuela. Brent crude oil price went up by 0.2% wov to 75 USD per barrel. Gold prices moved in a narrow band due to investors' prudent behaviour right before the Fed meeting.

Fed June Hike Odds



Gold & Oil Price



Source: Datastream, CME

CBRT decided to increase its policy rate.

CBRT has been tightening its monetary policy stance due to the recent depreciation in TRY and worsening expectations for the domestic economy. CBRT, which raised its policy rate by 300 bps at an emergency meeting on May 23rd because of the unhealthy price formations in the markets, continued to take measures last week reasoning the escalating risks on price stability. At its Monetary Policy Committee meeting on June 7th the Bank decided to increase one week repo auction rate, its main policy tool, up by 125 bps to 17.75%. CBRT highlighted that the rebalancing trend in the economic activity has started and said that it decided to strengthen the monetary tightening considering that cost factors have been the main driver of the upsurge in the inflation.

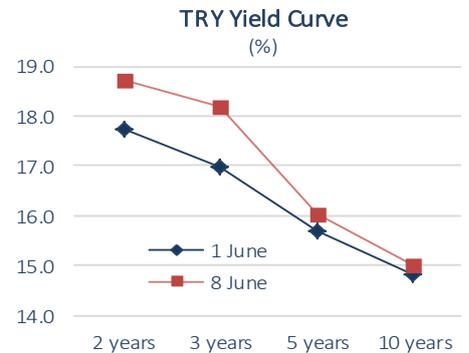
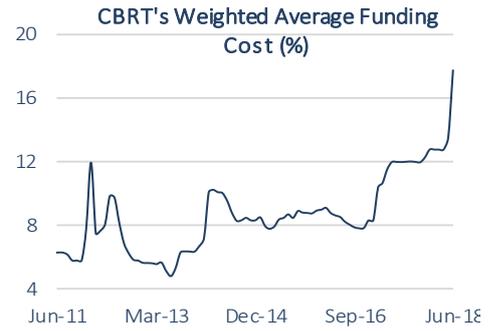
Turkish economy grew by 7.4% yoy in Q1.

In the first quarter of 2018, Turkish economy grew by 7.4% yoy, beating the expectations. Private consumption expenditures made the highest contribution to the GDP growth while public sector’s contribution remained relatively limited. Gross fixed capital formation accelerated in Q1 and made a 2.8 ppt contribution to the GDP; 2 ppt came from construction and 0.8 ppt from machinery and equipment investments.

Recent rise in oil prices put pressure on foreign trade balance and lead to a deterioration in balance of payments data. In April, Turkey gave a current account deficit of 5.4 billion USD while 12-month cumulative deficit became 57.1 billion USD, the highest level in the last 4 years. Portfolio investments kept the weakening trend due to the sales of securities held by non-residents.

Fluctuations in domestic markets...

Prior to the CBRT meeting, investors were mostly cautious on Turkish assets, yield curve showed an upward slope and BIST-100 index kept its downward trend. Last week, 2-year benchmark bond yield surged by 98 bps and completed the week at the level of 18.72%. Stock market index fell by 3.3% wow mainly due to the sales in bank stocks. This pushed BIST-100 index, which slumped to its 1-year low level, down to the bear market. USD/TRY, which was around 4.60 at the first half of the week, dropped down to 4.45 level following CBRT’s hawkish interest rate move. On the other hand, risk sentiment soured right after Moody’s’s downgrading action of some Turkish banks credit ratings due to the deterioration in operating environment in Turkey, particularly in market funding.



Data Releases

		Period	Consensus	Prior
11 June	GDP Growth	1st Quarter	7.4%(A)	7.3%
	Current Account Balance	April	-5.4 billion dollar(A)	-4.8 billion dollar
	CBRT Survey of Expectations	June		
12 June	Treasury Issuance of 1 Year Bond			
	Treasury Issuance of 5 Year Lease Certificate			
	US CPI (mom)	May	0.2%	0.2%
13 June	Treasury Domestic Debt Redemption (597 million TRY)			
	Industrial Production	April		7.6%
	FOMC Meeting			
	US PPI (mom)	May	0.2%	0.1%
14 June	ECB Meeting			
15 June	BoJ Meeting			

(A) Actual

Source: Datastream

Sectoral Developments

Deceleration in automotive sales...

As domestic consumers generally prefer imported automobiles (70%), the recent rapid price increases parallel to the rise in FX rates were reflected on sales negatively. As of May 2018, automobile prices in Turkey rose by 29% yoy, well above the CPI inflation. This development causes new automobile demand to weaken. In May, sales in the automotive sector contracted by 14.8% yoy. In the same period, new automobile sales shrank by 13% while light commercial market contracted by 20.9%. On the other hand, second-hand car sales, where exchange rate-driven price pressures remain at a relatively low level, recorded an increase of 12% yoy in the first 4 months of 2018.

Port operations are gaining strength.

Maritime shipping has 89% share in Turkey's foreign trade transportation. Recently, while Turkey's exports retained their increasing trend in line with the improvement in the foreign demand, port operations in Turkey gained momentum. The volume of cargo transported at Turkish ports increased by 14.8% and exceeded 10 million TEU (twenty-foot equivalent unit), with the help of the investments put in place in 2017. In the first quarter of 2018, the activity at Turkish ports remained vivid and recorded an increase of 18.4%. Emphasizing the activity in Turkish ports are growing much faster than the other countries, officials underlined that this situation fostered foreign investors' interest towards Turkish maritime transportation sector.

Economic Research Division

İzlem Erdem
Chief Economist
izlem.erdem@isbank.com.tr

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

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

Bora Çevik
Economist
bora.cevik@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.
