

	8-Jun	15-Jun	Change		8-Jun	15-Jun	Change
BIST-100 Index	95,876	94,541*	-1.4 % ▼	EUR/USD	1.1766	1.1607	-1.4 % ▼
TRY 2 Year Benchmark Rate	18.72%	19.12%**	40 bp ▲	USD/TRY	4.4730	4.7291	5.7 % ▲
Turkey 5-Year CDS	271.3	311.8	40 bp ▲	EUR/TRY	5.2621	5.4913	4.4 % ▲
MSCI EM Equity Index	1,135	1,114	-1.9 % ▼	Gold (USD/ounce)	1,298	1,279	-1.5 % ▼
US 10-Year Bond Rate	2.94%	2.92%	-1 bp ▼	Brent Oil (USD/barrel)	75.0	72.2	-3.7 % ▼

bp: basis point. Data dated (\*) June 14<sup>th</sup> (\*\*) June 13<sup>th</sup>

Last week monetary policy meetings of Fed, ECB and BoJ were watched closely in global markets. Fed raised its policy rate by 25 basis points as expected. ECB announced that it would end the asset purchase programme as of 2018 year-end while indicating a flat course in interest rates until the summer of 2019. BoJ made no change in its monetary policy while lowering its inflation estimate. Besides, US-North Korea talks regarding political issues as well as rising worries about global trade wars were also high on global markets' agenda. On the domestic front, calendar adjusted industrial production increased by 6.2% yoy, continuing to slow down. According to CBRT's Survey of Expectations, CPI inflation expectation for 2018 year-end rose to 12.28%.

#### Fed raised its policy rate.

Fed raised its policy rate by 25 bp as markets expected. Hence the range of Fed funds rate has been lifted to 1.75-2.00%. Solid employment outlook and robust consumption expenditures have helped Fed to raise rates. Projections published after the decision showed that Fed members' expectations of the number of rate hikes within this year increased from 3 to 4. As for 2019, Fed projected 3 rate hikes. Fed also raised its inflation and growth forecasts for 2018 from 1.9% to 2.1% and 2.7% to 2.8% respectively. Moreover, press conferences which used to be made every three months, have been scheduled for every month following the end of each policy meeting in order to ensure a more transparent and stronger communication.

On the other hand, US economic data pictured a mixed outlook last week. Despite the expectations for an increase, industrial production decreased by 0.1% mom in May, due to the slowdown in manufacturing activity. In this period, capacity utilization rate, becoming 77.9%, was also below the expectations. As for demand indicators, retail sales and consumer confidence index came in above the expectations though.

#### European Central Bank plans to end asset purchases by year-end.

European Central Bank (ECB) announced that the asset purchase programme which will continue with the amount of 30 billion euro per month until the end of September would stay until year-end but the monthly purchasing amount would be reduced to 15 billion euro since then. In his speech after the meeting, ECB President Draghi's statements suggesting a flat course in interest rates until the summer of 2019 led euro to depreciate as it indicated that there is still time for monetary tightening.

#### Bank of Japan did not change its monetary policy.

Bank of Japan (BoJ) did not make any change in its monetary policy in June, but revised its inflation estimate down to the range of 0.5-1.0% from an earlier forecast of 1% back in January. Furthermore, the statement revealing banks' expectation of inflation reaching its 2% target in the fiscal year starting in April 2019 was removed from the minutes. In his announcement following the meeting, BoJ President Kuroda drew attention to the slowdown in long term price expectations. Kuroda also reassured the continuation of aggressive monetary expansion, emphasizing that it's too early to leave expansionary policies.

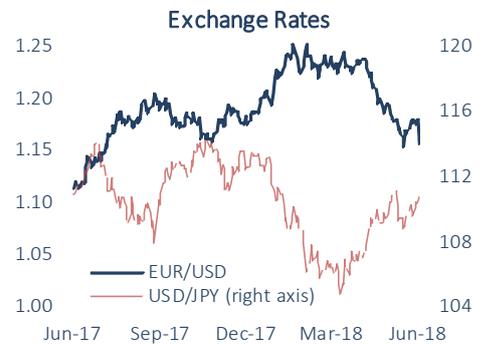
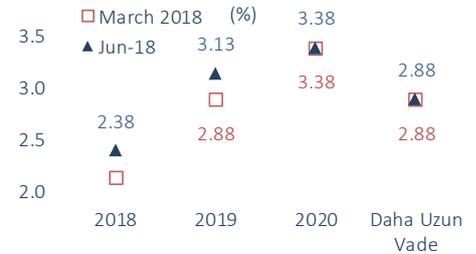
#### Continuing slowdown in China's economy...

Dataflow in China pointed out that economic activity kept on slowing down in Q2. Fixed asset investments and retail sales in the country went up by 6.1% and 8.5% in May, thus being at their lowest levels since 1996 and 2003 respectively. Industrial production also rose lower-than-expected by 6.8% in this period. China's economy, which posted a robust growth by 6.9% in 2017 thus surpassing both the market expectations and Chinese government's official target, grew by 6.8% yoy in the first quarter of 2018.

#### Protectionism concerns in global trade...

Global markets closely monitored US President Trump and North Korean leader Kim's summit early last week. The announcement regarding Kim's commitment to nuclear disarmament and

#### Median Projections of Fed Members for the Federal Funds Rates



#### Global Stock Market Index & DXY



Source: Datastream, Fed

the positive signals given during the talks supported global markets at the beginning of the week. Trump's statements regarding China's claimed theft of intellectual property rights of the US on the other hand, have left markets under pressure for the rest of the week. Trump said that US will apply 25% additional tariffs to 818 products imported from China including technology products starting from July 6<sup>th</sup> and added that an additional group of products worth of \$ 100 billion would be added to the list if China retaliated against the US. Thereupon, China announced that it would respond with 25% additional tax on 545 products such as soybean and red meat. In addition to these measures taken following high level talks between China and US since May which have been inconclusive, US's introduction of customs duties on steel and aluminum imports from Mexico, Canada and the European Union as of June is also raising concerns about the course of the global trade.

#### Increase in industrial production slowed down, the unemployment rate decreased.

In Turkey, calendar-adjusted industrial production rose by 6.2% yoy in April, indicating that the growth in production has been slowing down for the last four months. Industrial production grew by 9.9% in the first quarter of 2018. The PMI data, which continued to decline in May, also pointed out that the slowdown in industrial production is evident in the second quarter of the year. On the other hand, the unemployment rate decreased by 1.6 points yoy to 10.1% in March period. The decline in the number of unemployed persons by 432K, as well as the rise in the employed ones by about 1 million, was effective in this positive outlook.

The Survey of Expectations published by the CBRT indicated that the deterioration in inflation expectations continued. In June, the year-end CPI inflation expectation of the markets increased by 1.2 points to 12.28%, while the expectation for growth decreased to 4.2% from 4.6%. The participants' USD/TRY rate expectation for the year-end rose to 4.58.

#### Deterioration in central budget performance...

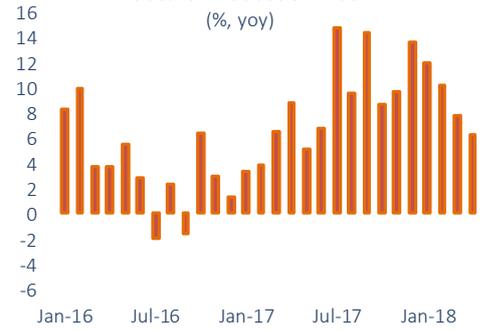
Despite the positive outlook of the economic activity, in January-May period, central government budget revenues increased by 18.3% yoy, while budget expenditures rose by 20.9%. Thus, the central government budget deficit increased by 78.1% yoy to 20.5 billion TRY in the first five months of 2018 ([Our Budget Balance report](#)).

#### Domestic markets...

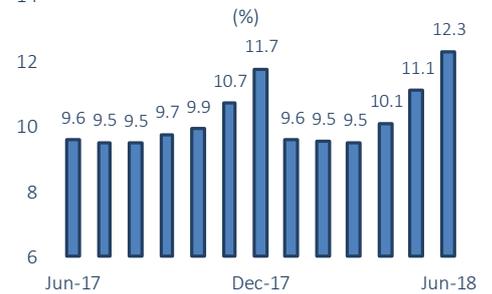
Domestic markets kept watching the developments regarding the elections, which will be held this weekend. BIST-100 index was down by 1.4% wow. Dollar gaining momentum following the Fed interest rate decision pushed USD/TRY up and the parity tested the level of 4.76. Bond yields have been on an increasing trend due to the weighing impact of rising expenditures on budget balance and Treasury's borrowing needs.

This week, global markets will watch the OPEC meeting which will be kicked off on June 22<sup>nd</sup>. Domestic markets will focus on the elections and Treasury's heavy bond issuance program will be closely monitored.

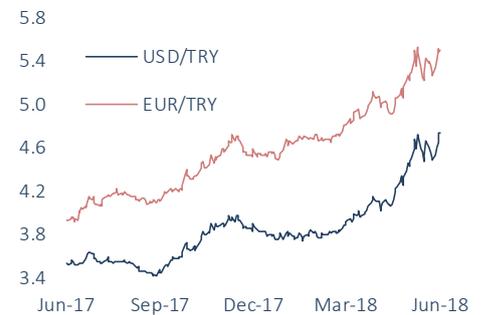
Industrial Production Index  
(%, yoy)



Expectation of Annual CPI at the end of the Year  
(%)



Exchange Rates



### Data Releases

		Period	Consensus	Prior
18 June	Turkstat Unemployment Rate (%)	March	10.1% (A)	10.6%
	Ministry of Finance Central Administration Budget Balance	May	2.7 billion TRY (A)	-2.8 billion TRY
	Treasury's Issuance of Fixed Coupon Bond with 5 Years Maturity	June		
	Treasury's Re-opening CPI Indexed Bond with 10 Years Maturity	June		
19 June	US Housing Starts	May	1.31 million	1.287 million
	Treasury's Re-opening Fixed Coupon Bond with 2 Years Maturity	June		
	Treasury's Re-opening Floating Coupon Bond with 6 Years Maturity	June		
	Treasury's Re-opening Fixed Coupon Bond with 10 Years Maturity	June		
20 June	US Existing Home Sales	May	5.52 million	5.46 million
	Treasury's Domestic Debt Redemption (13,658 million TRY)	June		
21 June	Turkstat Consumer Confidence Index	June		69.9
	Bank of England (BoE) Monetary Policy Meeting	June		
	Euro Area Consumer Confidence (flash)	June		0.2
22 June	US Manufacturing PMI (flash)	June		56.4
	Euro Area Manufacturing PMI (flash)	June		55.5
	Germany Manufacturing PMI (flash)	June		56.9

(A) Actual

Source: Datastream, TÜİK, TCMB

## Sectoral Developments

### Incentive to recycle scrapped vehicles...

Regulation regarding the incentives to recycle scrapped vehicles was published on the Official Gazette and came into force last week. Vehicle owners, whose vehicles aged 16 and more, will be able to get a discount of 10,000 TRY on special consumption taxes in case of a new car purchase if they export their scrapped vehicles abroad or send them to recycling. 118 thousands of vehicles were sent to recycling in both 2016 and 2017. It is expected that the regulation will put pressure on imports of scrap metals used as an input at the defense industry. Considering the current conjuncture in which there are 8 million vehicles aged 16 and more and 6 million vehicles aged 20 and more, a third of 22 million vehicles is expected to be spared for recycling thanks to the incentives granted to the sector.

### TANAP's inauguration ceremony was held in Eskisehir.

Trans Anatolian Natural Gas Pipeline Project's (TANAP) inauguration ceremony was held in Eskisehir on June 12th. Natural gas, which will be extracted from Azerbaijan's Shah Deniz-2 field, will be sent primarily to Turkey and to Europe through the Trans Adriatic Pipeline Project (TAP). The pipeline will carry 10 billion cubic meters of gas to Europe through the route of Greece-Albania-Italy and 6 billion cubic meters of gas will remain in Turkey. Upon the completion of TANAP, Turkey will receive the gas from the exit points located in Eskisehir and Trakya. It is planned that Turkey will receive its first shipment as of July 2018 at the amount of 2 billion cubic meters and the full capacity is expected to be sent to Turkey as of June 2020.

### Discussions regarding the recent regulation on the mining sector...

The new mining regulation on "the mining regions and the transfer of mining licenses" had been published on the Official Gazette on May 23<sup>rd</sup> 2018. The regulation involves that adjacent/closely located mining areas will be declared as mining regions and the licenses at the related regions will be merged. Sector officials shared their concerns that the regulation has imposed a threat on the license security of mining areas. They added that it may cause a negative impact on the investments in the mining industry, which already deals with a plenty of environmental and health issues and relatively longer durations to be able to get a return on their investments. Within the context of the regulation, mining firms, which have very different ways of working, will be forced to set up partnerships in 6 months following the release of the regulation and in case of a conflict of interest, investment costs will be paid back to the firms while their licenses being cancelled simultaneously. Sector officials were mostly concerned that the related duration of time is too short for firms to conciliate and in case of any conflicts, handful of firms might be subject to liquidation. Royalty agreements, through which some mining areas previously transferred to the private sector, might be invalid as well.

---

## 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

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.

---