

	22-Jun	29-Jun	Change		22-Jun	29-Jun	Change
BIST-100 Index	95,852	96,520	0.7 % ▲	EUR/USD	1.1655	1.1683	0.2 % ▲
TRY 2 Year Benchmark Rate	19.18%	19.25%	7 bp ▲	USD/TRY	4.6763	4.5862	-1.9 % ▼
Turkey 5-Year CDS	289	290	0 bp ▲	EUR/TRY	5.4512	5.3570	-1.7 % ▼
MSCI EM Equity Index	1,088	1,070	-1.7 % ▼	Gold (USD/ounce)	1,268	1,252	-1.3 % ▼
US 10-Year Bond Rate	2.90%	2.85%	-5 bp ▼	Brent Oil (USD/barrel)	74.6	77.5	3.9 % ▲

bp: basis point.

Last week, global markets, especially China, were under pressure due to the trade war worries. While US had a heavy agenda, oil prices surged up due to the US' demand from other countries to halt Iranian oil imports despite the production increase decision of OPEC. Domestic markets' initial reaction to elections was positive. Afterwards markets fluctuated with uncertainties regarding the new economic administration during the week. According to provisional data, foreign trade deficit narrowed on annual basis in June while economic confidence index and manufacturing PMI continued to present a weak outlook.

### Trade war worries weigh on global markets.

Last week, growing tensions between the US and its trading partners continued to weigh on global markets. Early in the week, the worries that Trump will further implement protectionist trade policies increased sales pressures on the markets while the VIX (measuring global risk perception) reached its highest level in two months. Due to trade war concerns, the Shanghai Composite Index in China fell by 20% from the levels hit in January and moved into bear market territory. Towards the end of the week, on the other hand, markets pared some of their losses as Trump adopted a softer tone over Chinese investments in the US and China announced that they will loosen restrictions on foreign investments in the country. Chinese yuan has continued to depreciate against the US dollar last week while DXY index, which shows the value of the US dollar against other advanced country currencies, maintained its strength.

### Data flow on the US economy...

There was a heavy data calendar in the US last week. Having previously announced at 2.2%, the first quarter growth rate was revised down to 2% due largely to the downward revision in private consumption expenditures. While durable goods orders continued to decline in May, pending home sales fell compared to the previous month, contrary to expectations. Consumer confidence slipped to 126.4 in June. The annual increase in core PCE price index, closely monitored by the Fed has reached 2%.

### Oil prices...

As OPEC and other petroleum producing countries decided to increase oil production, oil prices remained under downward pressure. However, supply disruptions in Libya and Canada, the fastest fall in US crude oil inventories seen in two years and the US proposal that its allies should halt Iranian oil imports drove oil prices up. Gold prices, on the other hand, are on a downward trend due to the strengthening of the US dollar. During the last week, gold prices have fallen to its lowest level in 2018 with 1.245 USD/ounce.

### Foreign trade deficit was 7.8 billion USD in May.

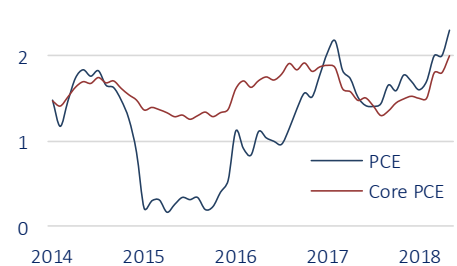
In May, exports increased by 5.3% yoy to 14.3 billion USD, while imports surged up by 15.5% to 22.1 billion USD. Thus, foreign trade deficit rose by 5.7% and realized as 7.8 billion USD. 12-month cumulative foreign trade deficit reached 87.1 billion TRY, the highest level since June 2014 ([Our Foreign Trade Balance Report](#)).

According to provisional data released by the Ministry of Customs and Commerce, in June exports and imports decreased by 1.2% and 3.6% yoy, respectively. Foreign trade deficit narrowed by 8.9%.

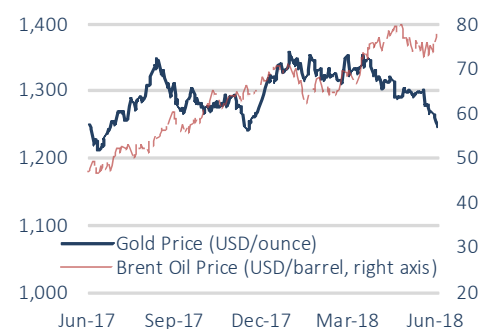
### Global Stock Markets



### Personal Consumption Expenditures Price Index (annual % change)



### Gold & Oil Price



Source: Datastream

### Economic confidence index continued to decline.

The downward trend in economic confidence index since the beginning of the year continued in June. In this period, the index decreased by 3.3% mom to 90.4, the lowest level in the last 17 months. The fall in economic confidence index was driven by the declines in real sector confidence index (-3.9%) and retail sector confidence index (-2.5%).

### Manufacturing industry continued to slow down in June.

Manufacturing PMI was realized as 46.8 in June, indicating that the sector continued to lose momentum. In this period, while the sub-indices of production and new orders negatively affected the overall index, slight increase in new orders has limited the deterioration in June. Due to the increased production costs, the strengthening of inflationary pressures has negative repercussions on the price developments for the coming period.

### Credit rating agencies' assessments on Turkey...

Moody's stated that the decision on Turkey's credit rating, which had been placed on watch at the beginning of June, will depend on the intentions and the capacity of the new cabinet regarding reaching a sustainable growth path and implementing policies that will aim to preserve the fiscal strength.

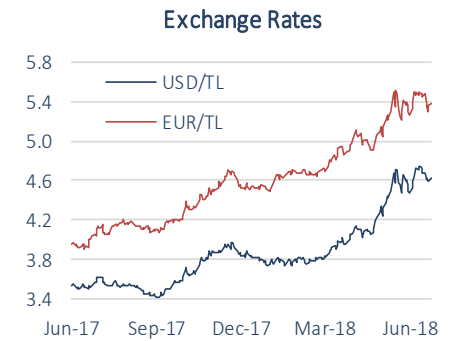
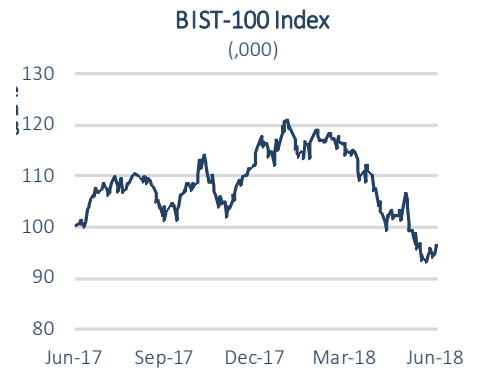
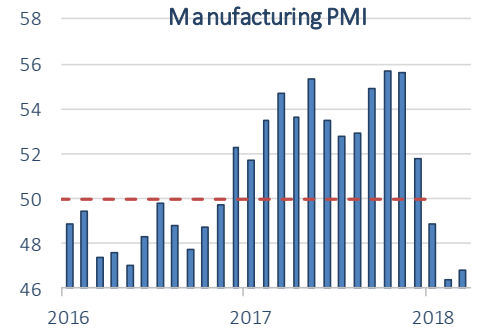
Japanese credit rating agency, JCR, pointed out that reduced political uncertainty after the elections is favorable to Turkey's credit rating. JCR noted that the new economic administration's steps and reforms aiming at correcting macroeconomic imbalances will be closely monitored in the upcoming period.

### Domestic markets are on positive side after the election.

Domestic markets, which made a strong start to the week following the election, fluctuated with the uncertainties regarding the new cabinet and economic policies during the week. BIST-100 index, which rose by 3.5% in the first trading day, closed the week with a rise of 0.7%. 2 year benchmark bond's compound interest rate increased by 6 basis points on weekly basis to 19.25%. TRY appreciated against USD and euro due to diminishing uncertainties from elections and the expectations that the state of emergency would end soon. USD/TRY and EUR/TRY closed the week at 4.59 and 5.36, respectively.

### New week's agenda...

This week, the Fed minutes on Thursday and the labor market indicators and foreign trade data to be released on Friday in US will be watched closely. Domestic inflation data along with developments regarding new economic management and policies will be monitored.



### Data Releases

		Period	Consensus	Prior
2 July	US ISM Manufacturing PMI	July	58.1	58.7
	Euro Area Unemployment Rate	May	8.5%	8.4% (A)
	TR Manufacturing PMI	June	-	46.8 (A)
3 July	US Factory Orders, monthly	May	-%0.1	-0.8%
	Turkstat CPI, monthly	June	1.4%	1.6%
4 July	Euro Area Composite PMI, final	June	54.8	54.8
5 July	US ISM Services PMI	June	58.3	58.6
	USD ADP National Employment	June	187 thousand	178 thousand
	Fed Minutes	June	-	-
6 July	US Non-Farm Payrolls	June	195 thousand	223 thousand
	US Unemployment Rate	June	3.8%	3.8%
	US Average Earnings, monthly	June	0.3%	0.3%
	US International Trade	May	-43.6 billion USD	-46.2 billion USD

(A) Actual

Source: Datastream, Turkstat, CBRT

## Sectoral Developments

### Rising foreign visitor arrivals ...

Ministry of Culture and Tourism data showed that the number of foreign visitors went up by 30.8% yoy in the first five months of 2018. In this period, Russia became the top tourism market for Turkey with a share of 12.1% in total, followed by Germany, Iran, Georgia and Bulgaria. In May, while the number of tourists increased by 27.3%, the highest number of visitors was from Russia.

### Construction costs increased by 19.9% yoy in April.

According to the data of TURKSTAT, construction cost index surged up by 2% mom and by 19.9% yoy. In this period, material index drove the constructions costs up, rising by 22% yoy. In this period, construction costs for buildings and non-buildings increased by 19.3% and 22.2%, respectively, compared to the same month of the previous year.

### Zero tariffs for products that had no production in Turkey...

According to the regulation published in the Official Gazette, tariffs of products that are not being produced in Turkey including 1,882 items consist of chemical, textile, iron-steel and electrical and electronic sectors became zero. This decision aims to increase the competitiveness of Turkey in international markets by allowing import of low-cost raw materials and became valid from 1 July.

### Recovery signal in steel sector...

In the first five months of 2018, Turkish steel exports declined sharply due to rising costs, anti-dumping cases and US additional tariffs in steel industry. However, the sector gave recovery signal after the US decision to lift tariff exemptions for other countries by June. Steel Exporters' Association Chairman Adnan Aslan stated that new orders from the US have started to increase and will be mirrored in export figures in the coming months. He also indicated that loss in exports in January-May period will largely be compensated by the end of the year.

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## Economic Research Division

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

H. Erhan Gül  
Asst. Manager  
erhan.gul@isbank.com.tr

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

Ayşim Kalkan  
Asst. Economist  
aysim.kalkan@isbank.com.tr

Our reports are available on our website <https://research.isbank.com.tr>

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