

	20-Jul	27-Jul	Change		20-Jul	27-Jul	Change
BIST-100 Index	94,082	95,585	1.6 % ▲	EUR/USD	1.1718	1.1656	-0.5 % ▼
TRY 2 Year Benchmark Rate	20.44%	20.41%	-3 bp ▼	USD/TRY	4.7917	4.8519	1.3 % ▲
Turkey 5-Year CDS	304	310	6 bp ▲	EUR/TRY	5.6124	5.6555	0.8 % ▲
MSCI EM Equity Index	1,070	1,092	2.1 % ▲	Gold (USD/ounce)	1,231	1,223	-0.7 % ▼
US 10-Year Bond Rate	2.89%	2.96%	7 bp ▲	Brent Oil (USD/barrel)	72.1	74.4	3.2 % ▲

bp: basis point.

US economic growth accelerated in the second quarter of this year while rising cost pressures have pushed up the yield curve before this week's Fed meeting. Euro depreciated in the global markets following dovish comments from the President of the ECB, Mario Draghi. CBRT kept its policy rate unchanged and indicated that rebalancing process in the economic activity and contribution of fiscal policy to this process will be monitored closely. The decision, not meeting the market expectations, as well as political tensions with the US weakened Turkish lira last week. Fed is expected to hold its policy rate steady at its meeting this week while nonfarm payrolls data will be watched firmly. In the domestic market, consumer inflation data for July and developments in US-Turkey relations will be high on this week's agenda.

US economic growth accelerated.

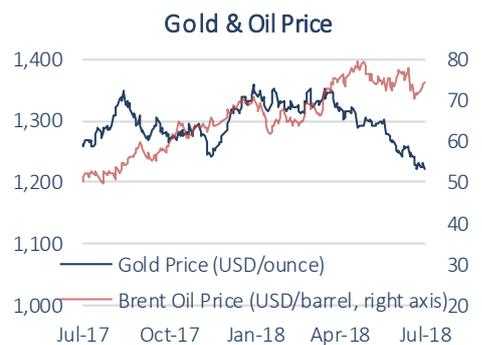
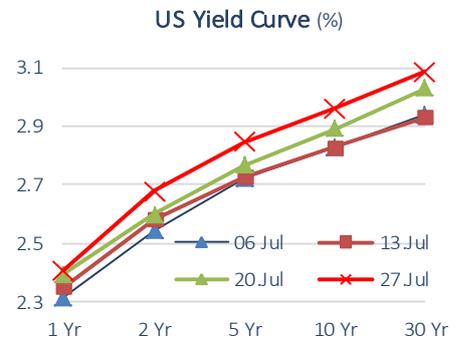
Global markets followed the impacts of US President Donald Trump's views on Fed's monetary policies at the beginning of last week. Trump had criticized Fed's interest rate hikes, being concerned about its potential impact on the stronger dollar. He had also emphasized that China and European Union have been manipulating their currencies, which takes away from the US' competitive edge. On the other hand, positive outcomes from the meeting, which was held between Trump and the president of EU Commission Juncker on how to end the trade disputes, eased the markets somewhat. Depreciation of US dollar against other developed country currencies didn't last long. Economic data released in the US signaled that the country's economic activity has kept its strong trend while upward cost pressures have been rising at the manufacturing industry. Annualized GDP growth data, released on the last trading day of the week, was realized at 4.1% and pointed out that US economic growth accelerated in 2018 Q2. Rapidly growing consumer spending and net exports made positive contributions to the growth while fall in inventories came in as a subtraction from GDP. Considering the fact that commodity prices have been rising recently and protectionist trade measures are followed as a hot topic at global markets, views that US inflation will climb faster than expected, have led yield curve to move upwards.

ECB kept its policy rate unchanged.

ECB, which has shown a dovish stance due to looming trade uncertainties recently, held its view at its meeting in July. ECB made no changes in its interest rates and asset purchase program at its monetary policy meeting. ECB reiterated its promise that its interest rates will remain at their present levels at least until the summer of 2019. President of the ECB, Mario Draghi at his speech after the meeting explained that the euro area economy has been proceeding along a solid and broad-based growth path. The markets watched his views on the inflation very closely. Draghi said that measures of core inflation remain muted while it is expected to pick up gradually over the medium term. It is important to note that Draghi refrained from making any statements regarding ECB's reinvestment policy. EUR/USD moved downwards following the ECB meeting and closed the week at the level of 1.1656.

Rise in oil prices...

Oil prices which have recorded a significant fall earlier, due to the worries over a global economic downturn that might occur as a result of trade disputes, turned its direction upward last week thanks to positive outcome gained from US-EU meeting. In addition to that, news saying oil shipments from Saudi Arabia would be disrupted as well as data showing declining inventories in the US sent Brent oil prices higher to 74.4 USD/barrel at week's close. Gold prices on the other hand, remained under pressure due to the increase in US Treasury bond yields. Accordingly, gold prices which have been hovering around 1-year low dropped by 0.7% w/w to 1,223 USD/ounce on Friday.



Source: Datastream

CBRT kept its policy rate unchanged.

CBRT, which went for a remarkable monetary tightening earlier upon the depreciation in TRY that became more visible in line with the volatility in the financial markets and the deterioration in inflation outlook, did not take further actions towards additional tightening at July meeting. Hence, 1-week repo rate which actually is the policy rate was kept unchanged at 17.75%. CBRT minutes cited the balancing process in the economic activity and revealed that inflationary pressures caused by domestic demand conditions would ease in the coming period. Nevertheless, CBRT emphasized that because of the deterioration in general pricing behaviour and expectations, tight monetary policy stance might be preserved for a long period of time. Moreover, inclusion of the statement such that the roadmap of the fiscal policy would probably put a downward pressure on inflation into the latest minutes was noticeable.

Balancing in the economic activity...

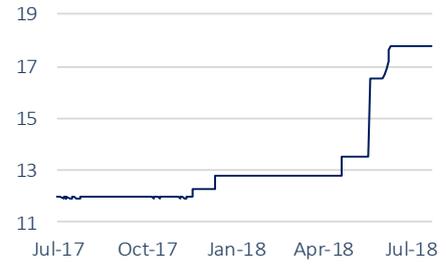
Rise in borrowing costs in the domestic market and relatively prudent behaviour of the real sector indicate that economic activity has lost pace. Capacity Utilization Rate (CUR) in the manufacturing sector declined by 1.6 points yoy to 77.1% in July. Thus, domestic capacity utilization in manufacturing shrank to 16-month lows. This development stemmed from the recent slowdown in the production of textiles and wearing apparel industries. Furthermore, it was remarkable to see that CUR in automotive industry which is the leader contributor to Turkey's overall exports, continued to decline for the 4th consecutive month.

Volatility in domestic markets...

Demand for TRY denominated instruments which was quite strong at the beginning of last week due to the expectations of a rate hike from CBRT so as to overcome worries about price stability and a recovery of the relationship with european countries, weakened on the following days. CBRT's keeping rates on hold unlike the market expectations and growing political tensions with the US affected the risk appetite in the domestic market negatively. USD/TRY closed at 4.85 on Friday after having a wide-range volatile course during the week. Yet, BIST-100 went up by 1.6% wow to 95,585 thanks to strong balance sheet figures from the banking sector.

This week's agenda...

Markets expect Fed to keep policy rate unchanged at its meeting this week and will focus mainly on US nonfarm payroll data. On the domestic front, recent developments in US-Turkey relations as well as inflation figures for July will be monitored closely.

CBRT WAFC
(%)**Capacity Utilization Ratio (%)****BIST-100 Index**
(,000)**Data Releases**

		Period	Consensus	Prior
30 July	TR Economic Confidence Index	July	92.2 (A)	90.4
	US Pending House Sales	June	0.8%	-0.5%
31 July	TR Foreign Trade Balance	June	-	-7.8 billion dollar
	TR Tourism Revenues	Q2	-	4.4 billion dollar
	CBRT Inflation Report	-	-	-
	Euro Area GDP (preliminary)	Q2	-	0.4%
	Euro Area Unemployment Rate	June	-	8.4%
	US Personal Income	June	0.4%	0.4%
	US Core PCE	June	0.2%	0.2%
1 August	BoJ Meeting	-	-	-
	TR Manufacturing PMI	July	-	46.8
	US Manufacturing PMI	July	55.5	55.4
2 August	FOMC Meeting	-	-	-
	US Factory Orders	June	0.8%	0.4%
3 August	TR CPI (mom)	July	0.83%	2.6%
	TR D-PPI (mom)	July	-	3.0%
	Euro Area Retail Sales	June	-	0%
	US Nonfarm Payrolls	July	188k	213k
	US Unemployment Rate	July	3.9%	4.0%
	US Average Hourly Earnings (yoy)	July	2.7%	2.7%

(A) Actual

Source: Datastream

Sectoral Developments

The revival in the tourism sector continues.

Economic activity in the tourism sector, which has been performing poorly in the past few years due to security concerns, is strengthening again in 2018. According to the data released by the Hotel Association of Turkey, the occupancy rate of the hotels increased by 24.9% yoy to 56% in June. In addition, with the increase in the number of tourists, revenue per room recorded an increase of 47.1% yoy and rose to 45.4 euros. Due to the base effect, recent indicators in the tourism sector have improved rapidly, but hotel occupancy rates and revenues are still well below the European average. Pointing out that room rates are 30% lower than normal periods, sector officials underlined that acceleration in tourism revenues will continue in the coming period.

Improvement in sectoral confidence indices...

According to the data compiled by Turkstat, seasonally adjusted sectoral confidence indices, which have been declining since the beginning of 2018, recovered slightly in July. The confidence index for the services sector, which plays a crucial role in the economic growth, rose by 0.7% mom. In this period, retail and construction sector confidence indices rose by 3.1% and 2.4%, respectively.

Costs in automotive supplier industry are on the rise...

Alper Kanca, Chairman of the Association of Automotive Parts and Components Manufacturers (TAYSAD), emphasized that the production activities in the sector are vivid thanks to the external demand conditions. Kanca said the export volume of the sector rose by 22% yoy to 5.7 billion dollars in the first half of the 2018, while indicating the increase in costs stemming from the imported raw materials as the major problem of the sector. TAYSAD Chairman stressed that producers had difficulties to pass through the rising costs on final product prices and hinted recent developments put pressure on profitability.

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