

	3-Aug	10-Aug	Change		3-Aug	10-Aug	Change
BIST-100 Index	95,610	94,940	-0.7 % ▼	EUR/USD	1.1567	1.1410	-1.4 % ▼
TRY 2 Year Benchmark Rate	21.68%	24.80%	312 bp ▲	USD/TRY	5.0805	6.4265	26.5 % ▲
Turkey 5-Year CDS	330	437	107 bp ▲	EUR/TRY	5.8759	7.3313	24.8 % ▲
MSCI EM Equity Index	1,073	1,062	-1.0 % ▼	Gold (USD/ounce)	1,213	1,211	-0.2 % ▼
US 10-Year Bond Rate	2.95%	2.86%	-9 bp ▼	Brent Oil (USD/barrel)	72.4	71.0	-1.9 % ▼

bp: basis point.

Last week global markets focused on on-going US-China trade disputes and developments regarding US sanctions on Iran and Russia. Euro, pound and Russian ruble depreciated significantly due to growing concerns over political issues in the UK, Euro Area and Russia. There were no progress in the negotiations between Turkey and the US which were made after the announcement of sanctions to be imposed by the US on Turkey. In addition to that, Trump's decision to double the tariffs for steel and aluminium imports from Turkey increased the selling pressure on TRY denominated instruments. Today, the effects of the measures taken by CBRT and BRSA on TRY assets have been monitoring closely in the financial markets.

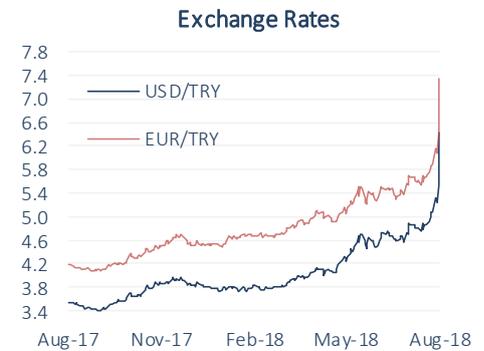
TRY diverged negatively from other emerging markets currencies.

Last week, domestic markets were affected heavily from the elevated political tension between Turkey and the United States. Political tension between the two countries increased following the US sanctions decision for two Turkish ministers, as selling pressure in domestic markets intensified. Moreover, Turkish and US officials failed to meet an agreement on recent disputes last week, while US President Trump announced that US increased custom duty rates applied on aluminum and steel imports from Turkey (to 20% and 50%, respectively) which hurt the investor sentiment further. While interest rates rose sharply due to the heavy sales in the bond market, the yield on 10-year bonds exceeded 20% and reached to new highs. 5-year CDS spread surpassed 400 basis points, the highest level since March 2009.

Last week, TRY depreciated sharply against euro and dollar, displaying the worst performance among EM currencies. Due to the depreciation in TRY, CBRT lowered the upper limit for the FX maintenance facility within the reserve options mechanism from 45% to 40%, but this step had little impact on TRY. After TRY's rapid depreciation this weekend, CBRT announced a series of additional measures. This morning CBRT announced that it has lowered Turkish lira reserve requirement ratio by 250 basis points for all maturity brackets while that of for non-core FX liabilities have been reduced by 400 basis points for certain maturities, in order to support effective functioning of financial markets and flexibility of the banks in their liquidity management. CBRT also announced a comprehensive package of measures in order to enhance TRY and FX liquidity management. In this context, the discount rate for collaterals against Turkish lira transactions is revised, providing banks with flexibility in their collateral management while some alternatives were offered to banks that borrow from and lend to each other at the FX deposit market through the intermediation of CBRT. With these measures, CBRT told that 10 billion TRY, 6 billion dollar, and 3 billion dollar equivalent of gold liquidity will be provided to the financial system. BRSA, on the other hand, announced that total notional principle amount of banks' currency swaps and other similar products (spot + forward FX transactions) with foreign counterparties where at the initial date local banks pay TRY and receive FX should not exceed 50% of the bank's regulatory capital.

New economic model...

In the written statement published by the Ministry of Treasury and Finance, it was said that discussions made with the different parts of the society about the parameters which constitute a base for the Medium Term Programme (MTP) still continues. According to the statement, within the scope of MTP, Turkish economy is expected to grow by 3-4% in 2019 and the measure-set that is designed for pushing inflation down to single digits will be planned in detail. It is also expected that the current account deficit to GDP ratio would be balanced at 4% and it will be ensured that the budget deficit to GDP ratio would not exceed 1.5% by promising savings programme that has started this year will be maintained in the medium run. Accordingly on Friday, Minister of Treasury and Finance Albayrak introduced the new economic model which was created under this context. Moreover, speaking to public at the weekend, Albayrak also mentioned that necessary actions would be taken starting right from this morning in order to control FX volatility.



Source: Datastream

Current account deficit shrank in June.

Having been on an upward trend since September 2017, current account deficit narrowed on an annual basis in June. In this period current account deficit came in below the expectations by shrinking 21.6% to 2.973 billion USD. The improvement in foreign trade was behind this development. Services balance continued to support the current account balance thanks to the recovery in tourism revenues. On the financial front, portfolio investments registered a fall for a fifth consecutive month. In this current conjuncture where global trade wars and sanctions on countries that are oil producers are high on the agenda, foreign trade balance as well as changes in oil prices are likely to impact the course of current account deficit ([Our Balance of Payments Report](#)).

Escalating political tension between the US and other countries...

Last week, global markets followed closely political developments between the US and China, Russia, Iran. Trade war concerns were heightened after China's announcement that it will impose tariffs between 5-25% on US goods amounting 60 billion USD in response to US tariffs rise from 10% to 25% on Chinese goods worth 200 billion USD. According to US announcement, the second package of tariffs covering 16 billion USD, will be imposed on August 23.

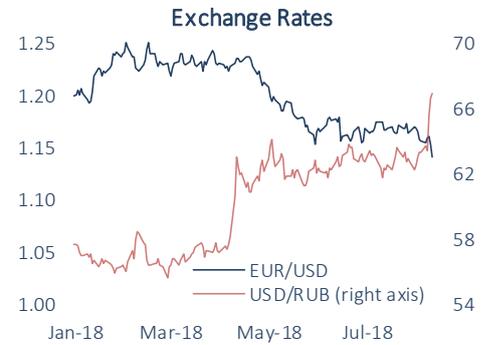
The US announced that additional sanction decision against Russia will be taken since chemical weapon were used in assassination attempt against a Russian spy in England and international law was violated. After the decision, Russian ruble declined against the US dollar, hitting its lowest level in 20 months. First Deputy Prime Minister and Minister of Finance of the Russian Federation Anton Siluanov indicated in his speech made at weekend that the US dollar became a dangerous instrument in international trade and Russia will reduce using dollar due to the sanctions on Russia.

The US also re-imposed sanctions on Iran by Tuesday morning. In the first stage, sanctions were implemented for US dollar, gold and precious metal trade while it is expected that sanctions will cover energy sector as of November 4.

Global markets...

Last week, euro and pound depreciated against dollar as concerns that Italy will increase public spending having an opposite attitude to European Unions's (EU) fiscal discipline and UK will leave the EU without any agreement. Value loss in euro became more apparent as the news that European Central Bank (ECB) worried about EU banks which could suffer from losses due to the depreciation in TRY. EUR/USD and GBP/USD declined to 1.1363 and 1.2721, respectively.

Global markets have an heavy data agenda this week. On the domestic front, unemployment rate, budget balance and industrial production data will be monitored closely as they give a signal in the course of economic activity. In addition, developments in Turkey-US relations and the impacts of CBRT and BRSA's decisions will be followed closely.

**Data Releases**

		Period	Consensus	Prior
13 August	Treasury Issuance of 2-Year Fixed Coupon Bond	August		
14 August	China Industrial Output, yoy	July	6.3%	6.0
	China Retail Sales, yoy	July	9.0%	9.0%
	Germany The ZEW Economic Sentiment Index	August	-20	-24.7
	Euro Alanı GSYH, yıllık (öncü)	Q2	2.1%	2.1%
	Euro Alanı Sanayi Üretimi, yıllık	June	2.5%	2.4%
	Treasury Re-Issuance of 7-Year Floating Coupon Bond	August		
	Treasury Issuance of 10-Year Fixed Coupon Bond	August		
15 August	US Industrial Production, mom	July	0.3%	0.6%
	US Retail Sales, mom	July	0.3%	0.5%
	UK CPI, yoy	July	2.5%	2.4%
	Treasury's Domestic Debt Redemption (295 million TRY)	August		
	TURKSTAT Unemployment Rate	May	-	9.6%
	Ministry of Treasury and Finance Central Adm. Budget Balance	July	-	-25,6 billion TRY
16 August	US Housing Starts	July	1.25 million	1.173 million
	TURKSTAT Industrial Production, yoy	June	-	6.4%
17 August	US, The Uni. of Michigan Consumer Sentiment Index (preliminary)	August	98	97.9
	Euro Area HICP, yoy (final)	July	2.0%	2.0%
	CBRT Survey Of Expectations	August		
	TURKSTAT Consumer Confidence Index	August	-	73.1

Source: Datastream

Sectoral Developments

The action plan for the first 100 days of the new Cabinet...

President Erdoğan announced the new Cabinet's first 100 days action plan, which consists of 400 projects to be accomplished within the budget of 46 billion TRY. It was detailed that 48 of the aforementioned projects are related to the defense industry while Emlak Bank, which will focus on the development of real estate, will be re-operational. With regards to the energy sector, the second drilling ship will be purchased in order to explore hydrocarbons in the sea, three coal mines will be privatized for the purpose of electricity generation and solar power plants with 3 GW of installed capacity and with an investment amount of 4.8 billion USD will be auctioned. Moreover, properties, which are assigned to the Treasury and some of which are with holiday villages, public facilities and lodgings located on them, will be put into sales or rented in 20 cities in order to create additional revenue as well as for their re-use at the real estate, tourism, industry, trade and agriculture sectors. The related real estates are expected to be put into market again following the removal of the related assignments and transfer of such real estates to the Treasury. The decision is essential from the point of tourism sector in order to construct accommodation facilities on the related assigned lands.

Costs are rising at the construction sector.

According to the announcement made by Association of Turkish Construction Material Producers, current liquidity issues at the construction sector have led to lengthening of maturities on the payment side and problems with collections at the material industry. It has been observed that the liquidity problem in the market has pushed up the usage of barter while some material producers have turned their focus to international markets due to the fact that they cannot reflect the rising costs on their prices which are pressured by the weakening demand. It is projected that the sector, struggling to reduce its currency risk in the international market, will increase its exports to 18-199 billion USD from the level of 17.3 billion USD in 2017.

Changes in the price of raw milk...

The price of raw milk, which has been recommended by the National Dairy Council for over 5 years, was determined at the level of 1.53 TL/lit in January 2018. According to a legislation published in the Official Gazette during the same period, it was decided that the views of The Food and Agricultural Product Markets Monitoring and Evaluation Committee, which has been operating under the umbrella of CBRT, will be taken into consideration to determine the raw milk prices because of its impact on the inflation. The prices were finally set at the level of 1.70 TL/lit as of August 15th, 2018, following the demands of milk producers with regards to a rise in raw milk prices since recently surging exchange rates have moved their feed costs significantly. Union of Turkish Chambers of Agriculture claimed that raw milk prices are supposed to be around 2.06 TL/lit, considering the fact that milk-feed price ratio should be 1.5. The reflection of feed costs on milk prices are considered essential in order to stop dairy cattle from being cut. The current weight of milk in the inflation basket is around 0.62%.

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