

| | 10-Aug | 24-Aug | Change | | 10-Aug | 24-Aug | Change |
|----------------------------|--------|--------|----------|------------------------|--------|--------|----------|
| BIST-100 Index* | 94,940 | 90,186 | -5.0 % ▼ | EUR/USD | 1.1410 | 1.1261 | -1.3 % ▼ |
| TRY 2 Year Benchmark Rate* | 24.80% | 24.53% | -27 bp ▼ | USD/TRY | 6.4265 | 6.0048 | -6.6 % ▼ |
| Turkey 5-Year CDS | 437 | 508 | 71 bp ▲ | EUR/TRY | 7.3313 | 6.9796 | -4.8 % ▼ |
| MSCI EM Equity Index | 1,062 | 1,050 | -1.1 % ▼ | Gold (USD/ounce) | 1,211 | 1,206 | -0.4 % ▼ |
| US 10-Year Bond Rate | 2.86% | 2.83% | -3 bp ▼ | Brent Oil (USD/barrel) | 71.0 | 74.4 | 4.8 % ▲ |

(*) as of 20 August

bp: basis point.

During the week before the Eid holiday, global markets followed the news flow on the US-China trade war as well as the volatility in Turkish markets. The sharp fall of Turkish lira caused pressure on MSCI Emerging Markets Equity Index while the news that the US and China will resume trade talks provided some support to the global markets. Positive mood faded somewhat last week as no significant progress was made in negotiations. On the other hand, Powell's speeches defending the gradual rate hikes had a positive impact on markets.

Domestic markets...

The steps taken by the BRSA and the CBRT in order to halt the recent rapid depreciation of Turkish lira in the week before the Eid holiday were closely followed. BRSA extended the scope of the restrictions on FX swap contracts. As CBRT cut weekly repo financing, the weighted average cost of funding of the Central Bank rose to 19.25% on August 17, the upper band of the interest rate corridor. These measures aside, Qatar's pledge to make 15 billion USD of direct investment in Turkey and the Minister of Treasury and Finance Albayrak's teleconference with foreign investors supported the Turkish lira. However, the gains of the currency remained limited with the comments of the US Treasury Secretary Mnuchin indicating that the US is ready to impose more sanctions on Turkey.

In the period of 10-20 August, TRY gained value against the dollar and euro. The compound yield of 2-year benchmark bond declined by 27 basis points to 24.53%. Having fallen by 6.5% w/w as of August 17 due largely to bank stocks sales, BIST-100 index rose by 1.6% in half day trading on August 20th.

Several steps to boost the economy...

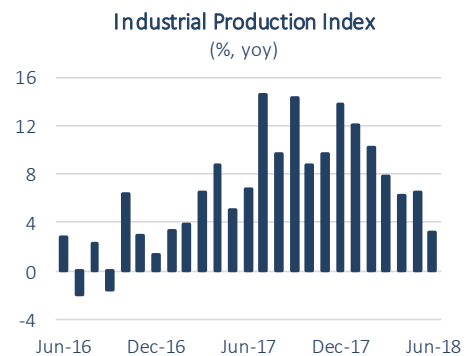
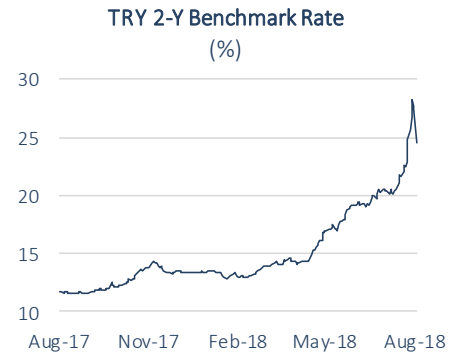
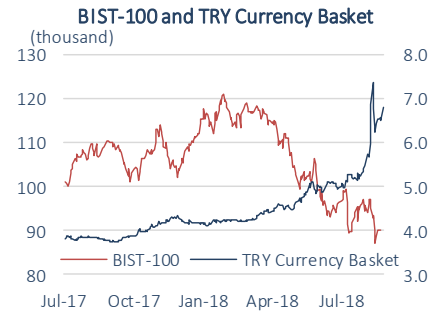
The Ministry of Treasury and Finance have announced that a series of measures have been taken regarding the bank loans of real sector. It is stated that banks will continue to keep credit channels open and no additional collateral will be requested from the companies for the loans with limit excess due to the rise in FX rates. Also, Ministry of Trade announced that the preparations were made to move to the third phase of Nefes Loans. Small and medium-sized enterprises obtained 5 billion TRY low interest rate loans with the first phase started in 2016 and 7.5 billion TRY with the second phase initiated in 2018.

Heavy data agenda in Turkey...

Industrial production lost some momentum rising by 3.2% yoy in June according to calendar adjusted data. Adding this figure into the picture, industrial production rose by 5.3% yoy in the second quarter of the year.

Central government budget posted a surplus of 1.1 billion TRY in July, making a positive start to the second half of the year. In this period, budget revenues and expenditures surged by 17.9% yoy and 17.8% yoy, respectively. The fall in special consumption tax (SCT) revenues was a factor weighing on the budget revenues while the sharp rise in interest expenditures was noteworthy ([Our Budget Balance report](#)).

In May period, unemployment rate declined by 0.5 bps to 9.7%. On the other hand, seasonally adjusted unemployment rate rose by 0.3 bps to 10.6%. In this



Source: Datastream

period, number of persons employed was down in agriculture, construction and services sectors.

Latest edition of CBRT's Survey of Expectations revealed that deterioration in the inflation expectations has accelerated in August. According to the survey, CPI expectations for 12 and 24 months ahead have reached 16.45% and 12.96% respectively.

S&P and Moody's downgraded Turkey's credit rating.

On August 17th, S&P and Moody's both downgraded Turkey's credit rating by one notch. Hence, Turkey's credit rating was announced as "B+" by S&P and "Ba3" by Moody's. While the credit rating outlook was confirmed as stable by S&P, Moody's revised it from stable to negative. According to Agencies' announcements, downgrades were made as a result of the depreciation in Turkish Lira and the deterioration in inflation outlook as well as high current account deficit. S&P's forecast that the Turkish economy will contract next year was remarkable.

Fed Chair signaled for moderate rate hikes...

In his speeches last week, Fed Chair Powell stressed that moderate rate hikes would be appropriate if the positive outlook in economic growth and employment indicators continues. In the Fed minutes published last week, which contained similar statements, the risks tied to trade protectionism were underlined additionally.

Slowdown in Euro Area economic activity continues.

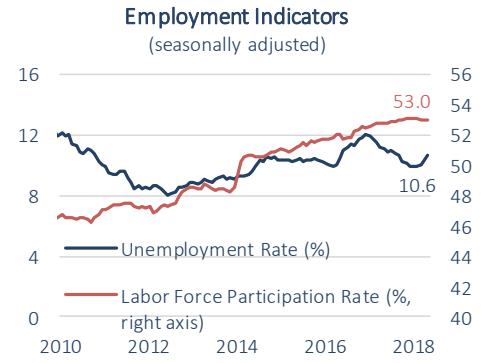
Euro Area GDP growth was realized as 0.4% qoq and 2.2% yoy in Q2. Industrial production, on the other hand, fell faster than expected by 0.7% in June. Despite the relative slowdown in the economic activity, CPI inflation surged to 5.5 year-high with 2.1% as a result of rising energy costs.

Global markets...

During the past two weeks, markets watched the developments in the trade war between the US and China. While no significant progress has been made in the negotiations between the two countries, the MSCI Emerging Markets Index, which fell sharply due to the fluctuations in Turkish markets during the first days of the week before the Eid holiday, substantially recovered its losses in the following days. The S&P 500 and Nasdaq indexes reached their record highs after Powell's speeches last week.

This week's agenda ...

US growth and Euro Area inflation data stand out on the data agenda of the global markets this week. In the domestic front capacity utilization rate, real sector confidence index and foreign trade data will be followed by the markets.



Data Releases

| | | Period | Consensus | Prior |
|-----------|---|--------|-----------|-----------------|
| 27 August | TR Capacity Utilization Rate | August | - | 77.8% (A) |
| | TR Real Sector Confidence Index | August | - | 96.4 (A) |
| 28 August | US Consumer Confidence Index | August | 126.5 | 127.4 |
| 29 August | US GDP, 2nd estimate | Q2 | 4.0% | 4.1% |
| | TR Trade Balance | July | - | 5.5 billion USD |
| | Treasury's Domestic Debt Redemption (261 million TRY) | August | - | - |
| 30 August | US Personal Consumption Expenditures | July | 0.4% | 0.4% |
| | Euro Area Consumer Confidence, final | August | -1.9 | -1.9 |
| 31 August | US U Mich Sentiment, final | August | 95.5 | 95.3 |
| | Euro Area Unemployment Rate | July | 8.4% | 8.3% |
| | Euro Area HICP, flash, yoy | August | 2.1% | 2.1% |

(A) Actual

Source: Datastream

Sectoral Developments

House sales increased in July.

Having increased since May thanks to the incentives and discount campaigns, house sales continued this trend also in June by rising 6.9% yoy and reaching 123,878 units. In this period, mortgaged house sales dropped by 21.2% yoy, while other sales rose by 20.9%. House sales to foreigners surged up by 65.6% yoy, Iraqi citizens continued to be the main customers. A new price discount campaign with the support of Ministry of Environment and Urbanization is high on the agenda of housing sector, while the government is expected to make a new regulation regarding the house and office sales to foreigners so that these sales in foreign currencies will be considered as exports.

House prices continued to fall in real terms.

According to CBRT's house price statistics, the rise in house prices continued to hover below the inflation rate also in June. Hedonic house price index (which measures quality adjusted price changes) rose by 0.57% mom and 9.36% yoy. Having increased by 3.7% yoy, Istanbul was among the cities that had the lowest increases in housing prices. On the other hand, in this period, house prices in Ankara and İzmir rose by 7.30% and 15.02%, respectively.

SCT increase in fuel oil prices...

According to the regulation published in Official Gazette on August 16th, SCT rates on fuel oil was raised. Accordingly, the prices of gasoline, diesel fuel and autogas rose by 59, 54 and 34 kurus per liter, respectively, while fuel oil prices increased by 9%. Officials indicated that sliding-scale tariff system, which was used in order to keep pump prices constant by automatically reducing tax rates in case of oil price or FX rate increases, will continue to be valid after this SCT increase.

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