

	24-Aug	31-Aug	Change		24-Aug	31-Aug	Change
BIST-100 Index	90186*	92,723	2.8 % ▲	EUR/USD	1.1621	1.1599	-0.2 % ▼
TRY 2 Year Benchmark Rate	24.53%*	24.47%	-6 bp ▼	USD/TRY	6.0048	6.5180	8.5 % ▲
Turkey 5-Year CDS	476	582	106 bp ▲	EUR/TRY	6.9796	7.5929	8.8 % ▲
MSCI EM Equity Index	1,050	1,056	0.5 % ▲	Gold (USD/ounce)	1,206	1,201	-0.4 % ▼
US 10-Year Bond Rate	2.83%	2.85%	3 bp ▲	Brent Oil (USD/barrel)	74.4	76.7	3.0 % ▲

bp: basis point.

(*) as of 20 August

Last week data releases in the US showed that the economy is maintaining its strong pace. Data released in Euro Area, on the other hand, suggested that economic activity may lose some momentum. Talks between the US and Mexico at the beginning of the week were followed closely. Strong data releases in the US hint Fed might continue to increase interest rates, as well as the pain in the Argentine economy hurt the risk appetite and weakened demand towards emerging market currencies. In Turkey, foreign trade deficit narrowed in July due to the rebalancing in economic activity and the slowdown in gold trade. Besides, recent leading indicators for August pointed to the deterioration in expectations. Following Moody's decision to downgrade Turkish banks' credit ratings the pressure on TRY intensified, while on the last trading day of the week the tax rates applied to deposit accounts were changed in favor of TRY deposits to alleviate this pressure. This week global markets will follow a heavy data agenda. Domestic investors focus on August inflation figures and PMI readings announced this morning.

The US economy maintains its strong pace.

In the US, second quarter annualized real GDP growth was revised from 4.1% to 4.2%. The core personal consumption expenditure index (PCE), which is an important indicator of inflation, recorded an annual increase of 2% in July, in line with expectations. In August, US consumer confidence reached 133.4, the highest level for the last 18 years. In this period, the expectations for the labor market improved significantly and sent positive signals for August employment data to be released this week.

Agreement between the US and Mexico...

Ongoing talks between the United States and Mexico to revise the North American Free Trade Agreement (NAFTA) were successful. While there is no official announcement for the details of the deal, it was anticipated that 75% of the parts used in the automotive sector would be produced in NAFTA countries and the minimum wage of workers in the production of these parts would be increased, according to information provided by US officials. The renewed NAFTA between the US and Mexico is expected to put pressure on Canada in the coming period.

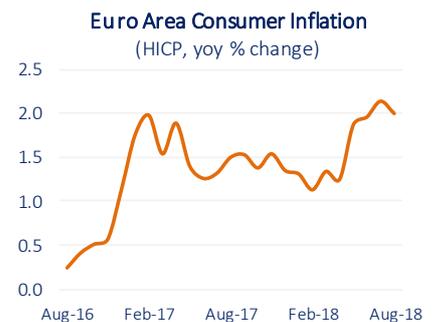
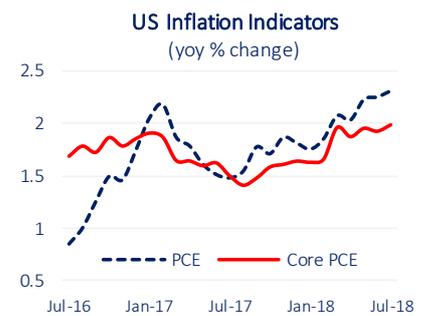
Annual inflation in Euro Area remained below the forecasts.

In Euro Area, consumer inflation was slightly below the forecasts at 2% in August according to preliminary figures. In August, consumer confidence index remained flat as expected, while business confidence index drew a bleak outlook. The unemployment rate for July was unchanged compared to the previous month at 8.2%. While leading indicators hint that economic activity may lose some momentum in the coming period, no significant slowdown is expected.

In Turkey, leading indicators point to a deterioration in expectations.

Recent data releases for August gave mixed signals regarding the economic activity in Turkey. In this period, seasonally adjusted capacity utilization rate increased by 0.7 points to 77.6%. On the other hand, real sector confidence index fell to 96.3, down 5.2% points from the previous month. For the first time in nearly three years, the index has fallen below the threshold of 100 and showed the lowest level since June 2009. In August, economic confidence index also declined by 9.2% mom, to the lowest level since the global crisis. Analysis in sub-groups revealed that the negative pressure on the construction sector became more evident.

Turkey's manufacturing PMI released this morning, which declined to 46.4 in August, also confirmed the slowdown in industrial production.



Source: Datastream

Foreign trade deficit narrowed in July.

In July, foreign trade deficit shrank by 32.6% yoy to 6 billion USD. In this period, exports increased by 11.6% yoy, while imports declined by 6.7% yoy. The decrease in non-monetary gold and capital goods imports affected foreign trade balance positively, but the rise in energy imports restricted this impact. The slowdown in economic activity is expected to have a constricting effect on foreign trade balance by restraining investment and consumption goods imports in the coming period ([Our Foreign Trade Balance report](#)). The provisional data issued by the Ministry of Commerce shows that the contraction in foreign trade continued in August as well.

Annual inflation rose sharply in August.

In August, CPI rose by 2.30% and PPI increased by 6.60% on a monthly basis. Thus, annual inflation reached 17.90% in CPI and 32.13% in domestic PPI. In this period, the highest monthly price increase in CPI was realized in various goods and services group with 5.85%, while the price increase in manufacturing industry reached 7.31% mom according to domestic PPI data. Core inflation indicators also pointed out that price increases have accelerated significantly ([Our Inflation report](#)).

Moody's cut the credit rating of 20 financial institutions.

International credit rating agency Moody's has lowered the credit ratings of 20 financial institutions, 18 of which are banks. The Agency determined their outlook "negative". As the reason for the decision, Moody's pointed out the unfavorable effects of the depreciation in TRY on banks' asset quality, profitability and capital. Likewise, in a review made last week, Fitch noted that the sharp decline in TRY has raised the risks for Turkish banks' financing opportunities.

Change in tax rates on deposit accounts...

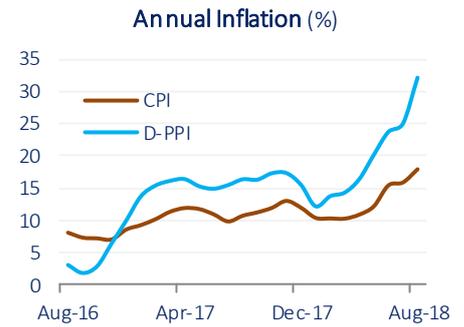
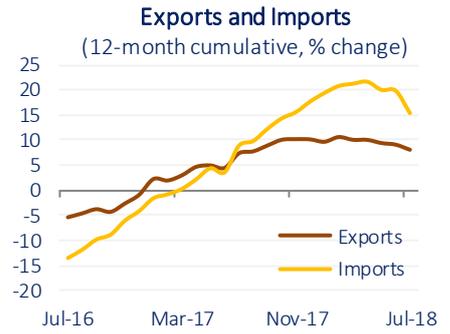
According to the Presidential Decree published in the Official Gazette dated August 31, the tax rates on interest income of term deposits were changed for 3 months. Thus, the income tax rates on TRY deposits were lowered, while the rates on FX deposits were raised.

Domestic markets...

A mixed pace was seen in domestic markets which were closed on Thursday due to the 30th August Victory Day. BIST-100 index rose by 2.8% wov. On the other hand, the sales in emerging market currencies as well as the domestic developments led the downward pressure on the TRY to continue. The effect of the regulation published on Friday, to support the yield of TRY deposits, was limited on the currency.

This week's agenda...

This week, employment data in the US and Q2 GDP growth in Euro Area stand out on the global markets agenda. The markets will also monitor the US, Euro Zone and China PMI data closely.



Data Releases

		Period	Consensus	Prior
3 September	Consumer Price Index (CPI), mom	August	2.30% (A)	0.55%
	Domestic Producer Price Index (D-PPI), mom	August	6.60% (A)	1.77%
	ISO Turkey Manufacturing PMI	August	46.4 (A)	49.0
	Euro Area Markit Manufacturing PMI	August	54.6 (A)	54.6
	China Caixin Manufacturing PMI	August	50.6 (A)	50.8
4 September	US ISM Manufacturing PMI	August	57.6	58.1
	5 September	Treasury Debt Redemption (1.8 billion TRY)	September	-
Euro Area Markit Services PMI		August	54.3	54.4
Euro Area Retail Sales, mom		July	0.0%	0.3%
China Caixin Services PMI		August	53.5	52.8
6 September		US ISM Non Manufacturing PMI	August	56.8
	US Factory Orders, mom	July	-0.7%	0.7%
7 September	US Unemployment Rate	August	3.8%	3.9%
	US Nonfarm Payrolls	August	198K	157K
	Euro Area GDP Growth, yoy	2018 Q2	2.2%	2.2%

(A) Actual

Source: Datastream

Sectoral Developments

New campaign in housing has started.

Last week, details about the new housing campaign which will be valid between August 29th and October 31st has been announced. According to that, this campaign will contain 25K houses out of 100K houses under 400 different projects throughout the country. In order to boost sales, contractors have decided to make 10% discount in house prices and pre-payments could be made by foreign currency and/or gold. In this regard, any increase in FX rates or gold prices which might occur during the competency of the transaction will be reflected as a discount to the sales prices of the houses. Moreover, contractors will also offer additional advantages such as reducing pre-payment ratio in house sales to 10%, 0.98% interest rate for 120-month maturity housing loans without requiring a guarantor and 15% interim payment options within the 12th and 24th months.

In the real estate market, FX based renting is coming to an end.

In his speech last week, Minister of Treasury and Finance Berat Albayrak stated that they are recently working on a project which aims to terminate FX based renting and/or buying habits in the real estate market. It is a well known fact that many companies dealing with the sharp rise in FX rates have already closed their stores in some shopping malls and some of the shopping mall owners are going for their own solutions to stop them from leaving.

Cost issues in the publishing sector...

Turkish Publishers Association chair Kenan Kocatürk revealed the main problems in the publishing sector. Citing the recent decline in production and sales, Kocatürk mentioned that rising costs especially stemming from rising paper prices as well as the stagnancy in book sales caused a negative effect on the industry. Indicating that almost all paper need is met by imports, Mr. Kocatürk emphasized that investments should be made in order to start producing paper domestically. Kocatürk added that including template, colour and lacquer, imported input ratio is much higher in the publishing sector. According to Kocatürk, although having a 30% rise in total costs, price increases in the sector was roughly 10%. He also noted that, along with the slowdown in regular publishing, rapid changes in the local education system caused a negative impact as well.

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