

	7-Sep	14-Sep	Change		7-Sep	14-Sep	Change
BIST-100 Index	93,274	94,760	1.6 % ▲	EUR/USD	1.1551	1.1628	0.7 % ▲
TRY 2 Year Benchmark Rate	24.34%	24.94%	60 bp ▲	USD/TRY	6.3820	6.1693	-3.3 % ▼
Turkey 5-Year CDS	522	424	-98 bp ▼	EUR/TRY	7.4022	7.1737	-3.1 % ▼
MSCI EM Equity Index	1,023	1,029	0.5 % ▲	Gold (USD/ounce)	1,195	1,193	-0.2 % ▼
US 10-Year Bond Rate	2.94%	2.99%	5 bp ▲	Brent Oil (USD/barrel)	76.0	77.9	2.5 % ▲

bp: basis point

Last week, increasing trade wars tensions were on the agenda of global markets. Following the ECB meeting and Draghi's statements, euro gained value. In Turkey, the CBRT raised the policy rate to 24% and took a step beyond the market expectations in order to achieve price stability. Turkey's risk premium has improved after this decision. The assessments regarding growth and fiscal policies in the Medium Term Programme to be published this week will be crucial for the markets.

Trade wars...

Last week, the news that China would apply to the World Trade Organization in order to put the sanctions against the US into practice were followed closely. The US, which is the other front of the trade war, has announced that progress has been made in bilateral talks with Canada. This situation has been welcomed as a factor that strengthened US position. In the second half of the week, the news that Trump administration has sent an invitation to China to reconsider trade relations lifted the markets, but the positive mood proved to be short-lived. On Friday, markets closely followed the developments that Trump administration prepared new tariffs on about 200 billion USD worth of Chinese imports.

EBC did not change its policy rate.

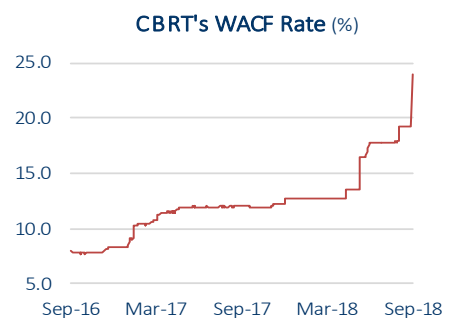
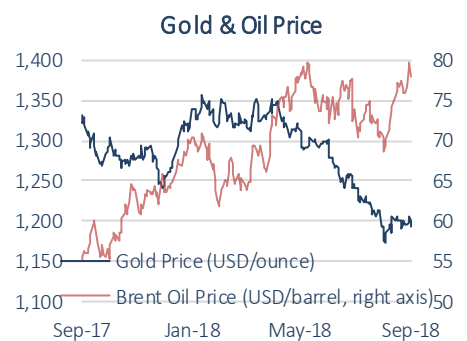
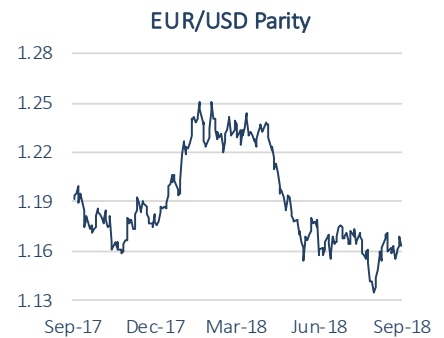
In the ECB meeting, the policy rate was kept at 0% and ECB announced that the asset purchase program will be reduced to 15 billion EUR per month from October onwards. Stating that the markets need for support decreased in line with the improvement in core inflation indicators, ECB President Draghi pledged that the current level of policy rates would be maintained during the first half of 2019. ECB's middle-term projections published after the meeting were among the topics high on the agenda of global investors. ECB, which trimmed its GDP growth forecast for 2018 and 2019 by 0.1 percentage points to 2% and 1.8% respectively, kept the inflation forecast at 1.7% for the same period. The euro rose against the dollar after Draghi's speech that voiced optimism over price stability.

Volatility in oil prices...

Last week, oil prices displayed a volatile course. Oil prices, which had been on an upward trend in the previous weeks due to the uncertainties regarding the future of energy markets ahead of the awaited US sanctions against Iran, approached 80 USD/barrel levels following the announcement that the oil stocks in the US had recorded a sharp decline. On the other hand, oil has given back some of its previous earnings as OPEC announced that its production was at record high in the second half of the week.

Strong interest rate hike from CBRT...

CBRT, which announced that it will reshape its monetary policy stance following the inflation data announced in early September, increased the policy rate by 625 basis points to 24% with a step beyond the market expectations. The market expectation was indicating that the CBRT could raise the policy rate by 200 to 500 basis points. CBRT stated that despite the slowdown in domestic demand conditions the deterioration in the pricing behaviour posed an upside risk to the inflation outlook and added that a strong monetary tightening was implemented in order to support price stability. In addition, the CBRT stressed that it would maintain its monetary policy stance decisively until inflation outlook displays a significant improvement and additional monetary tightening will be delivered if needed.



Source: Datastream

Contraction in current account deficit...

Parallel to the rebalancing in economic activity, contraction in the current account deficit continued in July. In this period, the current account deficit was realized as 1.75 billion USD, in line with the expectations. The decline in foreign trade deficit as a result of the decline in non-monetary gold imports and the recovery in tourism revenues were influential in the improvement of the current account balance. In this period, portfolio investments recorded a net outflow of 279 million USD ([Our Balance of Payments Report](#)).

The rise in industrial production and unemployment rates continues.

According to calendar adjusted figures, industrial production index increased by 5.6% yoy in July above expectations. The rise in the index was driven by the favorable course in the manufacturing industry and mining sector. The production rose in 18 sub-sectors out of 24 in the manufacturing industry. In this period, while other transportation vehicles and basic pharmaceutical production activity gained speed; production in main metal industry decreased as a result of the developments and uncertainties in construction sector and foreign markets.

On the other hand, unemployment rate is increasing in recent months partly due to the deterioration in domestic employment conditions. In June, unemployment rate was realized at 10.2% recording a second decline in line. During this period, the number of employed persons maintained its tendency to increase with the contribution of industry and services sectors in particular, but it is followed that the capacity to create new jobs weakened as a result of the problems in agriculture and construction sectors.

The deterioration in expectations continues.

Fluctuations in financial markets becomes influential on medium term expectations. According to the Central Bank's Expectations Survey, CPI inflation and USD/TRY expectations for the end of 2018 increased rapidly compared to the previous month and became 19.6% and 6.59%, respectively. Growth expectation of participants decreased to 3.4% for 2018, while projections for current account deficit decreased to 49.7 billion USD. Expectations Survey results, when considered with recently announced growth and inflation data, raises the opinions that Turkey may enter into a stagflation period.

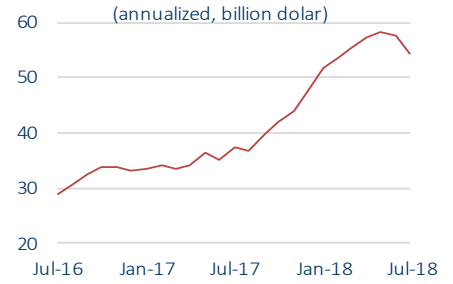
Recovery in domestic markets...

Domestic markets, which followed a relatively calm atmosphere before the CBRT meeting, improved following the rate hike decision. The decline in Turkey's 5-year CDS spreads gained momentum, the demand for TRY denominated assets revived. BIST-100 index completed the week with an increase of 1.6% at 94,760 points. Last week, Turkish lira also rose 3.2% against the currency basket (0.5 * dollar + 0.5 * euro).

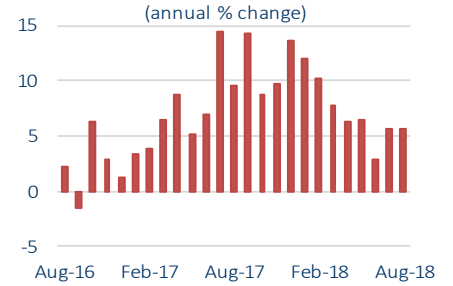
This week...

This week the roadmap to be drawn for the Turkish economy in the Medium Term Program, which will be published on Thursday, will be closely monitored.

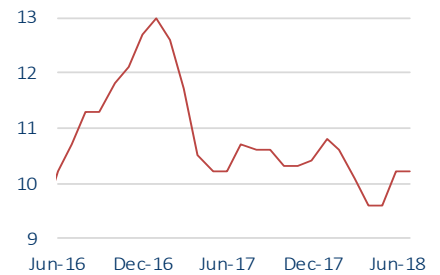
Current Account Deficit



Industrial Production



Unemployment Rate (%)



TRY vs Currency Baseket



Data Releases

		Period	Consensus	Prior
17 September	Industrial Production	July	5.6% (A)	3.2%
	Unemployment Rate	June	10.2% (A)	9.7%
	Budget Balance	August	-5.8 billion TRY (A)	1.1 billion TRY
	Euro Area CPI (yoy, final)	August	2%	2%
18 September	Issuance of Treasury's 12 Month Bond			
19 September	England CPI (yoy)	August	-	2.5%
	US Housing Starts	August	1.23 million units	1.17 million units
	Treasury's Domestic Debt Redemption (1.7 billion TRY)			
20 September	Consumer Confidence Index	September	-	68.3
	Medium Term Programme			
21 September	Germany Manufacturing PMI (preliminary)	September	-	55.9
	US Manufacturing PMI (preliminary)	September	-	54.5

(A) Actual

Source: Datastream

Sectoral Developments

New regulation on contracts denominated in foreign currency...

A number of new measures are being taken to reduce the impact of the exchange rate volatility on the real sector. The Presidential Decree, published in the Official Gazette on September 9, 2018, introduced limits and restrictions regarding contract price and payment liabilities determined and/or to be determined under lease agreements, employment agreements, services agreements and contracts of work. Accordingly, residents in Turkey, except under certain circumstances to be determined by the Ministry, shall not agree contract price in lease of all kinds of movable and immovable properties including purchase and sale of movable and immovable, vehicle and financial leasing, leasing, and any other payment liabilities arising from the foregoing agreements executed between Turkish residents, in foreign currency or indexed to foreign currency. It was also told that contract prices denominated in foreign currency under the existing agreements will be re-determined in Turkish Lira within 30 days.

New solutions for the real sector...

The pressure on the firms, whose equity capital melted due to the developments in exchange rates and faced with the technical insolvency risk, will be mitigated along with the measures taken. In the Official Gazette on September 15, it was stated that it will be possible for the losses arising from foreign currency liabilities which are not fulfilled yet, may not be taken into consideration until January 1, 2023.

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