

	26-Apr 03-May Change				26-Apr 03-May Change		
BIST-100 Index	94,783	93,946	-0.9 % ▼	EUR/USD	1.1148	1.1200	0.5 % ▲
TRY 2 Year Benchmark Rate	20.92%	22.87%	195 bp ▲	USD/TRY	5.9372	5.9531	0.3 % ▲
Turkey 5-Year CDS	458	435	-23 bp ▼	EUR/TRY	6.6178	6.6828	1.0 % ▲
MSCI EM Equity Index	1,078	1,083	0.4 % ▲	Gold (USD/ounce)	1,286	1,279	-0.5 % ▼
US 10-Year Bond Rate	2.50%	2.53%	3 bp ▲	Brent Oil (USD/barrel)	71.3	71.4	0.2 % ▲

bp: basis point

Last week employment figures released in the US posted a strong outlook; however, weakening signs in production and consumption data were the focus of attention. Growth concerns over China's economy became prominent whereas first-quarter GDP growth in the Euro Area exceeded estimates. Data released in Turkey demonstrated that contraction in foreign trade deficit and manufacturing activity has continued. While CBRT kept its inflation forecasts unchanged in this year's second Inflation Report, consumer inflation in April was realized below the expectations. This week, inflation data releases in the US and China as well as trade negotiations between these countries will be high on the global markets' agenda. Domestic markets, on the other hand, will focus on political and geopolitical developments.

#### Data releases in the US portrayed a mixed picture for the economy.

Data releases last week gave mixed signals for the US economy, which posted a strong growth figure in the first quarter. In April, nonfarm payroll data surpassed the expectations with 263 thousand persons increase, while unemployment rate decreased to 3.6%, lowest level for the last 49 years. In this period, increase in average hourly earnings came in below forecasts. On the other hand, while deceleration in core PCE caused demand-side concerns, the worst performance of ISM manufacturing PMI in April for the last 2 years raised supply-side concerns.

In its meeting last week, Fed left its policy rate unchanged at 2.25-2.50% in line with expectations. Fed minutes stated that economy and labor market remained strong in general; however, consumption and investment expenditures lost momentum in the first quarter of the year. In addition, it was expressed in the statement that core CPI has declined. Fed Chairman Powell stressed that the decline in core inflation in the first quarter of the year might be due to temporary factors. Powell's statement supported market opinions that Fed would not cut interest rates in the near future.

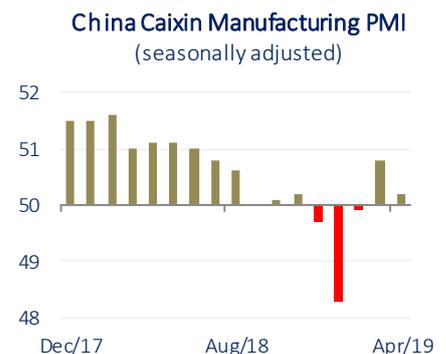
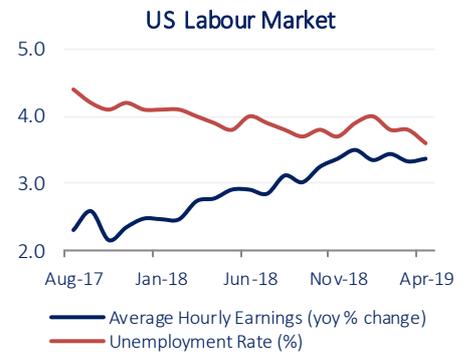
#### Better-than-expected growth in Euro Area...

According to preliminary growth data, Euro Area economy grew by 1.2% exceeding estimates. Unemployment rate in the Area also declined to 7.7% in March. In April, core CPI increased by 1.2%, above market expectations. High reading of the core CPI has been evaluated by markets as a sign that the deceleration in the economic growth might have come to a halt.

#### Rising concerns over slowdown in Chinese economy...

Lower-than-expected-PMI data in April indicated that the production activities slowed down in Chinese economy. US President Trump's announcement about tariffs on his social media account on May 5 raised concerns that the ongoing trade negotiations, which are expected to end this week, may fail. Trump announced that they plan to increase the tariff on the 200 billion USD imported product from China to 25% from 10% and to introduce new taxes on imports of 325 billion USD in the case of a disagreement in trade talks.

These developments raised concerns about the growth rate of Chinese economy, which was 6.4% in the first quarter of 2019, might lose momentum in the second quarter of the year.



Source: Datastream

### Contraction in foreign trade deficit continues.

In Turkey, exports decreased by 0.4% yoy in March while imports contracted by 17.8% yoy. Having decreased by 63.7%, the foreign trade deficits shrunk for the tenth consecutive month ([Our Foreign Trade Balance report](#)). In the first quarter of the year, the share of high-tech products in the manufacturing industry exports was realized at 3.6%.

### Manufacturing PMI declined in April.

Turkey's manufacturing PMI, which is the leading indicator for industrial production, declined to 46.8 in April. During this period, slowdown in new orders and production continued while input costs rose rapidly. The increase in new export orders also lost momentum in April. The latest data indicates that manufacturing activity contracted for 13 consecutive months.

### In April, CPI inflation came in below the expectations.

In April, monthly CPI came in at 1.69%, below market expectations. In this period, monthly D-PPI increase was 2.98%. Thus, while annual CPI declined to 19.5% in April, annual D-PPI inflation increased to 30.12% ([Our Inflation report](#)).

### CBRT has published the Inflation Report.

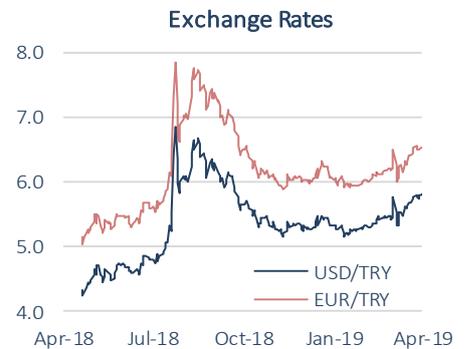
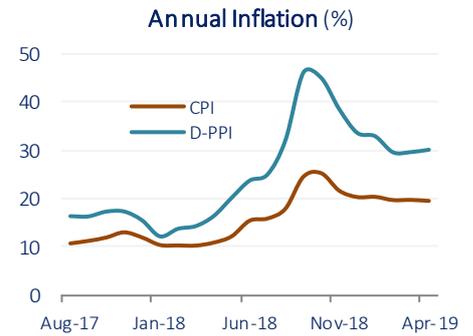
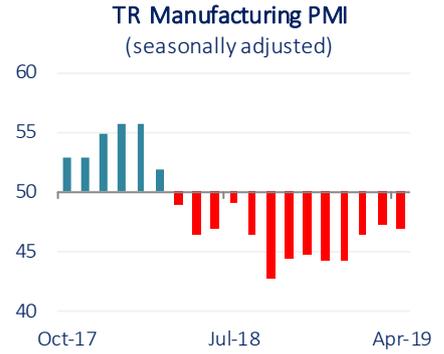
In the second Inflation Report of 2019, CBRT kept inflation forecasts for 2019 and 2020 at 14.6% and 8.2%, respectively. In the report, it is stated that although the hikes in unprocessed food and Turkish lira-denominated import prices affected the inflation forecasts upwards, it is expected that the improvement in the underlying trend of inflation, widening of the output gap and the downward revision to the administered price hikes offset these upward effects.

### Negative outlook in domestic markets...

The domestic markets, which had four trading days due to the May 1 official holiday last week, displayed an unfavorable course in general. In addition to the uncertainties regarding relations with the US and the electoral process in Istanbul elections, concerns about CBRT reserves were influential in this development. BIST-100 index decreased by 1% compared to the previous week, while the compound interest rate of the 2-year benchmark bond increased by 195 basis points. The depreciation of TL against USD and EUR slowed but continued.

### This week's agenda...

This week, inflation data of the US and China and the developments regarding the trade negotiations between two countries will be on global markets' agenda. In domestic markets, there is no significant data flow this week. Political and geopolitical developments, especially the decision about the Istanbul elections and the relations with the US will be followed.



### Data Releases

		Period	Consensus	Prior
<b>06.May</b>	Euro Area Retail Sales, yoy	March	1.9% (A)	3.0%
<b>07.May</b>	Germany Factory Orders, mom	March	0.3%	-4.2%
<b>08.May</b>	Domestic Debt Redemption (TRY 84 million)	May	-	-
	Germany Industrial Production, mom	March	-0.7%	0.7%
	China Foreign Trade Figures	April	-	-
<b>09.May</b>	US Core PPI, yoy	April	2.5%	2.4%
	China CPI, yoy	April	2.5%	2.3%
<b>10.May</b>	US Core CPI, yoy	April	2.1%	1.9%
	UK GDP Growth (preliminary), yoy	Q1 2019	1.4%	1.4%

(A) Actual

Source: Datastream, Turkstat

## Sectoral Developments

### **Tourism income rose in the first quarter.**

Turkstat figures revealed that the number of departing visitors increased by 8.5% yoy to 6.45 million persons in the first quarter of 2019. Tourism income also went up by 4.6% yoy in this period. Average expenditure of visitors was realized as 697 per capita, which is 26 USD below the average amount recorded in the first quarter of 2018.

### **The slowdown in the automotive market continues.**

According to Automotive Distributors' Association, passenger car and light commercial vehicle market shrank by 56% yoy in April. In this period, passenger car sales declined by 56% to 24,416 while light commercial vehicle sales went down by 59% to 6,555. Consequently, total market contracted by 48% in the first four months of the year.

### **Economic confidence recovered in April.**

Turkey's economic confidence index rose by 3.4% mom in April to 84.7 thanks to the increases in consumer, real sector and services indices. Nevertheless, deterioration in the confidence of retail trade and construction sectors limited the gains in overall economic confidence.

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## Economic Research Division

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İzlem Erdem  
Chief Economist  
izlem.erdem@isbank.com.tr

PhD. Dođan Őengöl  
Asst. Manager  
dogan.sengul@isbank.com.tr

Alper Gurler  
Unit Manager  
alper.gurler@isbank.com.tr

Aslı Őat Sezgin  
Economist  
asli.sat@isbank.com.tr

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