

	10-May	17-May	Change		10-May	17-May	Change
BIST-100 Index	88,533	86,796	-2.0 % ▼	EUR/USD	1.1233	1.1156	-0.7 % ▼
TRY 2 Year Benchmark Rate	24.36%	26.10%	174 bp ▲	USD/TRY	5.9757	6.0540	1.3 % ▲
Turkey 5-Year CDS	484	485	1 bp ▲	EUR/TRY	6.7262	6.7535	0.4 % ▲
MSCI EM Equity Index	1,033	996	-3.6 % ▼	Gold (USD/ounce)	1,286	1,277	-0.7 % ▼
US 10-Year Bond Rate	2.46%	2.39%	-6 bp ▼	Brent Oil (USD/barrel)	71.5	73.6	3.0 % ▲

bp: basis point

The failure to reach a deal in trade negotiations between the US and China and the new protectionist measures taken by these two countries caused concerns about trade wars to remain on the agenda last week. The data released in China showed a negative picture for the second quarter of the year. Oil prices increased due to the rise in geopolitical tensions. While the contraction in industrial production in Turkey was slowing down, employment indicators remained weak. Deterioration in central government budget continued in April.

Developments regarding trade war were closely monitored last week.

Against the US's decision to raise the tariffs on 200 billion USD worth of Chinese exports from 10% to 25% on May 10, Chinese Government announced to impose additional tariffs on 60 billion USD worth of US goods starting from June 1. The new tariffs will be around 5-25% and covers more than 5,000 US products. Despite trade negotiations between the US and China being at a deadlock, US President Trump said US and China had a very good dialogue and the negotiations between two country did not collapsed. Trump announced that he would meet with Chinese President Xi at G-20 summit in June, hoping that the meeting will be productive.

The US Department of Commerce added Chinese telecommunications company Huawei to the blacklist, giving national security risk as the main reason. Huawei will need a US government license to buy American technology under this order. On the other hand, Trump administration delayed auto and auto part import tariffs by 6 months.

Chinese economy made a weak start to the second quarter.

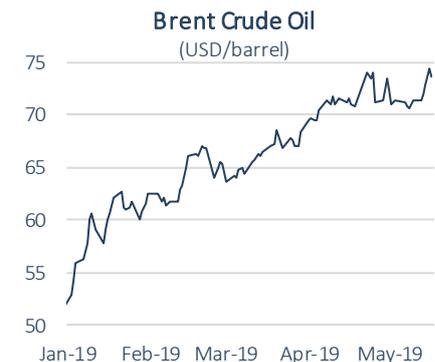
Having grown above expectations in the first quarter, Chinese economy seems to have difficulty in maintaining this performance in the second quarter. Annual rise in Industrial production decreased in April after reaching the highest level in 4.5 years in March. Retail sales rose in slowest pace since 2003, continuing the momentum loss. Parallel with the poor outlook of industrial production and domestic demand, investment expenditures continued to remain weak during this period.

Oil prices are increasing.

Increasing geopolitical tensions support oil prices upward. In addition to the concern that the tensions between US and Iran could escalate, series of attacks on tankers and gas stations in the Middle East affected the oil prices. Therefore, Brent crude oil prices increased by 3% to 73.6 USD/barrel.

Contraction in industrial production is losing momentum.

Calendar-adjusted industrial production in March contracted by 2.2% on a yearly basis, showing a better-than-expected outlook. In this period, production in 13 of the 24 sub-sectors in the manufacturing industry declined on a yearly basis. As of the first quarter of the year, the contraction in industrial production was 4.8%. In the last quarter of 2018, industrial production declined by 7.8%. Following an increase in January and February,



Source: Datastream

seasonally and calendar adjusted industrial production also increased by 2.1% in March.

Unemployment rate was 14.7% in February.

The weakness in economic activity continues to weigh on labor market performance. According to the data released by Turkstat, unemployment rate increased by 4.1 points compared to the previous year and became 14.7%. In this period, while employment fell by 811 thousand on an annual basis, the number of unemployed people increased by 1.4 million and reached a historic high level of 4.7 million people. It was noteworthy that the decline in employment in construction and industry sectors gained momentum in February. Youth unemployment rate, which was at a record high level in the previous period, declined to 26.1% in February.

Deterioration in budget indicators continued.

Central government budget deficit registered an annual increase of 566% in April and became 18.3 billion TRY. This increase was largely due to the fall in portfolio revenues of Treasury since the yearly transfer of the CBRT's profit to the budget was realized in January this year instead of April as in the previous years. The rise in expenditures also pushed the budget deficit upwards ([Our Budget Balance Report](#)).

The decision to impose tax on some foreign currency transactions...

According to a Presidential decree published in the Official Gazette, the bank and insurance transaction tax (BSMV) is maintained as 0% in the foreign exchange sales of banks and authorized institutions to each other, sales to the Treasury and sales by banks to a borrower related to repayment of FX loans. BSMV in other foreign exchange transactions is raised to 0.1%.

Financial markets...

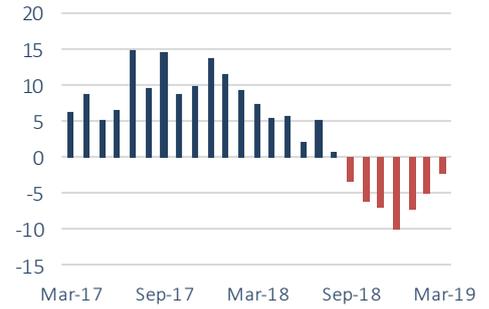
Domestic markets, which have been under significant pressure since March, displayed a relatively quiet outlook last week. BIST-100 index decreased by 2% on a weekly basis, while TL depreciated by 1.3% and 0.4% against USD and EUR, respectively. 2-year benchmark compound interest rate completed the week at 26.1%.

This week's agenda...

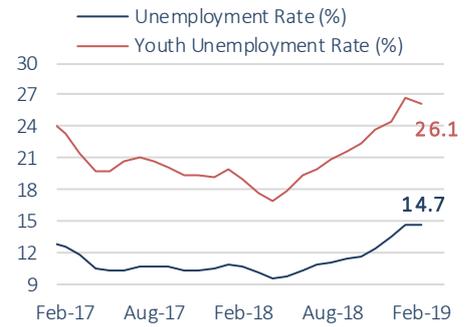
Trade wars between the US and China will remain at the forefront of global markets this week. The tension between the US and Iran will also be closely monitored.

Industrial Production Index

(ca, %, yoy)

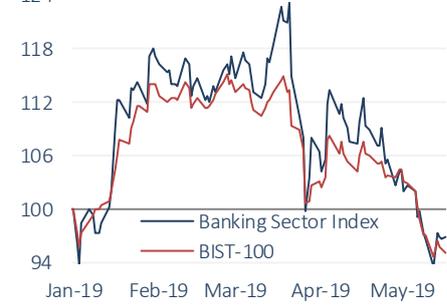


Labor Market Indicators



BIST-100 and Banking Index

(index, 12/31/2018=100)



Data Releases

		Period	Consensus	Prior
21-May	TR Consumer Confidence	May	-	63.5
	TR Central Government Debt Stock	April	-	1,162 billion TRY
	US Existing Home Sales, annual % change	April	2.6%	-4.9%
22-May	TR Treasury Debt Redemption	May	1.6 billion TRY	-
	UK CPI, annual % change	April	2.2%	1.9%
	Fed Minutes	May	-	-
23-May	TR Capacity Utilisation Ratio	May	-	75.0%
	TR Real Sector Confidence Index	May	-	105.5
	EA Manufacturing PMI, flash	May	48.1	47.8
	ECB Minutes	May	-	-
	US Manufacturing PMI, flash	May	52.7	52.4
	US New Home Sales	April	680 thousand units	692 thousand units
24-May	US Durable Good Orders, monthly % change	April	2.0%	2.7%

Source: Datastream, Turkstat

Sectoral Developments

House sales kept declining in April.

In Turkey, house sales declined by 18.1% yoy and came in at 84,403 units in April. Mortgage sales decreased by 61.3% in this period, while other sales posted a limited contraction by declining 2.1% compared to same period of last year. The annual decreases in house sales in Istanbul, Ankara and Izmir were 11.1%, 27.4% and 25.3%, respectively. House sales to foreigners, which were 2,043 units in April 2018, realized as 3,720 units in same month of this year.

In March 2019, residential property price index (RPPI), which was announced by CBRT, increased by 0.40% mom. RPPI increased by 3.45% in nominal terms on an annual basis and decreased by 13.58% in real terms. In Istanbul, house prices recorded an annual decrease of 1.70%. Prices posted annual increases of 1.77% and 4.12% in Ankara and İzmir, respectively.

Retail sales volume contracted by 3.8% yoy.

Calendar adjusted retail sales volume decreased by 3.8% in March compared to the same month of the previous year. In this period, food, beverages and tobacco sales decreased by 0.6%, non-food (excluding automotive fuel) and automotive fuel sales decreased by 5.4% and 4.1%, respectively. On the other hand, seasonal and calendar adjusted retail turnover at current prices increased by 3% in March 2019 compared to the previous month.

US lowered the custom duties on steel products from Turkey.

US lowered the duties, which were imposed on imported steel products from Turkey, to 25% from 50%. US had increased the tariffs on imported steel products from 25% to 50% in August 2018. Turkey's iron and steel exports to US declined by 88% to 24.9 million USD in the first quarter of 2019 compared to the same period of 2018. The mentioned rise in tariffs is considered to play a significant role in this decline.

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