

	31-May	7-Jun	Change		31-May	7-Jun	Change
BIST-100 Index	90,590	93,809	3.6 % ▲	EUR/USD	1.1167	1.1331	1.5 % ▲
TRY 2 Year Benchmark Rate	24.97%	22.90%	-207 bp ▼	USD/TRY	5.8372	5.8300	-0.1 % ▼
Turkey 5-Year CDS	484	470	-14 bp ▼	EUR/TRY	6.5304	6.6070	1.2 % ▲
MSCI EM Equity Index	998	1,007	0.9 % ▲	Gold (USD/ounce)	1,305	1,340	2.7 % ▲
US 10-Year Bond Rate	2.14%	2.08%	-6 bp ▼	Brent Oil (USD/barrel)	66.5	64.6	-2.8 % ▼

bp: basis point

Last week, the World Bank lowered its global growth forecasts. Macroeconomic data released in the US supported the expectations of a rate cut from Fed before the end of this year. While the signs of slowdown in the Euro Area and Chinese economies strengthened, developments related to trade wars remained on the agenda. Turkish economy recovered from technical recession by growing 1.3% qoq in the first quarter of 2019. Domestic markets which was closed for 3.5 days due to the eid holiday have over-performed its peers with positive expectations on US-Turkey relations. Among the heavy data flow this week, markets will focus on CBRT's meeting.

World Bank lowered its global growth forecast.

In the World Bank's Global Economic Outlook Report, global economic growth forecast for 2019 was revised downwards from 2.9% to 2.6%. Trade volume and investments below expectations were cited as the main reasons for the downward revision. Increasing impact of trade wars, possible financial fluctuations in developing countries and the possibility of a sharp slowdown of growth in developed countries were listed as important risk factors for growth.

Expectations of a rate cut from Fed this year are strengthened.

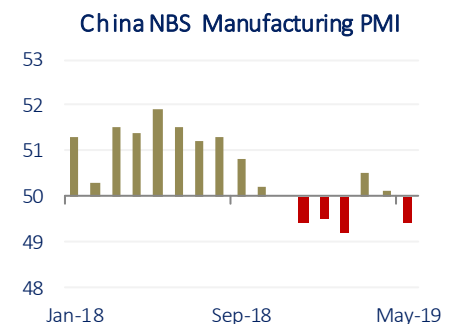
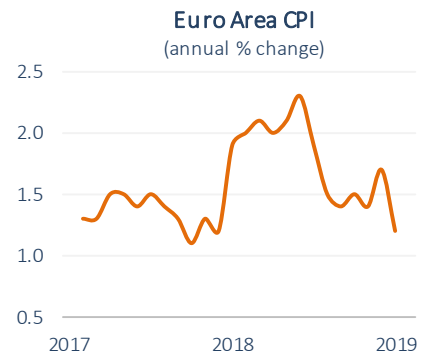
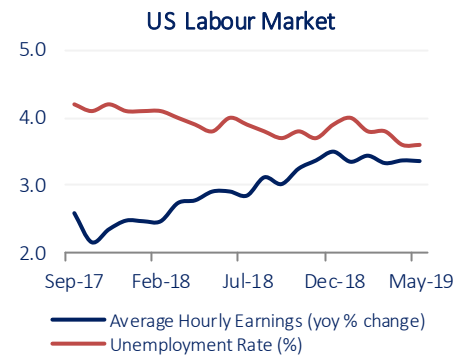
First-quarter GDP growth of the US economy was revised from 3.2% to 3.1%. Rising 1.0% mom in this period, core PCE data confirmed the weak outlook for inflation. Factory orders that declined in April and ISM manufacturing PMI which had the lowest value for 2.5 years in May, also showed a decrease in investment expenditures in the second quarter of the year. In May, the increase in non-farm employment remained well below expectations with 75K, while the annual increase in average hourly wages declined to 3.1%. Unemployment rate in the country maintained its 3.6% level. Latest data releases, in an environment where the concerns about global trade increases, have strengthened the expectations that the Fed might cut interest rates before the end of the year. Last week, the US dollar depreciated in global markets.

Economic data in Euro Area displayed a negative outlook.

Consumer inflation and retail sales displayed a negative outlook for domestic demand in the Euro Area, while manufacturing PMI data which remained below the threshold level pointed out the continued weakness in production activity. The European Central Bank, keeping interest rates on hold at its June meeting, announced that interest rates are not planned to be changed until at least mid-2020. Increasing the 2019 growth forecast for the Euro Area from 1.1% to 1.2%, ECB reduced the 2020 growth forecast from 1.6% to 1.4%.

Official data in China indicated a contraction in production.

The official PMI data in China fell to 49.4 in May, indicating a contraction in the manufacturing industry. Reflections of trade wars on manufacturing industry through export orders, raised concerns that growth might lose momentum in the second quarter.



Source: Datastream

Turkish economy recovered from technical recession.

In the first quarter of 2019, Turkish economy contracted by 2.6% compared to the same period of the previous year, according to the chain-linked volume index. On the other hand, according to seasonally and calendar adjusted figures, Turkish economy grew by 1.3% qoq in January-March period and recovered from technical recession ([Our GDP Growth report](#)).

Foreign trade deficit kept contracting.

In April, exports increased by 4.6% yoy while imports decreased by 15.1% yoy. Thus, foreign trade deficit was realized at 3 billion USD, narrowing by 55.6% compared to the same period of the previous year. According to preliminary foreign trade data, Turkey's exports increased by 12.2% yoy to 16 billion USD in May ([Our Foreign Trade Balance report](#)).

CPI inflation came in below expectations in May.

In May, while CPI increased by 0.95% mom, it came down to 18.71% on annual basis. Prices of all main expenditure groups excluding food and non-alcoholic beverages and furnishings increased on a monthly basis. Annual D-PPI inflation dropped to 28.71% in the same period ([Our Inflation report](#)).

The manufacturing industry continues to lose momentum.

PMI, the leading indicator of industrial production, fell to 45.3 in May. While the depreciation in TRY had a negative impact on input costs and domestic demand, the slowdown in export orders, originating from Europe especially, was remarkable in this period.

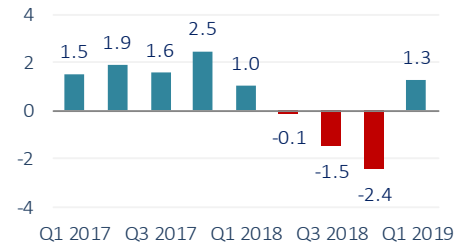
Positive trend in domestic markets...

Domestic markets, which were closed 3.5 days because of eid holiday last week, had a positive outlook with the effect of optimistic expectations about the future of US-Turkey relations. USD/TRY, which fell as low as to 5.66 on Wednesday, when the markets were closed, completed the week at 5.83. With the impact of the improvement in risk perception, Turkey's 5-year CDS risk premium decreased 14 basis points to 470.

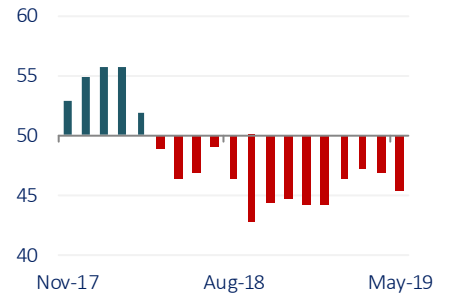
This week's agenda...

Having a busy agenda, industrial production and inflation data are prominent in the global markets this week. On the domestic front, markets will focus on balance of payments data and CBRT's interest decision.

Seasonally and Calendar Adjusted GDP
(qoq % change)



TR Manufacturing PMI



Exchange Rates



Data Releases

Date	Item	Period	Consensus	Prior
10-Jun	TR Zero Coupon Bond Issuance	June	-	-
	TR CPI Indexed Bond Issuance	June	-	-
11-Jun	UK GDP Growth, mom	April	-	-0.1%
	TR Fixed Coupon Bond Issuance (Re-open)	June	-	-
12-Jun	TR Floating Coupon Bond Issuance (Re-open)	June	-	-
	CBRT Meeting and Interest Rate Decision	June	-	24%
13-Jun	TR Treasury Debt Redemption (9.9 billion TRY)	June	-	-
	US CPI, yoy	May	1.9%	2.0%
	China CPI, yoy	May	2.7%	2.5%
14-Jun	Euro Area Industrial Production, mom	April	-0.3%	-0.3%
14-Jun	TR Balance of Payments	April	-	-
	US Industrial Production, mom	May	0.1%	-0.5%
	US Retail Sales, mom	May	0.6%	-0.2%
	China Industrial Production, yoy	May	5.5%	5.4%

Source: Datastream, Turkstat

Sectoral Developments

Number of visitors to Turkey has increased.

According to Culture and Tourism Ministry figures, number of foreign visitors to Turkey has increased by 24% yoy in April. In January-April period, annual rise in number of visitors was realized as 12.2%. During this period, top 5 countries sending most visitors to Turkey were Germany, Bulgaria, Russia, Iran and Georgia respectively. In the first four months, the increase in the number of visitors from Russia lost pace, while visitors from Iran declined by 35% yoy.

Destocking in the housing market will probably take 3 years.

Industry experts estimate that destocking in the Turkish housing market will probably take 3 years. Considering the demographic structure in the country, it is estimated that average housing demand in one year is around 650K. As well as new demand arising from demographics, slowdown in construction activities is expected to help destocking in the market.

Economic confidence deteriorated in May.

Turkstat figures revealed that economic confidence index has deteriorated in May by declining 8.5% mom to 77.5. After rising for 4-consecutive months, economic confidence worsened mainly because of the sharp decline in consumer confidence. In May, confidence in construction and services sectors also posted significant declines.

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