

	14-Jun	21-Jun	Change		14-Jun	21-Jun	Change
BIST-100 Index	90,787	94,022	3.6 % ▲	EUR/USD	1.1207	1.1366	1.4 % ▲
TRY 2 Year Benchmark Rate	22.67%	19.92%	-275 bp ▼	USD/TRY	5.9005	5.8204	-1.4 % ▼
Turkey 5-Year CDS	481	444	-37 bp ▼	EUR/TRY	6.6135	6.6163	0.0 % ▲
MSCI EM Equity Index	1,015	1,053	3.8 % ▲	Gold (USD/ounce)	1,341	1,399	4.3 % ▲
US 10-Year Bond Rate	2.09%	2.07%	-3 bp ▼	Brent Oil (USD/barrel)	63.0	65.9	4.6 % ▲

bp: basis point

Fed and ECB's shift towards policy easing spurred global risk appetite last week. The confirmation of Trump-Xi meeting in G-20 summit also provided relief to global markets while growing US-Iran tensions erased some of the gains. Along with the rate cut projection by the Fed, US bond yields and dollar remained under downward pressure. A weakening dollar boosted emerging currencies. Commodity prices, particularly gold prices, recorded a rapid rise. Last week, Turkey had a heavy data calendar. Industrial production made a weaker-than-expected start to the second quarter and consumer confidence remained at historically low levels in June.

Dovish statements from Fed and ECB...

In its monetary policy meeting last week, Fed left its policy rate unchanged in line with market expectations. On the other hand, significant revisions are observed in the statement and projections due to trade war concerns and weak inflation outlook. Fed dropped the reference of being "patient" on interest rates and the wording that sluggish inflation are temporary. Although Fed members' median policy rate projections do not see any rate cuts for 2019, the members expect one rate cut in 2020. Also, it is noted that a majority of the policymakers expect a lower interest rate by the end of 2019. The March projections had signaled that FOMC members expected no change in the policy rate in 2019 and one hike in 2020.

ECB President Draghi also signaled a new monetary stimulus, strengthening the optimistic expectations about global liquidity. In his speech last week, Draghi said that additional monetary stimulus might be necessary if there is no improvement in the Euro Area's economic outlook and if inflation does not move towards the target. Last week, the monetary policy meetings of the Bank of Japan (BoJ) and the Bank of England (BoE) were also followed. While BoJ stated that global risks have increased, BoE's downward revision of its second quarter growth forecast was noteworthy.

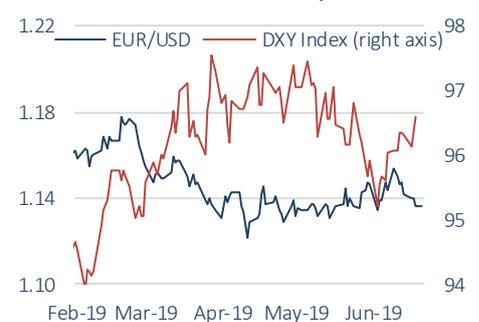
Positive mood in global markets, the US dollar under downward pressure...

ECB President Draghi's monetary easing signal and the shift in the Fed's policy towards a more accommodative stance led global markets to have a bullish week. The announcement that the US and Chinese Presidents will meet at the G20 summit also supported the global risk appetite in the first days of the week. The MSCI world stock index finished the week with a 2.2% rise despite the decline recorded on Friday as US-Iran tensions increased. Rapid depreciation of the US dollar and rising tensions between the US and Iran put upward pressure on commodity prices. Gold prices rose last week by 4.3% to 1,399 USD/ounce. The monthly rise in gold prices is close to 10%. Due to strengthening expectations for the Fed's interest rate cuts, the US 10-year Treasury bond yields fell to below 2% in intraday trading on June 20, the lowest level since November 2016.

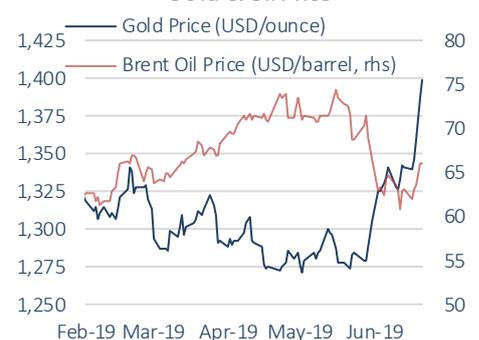
Fed Officials' Median Projections for 2020 (%)



DXY Index & EUR/USD



Gold & Oil Price



Source: Fed, Datastream

Data on the second quarter showed a weak outlook in Turkey last week.

Last week, data on the second quarter generally portrayed a weak picture for the Turkish economy. In April, calendar adjusted industrial production fell by 4% yoy, faster than expected. The declines in manufacturing industry output and the mining-quarrying sector were behind this development. In this period, the fall in the production of intermediate goods and capital goods deepened. Seasonally and calendar adjusted industrial production decreased by 1% mom. Following the rapid decline in May, consumer confidence index recovered slightly in June. However, the index remained at historically low levels of the current series.

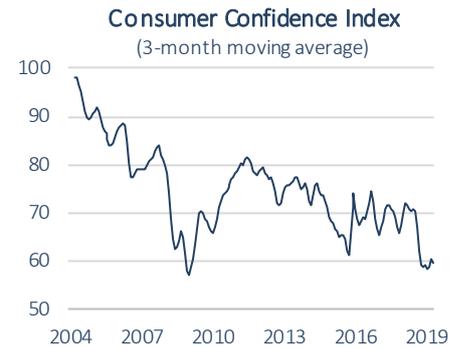
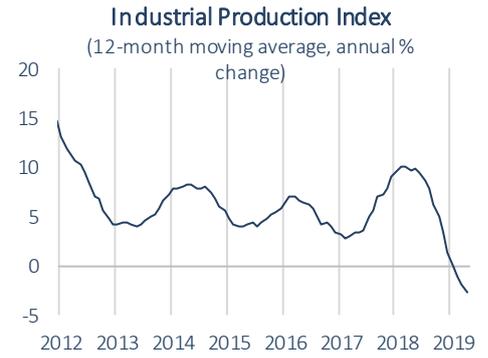
Central government budget and unemployment figures were also closely monitored. The budget, which posted a surplus of 2.7 billion TL in May 2018, posted a deficit of 12.1 billion TL in the same period this year. Tax revenues declined due to the tax incentives and weak domestic demand ([Our Budget Balance report](#)). Seasonally adjusted unemployment rate hit its highest level since May 2009 with 13.7% in the March period covering February, March and April, while youth unemployment rate rose to 25.7%.

Local markets...

Parallel to the increase in global risk appetite, domestic markets displayed a positive outlook last week. The 5-Y CDS premium fell to its lowest level since mid-April on Thursday with 428 basis points during the day. While BIST-100 index increased by 3.6% on a weekly basis, the 2-year benchmark bond fell by 275 basis points. As announced by the CBRT last Monday, primary dealer banks were provided with liquidity at an interest rate of 100 basis points below the policy rate via overnight repo, with respect to the limits. Then, the weighted average funding cost declined to 23.80%.

On the agenda this week...

A heavy data flow as well as G-20 summit and US-Iran tensions will be monitored this week. In Turkey, real sector confidence and capacity utilization ratio have been released today. They have pointed to a limited recovery. The impact of the last weekend's Istanbul election redo results is also in focus.



Data Releases

		Period	Consensus	Prior
June 24	Real Sector Confidence Index	June	-	102.5 (A)
	Manufacturing Industry Capacity Utilization Ratio	June	-	77.1% (A)
June 25	US Consumer Confidence Index	June	132.0	134.1
	US New Home Sales	May	680 k	673k
June 26	US Durable Goods Orders	May	0.2%	-2.1%
June 27	US GDP (final)	Q1	3.1%	3.1%
	US Initial Jobless Claims	17/22 June	-	216 k
	US Pending Home Sales	May	-	-1.5%
	Economic Confidence Index	June	-	77.5
June 28	UK GDP	Q1	-	0.5%
	Euro Area Inflation (flash)	June	1.2%	1.2%
	US Chicago PMI	June	54.3	54.2
	US Personal Consumption Expenditures Inflation	May	-	1.5%
	Foreign Trade Balance	May	-	-3 billion USD

(A) Actual

Source: CBRT, Datastream, Turkstat

Sectoral Developments

House sales contracted by 31.3% yoy in May.

House sales declined by 31.3% yoy in May and became 82,252 units. New house sales fell by 39.2% yoy during this period while existing house sales shrank 24.4% yoy. Mortgage sales decreased by 85.8% yoy while other sales, which has a share of 94% in total sales as of May, posted a contraction of 7% compared to same period of last year.

Residential property price index increased by 2.57% yoy in April.

According to data released by CBRT, residential property price index (RPPI) increased by 0.7% mom in April. RPPI increased by 2.75% yoy in nominal terms and declined by 14% yoy in real terms. In nominal terms, house prices in İstanbul recorded an annual fall of 2% while those in Ankara and İzmir posted annual rises of 1.3% and 3%, respectively.

Construction cost index continued its rapid expansion.

The rise in construction costs remained at elevated levels. According to data released by Turkstat, construction cost index went up by 1.6% mom and 26.4% yoy in April. In this period, the annual rises in both material and labor sub-indices were comparable to the rise in the overall index. Construction costs for buildings and civil engineering also increased at comparable rates.

Automotive sales fell by 54.7% yoy in May.

Automotive sales registered an annual contraction of 54.7% Automotive production declined by 7.9% yoy to 136,517 units. The annual fall in the first five months of the year became 12.1%. Automobile exports shrank by 9.3% yoy to 356,200 units in January-May period while the fall in commercial vehicles exports was limited with 2.1% yoy.

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