

	12-Jul	19-Jul	Change		12-Jul	19-Jul	Change
BIST-100 Index	97,098	101,849	4.9 % ▲	EUR/USD	1.1269	1.1220	-0.4 % ▼
TRY 2 Year Benchmark Rate	18.97%	17.68%	-129 bp ▼	USD/TRY	5.7081	5.6531	-1.0 % ▼
Turkey 5-Year CDS	410	371	-39 bp ▼	EUR/TRY	6.4455	6.3450	-1.6 % ▼
MSCI EM Equity Index	1,051	1,057	0.6 % ▲	Gold (USD/ounce)	1,415	1,425	0.7 % ▲
US 10-Year Bond Rate	2.11%	2.05%	-6 bp ▼	Brent Oil (USD/barrel)	66.7	61.3	-8.1 % ▼

bp: basis point

Last week, dovish Fed and ECB expectations drove global markets. Economic data from the US has painted a mixed picture for world's largest economy. Against a backdrop of growing concerns over global growth, the Chinese economy recorded its slowest growth in 27 years in the second quarter. In Turkey, the deterioration in the central government budget continued in June. Labor indicators also remained weak in April. This week, CBRT and ECB meetings will be followed by the markets.

Easing signals from Fed and ECB...

Fed Chair Powell said that they would consider the potential impact of the slowdown in global growth and the growing concerns about trade wars on economic activity and inflation in the US while taking appropriate steps to sustain economic growth. St. Louis and New York Fed Chairs' statements last week raised expectations that a strong interest rate cut would be on the agenda during the Fed's meeting at the end of this month. Markets are predicting a rate cut on July 31 while uncertainty about the size of the cut continues. That said, a 25 basis points rate cut is regarded as more likely.

ECB Board member Coeure stated that they are ready to use all tools available so that the ECB will continue to progress towards its inflation target. ECB is expected to implement a new monetary stimulus in the coming period due to the low inflation and weak economic activity.

Rate cuts in emerging economies...

In addition to the central banks of advanced economies, central banks in emerging economies are loosening their monetary policies. The negative impact by the trade wars, especially on the Asian economies, is behind this development. Central banks of South Korea, Indonesia, South Africa and Ukraine decided to cut interest rates during last week.

Economic activity in the US...

Data released last week presented a mixed outlook for the US economy. Industrial production did not change in June compared to the previous month against limited increase expectations. In the same period, retail sales increased better-than-expected by 0.4% on a monthly basis and gave positive signals regarding consumption expenditures. Jobless claims for the week of July 8-13 were recorded in line with expectations at 216K people, pointing out that positive outlook in labor market has persisted.

Chinese economy grew by 6.2% in the second quarter.

Chinese economy registered the lowest growth rate of the last 27 years with 6.2% in the second quarter. This development has reinforced the expectations that monetary policy will be more expansionary in the coming period.

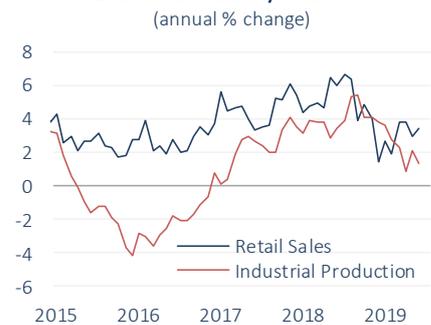
Budget deficit was at historical high in the first half of the year.

Central government budget deficit was realized as 12.1 billion TRY in June. In this

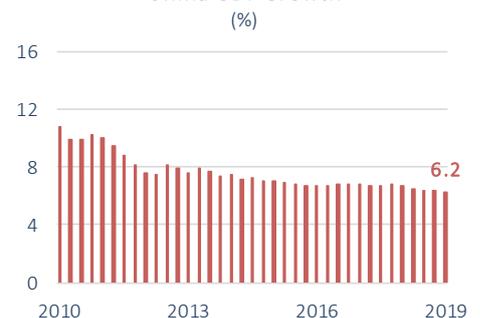
Global Stock Markets



Economic Activity in the US



China GDP Growth



Source: Fed, Datastream

period, budget revenues increased by 7.6% yoy while budget expenditures decreased by 12.5% yoy. The relatively weak performance of budget revenues in the first half of the year led central government budget deficit to increase by 70.5% yoy. Thus, budget deficit in the first half of the year was realized at historical high with 78.6 billion TRY ([Budget Balance Report](#)).

Unemployment rate reached the highest level in 10 years.

Seasonally adjusted unemployment rate rose to 13.8% in April, the highest in 10 years, while the youth unemployment rate was 25.5%. According to seasonally adjusted figures, the number of persons employed decreased in the agriculture, construction and services sectors, whereas it increased in industrial sector.

Inflation expectation for the year-end fell to 15%.

According to the CBRT's Survey of Expectations in July, year-end inflation expectations decreased from 15.85% to 15%. While USD/TRY expectation for 2019 dropped from 6.30 to 6.14, policy interest rate is expected to gradually decline by around 550 bps over the next 6 months. GDP forecast for 2019 suggests a contraction of 0.02% in the economy.

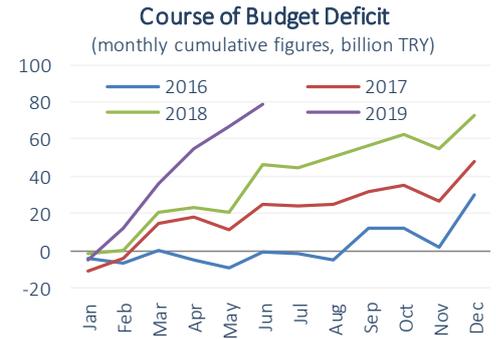
Financial markets...

Major central banks that have sent easing signal in monetary policies supported global stock markets in the last week. However, adverse effects of trade tensions on corporate earnings put downward pressure on the markets.

Last week, geopolitical developments remained high on the agenda of domestic markets. US President Trump, who announced that they would stop the sales of the F-35 fighter jets to Turkey after the decision to accept delivery of the S-400 air defense systems in the last week, has not been clear on placing sanctions against Turkey. On the other hand, the optimism in global markets and interest rate-cut expectations by the CBRT supported the domestic markets. The BIST-100 index rose by 4.9% on weekly basis, while the 2-year benchmark bond yield fell by 129 basis points to 17.68%. Turkish lira appreciated against the US dollar and the euro.

This week's agenda...

This week, US GDP data for the second quarter and flash PMI figures for manufacturing industry will be followed in global markets. In addition, ECB's monetary policy meeting on Thursday will be monitored closely. In Turkey, geopolitical developments and CBRT's meeting come to the forefront.



Data Releases

		Period	Consensus	Prior
23-Jul	US Existing Home Sales	June	5.3 million unit	5.3 million unit
	Euro Area Consumer Confidence, flash	July		-7.2
	TR Consumer Confidence	July		57.6
24-Jul	US New Home Sales	June	0.7 million units	0.6 million units
	US Markit Mgf PMI, flash	July	51.4	50.6
	Euro Area Manufacturing PMI, flash	July	47.6	47.6
	TR Treasury Debt Redemption	July	1.6 million TRY	
25-Jul	US Durable Goods	June	%0.7	-%1.3
	ECB Meeting	July	-	-
	CBRT Meeting	July	-	-
26-Jul	US GDP, advance	Q2	%1.8	%3.1

(A) Actual

Source: Datastream

Sectoral Developments

Housing market remained weak.

Housing market continued to display a weak outlook. According to data released by TURKSTAT, house sales decreased by 48.6% yoy in June to 61,355 units. In this period, mortgage sales dropped by 84.6%, while other sales fell by 24.7%. The number of house sold for the first time decreased by 59.2% yoy to 23,265 units, while second-hand house sales decreased by 38.9% to 38,090 units. On the other hand, the strong course of foreigners' demand continued in this period.

The sharp decline in house demand mirrored in house prices. Residential property price index (RPPI), which was released by CBRT, increased by 1.6% yoy in nominal terms and decreased by 14.4% in real terms.

Retail sales volume continued to contract.

Retail sales volume continued to present a negative outlook due to the weakness in economic activity. Calendar adjusted retail sales volume decreased by 3.7% in May compared to the same month of the previous year. During the same period, calendar adjusted retail turnover index increased by 15.6% yoy, coming in below inflation.

Automotive production decreased by 13% yoy in the first half of the year.

According to data released by the Automotive Manufacturers Association, total automotive production fell by 13% yoy in the first half of the year to 735 thousand units. Automobile production declined by 12% yoy in the first half of the year, while production in commercial vehicles continued to decrease mainly due to the contraction in the domestic market. In the first six months of 2019, automotive and automobile exports declined by 8% yoy and by 9% yoy, respectively.

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