

	09-Aug	16-Aug	Change		09-Aug	16-Aug	Change
BIST-100 Index	99,405	95,734	-3.7 % ▼	EUR/USD	1.1198	1.1089	-1.0 % ▼
TRY 2 Year Benchmark Rate	15.22%	15.55%	33 bp ▲	USD/TRY	5.4907	5.5775	1.6 % ▲
Turkey 5-Year CDS	382	411	29 bp ▲	EUR/TRY	6.1495	6.1851	0.6 % ▲
MSCI EM Equity Index	981	970	-1.1 % ▼	Gold (USD/ounce)	1,497	1,514	1.1 % ▲
US 10-Year Bond Rate	1.73%	1.54%	-19 bp ▼	Brent Oil (USD/barrel)	57.4	59.1	3.0 % ▲

bp: basis point

Signs of slowdown in the global economic activity and developments related to trade wars remained on the global market's agenda last week. The inversion of the bond yield curves in the developed countries, which is considered as a leading indicator of an upcoming recession, increased growth concerns while the volatility in the global markets rose significantly due to the deterioration in risk appetite. In Turkey, where the slowdown in economic activity continued to be observed in industrial production and labor market data, central government budget posted a surplus thanks to the transfer of CBRT's reserve fund into the budget revenues. Domestic markets, which were open for the last two days of the week due to the holidays, also remained under pressure.

US economic data drew a mixed picture.

Last week, the yield of US 30-year bonds fell below 2% during the day to a historic low, while the yield of 10-year bonds fell below than the yield of 2-year bonds for the first time in 12 years. This movement in the yield curves increased recession concerns in the economy.

Data releases on the other hand, drew a mixed picture for the US economy. While industrial production declined in July, contrary to expectations, retail sales data which recorded the highest increase in the last four months, supported the expectations consumption expenditures will continue to support growth in the third quarter. On the other hand, Michigan consumer confidence index, which declined rapidly in August due to increasing concerns over trade wars and recession, pointed out that consumer demand may display a fragile outlook in the coming period.

Weak economic outlook continues in the Euro Area...

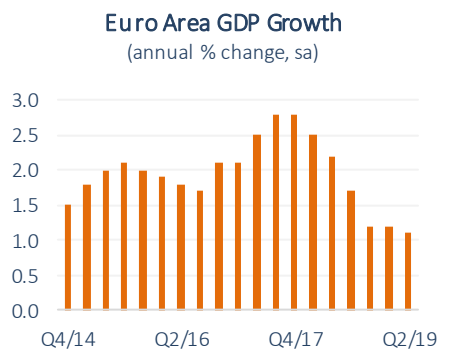
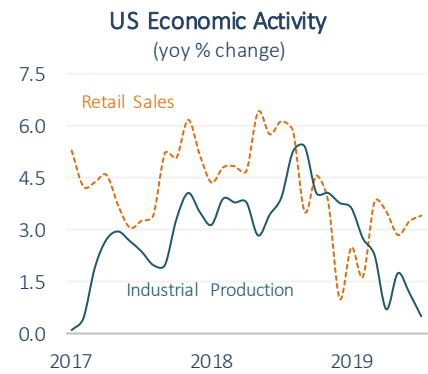
Euro Area economies continued to provide a weak outlook. According to latest figures, German economy contracted by 0.1% qoq in the second quarter. Hence, Europe's largest and the world's fourth-largest economy shrank in the second quarter due to the negative effects of the problems taking place in the automotive industry, ongoing trade wars and uncertainties about Brexit on exports. In this period, 0.2% qoq growth in the Euro Area was in line with expectations, however annual growth fell to 1.1%.

Uncertainty rises in US-China trade negotiations...

After the US government's announcement that proposes a delay for the implication of 10% additional tariff on 300 billion USD worth of imports from China (only for certain products) until December, the Chinese administration stated that necessary measures will be taken in response. In addition, the fact that US President Trump emphasized that a possible agreement should meet the conditions of the United States and Trump's refers to trade negotiations while criticizing China's Hong Kong policy, increased uncertainty regarding the future of trade talks.

Signs of slowdown in Chinese economy...

Industrial production in China increased by 4.8% yoy in July, posting the slowest rise in the last 17 years. In this period, annual rise in retail sales also remained below the expectations. Picturing a weak outlook, both data were considered as the signs of negative effects arising from ongoing trade wars on country's economic growth. China's government is expected to support its economy in



Source: Datastream

the coming period. In this context, the Central Bank of China aims to reduce borrowing costs by changing the method of determining the landing rates.

In Turkey, budget posted surplus in July.

Central government budget posted a surplus of 9.9 billion TRY in July. In this period, budget revenues increased by 51.1%, while budget expenditures rose by 37.6%. The transfer of CBRT's reserve funds to budget revenues was effective on the improvement of budget balance ([Our Budget Balance Report](#)).

Unemployment rate realized as 12.8%.

The unemployment rate rose by 3.1 points yoy to 12.8% in the period of May 2019. Seasonally adjusted unemployment rate also increased by 0.2 points, becoming 14%. Employment in all main economic activities; agriculture, industry, construction and services; decreased in this period. Due to the slowdown in economic activity, employment decreased by 519 K in construction, 302 K in agriculture and 123 K in industry in the last one year.

Contraction in industrial production came in above expectations.

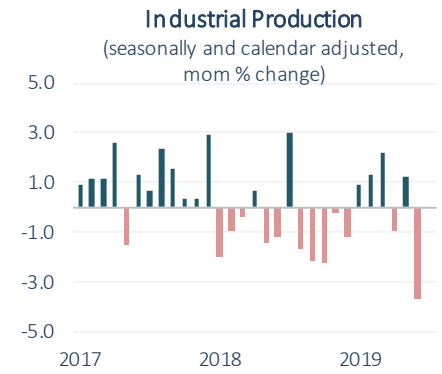
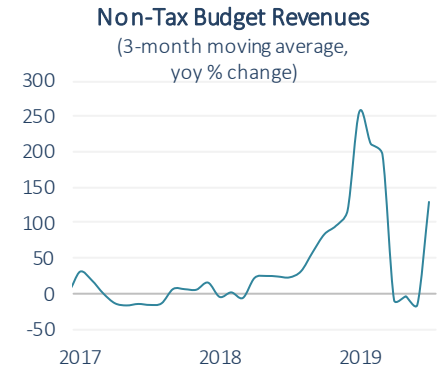
In June, calendar adjusted industrial production fell by 3.9% yoy. Seasonally and calendar adjusted industrial production decreased by 3.7% mom in this period. In the manufacturing industry, the decline of production in 18 sub-sectors out of 24 drew attention. The weak course of industrial production indicated that the expected recovery in economic activity in the second half of the year might be slower than previous forecasts.

Volatile course in the markets...

Last week risk appetite deteriorated due to the increased concerns over global economic growth. Domestic markets, which remained closed for 3 days at the beginning of the week due to the eid holiday, were also under sales pressure. While BIST-100 index fell by 3.7% wow, USD/TRY which tested the levels below 5.50 before the holiday closed last week at 5.58.

This week's agenda...

This week, PMI data in the US and Euro Area came to the forefront on global markets data agenda. Minutes of the Fed and ECB's August meetings and Fed President Powell's speech at Jackson Hole on Friday are also expected to be closely monitored. In the domestic front, main focus will be on consumer demand indicators and housing market data.



Data Releases

		Period	Consensus	Prior
August 19	TR Retail Sales Volume, yoy	June	-1.2%(A)	-3.7%
	Treasury 13M Zero Coupon Bond Issuance	August	-	-
	Treasury 6Y Floating Coupon Bond Issuance	August	-	-
August 20	Euro Area CPI, mom	July	-%0.5(A)	0.2%
	TR House Sales, yoy	July	-	48.6%
	Treasury 2Y Lease Certificate Issuance	August	-	-
August 21	Treasury 5Y CPI Indexed Bond Issuance	August	-	-
	TR House Price Index, yoy	June	-	1.6%
	TR Domestic Debt Redemption (3.7 billion TRY)	August	-	-
August 22	US Existing Home Sales, mom	July	-0.2%	-1.7%
	Fed Minutes	August	-	-
	TR Consumer Confidence Index	August	-	56.5
	US Markit Manufacturing PMI (flash)	August	51,0	50,4
	Euro Area Markit Manufacturing PMI (flash)	August	46.3	46.5
August 23	Euro Area Consumer Confidence (flash)	August	-6.8	-6.6
	ECB Minutes	August	-	-
	US New Home Sales, mom	July	6.0%	7.0%

(A) Actual

Source: Datastream, Ministry of Treasury and Finance, Turkstat

Sectoral Developments

Contraction in white goods and furniture market continues.

White Goods Manufacturers' Association of Turkey figures revealed that white goods sales in the domestic market fell by 31% yoy in July. Exports of white goods increased by 1% yoy in this period. Hence, annual rate of contraction in the domestic market became 12% in January-July 2019. As recent VAT discount period terminated by the end of June, furniture sales also went down in July. According to industry officials' remarks, some of the companies in the sector faced up to 20-25% contractions in their July sales.

Ferrous and non-ferrous metals sector keeps growing with exports.

Increasing its exports by 3.5% yoy in July, ferrous and non-ferrous metals sector keeps searching for alternative markets. This sector aims to overcome the negative effects of recent trade barriers from the US and Europe by diversifying its exports markets especially in Africa and Asia. In spite of the above-mentioned negative effects, US-China trade disputes create an opportunity window for Turkey to increase its exports to US market. In fact, Turkey's exports of ferrous and non-ferrous metals to US were up by 47% in the first 7 months of the year. According to the figures of Istanbul Ferrous and Non-Ferrous Metals Exporters' Association, highest exports to the US market were recorded in aluminum flats and foils.

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