

	30-Aug	6-Sep	Change		30-Aug	6-Sep	Change
BIST-100 Index	96.718*	98,987	% 2.3 ▲	EUR/USD	1.0989	1.1027	0.3 % ▲
TRY 2 Year Benchmark Rate	%16,49*	15.81%	-68 bp ▼	USD/TRY	5.8296	5.7145	-2.0 % ▼
Turkey 5-Year CDS	432*	384	-48 bp ▼	EUR/TRY	6.4000	6.3027	-1.5 % ▼
MSCI EM Equity Index	984	1,008	2.4 % ▲	Gold (USD/ounce)	1,520	1,507	-0.9 % ▼
US 10-Year Bond Rate	1.51%	1.55%	4 bp ▲	Brent Oil (USD/barrel)	61.1	62.1	1.6 % ▲

bp: basis point  
(\* ) As of August 29

The news that the US and China will resume negotiations in October partly relieved trade war concerns and provided a boost to global risk appetite in the second half of last week. As the UK Parliament passed the law to stop no-deal Brexit, sterling gained value. The US dollar, on the other hand, lost some strength. Last week, data on the global economy displayed a mixed picture while positive surprises in Turkey's inflation and growth figures supported equity and bond markets. CBRT and ECB meetings will be at the top of the agenda this week.

### Trade negotiations between US and China will continue in October.

Trade war developments was high on the global markets' agenda. Following confusing statements made by Trump on relations with China earlier in the week, news that the trade talks will continue supported the markets. MSCI world stock index, which fell at the beginning of the week, recovered and turned positive on Wednesday thanks to US markets' robust performance.

### Data releases regarding global economic activity presented a mixed outlook.

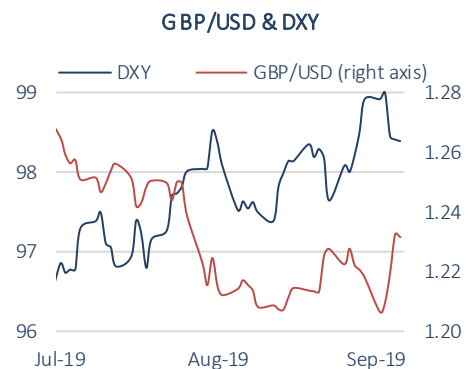
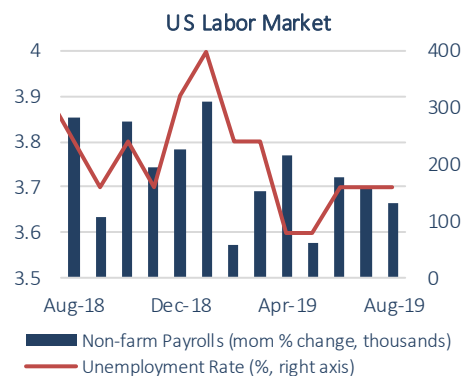
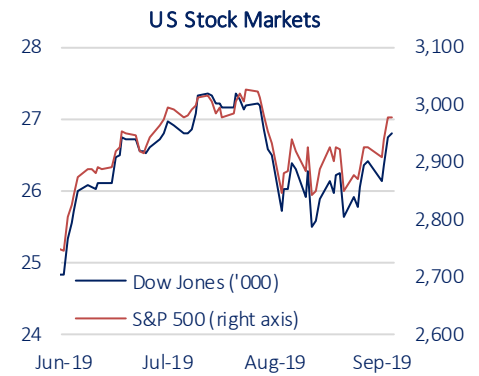
US manufacturing ISM fell below the 50 threshold for the first time in three years in August, signaling a contraction. In this period, increase in nonfarm payrolls remained below expectations with 130K persons. On the other hand, ISM non-manufacturing index and factory orders presented a positive outlook. Industrial production in Germany decreased by 0.6% mom in July, missing market expectation of a 0.3% rise. This development strengthened the recession fears in Germany. Retail sales in Euro Area fell by 0.6% in this period, driven by the sharp declines in Germany and Belgium. In China, where the concerns about the slowdown due to ongoing trade war rise, services PMI rose by 0.5 points to 52.1 in August compared to the previous month. However, exports in China fell unexpectedly in the same period.

### Accommodative monetary policies...

While expectations that Fed will cut interest rate by 25 bps at its meeting on September 17-18 remain strong, it is being speculated that ECB is considering on a possible rate cut, change in guidance and a support mechanism to protect banks from negative interest rates ahead of its upcoming meeting this week. While Kuroda, the governor of the Bank of Japan, said that it is among policy options to further lower negative interest rates, Central Bank of China continued to support the economy by lowering reserve requirement ratio by 50 bps.

### UK Parliament rejected "no-deal Brexit" option.

While UK Parliament passed a bill in order to prevent "no-deal Brexit" on October 31, it rejected UK Prime Minister Boris Johnson's call for an early election. Having lost majority in the Parliament after six weeks in the office, Prime Minister Johnson is considered to be in a difficult situation. Parliament's actions, on the other hand, had a positive impact on sterling. GBP/USD reached 1.2353 on Thursday, the highest level since July.



Source: Datastream

### The contraction in trade deficit continues albeit losing momentum.

According to provisional data released by the Ministry of Trade, the contraction in the foreign trade deficit continued in August, albeit with a momentum loss. During this period, exports and imports increased by 1.5% and 1.1%, respectively. Thus, the foreign trade deficit fell by 0.9% yoy to 2.5 billion USD.

### In August, inflation was below the expectations...

Monthly increase in CPI was 0.86% in August, lower than the market expectation of 1.3%. Domestic PPI, on the other hand, decreased by 0.59% in this period. Annual CPI and D-PPI increases became 15.01% and 13.45%, respectively. Contributions of alcoholic beverages, tobacco and housing to CPI were noteworthy. Core inflation indicators also recovered in August.

In August, for the first time since September 2016, TL appreciated in real terms on both monthly and annual basis. In this period, CPI-based real effective exchange rate increased by 2.6% mom and by 16.7% yoy to 76.8. In September 2018, the index had fallen to its historic low of 62.5.

### Limited recovery in risk appetite towards Turkish lira assets...

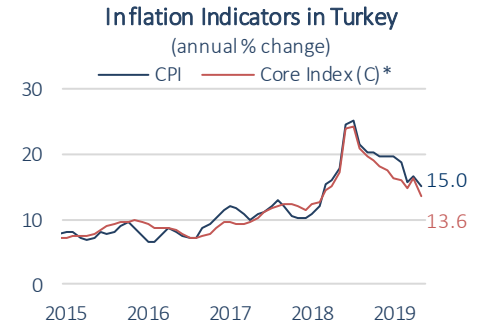
5-year CDS spread, an indicator for risk perception towards Turkey, decreased by 48 bps on a weekly basis to 384 on Friday, thanks to better-than-expected GDP and inflation figures. As the interest rate cut expectations strengthened, the 2-year benchmark bond yield declined by 68 bps to 15.81%. Although the BIST-100 index declined in the last two days of the week, it closed the week with a gain of 2.3%. FX rates had a volatile course. Starting the week at 5.83, USD/TRY dropped to as low as 5.63 and started to rise in the aftermath and ended Friday at 5.71.

### This week's agenda...

This week, domestic markets focus on CBRT's meeting on Thursday, while the global markets will be watching ECB's meeting on the same day. Domestic markets will keep eyes on CBRT's Survey of Expectations today, and industrial production and balance of payments statistics on Friday. This week, industrial production in the Euro Area and retail sales in the US will be monitored closely.

### Provisionary Trade Data

(billion USD)	August		Δ (%)
	2018	2019	
Exports	12.3	12.5	1.5
Imports	14.8	15.0	1.1
<b>FTD</b>	<b>-2.5</b>	<b>-2.5</b>	<b>-0.9</b>
Coverage Ratio	83.3	83.6	-



### Data Releases

		Period	Consensus	Prior
<b>September 09</b>	Euro Area Sentix Index	September	-14.0	-11.7 (A)
	TR CBRT Survey of Expectations Year-end Inflation	September	-	13.96% (A)
<b>September 10</b>	China CPI (annual change)	August	2.6%	2.8%
<b>September 11</b>	TR Treasury Debt Redemption (2.1 billion TRY)	-	-	-
<b>September 12</b>	US CPI (annual change)	August	1.8%	1.8%
	US Core CPI (annual change)	August	2.3%	2.2%
	US Jobless Claims	2-7 September	-	217 bin
	Euro Area Industrial Production (monthly change)	July	-0.1%	-1.6%
	ECB Meeting	September	-	-
<b>September 13</b>	TR CBRT Monetary Policy Committee Meeting	September	-	-
	US Retail Sales (monthly change)	August	0.2%	0.7%
	US Michigan Consumer Confidence Index (flash)	September	90.7	89.8
	TR Turkstat Industrial Production (annual change)	July	-	-3.9%
	TR CBRT Current Account Balance	July	-	-0.5 billion USD

(A) Actual

(\*) CPI excluding energy, food and nonalcoholic beverages, alcoholic beverages, tobacco and gold

Source: Datastream, Ministry of Treasury and Finance, Turkstat

## Sectoral Developments

### Contraction in automobile and light vehicle sales lost speed in August.

Having declined 66% in July, local automobile and light vehicle sales contracted by 24% in August and became 26,246 units. This was the 17th consecutive annual fall. The number of sales was 56% lower than the sales of 10-year average for August (60,018 units). The year-to-date fall in automobile and light vehicle sales lost steam and stood at 46% yoy.

### The rebound in new construction orders...

The sector report of the Association of Turkish Construction Material Producers revealed that construction material production fell by 20.3% yoy in the first half of the year, despite the rise in exports. The production declined in all 22 sub-sectors. On the other hand, the report suggested that the recent rebound in new construction orders pointed to the improving performance of the sector. New construction orders increased month-over-month in August for two months in a row.

### New investments under the Project-based Incentive Scheme...

Last week, the five investment projects, unmanned aerial vehicle (İstanbul), high-grade steels and super-alloy materials (Bursa), propylene manufacturing (Adana), photovoltaic solar panel production (Ankara), wind tunnel facility (Ankara) were included in the Project-based Investment Scheme. A total of 3,000 persons will be employed in these projects. Minister of Industry and Technology, Mustafa Varank, stated that the five investment projects will amount to 14 billion TRY and reduce foreign trade deficit by 1.4 billion USD.

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