

	6-Sep	13-Sep	Change		6-Sep	13-Sep	Change
BIST-100 Index	98,987	103,072	4.1 % ▲	EUR/USD	1.1027	1.1073	0.4 % ▲
TRY 2 Year Benchmark Rate	15.81%	15.33%	-48 bp ▼	USD/TRY	5.7145	5.6851	-0.5 % ▼
Turkey 5-Year CDS	384	378	-6 bp ▼	EUR/TRY	6.3027	6.2876	-0.2 % ▼
MSCI EM Equity Index	1,008	1,027	1.9 % ▲	Gold (USD/ounce)	1,507	1,488	-1.2 % ▼
US 10-Year Bond Rate	1.55%	1.90%	35 bp ▲	Brent Oil (USD/barrel)	62.1	61.2	-1.5 % ▼

bp: basis point

Ahead of the next round of trade war negotiations between the US and China, the two countries' statements to ease the tensions affected the global markets positively last week. European Central Bank (ECB) decided to expand monetary policy after a long interval. In Turkey, the CBRT continued to cut policy rates rapidly. On the other hand, leading indicators for the third quarter indicate that the weakness in domestic economic activity continues, albeit lost some momentum.

Statements to ease the tension before the negotiations between US and China...

Last week, global markets followed the steps taken by the US and China to ease tensions in the trade war. China initially announced that it would exempt 16 different products from additional tariffs for a period of one year, and later announced that it extended the scope of exemption. As a "gesture of good will", US government positively responded to this decision by delaying a planned increase in its 25% tariff on 250 billion USD of Chinese goods from October 1st to October 15th. Chinese Vice Premier Liu He said that Chinese and USA officials will meet next week to discuss trade balance, access to markets and investor protection. As these developments released some of the built-up trade tensions, rise in risk appetite led to increases in stock exchange market indices. Moreover, news that China will announce new measures to alleviate negative effects of trade wars also supported the markets.

Core inflation in the USA is on the rise...

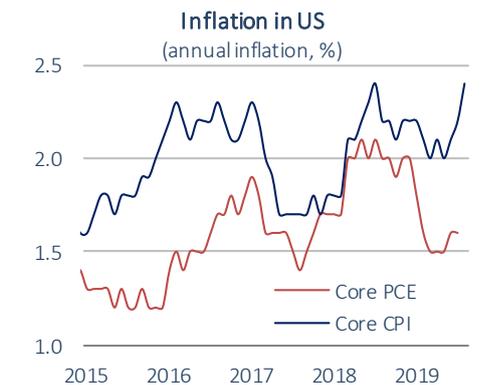
Annual CPI inflation in the US was 1.7% in August, in line with expectations. On the other hand, core CPI inflation excluding energy and food prices climbed to an 11-year high with 2.4%. US retail sales also remained strong in this period. While the data released attracted attention before the Fed's meeting on September 17-18, expectations that the Fed will continue to cut interest rates remain strong.

Expansionary policies from ECB...

At ECB's meeting last week, the interest rate on the deposit facility was decreased by 10 basis points to -0.50% and asset purchase programme was restarted with a monthly pace of 20 billion euro as from 1 November. ECB expects decisions to run for as long as necessary. ECB announced that part of banks' holdings of excess liquidity will be exempt from the negative deposit facility rate, and for banks whose eligible net lending exceeds a benchmark, the rate applied in TLTRO III operations will be lower, and can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. The maturity of the operations will be extended from two to three years. In addition, ECB revised down its economic growth forecasts for 2019 and 2020 along with inflation forecasts for 2019, 2020 and 2021. ECB estimates that the Euro Area economy will experience a growth rate of 1.1% in 2019 and inflation will be 1.2% at the end of 2019.

Sharp increase in oil prices.

Brent oil price per barrel, which closed at 61.2 USD last week, started this week above 65 USD due to attacks on Saudi Arabia's oil production facilities on Saturday.



ECB Projections

	September Forecasts		Difference with June	
(%)	2019	2020	2019	2020
GDP	1.1	1.2	-0.1	-0.2
Unemployment	7.7	7.5	0.0	0.0
HICP	1.2	1.0	-0.1	-0.4
Core HICP*	1.1	1.2	0.0	-0.2

(*) HICP excluding energy and food

Source: Datastream

CBRT cut rates by 325 bps.

In the monetary policy meeting held on September 12th, CBRT lowered the policy rate (one-week repo auction rate) 325 bps from 19.75% to 16.50%. Emphasizing the declining trend in inflation, the press release indicated that the current monetary policy stance, to a large part, was considered to be consistent with the disinflation path. This statement was interpreted as the CBRT would continue to cut interest rates gradually for the rest of the year.

Contraction in the industrial production is losing pace.

Calendar adjusted industrial production index fell by 1.2% yoy in July, yet posted the best performance in 11 months. In this period, decline in production has slowed down remarkably. Considering the figures on a monthly basis, recovery in industrial production became more obvious. Seasonally and calendar adjusted production rose by 4.3% mom, growing by the fastest in almost 3 years. In this period, the production in 21 out of 24 sub-sectors of the manufacturing industry has increased.

Recovery in current account continues.

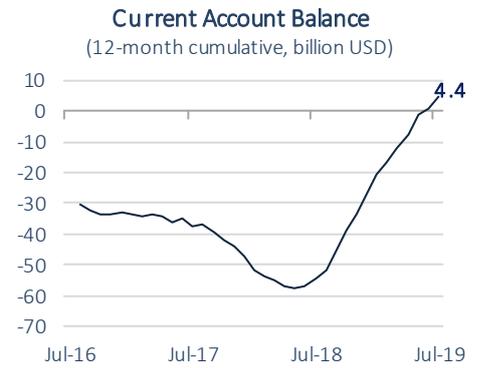
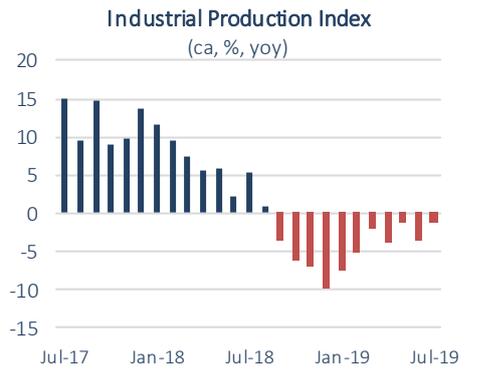
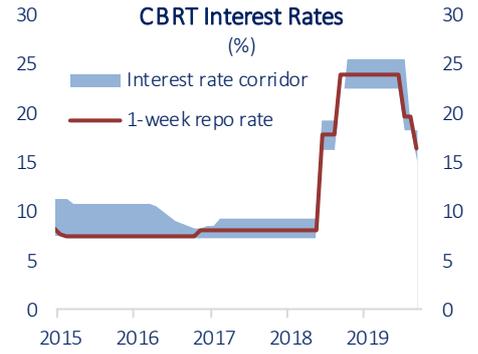
Slowdown in economic activity continued to take its toll on the current account balance in July. Current account balance, which posted a deficit of 2.2 billion USD in July last year, posted a surplus of 1.2 billion USD in the same month of this year. 12-month cumulative current account balance, which has been improving since mid-2018, reached its highest level since January 2002, with a surplus of 4.4 billion USD. Excluding net energy imports, 12-month current account surplus reached 41 billion USD which is a historically high level ([Our Balance of Payments report](#)).

Financial markets...

Last week, easing of tensions in the trade war had a positive impact on domestic markets. In addition, the CBRT's interest rate cut, which was realized in line with expectations, also supported TL denominated assets. Benchmark BIST-100 index rose by 4.1% to 103,072 points on a weekly basis, the compound interest rate of the 2-year benchmark bond decreased by 48 basis points to 15.33%. USD/TL was close to 5.80 before the CBRT meeting and ended the week at 5,6851, while EUR/TL closed at 6,2876.

This week's agenda...

The Fed meeting this week stands out at the top of the agenda of global markets. In addition, developments related to the trade wars and the attacks on Saudi Arabia's oil production facilities will be closely monitored.

**Data Releases**

		Period	Consensus	Prior
16 Eylül	TR Unemployment Rate	June	13.0% (A)	12.8%
	TR Balance of Budget	August	576 million TRY (A)	9.9 billion TRY
	Treasury 2Y Bond Reissuance	September	-	-
	Treasury 5Y CPI Indexed Bond Reissuance	September	-	-
17 Eylül	Treasury 13M Zero Coupon Bond Issuance	September	-	-
	Treasury 6Y Floating Coupon Bond Reissuance	September	-	-
	US Industrial Production, mom	August	0.2%	-0.2%
18 Eylül	TR Domestic Debt Redemption (4.5 billion TRY)	September	-	-
	Fed FOMC Meeting and Interest Rate Decision	September	-	-
	Eurozone HICP, monthly, final	August	0.2%	-0.5%
19 Eylül	BoE Meeting and Interest Rate Decision	September	-	-
	US Existing Home Sales	August	5.38 million units	5.42 million units
20 Eylül	TR Consumer Confidence	September	-	58.3
	TR Central Government Debt Stock	August	-	1,215.8 billion TRY

(A) Actual

Source: Datastream, Turkstat

Sectoral Developments

Retail sales continued to narrow.

Retail sales began the third quarter with decline. Calendar adjusted retail sales volume decreased by 3.7% yoy in July. In this period, food, drinks and tobacco sales decreased by 1%, non-food sales excluding automotive fuel shrank by 4.5% and automotive fuel sales diminished by 5%. Seasonally and calendar adjusted retail sales volume also decreased by 1.5% compared to the previous month. In terms of product groups, the sales of electronic goods and furniture posted the highest fall in both monthly and annual terms in July indicates that demand for durable goods has not recovered yet.

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