

	21-Aug	28-Aug	Change		21-Aug	28-Aug	Change
BIST-100 Index	1,110	1,101	-0.8% ▼	EUR/USD	1.1795	1.1903	0.9% ▲
TRY 2 Year Benchmark Rate	13.33%	13.21%	-12 bp ▼	USD/TRY	7.3365	7.3329	0.0% ▼
Turkey 5-Year CDS	545	523	-22 bp ▼	EUR/TRY	8.6551	8.7296	0.9% ▲
MSCI EM Equity Index	1,092	1,122	2.7% ▲	Gold (USD/ounce)	1,939	1,964	1.3% ▲
US 10-Year Bond Rate	0.64%	0.73%	9 bp ▲	Brent Oil (USD/barrel)	44.4	45.1	1.6% ▲

bp: basis point

Last week, the speech of Fed Chair Powell at the Jackson Hole symposium was at the top of the agenda in global markets. After Fed Chairman Powell announced the new framework of the Fed's monetary policy, the US dollar remained under pressure, while long-term US Treasury bond yields increased. On the global stock markets, an upward trend was observed with the support of positive news on vaccination studies and the decrease in tension in US-China relations. Leading indicators announced in Turkey indicated that the recovery in economic activity continues. The weighted average cost of Central Bank funding reached 10.02% last week due to the CBRT's tightening steps. Today, according to data released by TurkStat, Turkey's economy contracted below market expectations by 9.9% yoy in the second quarter of the year. This week, domestic inflation data for August comes to the forefront.

Fed Chair Powell announced the new framework of monetary policy.

In his speech at the Jackson Hole symposium last week, Fed Chair Powell stated that the central bank would focus on economic growth and employment increase in conducting monetary policy. Accordingly, while keeping its long-term inflation rate target at 2%, the Fed will aim to reach this target on an average basis. Powell stated that they could allow inflation to stay above 2% for a while in line with the steps taken by the Fed. Stating that they will not hesitate to take action if excessive inflationary pressures build or inflation rises above the target level, Powell said that they will focus on the strong labor market.

The US economy contracted by 31.7% in the second quarter of 2020.

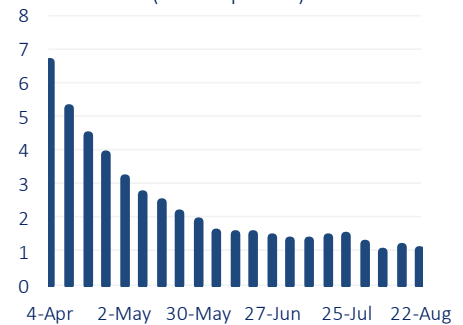
According to the second estimate, the US economy contracted at an annual rate of 31.7% in the second quarter of 2020. It was previously announced that the US economy shrank by 32.9% in this period. In addition to the decrease in private consumption expenditures, the decline in investment expenditures played role in this development. The US economy, which contracted at a record level in the second quarter of the year due to the effect of the measures taken against the pandemic, contracted by 5% in the first quarter.

In August, the consumer confidence index fell to 84.8, the lowest level of the last 6 years, well below the market expectations of 93. On the other hand, new home sales increased by 13.9% mom in July, while durable goods orders increased by 11.2%, far exceeding the market expectations of 4.3%. The increase in durable goods orders since May pointed to a rapid recovery, especially in the automotive sector. Initial claims for unemployment benefit for the week ending August 22 was announced around 1 million, coming in close to expectations. However, the decline in consumption expenditures due to the reduction in government aid pointed to a deceleration in employment growth. Non-farm payroll data for August, which will be announced on September 4, will be closely monitored.

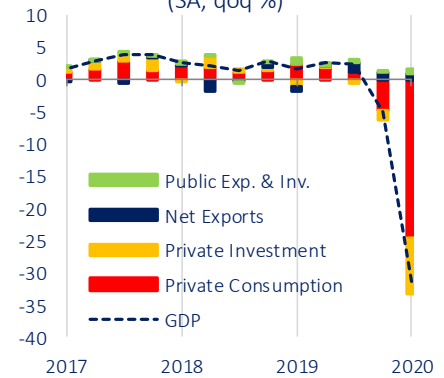
Turkish economy contracted by 9.9% yoy in the second quarter of the year.

Turkish economy, which grew by 4.4% yoy in the first quarter of the year, shrank by 9.9% in the second quarter, below the expectations of 11.8%. Public consumption expenditures and private consumption expenditures decreased by

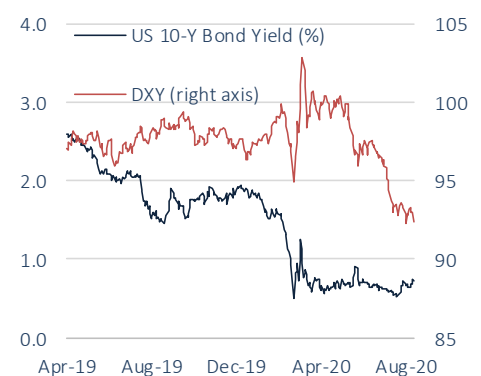
US Initial Jobless Claims
(million person)



US Economic Growth
(SA, qoq %)



US 10-Y Bond Yield and DXY



Source: Datastream

0.8% and 8.6%, respectively. Investment expenditures also fell by 6.1% compared to the same period of the last year. Net export dragged down the growth by 7.8 pps due to the 35.3% fall in exports. Turkey's GDP contracted by 3.1% yoy in the first half of 2020.

Foreign trade deficit fell by 18.2% yoy in July.

In July, exports decreased by 5.8% yoy to 15.1 billion USD, while imports declined by 7.9% yoy to 17.7 billion USD. Foreign trade deficit contracted by 18.2% yoy and became 2.7 billion USD. Thus, in the first seven months of the year, exports fell by 13.7% yoy to 90 billion USD, while imports decreased by 3.9% yoy to 116.6 billion USD. In this period, foreign trade deficit widened by 55.6% yoy and became 26.6 billion USD.

The recovery trend in leading indicators continues.

The real sector confidence index, which exceeded the threshold value with 100.7 in July, increased by 5.5 points yoy and reached 106.2 in August. The seasonally adjusted capacity utilization rate (CUR), which has continued its upward trend since May, increased by 2.3 points compared to the previous month in August and became 73%. The economic confidence index also rose by 4.4% mom in August to 85.9. In this period, the decline in consumer and construction sector confidence was noteworthy.

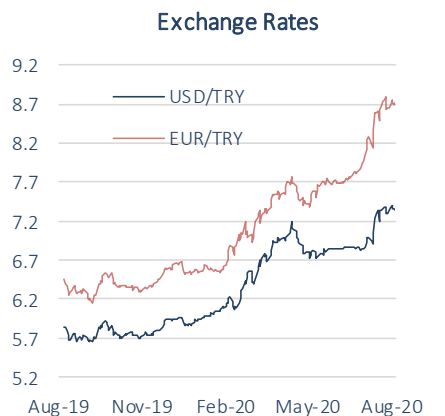
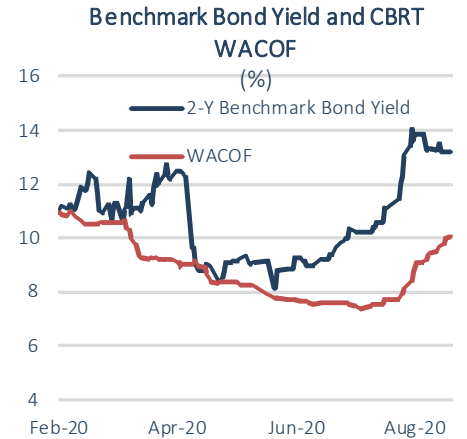
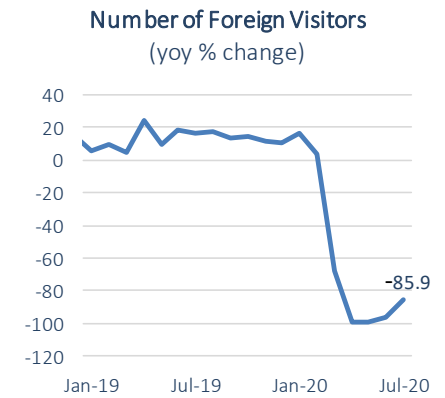
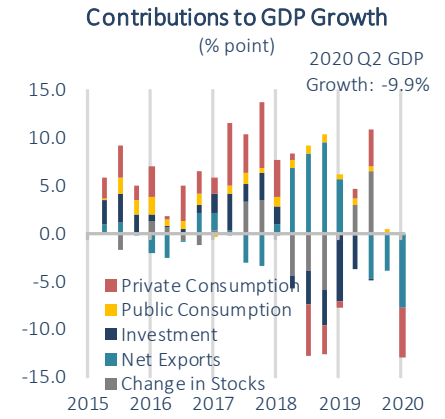
According to data announced by the Ministry of Culture and Tourism, the number of foreign arrivals in Turkey in July became 933 thousand people with a decrease of 86%. The number of foreign visitors in January-July period decreased by 78% compared to the same period of the previous year and became 5.4 million. Hotel Association of Turkey announced that in July, average hotel occupancy rate in Turkey stood at 31.4%, while the said rate became 33% in the first 7 months of the year.

Financial markets...

After the Fed Chair Powell's speech, the yields on US Treasury bonds increased while the US dollar remained under pressure. Last week the news on vaccine development and the easing of tensions between the US-China also supported the global markets. Following a volatile course, gold prices increased by 1.3% on a weekly basis to 1.964 USD/ounce. Brent crude oil price per barrel declined slightly after reaching the highest level of the last 5 months in the past week and completed the week at 45.1 USD.

The weighted average cost of funding surged by 50 basis points last week to 10.02% due to the tightening steps taken by the CBRT. BIST-100 index closed the week at 1.101 points with a flat course. Turkey's 5- year CDS risk premium decreased by 22 bps during the week and became 523 bps. The USD/TRY, which rose to historical high with 7.4161 in the last week, closed the week at 7.33, while EUR/TRY rose to 8.72 with an increase of 0.9%.

This week, manufacturing PMI data that will be announced globally and US non-farm payroll data stand out. While geopolitical developments have been closely monitored, inflation figures to be released on Thursday will be on the focus of domestic markets.



Source: Datastream

Data Releases

		Period	Consensus	Prior
31 August	TR GDP	2020 2Q	-9.9% (A)	4.4%
	TR Trade Balance	July	-2.7 billion USD (A)	-2.8 billion USD
	Germany CPI, prelim yoy	August	0.1%	-0.1%
1 September	TR Manufacturing PMI	August		56.9
	US ISM Manufacturing PMI	August	54.0	54.2
	US Markit Manufacturing PMI, final	August		53.6
	Euro Zone Unemployment Rate	July	8.0%	7.8%
	Euro Zone CPI, prelim yoy	August	0.2%	0.4%
2 September	Euro Zone Markit Manufacturing PMI, final	August	51.7	51.7
	US Factory Orders, mom	July		6.2%
	Euro Zone PPI, mom	July		0.7%
3 September	Germany Retail Sales, mom	July	0.5%	-1.6%
	TR CPI, yoy	August		11.76%
	TR PPI, yoy	August		8.33%
	US Markit Services PMI, final	August		54.8
	US Initial Jobless Claims	24-28 August		1.006 million persons
	Euro Zone Retail Sales, mom	July	1.5%	5.7%
4 September	US Unemployment Rate	August	9.9%	10.2%
	US Nonfarm Payrolls	August	1.550 million persons	1.763 million persons
	Germany Industrial Orders, mom	July	6.2%	27.9%

(A) Actual

Economic Research Division

İzlem Erdem
Chief Economist
izlem.erdem@isbank.com.tr

Hatice Erkiletliođlu
Asst. Manager
hatice.erkiletlioglu@isbank.com.tr

Alper Grlr
Unit Manager
alper.gurler@isbank.com.tr

İlkim Bengisu Tuncer
Asst. Economist
bengisu.tuncer@isbank.com.tr

Our reports are available on our website <https://research.isbank.com.tr>

LEGAL NOTICE

This report has been prepared by Trkiye İř Bankası A.ř. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Trkiye İř Bankası A.ř. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Trkiye İř Bankası A,ř, accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.
