

	28-Aug	4-Sep	Change		28-Aug	4-Sep	Change
BIST-100 Index	1,101	1,086	-1.3% ▼	EUR/USD	1.1903	1.1838	-0.5% ▼
TRY 2 Year Benchmark Rate	13.21%	13.24%	3 bp ▲	USD/TRY	7.3329	7.4331	1.4% ▲
Turkey 5-Year CDS	523	507	-15 bp ▼	EUR/TRY	8.7296	8.8018	0.8% ▲
MSCI EM Equity Index	1,122	1,099	-2.0% ▼	Gold (USD/ounce)	1,964	1,932	-1.6% ▼
US 10-Year Bond Rate	0.73%	0.72%	-1 bp ▼	Brent Oil (USD/barrel)	45.1	42.7	-5.3% ▼

bp: basis point

Last week, while the number of coronavirus cases worldwide exceeded 27 million people, the death toll approached 900 thousand persons. In the US, where August PMI data provides a positive outlook on economic activity, the employment data indicated that labor market continues to improve gradually, yet still performing weak compared to the pre-pandemic period. In Euro Area, the annual change in the CPI came in at -0.2% in August. Thus, the announced data in the Region signaled deflation on an annual basis, for the first time since May 2016. Data announced in China show that the recovery in economic activity continues in general. In Turkey, CPI remained flat in August compared to July with 11.77% yoy. This week, the US inflation data and ECB meeting stand out in global markets agenda. In Turkey, current account balance and employment data will be closely monitored.

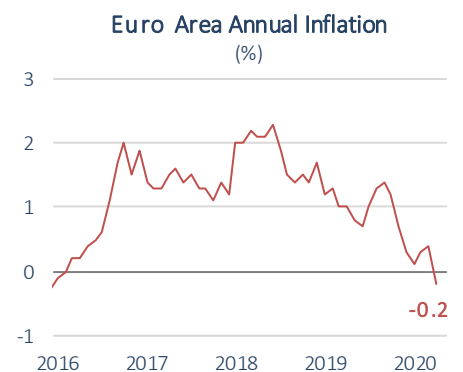
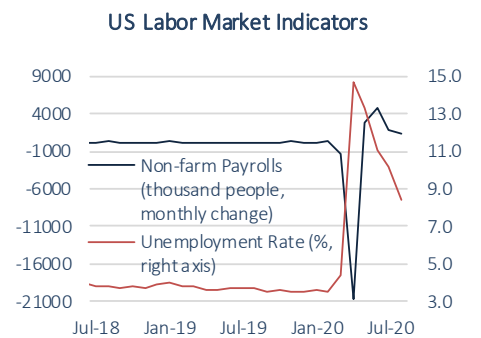
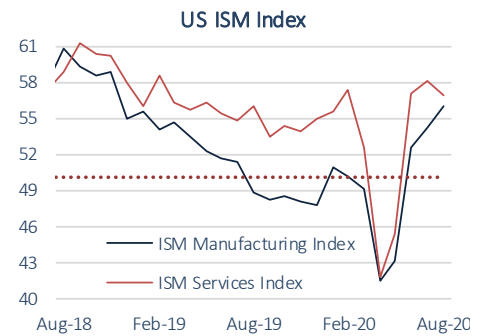
#### A heavy data agenda was followed in the US.

In US, the ISM manufacturing index, which became 54.2 in July, rose to 56 in August, above market expectations. The Markit manufacturing PMI became 53.1 in this period reaching its highest value since January 2019. The data showed that the growth in US manufacturing industry has been continuing since May. Markit services PMI also went up slightly in August and became 55. In August, non-agricultural employment in the US increased by 1.37 million people, in line with market expectations. The unemployment rate in the country fell to 8.4% in August from 10.2% in July. On Friday, Fed Chairman Powell stated that employment data provided a positive outlook, but it will take a long time for economic activity to fully recover. Powell also added that the Fed will continue to support economic activity as long as needed, and that current economic conditions indicate that low interest rates are needed for a while.

#### Annual CPI inflation in the Euro Area fell to -0.2% in August.

In the Euro Area, low energy prices and weak demand conditions keep inflation under pressure. CPI in the Euro Area came in at -0.2% yoy in August and signalled deflation for the first time since May 2016. Markets were expecting a 0.2% increase in CPI. While the CPI in Germany, the largest economy of the Region, decreased by 0.1% mom, it remained unchanged on an annual basis, below the expectation of an increase of 0.1% yoy. On the other hand, the German Government revised its GDP contraction forecast for 2020 from 6.3% to 5.8%. GDP growth forecast for 2021 has been lowered from 5.2% to 4.4%.

In the Euro Area retail sales fell by 1.3% mom in July, despite the loosening pandemic measures. The market expectation was an increase by 1.5% in this period. On the other hand, the Region's services PMI came in at 50.5, slightly higher than the market expectation of 50.1 in August, and pointed to a limited growth in the sector. Services PMI exceeded expectations with 52.5 in Germany. In Spain and Italy, on the other hand, services PMI fell to 47.7 and 47.1, respectively, and showed that the contraction continued in these countries.



Source: Datastream, Johns Hopkins

### Acceleration in Chinese economic activity...

Manufacturing PMI in China rose from 52.8 in July to 53.1 in August. Thus, the sector, which has been growing continuously for four months, recorded the fastest growth since January 2011. It was noteworthy that new export orders increased in August for the first time this year. Foreign trade data showed that exports in China rose by 9.5% during this period, the highest since March 2019, while imports fell by 2.1%, contrary to the expectations of an increase. Caixin services PMI data reached 54 in August, indicating that growth in the services sector has been continuing for 4 months as well.

### In Turkey, manufacturing PMI became 54.3.

In Turkey, manufacturing PMI, which started to recover after testing its lowest level with 33.4 in April, declined by 2.6 points mom and became 54.3 in August. Although losing some momentum, the index remained above the threshold level of 50 and pointed out that the growth in the manufacturing sector continues. Among the sub-items of the index, production and new orders rose significantly and companies increased their purchasing activities as well as employment in parallel with the improvement in demand. On the other hand, the depreciation of TRY led to the increases in both input costs and product prices.

### Annual CPI came in at 11.77% in August.

In August, CPI increased by 0.86% mom and remained below the expectations, while annual CPI inflation was realized as 11.77%. In August, prices in 10 out of the 12 main spending groups rose compared to the previous month. In this period, while miscellaneous goods and services group made the highest contribution to monthly CPI inflation with 30 basis points, the transportation group pulled inflation up by 24 basis points due to the increase in automobile and fuel oil prices. D-PPI inflation, which is accelerating since June, reached the highest level (11.53%) of the last 12 months in this period. The upward trend in global commodity prices and the lagged effects of the depreciation in TRY may put upward pressure on inflation in the upcoming months ([Our Inflation Report](#)).

In the investor meeting held last week, CBRT stated that economic activity has been gaining strength since May and a partial improvement has begun in tourism revenues. CBRT added that the recovery in goods exports, relatively low levels of commodity prices and real exchange rate will support the current account balance in the upcoming period. In the meeting, it was declared that the pandemic related uncertainties were effective in CBRT's decision to implement liquidity measures instead of direct change in the policy rate. According to the CBRT data, the CPI-based real effective exchange rate index declined to 63.71 in August, falling below 65 for the first time since the last quarter of 2018. CPI-based real effective exchange rate was 69.14 in June and 68.31 in July.

On September 4, Banking Regulation and Supervision Agency has announced that the upper maturity limit for consumer loans has been shortened from 60 months to 36 months.

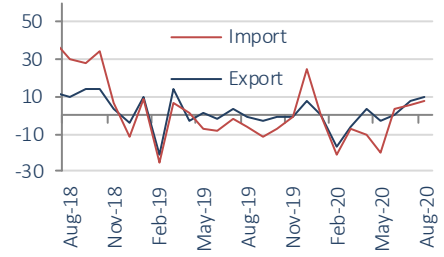
### Financial Markets...

After rising to record highs last week, S&P 500 and Nasdaq stock indexes closed the week with sharp decreases due to the losses in technology stocks towards the end of the week. Asian stock markets followed a mixed course last week.

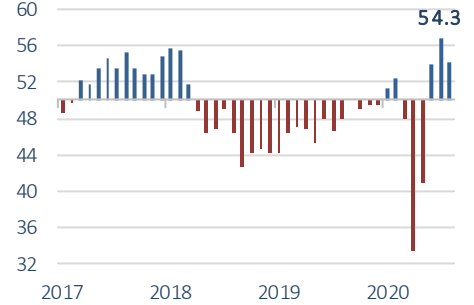
BIST 100 decreased by 1.3% wow to 1.086 points. Turkey's 5- year CDS risk premium declined by 15 bps on a weekly basis and became 507 bps. USD/TRY, which rose to historical high with 7.4515 on Thursday, increased by 1.4% wow and closed the week at 7.4331. EUR/TRY rose by 0.8% wow to 8.8018 on Friday.

This week, the US inflation data and ECB meeting stand out in global markets agenda. In Turkey, current account balance and employment data will be closely monitored.

China Foreign Trade Data  
(annual % change)

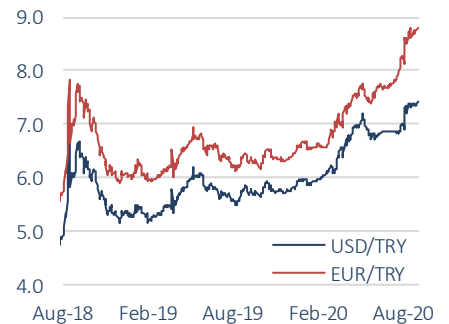


Manufacturing PMI  
(threshold=50)



August	CPI	D-PPI
(change %)	2020	2020
MoM	0.86	2.35
YoY	11.77	11.53
Annual Average	11.27	6.71

Exchange Rates



Source: Datastream, TurkStat

Data Releases

		Period	Consensus	Prior
<b>7-Sep</b>	TR Treasury Cash Balance	August	-	-30.8 billion TRY
	Germany Industrial Production	July	1.2% (A)	8.9%
<b>8-Sep</b>	Euro Area Economic Growth, qoq, revised	Q2	-12.1	-12.1
<b>9-Sep</b>	TR Treasury Domestic Redemption (603 million TRY)	September	-	-
<b>10-Sep</b>	TR Unemployment Rate	June	-	12.9%
	US PPI, mom	August	0.2%	0.6%
	US Core PPI, mom	August	0.2%	0.5%
	US Initial Jobless Claims	31 Aug-5 Sep	838K	881K
	ECB Meeting	September	-	-
<b>11-Sep</b>	TR Current Account Balance	July	-	-2.9 billion USD
	US CPI, mom	August	0.3%	0.6%
	US, Core CPI, mom	August	0.2%	0.6%
	Germany CPI, mom, final	August	-0.1%	-0.1%
	UK Industrial Production, mom	July	4.1%	9.3%

(A) Actual

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