

	28-May	4-Jun	Change		28-May	4-Jun	Change
BIST-100 Index	1,422	1,433	0.8 % ▲	EUR/USD	1.2189	1.2165	-0.2 % ▼
TRY 2 Year Benchmark Rate	18.78 %	18.90 %	12 bp ▼	USD/TRY	8.5484	8.6563	1.3 % ▲
Turkey 5-Year CDS Premium	407	403	-4 bp ▼	EUR/TRY	10.4324	10.5460	1.1 % ▲
MSCI EM Equity Index	1,361	1,382	1.5 % ▲	Gold (USD/ounce)	1,903	1,890	-0.7 % ▼
US 10-Year Bond Rate	1.59 %	1.56 %	-3 bp ▼	Brent Oil (USD/barrel)	69.6	71.9	3.2 % ▲

bp: basis point

Last week while manufacturing PMI data for May recorded an increase in the US and Euro Area, in Turkey it decreased to 49.3 due to the full lockdown measures and rising raw material prices. US employment data also displayed a positive outlook for economic activity in May. Annual CPI inflation in the Euro Area rose to 2% in May, reaching its highest level since October 2018. Oil prices rose sharply on a weekly basis as optimism regarding a rise in global oil demand strengthened. In Turkey, annual CPI inflation which has been on the rise since October 2020 fell to 16.59% in May. Last week, growing concerns over the CBRT's early interest rate cut came to the fore, putting pressure on Turkish Lira. This week, the meeting of the European Central Bank (ECB) and the inflation data to be announced in the US stand out in global markets. In Turkey, industrial production and employment data for April will be announced.

Data releases in the US gave positive signals regarding economic activity.

Manufacturing PMI data in the US increased by 1.6 points compared to the previous month and rose to 62.1 in May. The index also exceeded the market expectations of 61.5. This development was driven by the historic growth in business activities and record increases in production and new orders. In this period, ISM non-manufacturing PMI data reached its historical high level of 64, indicating that the sector displayed a strong performance due to the increase in demand.

US employment data released last week showed that the recovery in the labor market continued in May. ADP private sector employment growth exceeded expectations in May, reaching the highest level of the last 11 months with 978K people. Initial jobless claims fell below 400K people for the first time since the beginning of the pandemic, with 385K people in the week ending May 29. The increase in non-farm payrolls in May, on the other hand, was at the level of 559K people, which was below the expectation of 650K people, yet displayed a positive outlook compared to the previous month. The unemployment rate also fell from 6.1% to 5.8% in May. It was noteworthy that US Treasury Secretary Yellen, in her speech last weekend, said that slightly higher interest rates would be good for the country's economy.

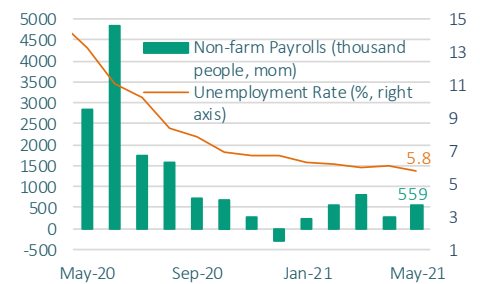
Annual CPI inflation in the Euro Area rose to 2% in May.

In May, final manufacturing PMI data in the Euro Area increased to 63.1. The rise in demand thanks to the easing of coronavirus restrictions in the region played role in this development. Annual CPI inflation, which stood at 1.6% in April, rose to 2% in May due to the surge in energy prices, reaching its highest level since October 2018.

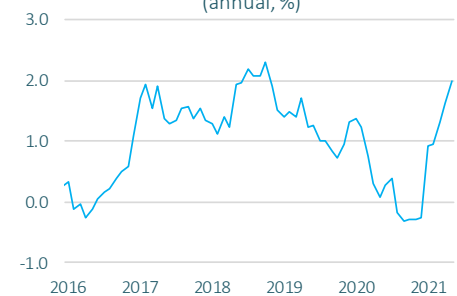
OECD raised its global growth forecast to 5.8% in 2021.

In its Economic Outlook Report released earlier last week, OECD raised its global growth forecast from 5.6% to 5.8% in 2021 and from 4% to 4.4% in 2022, thanks to vaccination practices and additional financial stimulus packages. In the report, it was emphasized that the global growth is likely to remain uneven and dependent on the effectiveness of vaccination programs. On the other hand, OECD lowered its growth forecast for Turkey from 5.9% to 5.7% in 2021. The Organization estimates Turkey's growth rate to stand at 3.4% in 2022.

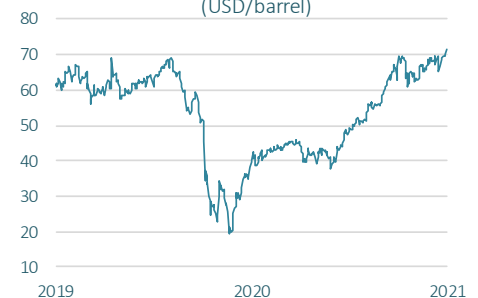
US Labor Market Indicators



Euro Area Consumer Inflation (annual, %)



Brent Crude Oil Price (USD/barrel)



Source: Datastream

Oil prices rose rapidly due to the optimistic expectations about global demand.

In the meeting held by OPEC+ countries last week, it was stated that oil demand improved significantly thanks to the acceleration of vaccinations. Member countries emphasized that oil production would increase gradually in June and July and that the excess supply that may occur due to the lifting of sanctions against Iran would be balanced with rising demand. Along with this development, the barrel price of Brent crude oil increased by 3.2% w/w to 71.9 USD on the back of the optimism for a rising oil demand.

In Turkey, annual CPI inflation declined to 16.59%.

CPI increased by 0.89% mom in May, well below market expectations. Annual CPI inflation, which had been rising since October 2020, declined to 16.59%. In this period, annual D-PPI inflation continued to increase and reached 38.33%, the highest level of the last 2.5 years. Transportation and clothing were the groups that contributed the most to the annual CPI increase. The increase in D-PPI was driven by the rise in commodity prices and the depreciation of TL ([Our Inflation Report](#)).

Manufacturing PMI came in below the threshold level in May.

In May, manufacturing PMI became 49.3, falling below the threshold for the first time in a year. Decline in output and new orders due to full lockdown restrictions as well as rising input prices stemming from the depreciation of TRY had a downward impact on the index. Thus, the index indicated a moderate deterioration in economic activity.

The foreign trade deficit rose by 20.7% yoy in May.

According to the preliminary data released by the Ministry of Trade, exports rose by 65.5% and imports increased by 54% yoy in May. Exports reached the second highest May level since the data series started in 2015. Thus, the foreign trade deficit rose by 20.7% yoy in May. In the January-May period, exports rose by 38.4% and imports increased by 25.3% compared to the same period of the previous year. Thus, the foreign trade deficit fell by 13.1% yoy during the first 5 months of the year.

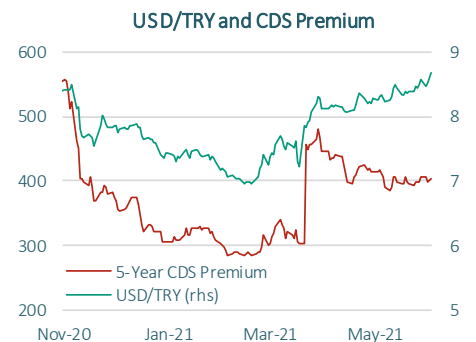
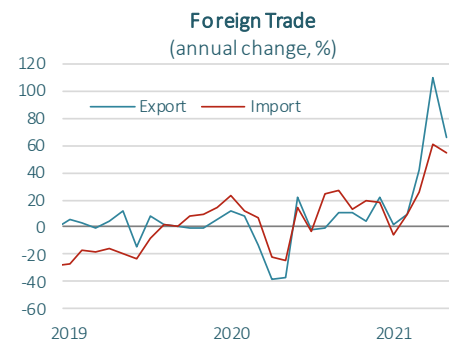
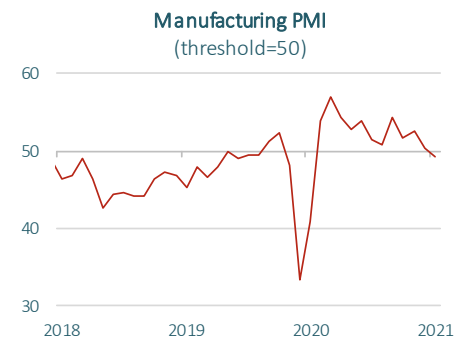
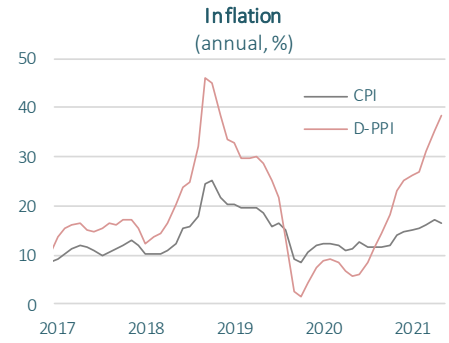
The reductions in VAT and withholding tax rates have been extended.

According to the decree published in the Official Gazette last week, the reductions in VAT and in withholding tax rates on rental payments and TL deposits will remain in effect until the end of July 2021. In this context, the 20% withholding tax rate on rental payments will continue to be applied as 10%, the 18% workplace rental, accommodation and food services and other services VAT rates will continue to be applied as 1% and 8%, respectively. Additionally, the withholding tax incentives to TL deposits in the range of 0%-5% will also be maintained. According to the tariff table published by BOTAŞ last week, the tariffs of residential and industrial subscriber groups for natural gas increased by 1%, and the tariffs of power plants for electricity generation were increased by 5%.

Financial markets...

Inflation developments and statements on monetary policies remain at the top of the agenda in global markets. Last week, domestic markets followed a volatile course due to the concerns that the CBRT may cut interest rates in the coming months. Accordingly, USD/TRY tested new historical highs. The statement of the CBRT Governor Kavcıoğlu last week that expectations of early loosening of monetary policy in the markets should be completely eliminated, supported the TRY to some extent. USD/TRY rose by 1.3% w/w to 8.66 on Friday.

This week, the ECB meeting and the inflation data to be announced in the US stand out in global markets. In Turkey, industrial production and employment data for April will be announced.



Source: Datastream

Data Releases

		Period	Consensus	Prior
7 June	TR Treasury Cash Balance	May	-	-13.29 billion TRY
	Euro Area Sentix Index	June	26.0	21.0
	China Trade Balance	May	45.5 billion USD (A)	42.9 billion USD
8 June	USA Trade Balance	April	-69.0 billion USD	-74.4 billion USD
	Euro Area GDP Growth, revised	2021 Q1	-1.8%	-1.8%
	Germany Industrial Output, mom	April	0.7%	2.5%
9 June	TR Treasury Debt Redemptions	June	23.56 billion TRY	-
	Re-opening of 7Y TLREF Indexed Bond	June	-	-
	China CPI Inflation, yoy	May	1.6%	0.9%
10 June	TR Unemployment Rate	April	-	13.1%
	USA CPI Inflation, yoy	May	4.7%	4.2%
	ECB Meeting	June	0.0%	0.0%
11 June	TR Industrial Production, yoy	April	-	16.6%
	CBRT Survey of Expectations	June	-	-
	USA Michigan Consumer Confidence, prelim	June	84.0	82.9

(A) Actual

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