

WEEKLY OUTLOOK

US nonfarm payrolls rose well below expectations.

The most important item of the last week's global watchlist was the US nonfarm payrolls. Nonfarm payrolls rose by 138K in May, below market expectation of 185K, while unemployment rate fell to its lowest level since April 2000 with 4.3%. Persons dropping out of the labor force were the main contributor of the decline in unemployment rate. Average hourly earnings rose by 0.2% monthly in May in line with expectations. As payroll data for March and April have been revised downwards, weak employment figures led to a weakening of interest rate hikes expectations in the period after June. However, it is still expected that the Fed will raise interest rates at June meeting.

In April, personal income and consumer spending in the US increased by 0.4% mom in line with expectations. In this period, while the increase in earning supported income outlook, increase in the demand for durable goods affected the spending positively. Increase in PCE price index, which is an important inflation indicator, fell to 1.7% from 1.9%. Consumer confidence, which is below expectations in May, pointed out that consumption spending may slow down in the upcoming period. On the production side, ISM manufacturing index displayed a strong outlook for new orders and production. These figures confirmed that the economic growth in the US began to stabilize on a more moderate path.

Unemployment rate in Euro Area is the lowest for the last 7.5 years...

The unemployment rate in the Euro Area fell to the lowest level since 2009 with 9.3% in April. Manufacturing PMI also peaked at 57 in May, the highest level in the last 6 years, indicating that the new orders and production continue to be strong. On the other hand, according to preliminary data, consumer inflation declined to 1.4% in May, as consumer confidence has also declined, suggesting that domestic demand may not have stabilized. The meeting of the European Central Bank (ECB) this week will be closely watched by the markets. Furthermore, general election in the UK was scheduled to take place on June 8th. Recent polls show that the gap between Conservative Party led by Theresa May and Labor Party under Jeremy Corbyn's leadership is narrowing.

Leading indicators gave mixed signals in China.

Official manufacturing PMI in China came in above expectations with 51.2 boosting the hopes in the markets that the Chinese economy will perform better than expected. On the other hand, Caixin manufacturing PMI which reflects mainly the activities of SME's, decreased below 50 in May and signaled that production was slowing down. Caixin index, which has fallen to its lowest level in the last 11 months, raised questions about the support of infrastructure investments and construction sector to the economic activity and whether these effects are spread throughout the economy or not.

WEEKLY DATA

	26 May	2 Jun	Change		26 May	2 Jun	Change
BIST-100 Index	97,533	98,868	1.4 % ▲	EUR/USD	1.1182	1.1280	0.9 % ▲
TRY 2 Year Benchmark Rate	11.10%	10.79%	-31 bp ▼	USD/TRY	3.5767	3.5086	-1.9 % ▼
US 10 Year Bond Rate	2.25%	2.16%	-9 bp ▼	EUR/TRY	3.9995	3.9595	-1.0 % ▼
EMBI+ (bps)	325	328	3 bp ▲	Gold (USD/ounce)	1,267	1,280	1.0 % ▲
EMBI+ Turkey (bps)	284	288	4 bp ▲	Brent Oil (USD/barrel)	51.3	48.6	-5.2 % ▼

Domestic economic activity continues to recover.

In Turkey, manufacturing PMI reached 53.5 in May, the strongest increase since 2013. With the recovery in production, new orders and employment, the improvement in the manufacturing industry gained momentum. Thus, the revival in the manufacturing industry confirmed the capacity utilization rate data from previous week, which reached the highest level in the last four years.

Foreign trade deficit widened.

According to data released by TURKSTAT, in April exports rose by 7.4% yoy to 12.8 billion USD and imports increased by 9.9% yoy to 17.8 billion USD. Hence, foreign trade deficit climbed by 16.7% yoy to 4.9 billion USD. Seasonally and calendar adjusted data showed that exports declined compared to the previous month. Analyzing the manufacturing industry sectors, motor vehicles ranked first both in April and January-April period thanks to new models launched in the market ([Our Foreign Trade Balance report](#)). Besides, preliminary data published by the Ministry of Customs and Trade pointed out that foreign trade deficit in May surged by 49.5% yoy to 7.7 billion USD due to rapid increase of gold imports. Exports and imports boosted by 9.5% and 21.4% yoy respectively during the same period.

CBRT published Financial Stability Report.

Financial Stability Report indicated that recovery in the economic activity is estimated to continue in 2017 thanks to the accommodative macroprudential policies, fiscal policies and credit incentives. It was stated on the report that CBRT has been tightening its monetary policy since the beginning of the year in order to contain upside risks on the inflation. Thus, it was emphasized that currency volatility has shown a clear decline and risks towards the financial stability has been taken under control. Moreover, the related incentives have contributed to the financial stability by supporting the well-functioning of the credit channel. The report highlighted that corporate loans have displayed a significant rise as backed by the Credit Guarantee Fund while housing and consumer loans have also contributed to the recovery in loans. Strong credit growth is expected to make a positive contribution to the economic activity in the upcoming period. CBRT underlined that Turkish banking sector is resilient to risks thanks to its strong capital structure, asset quality and liquidity buffers.

Domestic CPI exceeded the expectations.

Domestic CPI in May rose above the market expectations by 0.45% mom. Hence, annual rise in CPI was realized as 11.72%. Among main expenditure groups, the highest monthly price increase was observed in the clothing and footwear group by 5.97%. On the other hand, food and transportation groups, which pushed up the inflation in April, declined in May. Analyzing the details of domestic PPI, which increased in May by 0.52% mom, the most rapid rise was seen in furniture products by 3.24% while energy prices were down owing to the seasonal factors. Also, PPI in the unprocessed food group decreased roughly by 2% in May ([Our Inflation report](#)).

Global and domestic markets...

Positive signals on global economic activity given by the data announced supported the markets on the first few days, while US employment data affected the markets during the rest of the week. On a weekly basis, USD depreciated in global markets due to the impact of non-farm payrolls which was announced below expectations on Friday. Gold prices rose after the depreciation of USD. Despite the decision to extend the production cut, oil prices fell sharply due to the announcement of US President Trump regarding to withdrawal of US from the Paris Agreement. Trump's decision indicates that the oil production in the US will continue to increase. In the domestic markets, TRY appreciated against USD and EUR thanks to the rise in global risk appetite and data indicating that recovery in economic activity is going on. BIST-100 index increased by 1.4% last week, while the compound interest rate of 2-year benchmark bond decreased by 31 basis points due to the increase in demand for TRY assets.

INDUSTRY NEWS

Tourist arrivals and hotel occupancy rate increased.

Ministry of Culture and Tourism figures showed that the number of foreign visitors increased by 18.1% yoy in April after declining for 20 consecutive months. This was mainly stemmed from the rise in Russian and Iraqi tourists. In this period, number of European arrivals fell down while tourists from Middle East surged by 85%. Hotel occupancy rates in Turkey also went up from 52.9% to 61.2% in April yoy. In spite of the rise in occupancy rates across Turkey especially in Istanbul, prices did not increase at all. In fact, among Europe, Turkey remained as the worst performing country in terms of falling room revenues, which dropped by 23.3% yoy in January-April period. Besides, in the first quarter tourism investments grew thanks to big scale projects.

Domestic automotive sales fell.

Automotive Distributors' Association figures pointed out that in May sales declined yoy by 10.9% in passenger car market and by 2.2% in light commercial vehicles (LCV) market. Consequently, passenger cars and LCV sales were down by 9% yoy to 85,422 units. In the first five months of the year, passenger car sales decreased by 10.3% yoy and total market declined by 8.6%. Besides, under Housing Development Administration (TOKI) regulations, 10% additional tax has been imposed on cars imported from South Africa with 1.5 and 1.6-litre engine. Accordingly, 10% of the cost, insurance and freight (CIF) value of above-mentioned imports will be collected in terms of additional tax. Mercedes-Benz's C-series sedan cars are said to be the only model which is relevant to the tax regulation. These cars are produced in Mercedes' plants in South Africa and accounts for 40% of its sales in Turkey. Upon the announcement of this decision, Mercedes-Benz Turk officials stated that in the following period related models would be considered to be imported from Germany.

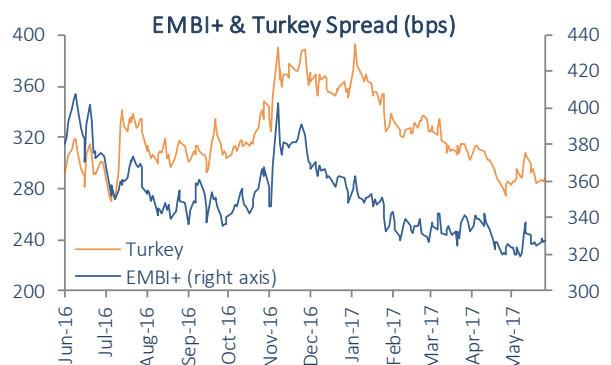
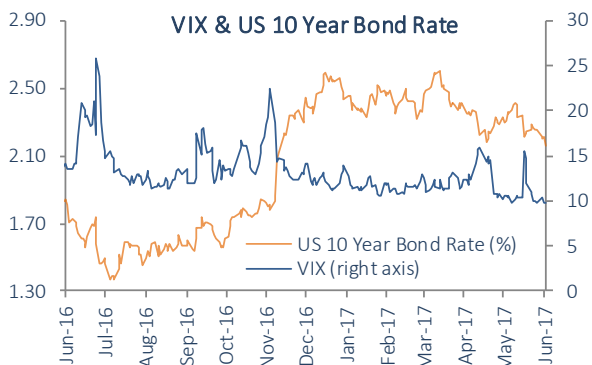
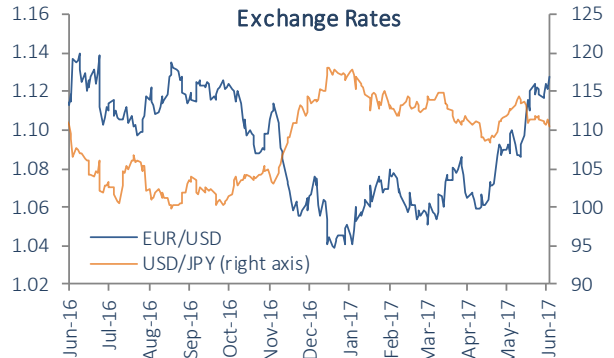
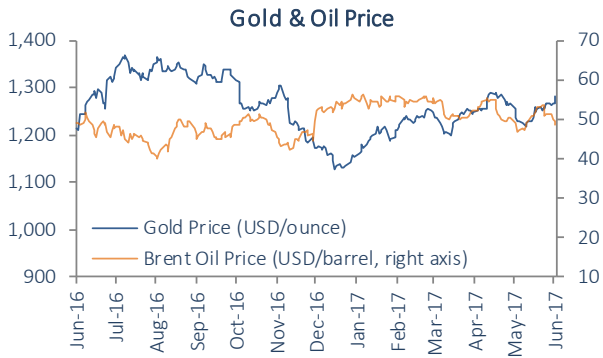
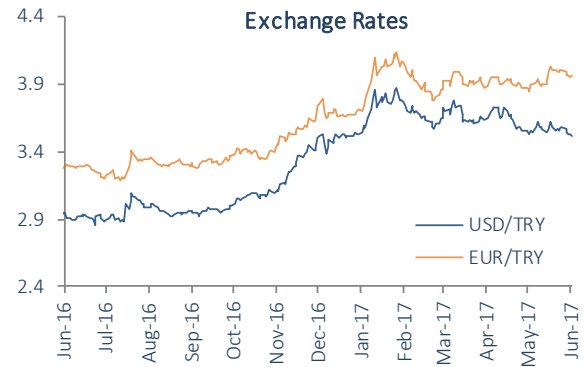
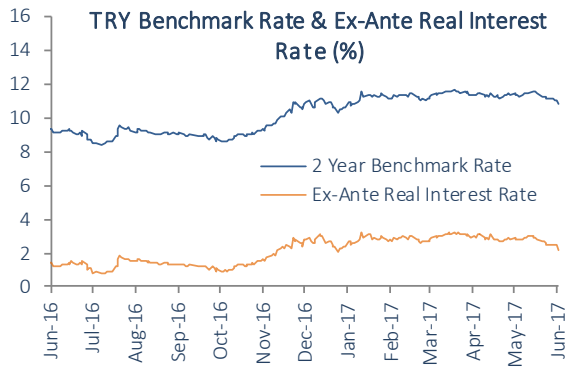
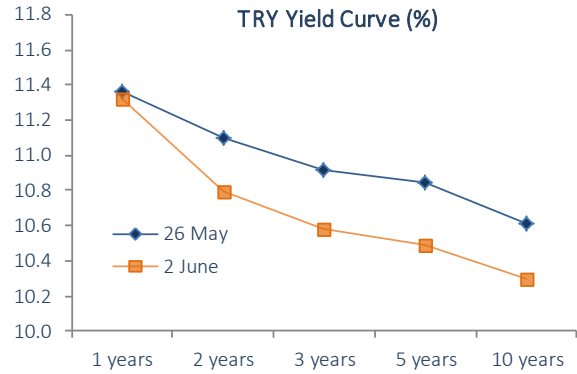
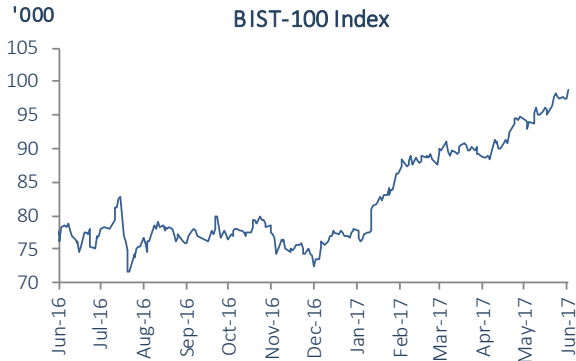
Tariff cut in construction iron imports...

Skyrocketing iron prices are raising concerns about the construction activity. Chairman of Ankara Chamber of Commerce pointed out that rise in iron prices is higher than the inflation and increase in exchange rates and this might cause negative effects on construction sector. In his speech, he emphasized that the construction activity is likely to come to a halt if the acceleration in iron prices continues. Moreover, rising costs will probably be reflected in house prices. Chair of Construction Contractor's Confederation announced that construction sector as a whole will stop production unless a price cut has been made until June 9th. Besides, Minister of Economy Nihat Zeybekçi explained that tariffs on imports of construction iron will be cut.

Participation insurance system...

Deputy Prime Minister Mehmet Şimşek stated that participation insurance system will be introduced in order to increase diversification and depth in the insurance market and preparations are reached final stage. Şimşek highlighted that the insurance system is targeted to reach a 10% market share by 2023. Insurance sector is estimated to provide 180 billion TRY for the Private Pension System and Auto Enrolment System by 2023 as well as creating 120 billion TRY additional premiums in terms of insurance products. Therefore, 30 billion TRY of the total market size (300 billion TL) is projected to stem from participation insurance and pensions products by 2023.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
5 June	TUIK Consumer Price Index	May	0.45% mom (A)
	TUIK Domestic Producer Price Index	May	0.52% mom (A)
	US Factory Orders	April	-0.2% mom
	Euro Area Services PMI	May	56.2
6 June	Euro Area Retail Sales	April	0.2% mom
7 June	Euro Area GDP Growth Rate	Q1	0.5% qoq
	Japan GDP Growth Rate	Q1	0.6% qoq
8 June	TUIK Industrial Production Index	April	
	European Central Bank (ECB) Meeting	June	
	China Foreign Trade Statistics	May	

(A) Actual

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