

## WEEKLY OUTLOOK

***The inflation data in the US...***

Last week inflation data and Fed officials' statements were followed in the US. The producer price inflation fell by 0.1% mom in July contrary to expectations and recorded the sharpest decline for the last 11 months. The annual PPI inflation, which was 2% in June, also fell to 1.9% in July. Moreover, the consumer price inflation, which was released on the last trading day of the week, came in weaker than expected with a 0.1% monthly increase. The deceleration in housing and wireless services prices curbed the rise in CPI. As of July, CPI increased by 1.7% yoy. Besides, jobless claims were slightly above the expectations with 244k people; however, as they remained below 300K threshold level, the recent figures hinted that the buoyancy in the US labor market continued.

Chicago Fed President Evans, a voting member of FOMC, told that the current level of inflation is appropriate for the central bank to announce its balance sheet reduction plan in September, but the interest rate hike might be postponed to December or afterwards. Dallas Fed President Kaplan and Minneapolis Fed President Kashkari also emphasized that Fed needs more time to raise interest rate due to the sluggishness in inflation. Currently, markets give the Fed just a 1-in-4 chance of hiking rates in December.

***China's foreign trade data was below the expectations...***

In July, China's foreign trade data failed to meet the expectations. In dollar terms, exports volume growth of the country declined from 11.3% to 7.2% yoy, while that of imports fell to 11% from 17.2% compared to June. Besides, China's foreign exchange reserves climbed to 3.081 trillion dollar, the highest for the last 9 months. Despite the ongoing debt woes, tight fiscal policies implemented in China and the recent depreciation in USD supported reserves. In 2016, yuan depreciated against dollar by 6.9%. This year, on the other hand, yuan appreciated against dollar by 4.1%. Ahead of the National Congress of the Communist Party to be held in this autumn, policy makers continue to work to keep capital outflows under control.

***Oil prices declined despite production cut decision.***

On August 7-8, OPEC and non-OPEC countries met in Abu Dhabi after the compliance rate with OPEC's output cut decision fell to a new low of 75% in July. Announcement that Iraq, the United Arab Emirates, Kazakhstan and Malaysia would also comply with the production cut decision supported oil prices during last week. While OPEC revised the global crude oil demand for 2017 upwards, in the monthly report issued by the International Energy Agency (IEA), developing countries' oil demand was stated to be lower compared to previous reports. In the report, it is also emphasized that oil stocks are still high although having declined from historical high levels. Despite these developments, Brent crude oil prices decreased by 1.3% wow, after following a fluctuating trend. OPEC and non-OPEC oil producer countries are expected to hold a new meeting in Vienna on August 21st.

## WEEKLY DATA

	4 Aug	11 Aug	Change		4 Aug	11 Aug	Change
BIST-100 Index	108,545	106,963	-1.5 % ▼	EUR/USD	1.1768	1.1820	0.4 % ▲
TRY 2 Year Benchmark Rate	11.60%	11.72%	12 bp ▲	USD/TRY	3.5269	3.5357	0.2 % ▲
US 10 Year Bond Rate	2.27%	2.19%	-8 bp ▼	EUR/TRY	4.1534	4.1808	0.7 % ▲
EMBI+ (bps)	330	344	14 bp ▲	Gold (USD/ounce)	1,258	1,289	2.5 % ▲
EMBI+ Turkey (bps)	272	287	15 bp ▲	Brent Oil (USD/barrel)	52.5	51.8	-1.3 % ▼

bp: basis point

***Global markets...***

Last week, rising tension between US and North Korea along with US President Trump's comments on China with this respect were watched closely in the global markets. Global financial markets remained under pressure due to the geopolitical risks while volatility index VIX increased by almost 7 points reaching all time-high since US Presidential elections. 10-year US treasury bonds interest rate declined by 8 basis points whereas gold prices increased by 2.5% wow due to safe haven buying. Next week, along with geopolitical developments, Fed and European Central Bank (ECB) meeting minutes as well as Euro Area GDP growth figures will be monitored in the markets.

***Domestic industrial production increased annually.***

According to the data released by TURKSTAT, in June, calendar adjusted industrial production increased by 3.4% yoy. During this period, manufacture of motor vehicles which stands out with its export performance continued to contribute most to the industrial production increase. In addition, the 27.9 yoy increase in the manufacture of other transportation vehicles drew attention. On the other hand, manufacture of tobacco products, wearing apparel and chemical products limited the rise in the industrial production. In the second quarter of the year, the annual increase in calendar adjusted industrial production was 4.5%. However, this development was mainly stemmed from the rapid increase of 6.7% in April while the production increases in May and June were observed to be more moderate.

***Current account deficit declined in June.***

In June, current account deficit narrowed by 24.2% yoy to USD 3.8 billion. In this period, narrowing of the foreign trade deficit and the recovery in tourism revenues had a positive effect on the current account deficit whereas surge in gold imports limited this effect. As for the financing of the deficit, in June portfolio investments continued to perform well however foreign direct investments recorded net outflow. In July, current account deficit is expected to rise in line with the rise in foreign trade deficit due to the base effect from 2016 as well as gold trade expansion in favour of imports. Nevertheless, we think that the recovery in tourism revenues could somewhat limit the widening of the deficit ([Our Balance of Payments report](#)).

***Domestic markets...***

BIST-100 index, which actually hit historic high at the beginning of last week, fell by 1.5% wow due to the deterioration in the global risk appetite. After declining to its lowest level since December 2014, Turkey's 5-year CDS' followed an upward course in the second half of the week. Pressure on emerging market currencies also led TRY to depreciate against dollar and euro wow by 0.2% and 0.7% respectively. Moreover, 2-year benchmark treasury bonds compound interest rate rose by 12 basis points to 11.72% wow, climbing to its highest level since July 2009.

## INDUSTRY NEWS

***New arrangement for Borsa İstanbul...***

Last week, Deputy Prime Minister Mehmet Şimşek announced that they have been working on a new arrangement for companies, which can't meet the "net income" criteria due to their high level of financial expenses, to be publicly traded on the stock exchange market. The new arrangement will require these companies to have a minimum market value of TRY 100 million. It is also expected that the companies should have a projection to turn their current net loss to net income in order to be listed on the BIST Stars. It is expected that the companies would compensate their financial expenses with the earnings obtained from their public offerings. Additionally, the current condition to have a net income for the last 2 years will be eased. Within the scope of the new arrangement, it will be sufficient to have an operating income in the last year and during the related interim period. It is projected that companies operating under the energy and health sectors will be more interested to be quoted to BIST Stars.

***Airplane and passenger traffic accelerated.***

According to data released by General Directorate of State Airports Authority (DHMi), airplane and passenger traffic gained momentum in July. Total airplane traffic, which declined by 1.2% yoy in January-June period, boosted by 1.4% yoy in January-July period. Airplane traffic of domestic flights hiked by 2.0% yoy while traffic of international flights increased by 0.4% yoy. Similarly, airway passenger traffic, which rose by 4.2% yoy in the first half of the year, climbed by 7.4% yoy in January-July period. During the same period, passenger traffic increased by 4.1% and 12.4% yoy at domestic and international flights respectively. Airplane and passenger traffic show a similar pattern to the recovery in tourism sector.

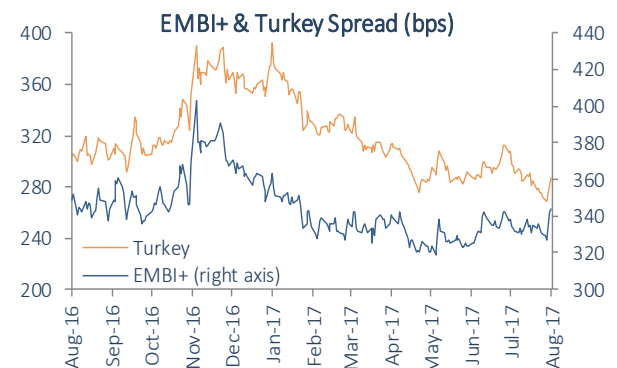
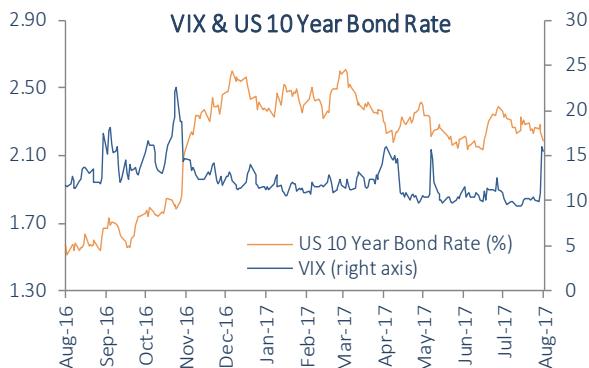
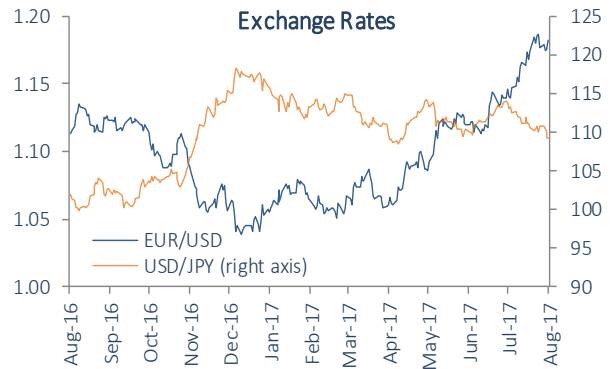
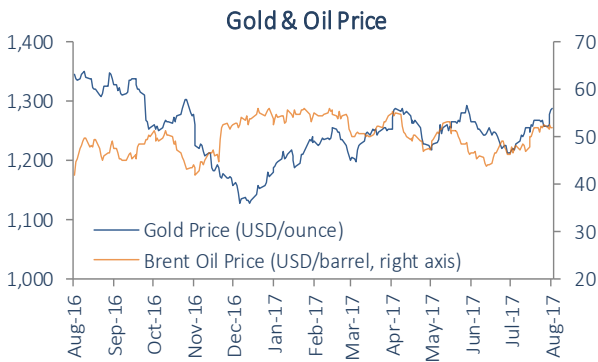
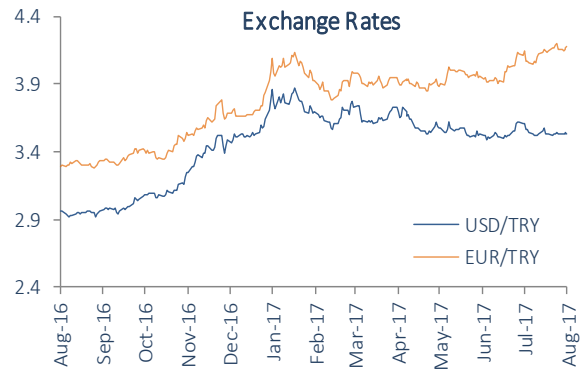
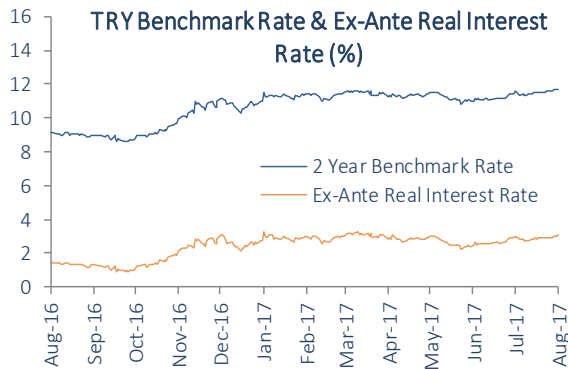
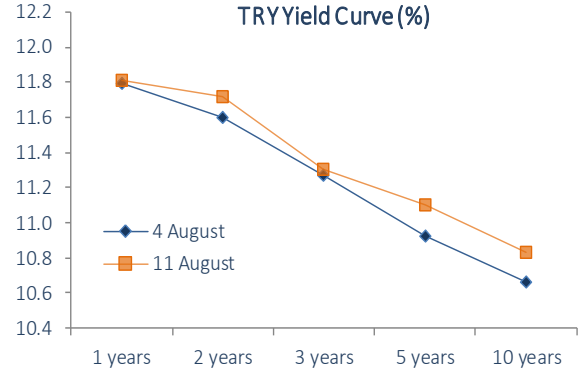
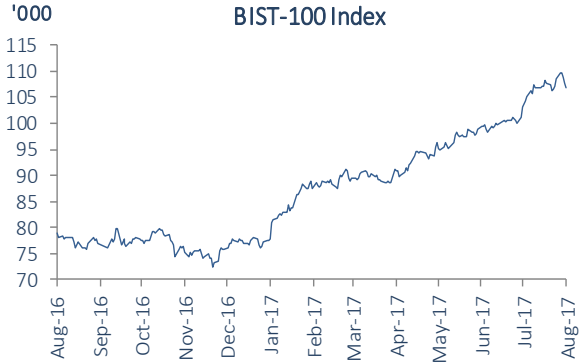
***TRT tax stamp on mobile phones was raised to 10%.***

The new regulation regarding tax stamps charged on radio, television, video and compound devices and other devices receiving radio and television broadcasts for the use of Turkish Radio and Television Corporation (TRT) was published on the Official Gazette last week. Within the scope of the new regulation, TRT tax stamp on mobile phone imports was raised to 10% from 6% while tax stamp for computers and tablets, which was around 2-3% earlier for different kinds of devices, was fixed at 2%. The regulation has been released just after 2% TRT tax stamp has been removed from the electricity bill of industrial electricity consumers, as part of the Industrial Production Reform. TRT tax stamp charged on radio, television and videos were kept unchanged at 16% under the new regulation.

***Algeria banned import of 24 products.***

Last week Algeria brought an import ban on 24 different products such as plastics goods, industrial products, furniture and chandeliers, electrical transformers, marble/granite, carpets and several processed food. Algeria's revenue loss due to the decline in oil prices was effective in this decision. In 2016 Turkey's exports to Algeria amounted to USD 1.74 billion from which the highest component was machinery and equipment with 16.3% share. On the other hand, Algeria's share in Turkey's exports is at low levels by 1% at manufacture of food products and beverages and 1.8% at manufacture of rubber and plastics products.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
<b>14 August</b>	Japan GDP Growth	2017 Q2	+4.0% yoy (A)
	China Industrial Output Data	July	+6.4% yoy (A)
	Eurozone Industrial Output Data	June	-0.6% mom (A)
	CBRT Survey of Expectations	August	
<b>15 August</b>	US Retail Sales Data	July	+0.4% mom
	Germany GDP Growth Data	2017 Q2	
	TURKSTAT Unemployment Rate	May	
	Direct Sale of Lease Certificate with 10.08.2022 Maturity Date	August	
	Reissuance of Floating Coupon Bond with 5.06.2024 Maturity Date	August	
<b>16 August</b>	US Housing Starts	July	1,225K
	Fed FOMC Minutes	July 25-26 <sup>th</sup>	
	Eurozone GDP Growth	2017 Q2	
	Treasury Domestic Debt Redemption (2,284 Million TL)	August	
<b>17 August</b>	US Industrial Output Data	July	+0.2% mom
	US Capacity Utilization Rate	July	76.7%
	European Central Bank (ECB) Governing Council MPC Meeting Minutes	July 20 <sup>th</sup>	
	Eurozone Consumer Price Inflation	July	
<b>18 August</b>	USA The University of Michigan's Consumer Sentiment Index (Preliminary)	August	

(A) Actual

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