

WEEKLY OUTLOOK

Low inflation makes some FOMC members more cautious about rate hikes.

FOMC minutes for the meeting held on July 25th and 26th gave clues about the interest rate hikes and balance sheet unwinding process. Fed members agreed on tampering down the Treasury bond and mortgage-backed securities portfolio “relatively soon”, while differences occurred regarding interest rate policy. According to the minutes, some committee members are cautious about interest rate hikes due to low inflation outlook arguing that interest rate hikes can be postponed unless concrete evidences suggest that inflation is on its track to 2% target level. Dallas Fed President Kaplan's statements in a press conference also show his reluctance to continue rate hikes due to low inflation rate. Cleveland Fed President Mester, on the other hand, said that reaching 2% inflation target is not mandatory to raise interest rates.

Industrial production in the US is slower than expected.

In July, US industrial production increased at a slower pace than the expectation of 0.2% mom, while manufacturing industry production declined due to the decrease in automotive industry output. Capacity utilization ratio (CUR) in the manufacturing industry was 76.7% in parallel with the expectations. Even though NY Fed manufacturing index realized well above expectations in August, weakness in manufacturing industry indicates that industrial activity will be somewhat volatile. On the other hand, retail sales in July displayed a strong outlook, while consumer sentiment index for August rose to 97.6, surpassing expectations.

ECB officials expressed concerns over the strength of the euro.

Minutes of the last meeting of the European Central Bank (ECB) indicated that ECB officials expressed their concerns over the strength of the euro which could negatively affect the economic activity in the region. While the ECB maintained its policy of monetary easing to support economic growth, it highlighted that euro's appreciation has put pressure on spending. Drawing attention to the fact that the asset purchase program is not the only instrument in monetary policy portfolio, ECB officials hinted that they could take action against situations that could pose a risk to reach inflation targets.

Industrial production declined in Euro Area, uncertainties regarding Brexit process continue.

In the Q2, Euro Area economy grew by 0.6% quarterly and by 2.2% annually. On the other hand, according to seasonally adjusted figures, in June industrial production declined by 0.6%, failed to meet expectations. Uncertainties regarding trade agreements between EU and UK after March 2019, the probable date for finalization of Brexit process, are affecting risk appetite negatively. It is stated that the British administration wants to make a temporary agreement on the Customs Union with the EU in order to prevent possible economic losses. EU officials, on the other hand, express that it will be difficult to realize such a deal with Britain.

WEEKLY DATA

	11 Aug	18 Aug	Change		11 Aug	18 Aug	Change
BIST-100 Index	106 963	107 202	0.2 % ▲	EUR/USD	1.1820	1.1760	-0.5 % ▼
TRY 2 Year Benchmark Rate	11.72%	11.69%	-3 bp ▼	USD/TRY	3.5357	3.5175	-0.5 % ▼
US 10 Year Bond Rate	2.19%	2.19%	1 bp ▲	EUR/TRY	4.1808	4.1344	-1.1 % ▼
EMBI+ (bps)	344	336	-8 bp ▼	Gold (USD/ounce)	1 289	1 284	-0.4 % ▼
EMBI+ Turkey (bps)	287	283	-4 bp ▼	Brent Oil (USD/barrel)	51.8	52.5	1.3 % ▲

bp: basis point

IMF warns on China's debt growth.

In its annual assessment on Chinese economy, IMF increased its annual average economic growth forecast for the period 2018-2020 from 6% to 6.4% while warning that faster growth would cause rising debt. According to the IMF's calculation, it is estimated that non-financial sector debt will reach almost 3 times of GDP by 2022. Besides, IMF added that higher debt levels would reduce Beijing's "fiscal space" to react to any potential crisis in the financial market.

Tax revenues increased thanks to restructuring of receivables.

Central government budget gave a surplus of 926 million TRY in July. In this period, expenditures increased by 21.5% yoy while budget revenues rose by 23.3%. Tax revenues increased by 27.6% thanks to restructuring of receivables and the recovery in economic activity. On the other hand, non-interest expenditures increased by 19.8% due to expansionary fiscal policies. In the January-July period, the budget deficit came in at 24.3 billion TRY. Budget expenditures are expected to lose some steam should new stimulus packages not come to the table to support economic activity. Furthermore, the deficit widening impact of postponing the social security premium payments, totaling 9 billion TRY, to the last three months is also expected to disappear in the last quarter of the year ([Our Budget Balance Report](#)).

Unemployment rate rose to 10.2%.

In May period, the unemployment rate increased by 0.8 percentage points yoy and came in at 10.2%. In this period, the non-agricultural unemployment rate also increased by 0.9 percentage points to 12.2%, while labor force participation rate increased to 53%. On the other hand, the youth unemployment rate including persons aged 15-24 increased by 2.4 percentage points compared to the same period of the previous year and reached 19.8%. The number of people working in the services sector, which accounts for 54% of the employed and employs a significant portion of the young population, has increased. In contrast, employment declined in the construction sector, where activity slowed down.

Financial markets...

USD was under pressure throughout the week due to the uncertainties about Fed's interest rate hikes and turmoil in the Trump administration. However, the deterioration in risk perception on the last trading day of the week due to the terrorist attack in Spain caused the USD to appreciate. EUR/USD parity, which followed a volatile course during the week, fell after ECB officials expressed concern over risk of euro overshoot. BIST-100 index, which made a fresh start to the week, erased some of its early gains in the following days and completed the week with a modest rise of 0.2%. Against dollar and euro, TRY appreciated by 0.5% and 1.1%, respectively. This week, Treasury's heavy bond issuances will be on the top of the domestic agenda, while geopolitical developments and Jackson Hole meetings to be held in the US on Thursday and Friday will be closely watched. The markets will focus on these meetings to get further clues on Fed's and ECB's next step on monetary policy.

INDUSTRY NEWS

Rise in iron and steel prices continues.

There have been remarkable price increases in iron and steel which are the two major inputs of the construction sector. According to Turkish Steel Producers Association, electrode supply being used as an input in steel production has decreased substantially. As a result, electrode prices went up almost 10 times since the beginning of this year. In addition to the supply cuts from Japanese and Chinese producers, other producers also supported the rise in electrode prices by not increasing their supplies. As another major input, scrap metal prices rose by almost 15% since the beginning of this year while refractor prices surged by 60% in the last 4-months. Consequently, structural iron prices are likely to continue rising and might negatively affect the construction sector's activity.

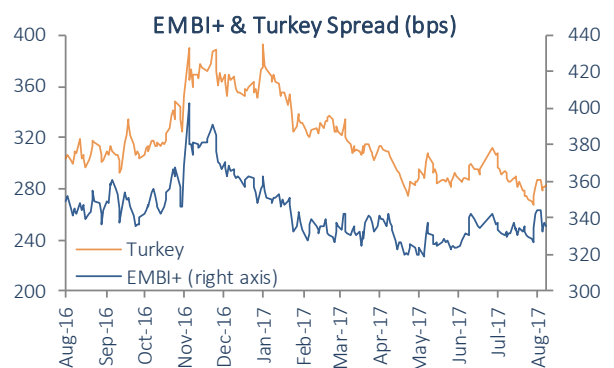
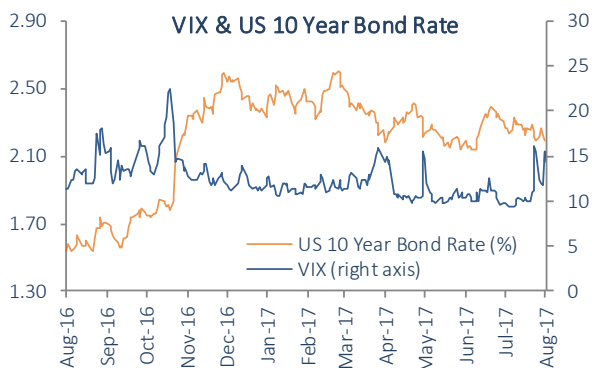
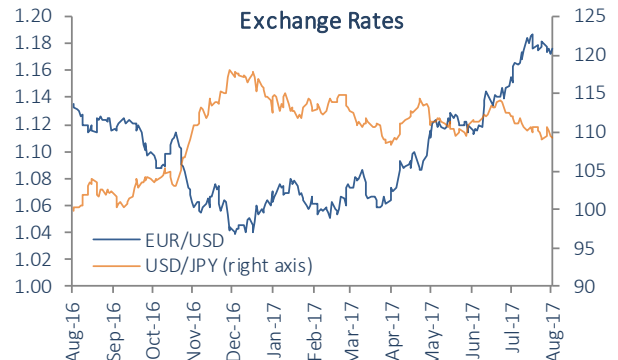
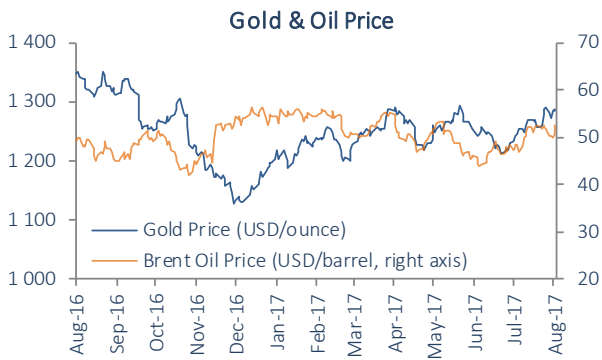
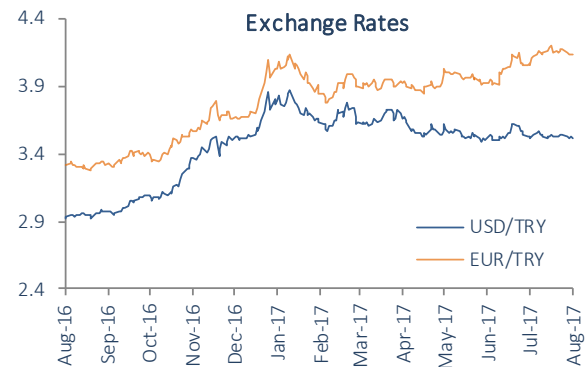
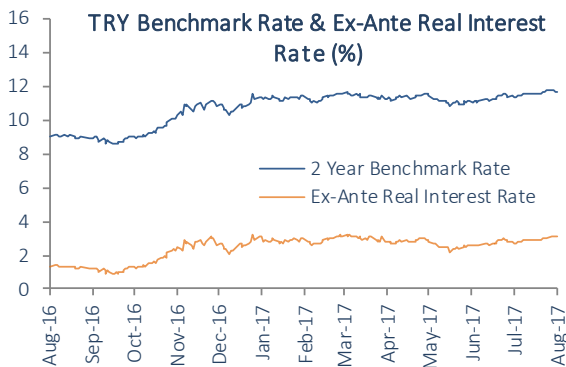
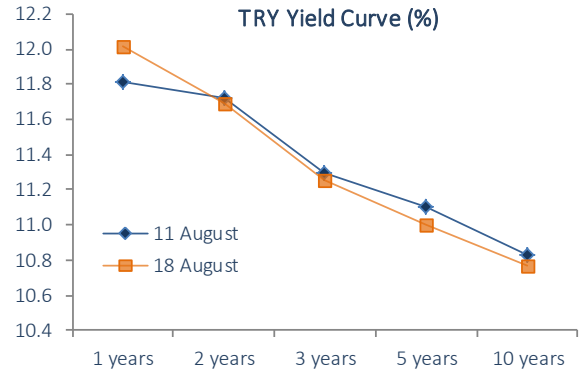
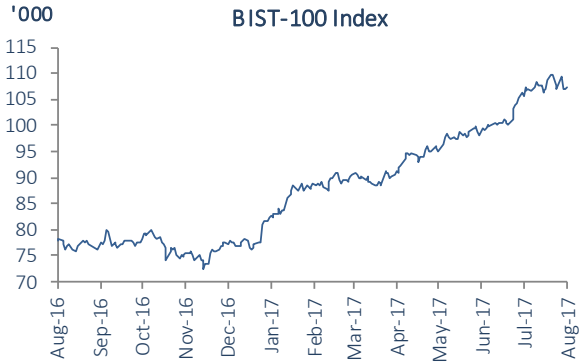
Food Committee has decided on dropping loss rates in fresh fruit and vegetables.

The Food and Agricultural Product Markets Monitoring and Evaluation Committee (Food Committee) discussed the topics like structural issues on fresh fruits-vegetable supply chain; livestock feed costs and support programs as well as the utilization of licensed warehouse model. In this context, certain standards were imposed in order to reduce the loss rates that currently stand as 25-30% on average and increase the general quality of the logistic process. Food Committee has decided on a mandatory implementation of the standards. Furthermore, Food Committee also decided to regulate the custom duties on various feedstuffs to reduce feed costs which actually consists more than 50% of total meat-production costs.

Additional tariffs on imports...

The Cabinet has announced that additional tariffs were imposed for the imports of certain industrial products. In this regard, some of the products that are subject to this regulation are escalators and moving platforms, LED lamps, engine filters, tower cranes and drilling machines. Moreover, tariffs on the imports of some industrial products such as LED lamps, boilers and pipes were also increased additionally by 7.6% to 20% on the condition that they are not imported from EU, South Korea and Malaysia.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
21 August	New Issuance of Fixed Coupon Bond with 17.08.2022 Maturity Date	August	-
22 August	Re-open of Fixed Coupon Bond with 15.05.2019 Maturity Date	August	-
	New Issuance of Fixed Coupon Bond with 11.08.2027 Maturity Date	August	-
	Euro Area ZEW Survey - Economic Sentiment	August	
23 August	Consumer Confidence Index	August	-
	Turkish Treasury Domestic Debt Redemption (2.3 billion TL)	August	-
	US New Home Sales	July	610K
	Euro Area Markit Manufacturing PMI (Preliminary)	August	56.3
	Euro Area Markit Services PMI (Preliminary)	August	55.4
24 August	House Sales Statistics	July	-
	US Existing Home Sales	July	5.57 million
	UK GDP Growth (Preliminary)	2017 Q2	0.3% qoq
25 August	Sectoral Confidence Indices	August	-
	Business Tendency Statistics and Real Sector Confidence Index	August	-
	Capacity Utilization Rate of Manufacturing Industry	August	-
	US Durable Goods Orders	July	-%5.7 mom
	Germany GDP Growth	2017 Q2	0.6% qoq

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