

## WEEKLY OUTLOOK

**Mixed signals from data releases in US...**

Before the Jackson Hole meeting, which was the most important agenda of last week, data releases in US gave somewhat mixed signals regarding the economy. Preliminary PMI data for August reached a 27-month high level with 56.0 thanks to revival in services sector. On the other hand, lower than expected house sales in July raised concerns about the activity in construction sector. Recently house prices as well as mortgage rates in US have been increasing. In July, new house prices rose by 6.3% yoy, while wage increases was limited to 2.5%, putting downward pressure on house demand.

The uncertainties in the US administration in previous weeks raised questions over the steps to be taken in the coming period. In this framework, markets are expected to focus on negotiations regarding the debt ceiling in the US in September. Credit rating agencies Fitch and Moody's have expressed that the US credit rating will be under pressure if the debt ceiling is not raised. If the talks to be held during the US Congress in September are unsuccessful, risk perception in global markets is likely to deteriorate.

US stock market, which has been on the rise in the first half of last week, gave away some of its earnings in the following days due to investors' cautious stance. US 10-year treasury yield tested the lowest levels of the last two months during the week, due to increasing uncertainties ahead of debt ceiling negotiations. DXY index, which shows the value of US dollar against other developed countries' currencies, has fallen to its lowest level in the last 16 months.

**Robust economic data in Euro Area...**

Economic activity in Euro Area remains strong, after experiencing a better-than-expected growth in the second quarter of 2017. According to preliminary data, manufacturing PMI in August got very close to the highest level of the last 6 years. In this period, manufacturing activity accelerated thanks to Germany, while activity in services sector lost some momentum. Decline in orders received was effective in this development.

**Jackson Hole meeting was closely monitored.**

While developed countries' loose monetary policy implementations are somewhat approaching to an end, last week investors have focused on the Jackson Hole meeting where policy makers got together to discuss economic issues. Investors were seeking potential signals for the future of developed countries' monetary policy stance. Fed Chair Janet Yellen, who spoke on Friday, actually did not give any clear signs regarding the Bank's future policy actions. Yellen stated that regulations that were imposed after the global financial crisis have secured the banking system. She also underlined the robust improvements that were recorded in inflation and labour market indicators in the US. Another key figure being at the spotlight, European Central Bank (ECB) Chair Mario Draghi did not say anything new either. Pointing out the acceleration of the global economic recovery, Draghi mentioned that US is actually performing better than the Euro Area and Japan. He indicated that Euro Area economies have also been

## WEEKLY DATA

	18 Aug	25 Aug	Change		18 Aug	25 Aug	Change
BIST-100 Index	107,202	109,755	2.4 % ▲	EUR/USD	1.1760	1.1924	1.4 % ▲
TRY 2 Year Benchmark Rate	11.69%	11.63%	-6 bp ▼	USD/TRY	3.5175	3.4379	-2.3 % ▼
US 10 Year Bond Rate	2.19%	2.17%	-2 bp ▼	EUR/TRY	4.1344	4.0980	-0.9 % ▼
EMBI+ (bps)	336	330	-6 bp ▼	Gold (USD/ounce)	1,284	1,291	0.5 % ▲
EMBI+ Turkey (bps)	283	279	-4 bp ▼	Brent Oil (USD/barrel)	52.5	52.0	-0.9 % ▼

bp: basis point

recovering thanks to ECB's loose monetary policy implications. Nevertheless, ECB Chair emphasized that there is more time needed to ensure price stability. Depreciation in US dollar became more visible right upon the announcements of the chairs of two major central banks. Hence, EUR/USD parity reaching 1.1940, hit record high since January 2015.

### ***Commodity markets...***

For the last couple of weeks, decline in US 10-year Treasury bond yields have been putting an upward pressure on gold prices. After having a volatile course in a narrow band during the week, gold prices hit 1,291 dollar/ons on Friday, approaching to its highest level since the beginning of June. Oil prices which have risen rapidly in the previous week also preserved their gains due to supply/demand conditions last week. This was mainly because of the sudden decline in US oil inventories as well as the comments made before the OPEC meeting scheduled in September. Accordingly, OPEC seeking for a new equilibrium for the global oil market announced that all the options would be on the table in order to ensure supply cuts. Moreover, the invitation of Libya and Nigeria to the next OPEC meeting was quiet noticeable as they were exempted from the previous supply cut. Consequently, Brent oil prices closed the week at 52 dollar per barrel, keeping their earlier gains.

### ***Strong Economic Activity in Turkey...***

As well as the measures taken to stimulate domestic demand, the strengthening of economic activity in the largest export market, Euro Area, enables the manufacturing industry to perform well in Turkey. In August, the Capacity Utilization Rate (CUR) of manufacturing industry increased by 2.5 points yoy and reached 78.8%. Thus, the CUR has recorded the fastest annual increase since January 2016, while seasonally adjusted figures showed 78.1%. The improvement in the manufacturing industry has spread widely on sectoral basis. In motor vehicles industry, where the production has been vivid in 2017, CUR had a slight monthly decrease due to the holidays in some factories. While CUR continued its upward trend in basic metal industry, it was realized at the peak of last 10 years with 76.8% in furniture manufacturing, for which the special consumption tax reduction period is due at the end of September.

### ***Strengthening in Turkish Lira...***

Last week, which had a quiet data agenda, Treasury's heavy domestic borrowing has been followed closely. The Treasury borrowed from the market TRY 7.9 billion with three auctions and completed its August borrowing schedule successfully. The average compound interest rate was realized as 11.71%, the highest since 2009, at the re-issue of 2-year benchmark bond.

The acceleration of capital inflows into the country ahead of Treasury's heavy borrowing caused TRY to appreciate. In addition, the rapid depreciation of the US dollar on the last trading day of the week was reflected in the domestic market as well. The USD/TRY parity, which declined by 2.3% on weekly basis, closed Friday at 3.4379, its lowest level since December 2016. The increase in the EUR/USD parity limited the gains of the TRY against Euro. The increase in demand for TRY assets also influenced the rise in BIST-100 index. The index rose by 2.4% w/w, approaching 110 thousand value.

## INDUSTRY NEWS

***Rapid increase in house sales...***

In June, house sales in Turkey displayed a sluggish performance due to calendar effects. In July, on the other hand, house sales rose rapidly. In this period, house sales reached 116k units, up by 42.4% compared to the same period of the previous year. The solid increase in house sales was mainly due to the base effect. Besides, house sales increased by 18.7% mom and confirmed that the slowdown in housing market experienced in June was temporary. Mortgaged house sales, which accounted for one third of total housing sales, increased by 62.4% yoy. Other sales also increased by 32.4% in this period. In July, new house sales rose by 42.6% yoy to 54k units. In Istanbul, the biggest housing market in Turkey, sales increased by 51.9%.

***Strong exports in leather sector...***

Leather sector, whose economic activity has slowed due to foreign demand-driven developments over the past year, started to show signs of improvement recently. According to the data released by the Aegean Leather and Leather Products Exporters' Association, in January-July 2017 period exports of the Turkish leather industry reached 858 million dollars. The upturn in footwear exports supported the rise in foreign sales. In the first seven months of the year, footwear exports were realized as 470 million dollars. The improvement in bilateral relations with Russia stimulated Turkey's footwear exports. Turkish footwear sector, employing 200k persons, ranks seventh in the global market.

***Domestic demand remained buoyant for white goods...***

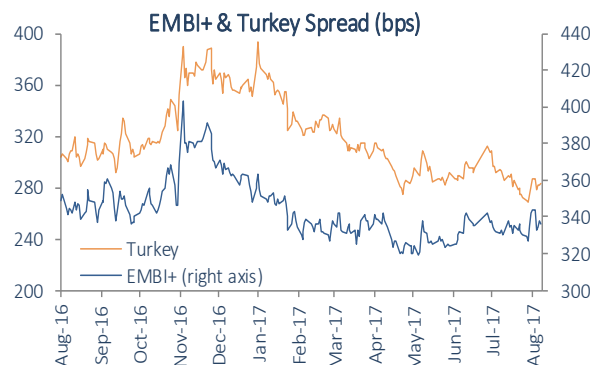
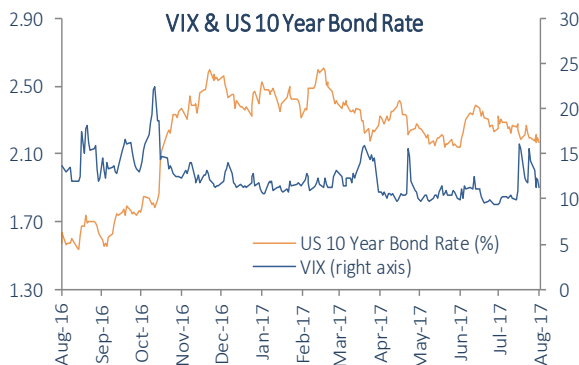
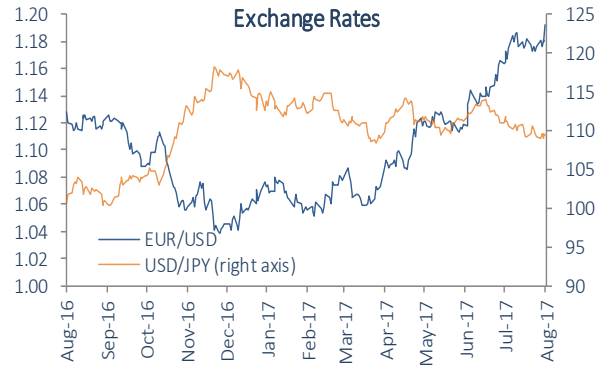
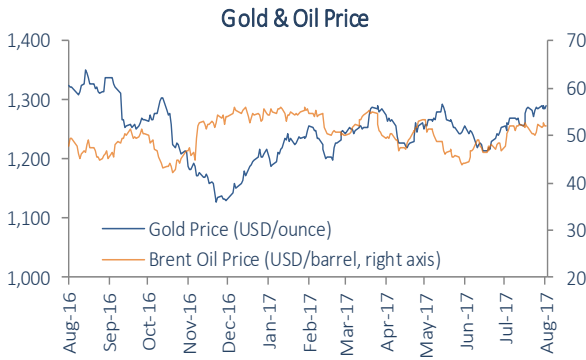
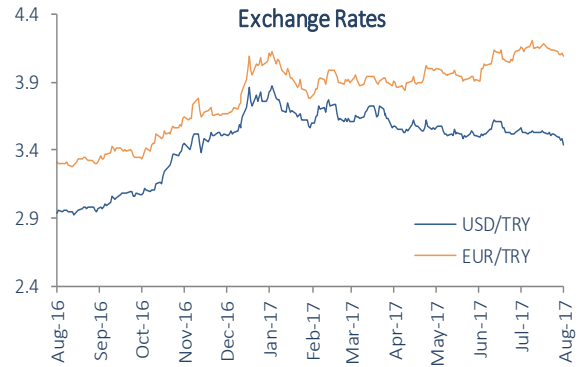
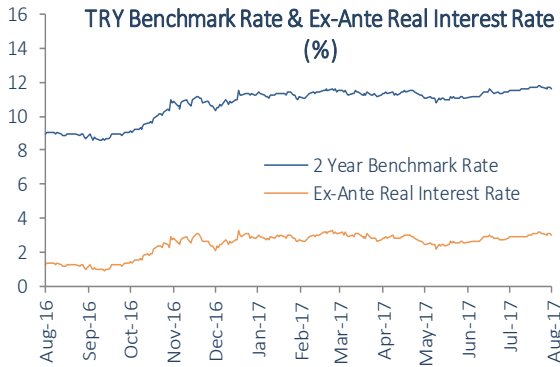
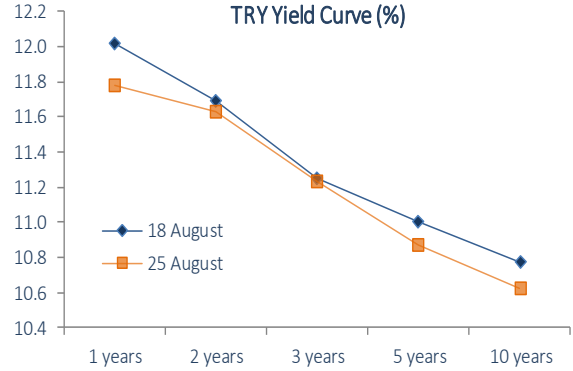
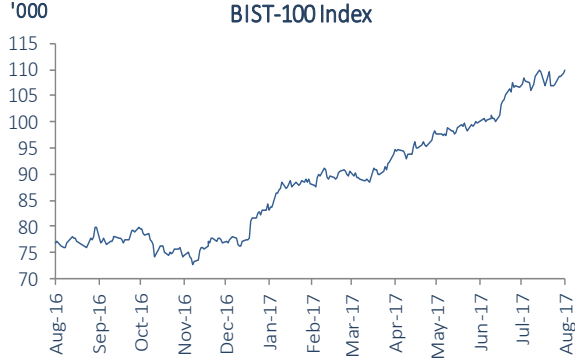
Temporary tax reductions to stimulate domestic demand continued to support the white good sales. According to the White Goods Manufacturers' Association of Turkey, domestic sales rose by 25% yoy and came in at 784.7k units in July. In this period, exports also increased by 22% to 1.7 million units. Thus, the domestic market grew by 27%, while exports increased by 5% in the first seven months of the year.

***Ongoing recovery in the tourism sector...***

Turkish tourism sector had severe difficulties at the beginning of the year due to the heightened security concerns. Recently, on the other hand, the optimism about the sector is growing. In July, the number of foreign visitors to Turkey rose by 46.4% yoy and came in at 5.1 million persons. Russian visitors increased by 788k and accounted half of the total increase in tourist arrivals. The number of tourists from Iraq, Iran and Saudi Arabia rose by 274k. However, the number of European visitors increased only slightly in this period and came in at 2.3 million.

Despite the increase in the number of foreign visitors, the ongoing decline in accommodation prices is eye-catching. According to the Hotel Association of Turkey's figures, occupancy rate in Turkey rose to 69.2% in July. However, the average daily room rate of 91 euro in July 2016 was realized as 80 euro this year.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
<b>29 August</b>	Foreign Trade Balance	July	
	US Consumer Confidence	August	120
<b>30 August</b>	Treasury's Domestic Debt Redemption		226 million TRY
	US ADP Employment	August	182k persons
	US GDP Growth	2 <sup>nd</sup> Quarter	2.8%
<b>31 August</b>	Euro Area Unemployment Rate	July	
	US Personal Consumption Expenditures	July	mom %0,4
<b>1 September</b>	US Unemployment Rate	August	4.3%
	US Non-farm Payrolls	August	180k persons

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