

	04-May	11-May	Change		04-May	11-May	Change
BIST-100 Index	102,599	101,852	-0.7 % ▼	EUR/USD	1.1958	1.1942	-0.1 % ▼
TRY 2 Year Benchmark Rate	15.36%	16.14%	78 bp ▲	USD/TRY	4.2230	4.3126	2.1 % ▲
US 10 Year Bond Rate	2.94%	2.97%	3 bp ▲	EUR/TRY	5.0573	5.1519	1.9 % ▲
EMBI+ (spread)	368	362	-6 bp ▼	Gold (USD/ounce)	1,315	1,318	0.2 % ▲
EMBI+ Turkey (spread)	359	366	7 bp ▲	Brent Oil (USD/barrel)	75.4	77.1	2.3 % ▲

bp: basis point

Economic data released in the US last week indicated easing inflationary pressures. Fed Chairman Powell, at a financial conference, stated that the role of US monetary policy in driving global financial conditions is often exaggerated. Economic indicators in Euro Area painted a mixed picture and Bank of England left its policy rate unchanged. Surging cost pressures in China added upward pressure on producer prices while consumer inflation pointed a relatively weak domestic demand. US' withdrawal from the nuclear deal with Iran and news regarding new US sanctions targeting Iranian economy pushed oil prices up. Domestic markets followed the Economic Coordination Committee meeting and announcements made afterwards.

#### Monthly inflation in the US came in under expectations.

Consumer price index in the US rose by 0.2% in April on a monthly basis, while the core index excluding food and energy prices increased by 0.1%; slower than the expectations. In the same period, producer inflation lost momentum. Michigan consumer confidence index, according to the preliminary readings, remain unchanged in May. Recent figures hinted that inflationary pressures in the US economy might be eased somewhat in the coming period. On the other hand, aftermath the US' decision on Iran led to an increase in oil prices. It was seen that the recent developments in oil prices might kindle inflation in the coming period.

Last week, Fed Chairman Powell told that monetary stimulus by major central banks has played a relatively limited role in influencing the capital flows to emerging markets in recent years. Powell said that the recovery in global economy and the rise in commodity prices are crucial on fluctuations in financial markets. Noting that market expectations and the Fed's statements were in line, Powell underlined that they would be as transparent as possible in their communication policy in order avoid any fluctuations in the markets.

#### Industrial production in Germany declined on an annual basis.

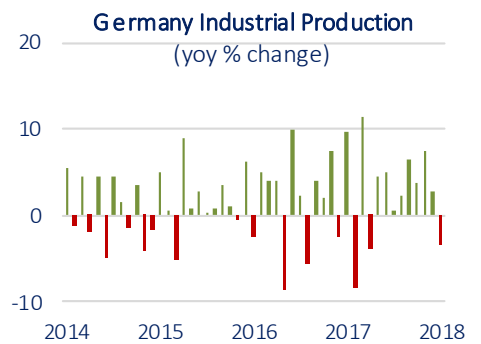
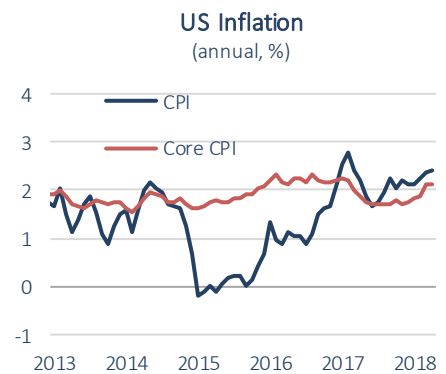
In March, factory orders in Germany fell by 0.9%, while industrial production recorded an increase of 1%. Besides, it was noted that industrial production declined on an annual basis for the first time in 8 months. On the other hand, industrial production in UK recorded a monthly increase of 0.1% in March, below expectations.

Bank of England (BoE) has not changed its policy rate and asset purchase program at its monetary policy meeting last week. In the minutes of the meeting, it was stated that strong export performance and favorable financial conditions supported investment appetite, despite the uncertainties arising from Brexit. Household expenditures, on the other hand, was relatively weak. In the first quarter of 2018, British economy recorded the lowest quarterly growth in the last five years.

#### Consumer prices in China declined.

In China, consumer prices declined faster than the expectations by 0.2% in April. Divergence between annual consumer and producer inflation indicated that domestic demand continued to be under pressure. Besides, rapid increase in exports and imports in April pointed the recovery in foreign trade.

On the other hand, there are downside risks to global trade due to protectionist measures. Negotiations between China and the US, which took place in Beijing during last week, failed to achieve a clear result and are expected to continue in Washington this week.



Source: Datastream

### Oil prices hit 3.5 years high.

Oil prices have reached the highest level for the last 3.5 years, due to the elevated geopolitical risks and possible sanctions on Iran. US President Trump announced on Tuesday that US has decided to pull out of the nuclear deal signed with Iran in 2015. It was stated that sanctions on Iran would be re-imposed upon the expiry of two periods in 90 and 180 days. The remaining permanent four members of the United Nations Security Council (UK, France, Russia and China) and Germany, on the other hand, preserved the deal.

### World Bank's review on Turkish economy...

According to World Bank's "Europe and Central Asia Economic Update" report dated May 2018, Turkey's GDP growth forecast is specified as 4.7% and 4.4% in 2018 and 2019 respectively while consumer inflation for 2018 year-end is estimated to be 10.4%, remaining at double-digits. It was noted in the report that despite the acceleration in exports, Turkey's strong economic recovery in 2017 came at a cost of widening macroeconomic imbalances. On the other hand, economic growth is projected to moderate and gradually converge to its potential level.

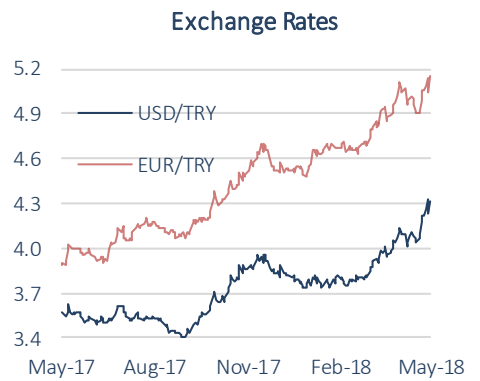
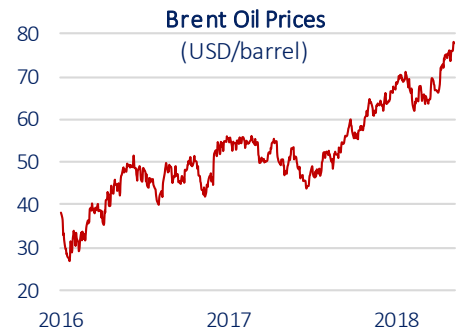
### Economy administration announced its commitment to fight against inflation.

Economic Coordination Committee was gathered under the leadership of the President. According to announcements made following the meeting, the government would keep prioritizing growth-based economic policies; however, would not give up on fiscal discipline. It was also expressed that necessary measures would be taken in order to decrease upward pressures on interest rates and foreign exchange rates and in turn battle more effectively with inflation. It was emphasized that the Committee would take steps to increase Turkey's appeal for foreign investors and to ease financing needs of real sector firms.

### Volatile course in domestic markets...

BIST-100 index, which declined below 100,000 in the middle of last week, recovered somewhat at the second half of the week thanks to the Economic Coordination Committee meeting and recovering risk appetite in global markets. The index completed the week with a decline by 0.7% w/w. 2-year benchmark bond yield increased by 78 bps compared to last week to 16.14%.

CBRT's decisions on Reserve Options Mechanism (ROM) and the daily amount of foreign exchange deposits against TL deposits auctions haven't had a significant impact on FX rates. The economic administration's announcements regarding the need for decreasing the upward pressure on foreign exchange and interest rates and US dollar's depreciation in global markets after lower-than-expected US inflation data limited the increase in foreign exchange rates in Turkey. Thus, TRY depreciated against dollar and euro by 2.1% and 1.9% w/w respectively.



### Data Releases

		Period	Consensus	Prior
<b>14 May</b>	Balance of Payments	March	-4.81 billion USD (A)	-4.15 billion USD
<b>15 May</b>	Unemployment Rate	February	-	10.8%
	Budget Balance	April	-	-20.2 billion TRY
	US Retail Sales (mom)	April	0.3 %	0.6 %
	Euro Area GDP (flash, qoq)	Q1	0.4 %	0.4 %
	Euro Area Industrial Production (mom)	March	0.6 %	-0.8 %
	China Industrial Production (yoy)	March	6.3 %	6.0 %
<b>16 May</b>	Turkstat Industrial Production (mom)	March	-	-0.2 %
	US Housing Starts	April	1.325 million	1.319 million
	US Industrial Production	April	0.6 %	0.5 %
	Euro Area Consumer Price Index (mom)	April	0.3 %	1.0 %
<b>17 May</b>	House Price Index	March	-	-
<b>18 May</b>	House Sales Statistics	April	-	-

(A) Actual

Source: Datastream

## Sectoral Developments

### Measures to revive housing loans...

After the reduction of VAT on house sales and the rate of title fees, last week public banks lowered interest rate for housing loans under certain conditions below 1%, a psychological level for housing loans. Via rate cuts, mortgaged house sales in the domestic market are targeted to rise and thus the housing stock, which has almost reached 2 million units, is expected to shrink.

Stagnating house sales is said to hit companies carrying out urban transformation projects with “construction right in return for flat” model, as well. Most of these companies are reported as small sized and/or new entrants to the market and are said to transfer their projects to other contractors in order to overcome their problems. In this regard, some of the urban transformation projects in the market, especially in Bağdat Avenue and Fikirtepe, are likely to be transferred to other companies. Sector officials drew attention to the problems regarding capital structure of the companies in the sector where most of the firms work with build-and-sell model and emphasized the rising financing needs when the sales went down.

### Automotive production declined.

Automotive Manufacturers Association figures revealed that total automotive production fell by 2% in January-April 2018. In this period, passenger car production decreased by %6 yoy whereas commercial vehicle production increased by 10% thanks to growing exports. In the first four months, domestic sales of passenger cars rose by 2% while commercial vehicle sales shrank by 7% yoy. Total sales remained flat however, becoming 236.804 units. Moreover, 7% decline in passenger car exports was quite noticeable. This actually stemmed from the high-base-effect due to 57% rise in exports the year before. Yet, foreign exchange developments led automotive sector’s exports to rise 20% in USD terms.

### Russia’s new code on clothing and footwear imports...

Russia, which has an important share in Turkey’s clothing and footwear exports, decided to introduce a special code system on a number of products including clothing and footwear starting from 2019. Russian authorities, who plan to integrate all items into the system in 5 years, aim to limit the usage of illegal and fake products. Accordingly, companies in Turkey that export these products to Russia are expected to adapt their products with this new system.

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