

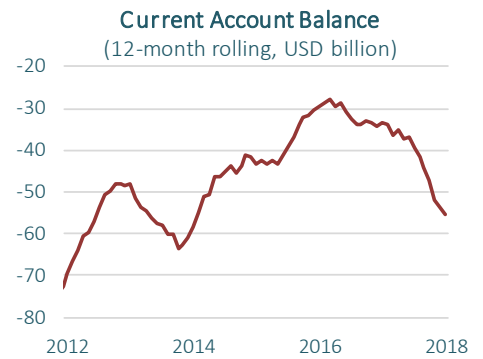
	11-May	18-May	Change		11-May	18-May	Change
BIST-100 Index	101,852	102,410	0.5 % ▲	EUR/USD	1.1942	1.1775	-1.4 % ▼
TRY 2 Year Benchmark Rate	16.14%	16.91%	77 bp ▲	USD/TRY	4.3126	4.4907	4.1 % ▲
Turkey 5-Year CDS	234.2	277.4	43 bp ▲	EUR/TRY	5.1519	5.2874	2.6 % ▲
MSCI EM Equity Index	1,164	1,138	-2.3 % ▼	Gold (USD/ounce)	1,318	1,292	-2.0 % ▼
US 10 Year Bond Rate	2.97%	3.07%	10 bp ▲	Brent Oil (USD/barrel)	77.1	77.7	0.8 % ▲

bp: basis point

Last week, while USD appreciated in global markets due to the expectations that Fed's rate hikes might accelerate, US Treasury yields increased rapidly. This development affected emerging markets negatively. Together with the deterioration in risk perception domestically TRY denominated assets were under sales pressure as well. In addition to the volatility in financial markets, data calendar in Turkey was quite busy. While current account deficit in March was recorded above the expectations, industrial production increased by 7.6% annually. Unemployment rate in February period covering the first quarter of 2018 declined to 10.6%.

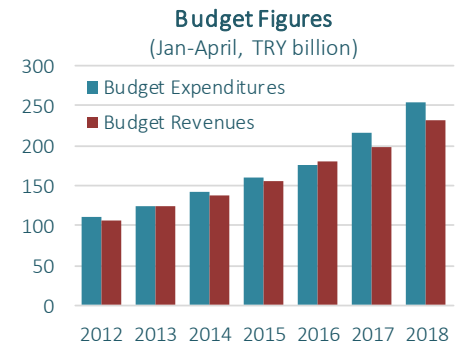
Current account deficit came in above expectations.

Current account deficit came in at 4.8 billion USD in March, above the market expectations of 4.1 billion. In this period, the uprising trends in oil prices and net gold imports played a crucial role in the deterioration of current account balance. On the other hand, the recovery in tourism revenues continued to limit the worsening of the balance. In the first quarter of the year, the current account deficit almost doubled compared to the same period of the previous year. Having reached 55.4 billion USD in March 12-months current account deficit hovered around 4 year highs. On the financing side, reserve assets and net errors and omissions stood out in March. Reserve assets contributed 4.8 billion USD to the financing of the current account deficit while net errors and omissions recorded an inflow of 2.9 billion USD. Foreign direct investments had recorded a net inflow of 1 billion USD, highest level in last five months. On the other hand, it was noteworthy that portfolio and other investments recorded a net outflow of 4 billion USD ([Our Balance of Payments report](#)).



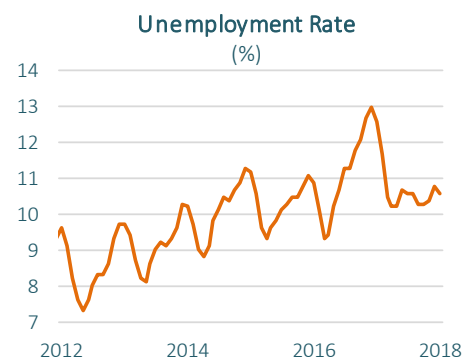
Budget deficit widened by 29.6% yoy in the first 4 months.

Central government budget deficit contracted by 7% yoy to 2.8 billion TRY in April. In this period, budget revenues expanded by 21.8% yoy to 64.6 billion TRY while budget expenditures surged up by 20.3% and amounted to 67.4 billion TRY. In the first four months of the year, budget performance seems to have weakened somewhat compared to the same period of last year. Central government budget deficit, which was 17.9 billion TRY in January-April 2017, was realized as 23.2 billion TRY in the same period of this year. Taking recent economic stimulus packages into consideration, budget deficit is likely to come under additional pressure ([Our Budget Balance report](#)).



Industrial production rose by 7.6% yoy in March.

Calendar adjusted industrial production increased by 7.6% yoy in March. Thus, industrial production surged by 9.8% in the first quarter compared to the same month of last year. Taking the relationship between industrial production and GDP growth into account, Turkish economy is estimated to record a growth rate of 7% in the first quarter. On the other hand, as manufacturing PMI came in below 50 threshold mark in April, manufacturing industry made a weak start to the second quarter.



Unemployment rate dropped to 10.6%.

In February period, the number of unemployed persons in Turkey decreased by 546K yoy to 3,354 K. In this period, unemployment rate became 10.6%.

Source: Datastream

falling by 2 points. In the same period, youth unemployment rate, covering the age group 15-24, dropped to 19%. On the other hand, seasonally and calendar adjusted unemployment rate remained flat at 9.8% while labor force participation rate came in at 53.2%.

Heavy agenda on US economic data...

In April US industrial production rose by 0.7% mom, indicating the economic activity remained to be solid in the second quarter of this year. Although jobless claims picked up faster-than-expected, 4-week average figures fell to a 49-year low.

Considering the fact that Japan economy shrank by 0.6% on an annualized basis in Q1 and the leading indicators suggested that economic activity in Europe lost some pace, US economy performed rather strong.

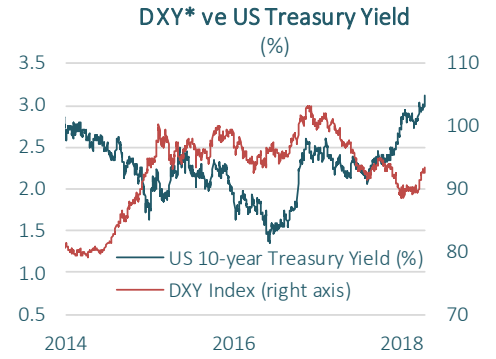
Global markets...

Expectations of an acceleration in Fed's upcoming rate hikes led USD to appreciate in the global markets while US 10-year Treasury bonds' yield surpassed 3.12%. Accordingly, DXY index which measures the value of USD against major developed currencies increased by 1.2% wow, reaching 6-month high. Brent oil price touched 80 USD per barrel due to on-going supply cuts led by OPEC and potential US sanctions on Iran.

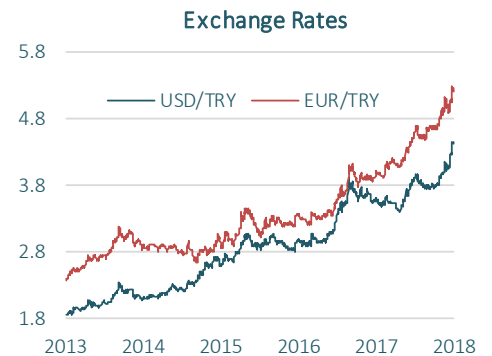
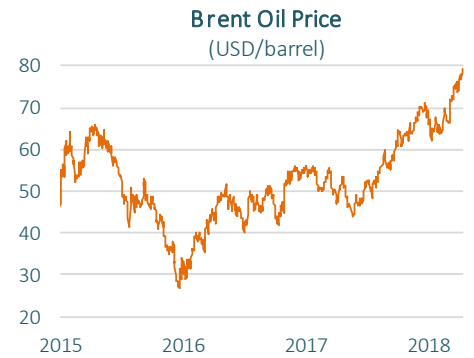
Selling pressure on TRY denominated instruments.

Deterioration of the risk perception towards Turkey had a negative influence on the demand for TRY denominated instruments. 2-year benchmark bond's yield reached 9.5 year-high, rising by 77 basis points to 16.91%. Last week, TRY depreciated against dollar and euro by 4.1% and 2.6%, respectively. For the last couple of weeks, there is a remarkable rise of volatility especially in the FX markets. In fact, USD/TRY that exceeded 4.50 in the middle of last week declined below 4.40 upon CBRT's announcements suggesting that policy tools can be used effectively if necessary. Nevertheless related fall in FX rates did not last long.

This week, CBRT's probable policy actions will be watched closely in the domestic markets. On the global markets' front, eyes will be on preliminary PMI figures along with the minutes of Fed and ECB.



(*) Index showing the value of USD against euro, Japanese yen, pound, CAD, Swedish kron ve Swiss franc .



Data Releases

		Period	Consensus	Prior
23 May	Consumer Confidence Index	May	-	71.9
	Treasury Debt Redemption	May	807 million TRY	-
	USA New Home Sales	April	677K unit	694K unit
	Fed Minutes	May	-	-
	USA Manufacturing PMI, preliminary	May	56.3	56.5
	Euro Area Manufacturing PMI, preliminary	May	56.0	56.2
	Germany Manufacturing PMI, preliminary	May	57.9	58.1
	UK Consumer Inflation, annual		2.3 %	2.5 %
24 May	USA Existing Home Sales	April	5,6 million unit	5,6 million unit
	ECB Monetary Policy Meeting Accounts	May	-	-
25 May	Capacity Utilization Rate	May	-	77.3 %
	Real Sector Confidence Index	May	-	111.2
	USA Durable Goods Orders	April	-1.3 %	2.6 %
	USA Michigan Consumer Sentiment Index	May	99.0	98.8
	UK GDP Growth, annual	2018Q1	1.3 %	1.2 %

Source: Datastream

Sectoral Developments

Slowdown in housing market...

According to the CBRT's housing price statistics, hedonic house prices (prices excluding quality) increased by 0.9% mom and by 9.3% yoy in March. Thus, increase in house prices continued to be below the inflation rate. In this period, housing prices increased rapidly in Thrace region and Izmir, while the change in housing prices in Istanbul was among the lowest.

Despite the slowdown in housing price increases, decline in house sales is noteworthy. While house sales declined by 9.9% yoy in April, decline in mortgage sales was 35.6%. On the other hand, house sales to foreigners rose by 25.8%. In April, new house sales decreased by 8.6% while existing house sales declined by 11.1%.

A new regulation Special consumption tax on fuel prices has been reregulated.

According to the decision of the Council of Ministers, should there is an increase in oil prices and/or FX rates, special consumption tax (SCT) on fuel prices will be reduced by the same amount. In case of a decline in global oil prices and FX rates, SCT will be readjusted till the SCT level on May 17th, 2018. While it is expected that the decision will support the monetary policy by pulling down inflation indicators, oil prices and possible increases in the FX rates are expected to create additional pressure on budget deficit.

Third package from Credit Guarantee Fund...

Along with the last protocol signed with the Treasury, Credit Guarantee Fund (KGF) introduced a new credit package of 35 billion TRY. A volume of 5 billion TRY of the total amount was allocated for the use of companies with export or foreign exchange earning activities. Remaining amount is defined for the use in business financing. Businesses will be able to use these credits for a total of 5-year maturity with 1-year grace period. This package is created out of the repayments of loans that were allocated last year.

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