	13-Jul	20-Jul	Change		13-Jul	20-Jul	Change
BIST-100 Index	89,898	94,082	4.7 % ▲	EUR/USD	1.1685	1.1718	0.3 % ▲
TRY 2 Year Benchmark Rate	20.21%	20.44%	23 bp ▲	USD/TRY	4.8542	4.7917	-1.3 % ▼
Turkey 5-Year CDS	318	304	-14 bp ▼	EUR/TRY	5.6718	5.6124	-1.0 % ▼
MSCI EM Equity Index	1,076	1,070	-0.5 % ▼	Gold (USD/ounce)	1,241	1,231	-0.8 % ▼
US 10-Year Bond Rate	2.83%	2.89%	6 bp ▲	Brent Oil (USD/barrel)	74.0	72.1	-2.6 % ▼

bp: basis point.

Last week, IMF's World Economic Outlook Update and statements of Fed Chairman Powell were closely followed. Maintaining its global economic growth forecasts, IMF expressed risks regarding global trade. Powell's comments suggesting that rate hikes will be gradual supported the global markets. In Turkey data release calendar was quite busy, while markets were rather volatile. Industrial production data and labor force statistics pointed out that economic activity is losing momentum. Deterioration in exchange rates and inflation expectations in CBRT's survey of expectations were quite noteworthy. This week ECB meeting and US' GDP growth figure will be followed globally, while domestic markets will focus on CBRT's meeting.

IMF did not change its global economic growth forecasts.

IMF released the July update of its World Economic Outlook Report. Despite the tension in global trade related risks, global economic growth forecasts for current and next year remained at 3.9% at IMF's report. Due to negative effects of protectionist policies on global trade, IMF cut its global trade volume growth forecasts for 2018 and 2019 by 0.3 and 0.2 points respectively. IMF lowered its growth forecasts for 2018 for advanced economies, especially for Euro Zone countries, while inflation in advanced economies is expected to rise faster than April forecasts. IMF stated that financial conditions are getting tighter for countries with high external debt such as Turkey. Turkey's growth forecasts for 2018 and 2019 were revised down to 4.2% and 3.9%, respectively.

IMF Projections

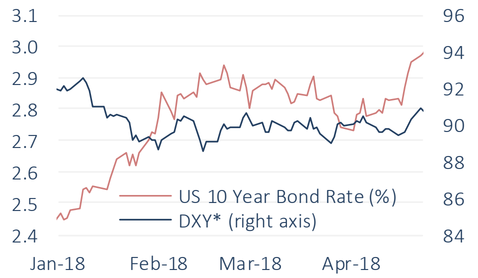
	July Projections 2018	July Projections 2019	Change* (pp) 2018	Change* (pp) 2019
Growth				
World	3.9	3.9	0.0	0.0
AE	2.4	2.2	-0.1	0.0
USA	2.9	2.7	0.0	0.0
Euro Area	2.2	1.9	-0.2	-0.1
UK	1.4	1.5	-0.2	0.0
Japan	1.0	0.9	-0.2	0.0
EE	4.9	5.1	0.0	0.0
Russia	1.7	1.5	0.0	0.0
China	6.6	6.4	0.0	0.0
Brazil	1.8	2.5	-0.5	0.0
Turkey	4.2	3.9	-0,2	-0.1
Inflation				
AE	2.2	2.2	0.2	0.3
EE	4.4	4.4	-0,2	0.1
World Trade	4.8	4.5	-0.3	-0.2

(*) Difference from April 2018

Fed Chairman pointed out to further gradual rate hikes.

In his testimony to the US Committee on Banking, Housing, and Urban Affairs, Fed Chair Powell stated that regarding the future of the monetary policy, the best way forward is to keep raising Fed funds rates gradually. Drawing attention to the recent upturn in wage rises, Powell cited that the US labour market is rather strong and the unemployment rate is expected to decline further. In his testimony, Fed Chair also mentioned that inflation has reached close to its 2% target and emphasized that they will continue to work on keeping it there. In addition to Powell's statements, Trump's criticism over Fed's rate hikes by saying he's "not thrilled" about it, drove US 10-year Treasury bond yields' to fall last week. Trump also mentioned about the disadvantages of having a strong dollar for the US economy with regards to global trade, highlighting the recent depreciation in Chinese Yuan.

US 10 Year Bond Rate and DXY



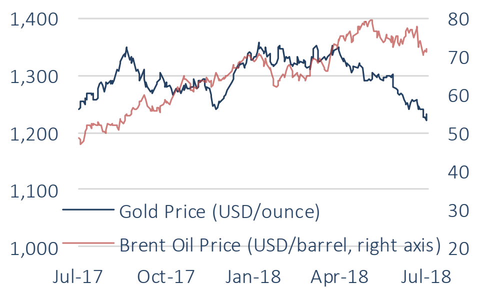
(*) A higher value of the index indicates a stronger USD.

Oil prices approached to 70 USD/barrel.

US announcement ensuring that sanctions to Iran would be imposed by taking into account the need for preserving the balance in the global oil market has led oil prices to descent last week. Furthermore, Saudi Arabia's lifting up its oil production above the expectations as well as Libya's re-opening its ports to oil trade contributed to the decline in oil prices. Consequently, Brent oil prices per barrel fell by almost 3% wow.

Gold prices also remained under pressure as a result of the appreciation in USD due to recent economic data on industrial production, retail sales and housing market which have all supported the positive expectations on US economic growth. Yet, gold prices, after testing the lowest levels for almost a year by diminishing to 1,211 USD/ ounce during the week, recovered partially at the week's close.

Gold & Oil Price



Source: Datastream

Industrial production in Turkey increased above expectations.

In May, calendar adjusted industrial production increased above the expectations by 6.4% yoy. Positive activities in mining and manufacturing industries were the main drivers of the increase in overall production. 20 out of 24 sub sectors of manufacturing industry experienced a positive growth rate in May. On the other hand, seasonal and calendar adjusted industrial production declined by 1.6% mom suggesting that economic activity is losing momentum in the second quarter of the year.

Employment in construction sector is decreasing.

Seasonally adjusted labor market indicators, which have showed recovery signs since 2016 year-end thanks to the accelerating economic activity and public incentives, weakened in the period of April 2018. Unemployment rate increased by 0.4 bps to 10.3% compared to the period of March. The number of employed persons declined by 34 K persons in the same period while unemployed persons rose to 103 K due to the growth in the labor force. The data showed that the number of employed persons in the construction sector have been decreasing for the last subsequent 3 periods.

Investors expect a rate hike from CBRT.

According to the results of the Survey of Expectations released by CBRT last week, market expectation of annual consumer inflation deteriorated further in July. Expectation of annual consumer inflation, worsening since April, was up by 1.6 bps compared to a month earlier and rose to 13.88%. Expectation of weighted average cost of the CBRT funding in the current month escalated by 65 bps compared to June to 18.32% in July. It indicates that survey participants expect a rate hike from CBRT's meeting, which will be held on July 24th.

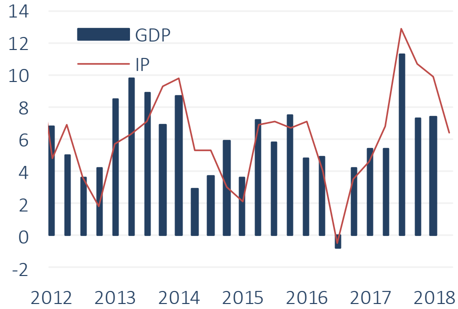
Fluctuating course in domestic markets...

Domestic markets showed a fluctuating pattern last week. Bank stocks in the stock exchange market were closely monitored while BIST-100 index completed the week up by 5% wow, thanks to the stock buys on the dips. USD/TRY, which was fluctuating between 4.76-4.87 during the week, closed the week below the level of 4.80. 2 year benchmark bond yield kept its upward trend above the level of 20%.

This week's agenda...

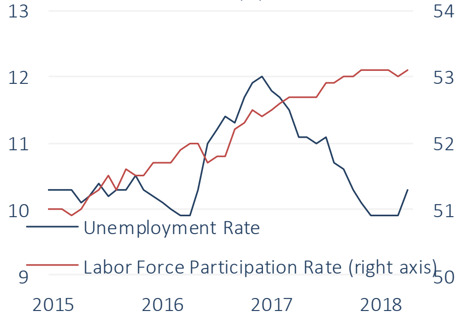
This week, there is a heavy data agenda to be followed both in domestic and international markets. ECB's monetary policy decision and GDP growth data to be released in the US will be in focus at global markets while domestic markets will watch the CBRT's monetary policy meeting.

GDP and Industrial Production*
(annual change, %)

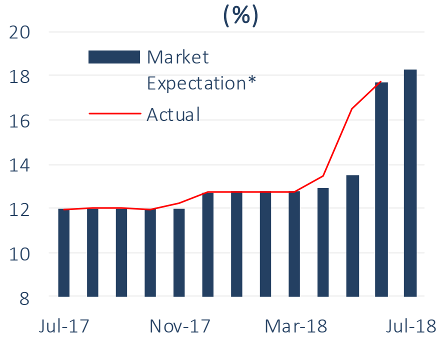


(*) Calendar adjusted figures. Last data indicates annual change in the April-May period.

Employment Figures
(%)



CBRT WACOF
(%)



(*) Current month WACOF expectation in the CBRT's Survey of Expectations.

Data Releases

		Period	Consensus	Prior
23 July	TR Consumer Confidence Index	July	73.1 (A)	70.30
	US Existing Home Sales	June	5.44 million units	5.43 million units
	EA Consumer Confidence (flash)	July	-0.70	-0.50
24 July	EA Mfg PMI (flash)	July	54.9	54.9
	US Mfg PMI (flash)	July	55.5	55.4
25 July	TR Capacity Utilization Ratio	July	-	78.3%
	TR Real Sector Confidence Index	July	-	104.6
	US New Home Sales	June	0.670 million units	0.689 million units
26 July	ECB Monetary Policy Meeting	-	-	-
	US Durable Goods	June	2.5%	-0.4%
	US Initial Jobless Claims	16-21 July	-	207k persons
27 July	US GDP Advance	Q2	4.0%	2.0%
	US Michigan Consumer Sentiment	July	98.5	97.1

(A) Actual

Source: Datastream, Turkstat, CBRT

Sectoral Developments

Increase in house sales …

In June, house sales kept the rising trend owing to the promotion and sales campaign in housing sector as well as the low-base effect. Total sales increased by 22.4% yoy to 119,413 units in this period. After recording double digits falls for eighth consecutive months, mortgage sales expanded by 35.3% in June to 47.648 units, the highest sales in the last 1.5 years, thanks to the reduction in interest rates for housing loans. Other sales, which constitute nearly 70% of total residential sales and are less volatile compared to mortgage sales, also increased by 15.1% in this period.

Weak course in housing prices…

Housing prices in Turkey increased by 9.5% yoy in May according to the Hedonic House Price Index, published by the Central Bank. However, housing prices continued to decline in inflation adjusted terms. Annual decline in inflation-adjusted housing prices in Istanbul reached 7.8% in this period. Increase in housing prices in Izmir, which have been positively diverging from Istanbul and Ankara, eased off in May. In parallel with the recent uptrend in inflation and the slowdown in demand conditions, it is expected that the downward trend in housing prices will continue in real terms throughout the country in the forthcoming period.

The increase in retail sales stood at the lowest level of the year in real terms.

In May, retail sales recorded an increase of 4.6%, the lowest increase of this year so far, according to the inflation-adjusted figures. Thus, slowdown in retails sales, as an important indicator for consumption expenditures, supported the view that the economic activity would show a moderate growth performance in the second quarter. Sales in textiles and apparel group increased by 7.1% on an annual basis due to seasonal factors. Sales in durable goods such as electrical goods and furniture, decreased by 2.6% yoy due to high-base effect.

Source: Datastream, CBRT, Turkstat

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