

	31-Aug	7-Sep	Change		31-Aug	7-Sep	Change
BIST-100 Index	92,723	93,274	0.6 % ▲	EUR/USD	1.1599	1.1551	-0.4 % ▼
TRY 2 Year Benchmark Rate	24.47%	24.34%	-13 bp ▼	USD/TRY	6.5180	6.3820	-2.1 % ▼
Turkey 5-Year CDS	582	522	-60 bp ▼	EUR/TRY	7.5929	7.4022	-2.5 % ▼
MSCI EM Equity Index	1,056	1,023	-3.1 % ▼	Gold (USD/ounce)	1,201	1,195	-0.4 % ▼
US 10-Year Bond Rate	2.85%	2.94%	9 bp ▲	Brent Oil (USD/barrel)	76.7	76.0	-0.9 % ▼

bp: basis point

Uncertainties regarding the emerging economies are increasing in the global agenda. Last week, Indonesian and South African assets were under intense selling pressure, following Argentinean and Turkish assets. Rising geopolitical risks related to Syria was also high on agenda. On the other hand, developments regarding trade wars were continued to be watched closely. Turkish economy grew by 5.2% yoy in the second quarter of the year and confirmed the loss of momentum in economic activity. Balancing in economic activity is expected to last for the rest of the year. CBRT, which expressed worries about price stability after inflation figures announced last week, is expected to increase interest rates this week at monetary policy meeting.

Emerging market concerns persist.

The risks over emerging market economies continued to be high on the global market's agenda last week. Following the cases of Argentine and Turkey, sell-offs in currencies of Indonesia and South Africa were effective on the performance of the emerging markets last week. The MSCI Emerging Markets Index slumped into a bear market due to rapid selling of assets of emerging markets. Furthermore, military operations launched by Syria and Russia in Idlib added to the negative outlook of the financial markets. Argentinian government unveiled new measures following sharp depreciation of peso and rising concerns over the country's economic activity. By the taken measures including raising export taxes and cutting the number of ministers by half, it is aimed to rebalance the budget at first.

Trade wars...

Financial markets have focused on when the US will start implementing tariffs on 200 billion USD of Chinese products following the end of the public comment period last Friday. Moreover, during the weekend the US President Trump called for Apple to produce its products in the US instead of China while he added that the US administration plans another round of tariffs on goods worth an additional 267 billion USD. Hence, all the goods imported from China will be entitled to the import tariffs. On the other hand, the failure of US and Canada to replace NAFTA and the news, which claims that Japan will be the next target of Trump's trade war, have created unease in the market.

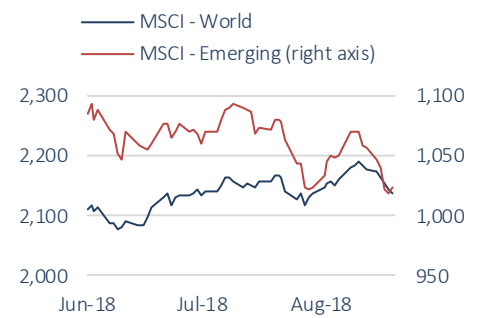
The US economy maintains its strength.

The ISM manufacturing index in the US surged to 14-year high in August by 61.3. New orders and sub-items of production showed a rapid recovery whereas export orders lost the growth pace due to the ongoing trade wars. Employment indicators also confirm the positive outlook of the US economy. Nonfarm payrolls increased by 201K in August, higher than market expectations. Additionally, 2.9% of annual rise in average hourly earnings indicated that upward inflation pressures may be built further. Economic data released in the US highlighting the strength of the country's economic activity and speeches by Fed officials bolstered Fed rate hike expectations.

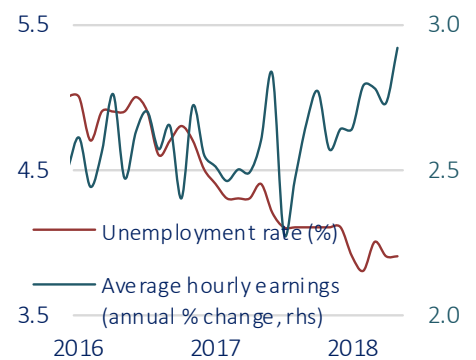
Euro Area economy grew by an annualized 2.1%.

Euro Area economy grew by 0.4% qoq and 2.1% yoy at Q2 2018. Peripheral economies were observed to perform much better compared to the core

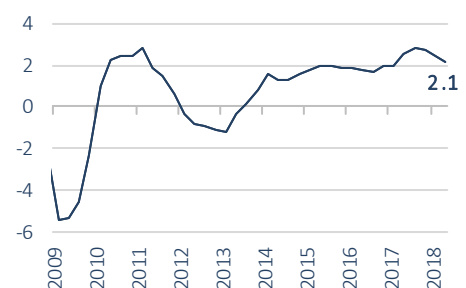
Global Stock Markets



US Labour Markets



Euro Area GDP Growth (annual % change)



Source: Datastream

economies. Investment and export growth made the highest contribution to the economic activity while rise in imports limited the GDP growth dramatically.

Momentum loss in economic growth...

According to the chained volume index, Turkish economy grew by 5.2% compared to the same period of the previous year, close to market expectations. In the second quarter, while private consumption expenditures and investment expenditures loss some momentum compared to the previous quarter, change in stocks limited the growth. Contribution of public consumption expenditures increased in this period and net export made a positive contribution to the growth after two quarters.

New assessments from Fitch and Moody's...

Fitch predicted a slower than expected growth in Turkish economy and a rebalancing process in the upcoming period due to the sharp fall in TRY. Fitch estimated that Turkish economy will grow by 3.8% this year, by 1.2% in 2019 and 3.9% in 2020. Fitch forecasted that current account deficit to GDP ratios in 2019 and 2020 will decline to 3.9% and 1.7%, respectively along with balancing process. On the other hand, the Agency expected that government deficit to GDP ratio will increase to 3.2% this year and to 3.6% next year.

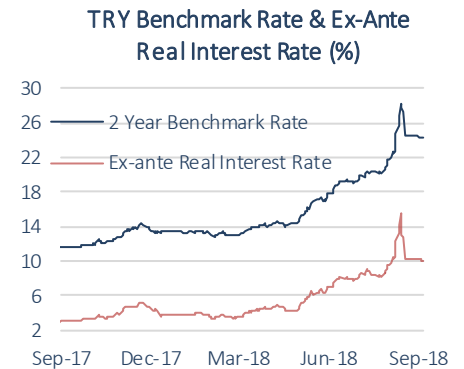
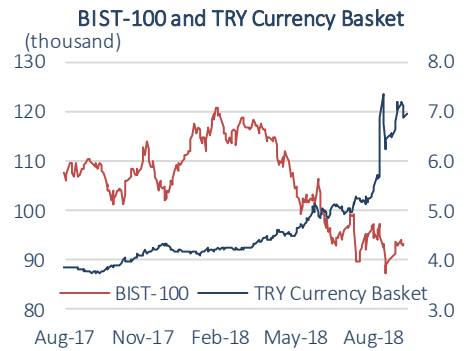
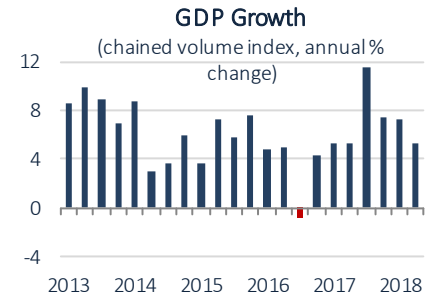
In the analysis published by Moody's, Turkey and Argentina were determined as the most vulnerable countries against corporate stress. Moody's expressed that the rise in Turkey's vulnerability stemmed from the significant foreign currency borrowing and the rise in corporate leverage.

Domestic markets...

TRY started the last week with selling pressure along with emerging countries assets. After the inflation data, CBRT announced that necessary actions will be taken in order to support price stability and monetary stance will be adjusted. CBRT's announcement supported TRY in the second half of the week as it created a strong rate hike expectation. TRY diverged positively from other emerging markets currencies and appreciated 2.3% against currency basket. BIST-100 index closed the week at 93.274, increasing by 0.6%. Having recorded a rapid increase recently, CDS risk premiums and bond yields decreased last week.

This week's agenda...

This week, central banks meetings' and their messages will be followed closely in both domestic and foreign markets. A significant rate hike is expected in CBRT meeting to be held on September 13th. US data releases (especially inflation figures) as well as ECB and BoE meetings will be high on global markets agenda.



Data Releases

		Period	Consensus	Prior
10 September	GDP Growth	2018 Q2	5.2% (A)	7.3%
	CBRT Survey of Expectations	September	-	-
11 September	Treasury Reissuance of 2 -Year Fixed Coupon Bond	September	-	-
	Germany Zew Index	September	-	-13.7
12 September	Treasury Debt Redemption (1.8 billion TRY)	September	-	-
	USA PPI, mom	August	0.2%	0.0%
	Euro Area Industrial Production	July	-	-0.7%
13 September	CBRT Meeting	September	-	-
	ECB Meeting	September	-	-
	BoE Meeting	September	-	-
	USA CPI, mom	August	0.2%	0.2%
14 September	CBRT Balance of Payments Statistics	July	-	-2.97 bn USD
	USA Retail sales	August	0.4%	0.5%
	USA Industrial Production	August	0.3%	0.1%
	USA Michigan Consumer Sentiment, flash	September	96.5	96.2

(A) Actual

Source: Datastream

Sectoral Developments

Contraction in automotive market gained momentum.

The contraction seen in domestic automotive market this year became apparent in August. In this period, while automobile sales contracted by 50.9% on a yearly basis, light commercial vehicle market shrank by 58.2%. Thus, automotive market shrank by 52.7% in the 8th month of the year. In the January-August period, the contraction in automotive market was 20.8%, while automobile and light commercial vehicle sales decreased by 18.5% and 28% yoy, respectively.

Measures against the rise in wheat prices...

The Ministry of Trade made a new arrangement on flour exports which are not recorded under the Inward Processing Regime (IPR). Accordingly, until the price stability is realized, export of this type of flour has been restricted. On the other hand, Turkish Grain Board stated that the rise in wheat prices was due to weather conditions, rising global prices and depreciating TL. The Board also added that the wheat sales which began in August will continue without interruption.

Regulation regarding export revenues...

The regulation regarding the transfer of export revenues to the intermediary banks directly and without delay was high on the agenda last week. Within the scope of regulation, it is stated that the period of bringing the revenue shall not exceed 180 days from the date of actual export and at least 80% of the revenue must be sold to a bank operating in Turkey.

BRSA has revised the swap arrangement.

The Banking Regulation and Supervision Agency (BRSA) announced that the transactions between banks and their partnership abroad having the nature of credit institutions and financial institutions subject to consolidation will be exempted from the calculation of the 25% restriction on swap transactions. In August, BRSA announced that total amount of banks' currency swaps (where at the initial date local banks pay TRY and receive FX) and other similar products should not exceed 25% of the bank's regulatory capital.

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