

	3-May	10-May	Change		3-May	10-May	Change
BIST-100 Index	93,946	88,533	-5.8 % ▼	EUR/USD	1.1200	1.1233	0.3 % ▲
TRY 2 Year Benchmark Rate	22.87%	24.36%	149 bp ▲	USD/TRY	5.9531	5.9757	0.4 % ▲
Turkey 5-Year CDS	435	484	49 bp ▲	EUR/TRY	6.6828	6.7262	0.6 % ▲
MSCI EM Equity Index	1,083	1,033	-4.6 % ▼	Gold (USD/ounce)	1,279	1,286	0.5 % ▲
US 10-Year Bond Rate	2.53%	2.46%	-7 bp ▼	Brent Oil (USD/barrel)	71.4	71.5	0.0 % ▲

bp: basis point

Last week trade wars related developments were high on the agenda. US President Trump's announcement that new tariffs will be introduced and the introduction of additional customs duty on Friday, when negotiations between the two countries were ongoing, increased concerns over trade wars in global markets. In addition to this development, Iran's announcement that it will not fulfill some of its commitments under the nuclear deal had a negative impact on global markets. After the decision of the YSK to cancel the mayoral election in Istanbul, volatility in domestic markets increased.

### Trade war concerns drove markets negatively.

Following US President Donald Trump's announcement that new tariffs will be introduced, there has been growing concerns that an agreement won't be reached in the meetings last week. The decree, which increases custom duty from 10% to 25% affecting 200 billion USD worth of goods imported from China, came into effect on Friday, when negotiations between the two countries were ongoing. In addition, Trump announced that there is an ongoing work to increase the custom duty to 25% for 325 billion USD worth of goods imported from China. While an agreement couldn't be reached between parties in last week's meeting, it is said that the presidents of USA and China may meet in G-20 Summit in June. In a week busy with trade negotiations and concerns, global stock markets followed a downward course.

### Iran informs that it will not fulfill some of its commitments under nuclear deal.

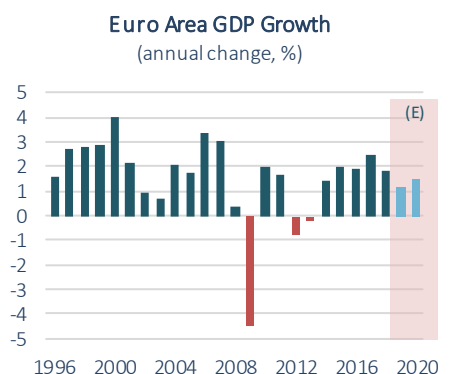
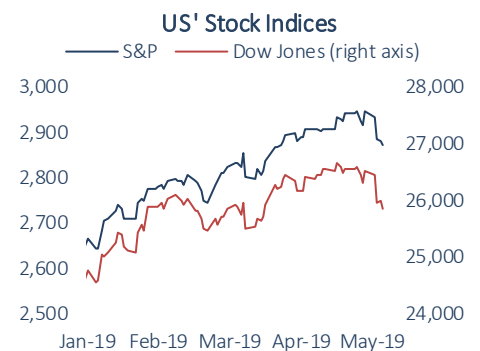
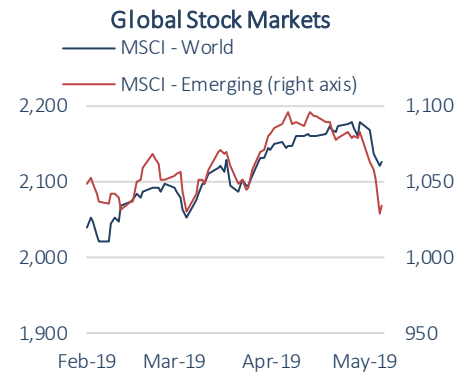
Iran announced that it was relaxing some curbs to its nuclear programme which came into effect in 2015. Iranian President Hassan Rouhani threatened to resume high level enrichment of uranium if England, France, Germany, China and Russia would not keep their promises to protect Iranian oil and banking sectors as per the agreement. Following Iran's announcement, US President Donald Trump imposed new sanctions targeting Iran's revenue from export of industrial metals and threatened with further action unless Iran fundamentally changed its behavior. Iran's iron, steel, copper and aluminum sectors, which are the largest non-oil export revenues, account for 10% of the country's exports.

### European Commission downgraded Euro Area's GDP growth outlook.

The European Commission published the second European Economic Forecast report of the year. The Commission predicted that the Euro Area's economy, which grew by 1.9% in 2018, will grow by 1.2% in 2019. (forecast of February: 1.3%). The growth expectation for 2020 is downgraded by 0.1 points to 1.5%. On the other hand, the Commission forecasted the inflation for 2019 and 2020 as 1.4%. In the report, the region's largest economy and Turkey's most important trading partner Germany's economic growth forecast for 2019 is downgraded from 1.1% to 0.5%, while the growth forecast for 2020 is revised to 1.5% from 1.7%.

### China's foreign trade surplus has contracted.

In China, exports fell by 2.7% yoy in April. The expectation was a 2.3% increase. In April imports rose by 4% following a four-month decline. China's foreign



Source: Datastream

trade surplus, which was expected to be 35 billion USD in this period, was realized at 13.8 billion USD. Also, annual consumer inflation climbed to the highest level in the last six months with 2.5%, while producer inflation was realized as 0.9%. The upward trend in imports and inflation pointed out that the steps taken to support the economic activity in the country has affected the domestic demand positively.

#### Current account deficit came in below expectations in March.

The current account deficit decreased by 4.1 billion USD yoy and came in at 589 million USD in March. Thus, the 12-month cumulative current account deficit declined to its lowest level since 2009 with 12.8 billion USD. In March, foreign direct investments, capital inflows in portfolio investments and the decrease in reserves contributed to the financing of the current account deficit. On the other hand, capital outflows were recorded in other investments and net errors and omissions items.

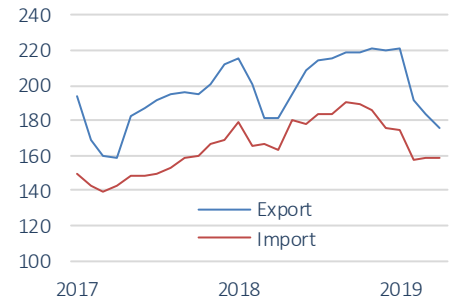
#### Domestic Markets...

In addition to the increasing concerns about the trade war between the US and China, the volatility in domestic markets rose during the week due to the uncertainty regarding the İstanbul elections. USD/TRY climbed over 6.24 during the week as the risk appetite decreased in domestic markets after the Supreme Election Court (YSK) canceled the mayoral election in İstanbul and announced that the elections will be renewed on June 23. While BIST-100 index tested below 90k during the week, 2-year benchmark bond approached 25%. Turkey's 5-year CDS spread drew near to 500 bps. Following the measures taken by the CBRT on Thursday, USD/TRY declined and completed the week at 5.98. While BIST-100 index decreased by 5.8% wow, 2-year benchmark bond closed the week at the 24.4%.

#### This week's agenda...

This week both global and domestic markets have heavy data flow. Growth data in Euro Area and leading indicators in the US stand out in global markets, while industrial production, budget and employment data will be closely monitored in domestic markets. Also, bond issues by Treasury will be high in the domestic markets.

China Foreign Trade Figures  
(billion USD, 3-month average)



Current Account Deficit  
(billion USD, 12-month cumulative)



CDS and BIST-100



#### Data Releases

		Period	Consensus	Prior
13-May	TR Balance of Payments, Current Account Deficit	March	589 million USD (A)	733 million USD
	TR Zero Coupon Bond Issuance	May	-	-
	TR CPI Indexed Bond Issuance	May	-	-
14-May	TR Industrial Production Index (annual change)	March	-	-5.1%
	EA Industrial Production Index (annual change)	March	-1.0%	-0.3%
	TR Fixed Coupon Bond Issuance	May	-	-
15-May	TR Floating Coupon Bond Issuance	May	-	-
	TR Budget Balance	April	-	-24.5 billion TRY
	EA GDP Growth (annual)	Q1	1.2%	1.2%
	US Retail Sales (mom change)	April	0.2%	1.6%
	US Industrial Production Index (mom change)	April	0.2%	-0.1%
	TR Unemployment Rate	February		14.7%
16-May	TR Domestic Debt Redemption	May	17.3 billion TRY	-
16-May	US Housing Starts	April	1.215 million	1.139 million
17-May	EA CPI, final (annual)	May	1.7%	1.7%

(A) Actual

Source: Datastream, Turkstat

## Sectoral Developments

### **The upper limit of installed capacity in unlicensed renewable electricity production facilities was increased.**

The upper limit of installed capacity to be exempted from the obligation to obtain licenses and establish a company for the production facilities based on renewable energy sources was increased from 1 MW to 5 MW. In addition, the unlicensed electricity production regulation was renewed based on supporting the producers in order to meet their own electricity needs.

### **Crude steel exports increased while its production decreased .**

In the first quarter of the year, Turkey's crude steel production decreased by 14.5% yoy to 8.2 million tons. Total exports of the sector in the same period increased by 15.5% and reached 5.8 million tons. In this period, the sector's imports contracted by 35.2% to 2.7 million tons. Import coverage ratio of the sector, which was 118% in the first quarter of last year, increased to 183% in the same period of this year. Although, domestic steel production is mainly based on scrap iron, iron ore prices are being closely monitored by the sector as a benchmark for input prices. It is anticipated that the iron ore price which was 90 USD/ton in early May will exceed 100 USD/ton in the coming period depending on the US sanctions against China and Iran.

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