

	7-Jun	14-Jun	Change		7-Jun	14-Jun	Change
BIST-100 Index	93,809	90,787	-3.2 % ▼	EUR/USD	1.1331	1.1207	-1.1 % ▼
TRY 2 Year Benchmark Rate	22.90%	22.67%	-23 bp ▼	USD/TRY	5.8300	5.9005	1.2 % ▲
Turkey 5-Year CDS	470	481	11 bp ▲	EUR/TRY	6.6070	6.6135	0.1 % ▲
MSCI EM Equity Index	1,007	1,015	0.8 % ▲	Gold (USD/ounce)	1,340	1,341	0.1 % ▲
US 10-Year Bond Rate	2.08%	2.09%	1 bp ▲	Brent Oil (USD/barrel)	64.6	63.0	-2.4 % ▼

bp: basis point

Last week, expectations regarding the trade war continued to influence global markets. In the week in which the inflation, production and employment data announced in US were closely monitored, the strengthening of dovish expectations for Fed's monetary policy supported the global stock exchange indexes and gold prices. On the domestic front as well as the Central Bank's June MPC meeting developments regarding Turkey-US relations took part in the focus of investors. International credit rating agency Moody's, downgraded Turkey's credit rating one notch to B1. While the current account deficit remained below the expectations in April, deterioration in employment figures continued in March.

Trade war developments remained high on agenda.

Last week, the US government's suspension of imposing additional tariffs on Mexico supported optimistic views on global trade. However, US President Trump's announcement that the ongoing US-China talks were halted raised trade war concerns. Stating that he wants to meet Chinese President Xi Jinping at the G20 Summit in Japan at the end of June, Trump said he would make his decision on tariffs after the meeting. Having accused China of devaluing its currency in order to have advantage in global trade, Trump indicated that he will raise tariffs on Chinese products if President Xi won't meet him at G-20.

Dovish expectations regarding the Fed's monetary policy are strengthening.

Following the non-farm payrolls data, which came in far below anticipations in May, initial jobless claims in the week ended on June 8 was realized above the expectations. The weak labor market data raised the concerns that the loss of momentum in economic activity started to reflect on the labor market. Moreover, with the annual inflation data which came below anticipations with 1.8% expectations that Fed may hike the interest rate within this year remained high in markets agenda. This supported global stock exchange indices and gold prices, while putting downward pressure on US bond rates. Having depreciated against major currencies in the previous week, US dollar retrieved some of its losses last week. On the other hand, retail sales and industrial production data announced on the last trading day of the week indicated a slight recovery in economic activity in May.

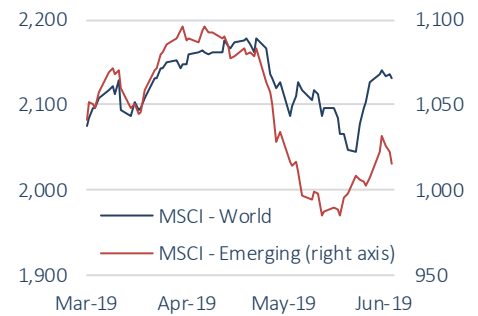
Moody's downgraded Turkey's credit note.

International credit rating agency Moody's, downgraded Turkey's credit rating by one notch to "B1". Turkey's credit note was "Ba3" (three notch below the investment grade) before the cut. Having announced credit outlook as "negative", the institution stated Turkey's increasing vulnerability to an acute and highly disruptive balance of payment crisis as a rationale. After Moody's credit rating decision, Ministry of Treasury and Finance stated that Moody's decision was incompatible with the economic indicators of Turkey and therefore it created question marks regarding the institution's analysis in terms of objectivity and impartiality.

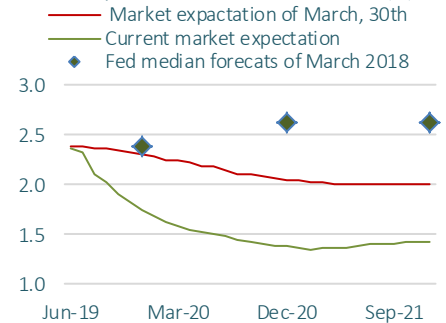
CBRT kept the policy rate unchanged.

At the MPC meeting held on June 12th, CBRT kept the one-week repo auction rate, which is the policy rate, unchanged at 24%. In the statement after the meeting it is indicated that the stabilization trend in the economy continues

Global Stock Markets



Expectations of Fed Funds Rate (%)



Moody's	Fitch	S&P	Investment Grade
.	.	.	
A3	A-	A-	
Baa1	BBB+	BBB+	
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	
B2	B	B	
.	.	.	

Source: Datastream

and the developments in domestic demand and the effects of monetary tightening support the decline in inflation. On the other hand, in the statement, the phrase “the Committee has decided to maintain the tight monetary policy stance until inflation outlook displays a significant improvement” is changed as “in order to reinforce the disinflation process, the committee has decided to maintain the tight monetary policy stance.”

Current account deficit remained below expectations. Deterioration in employment figures continues.

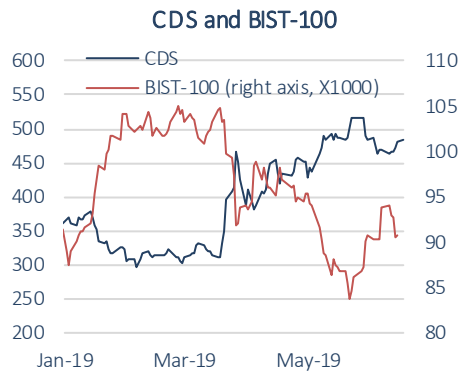
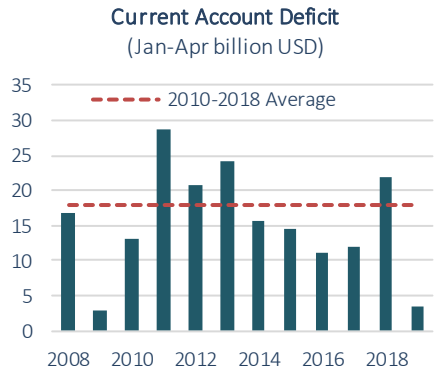
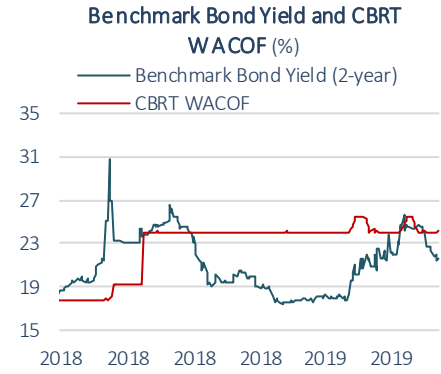
In April, current account deficit decreased by 76.2% yoy to 1.3 billion USD. Moreover, 12 month cumulative current account deficit continued to decline, reaching 8.6 billion USD, the lowest level since January 2004 (Our Balance of Payments Report). On the other hand, in March, the seasonally and calendar adjusted unemployment rate rose by 0.1 percentage points to 13.7%, the highest level since May 2009.

Domestic Markets...

Decreasing to the level of 5.74 during the week thanks to rising expectations that FED might cut interest rates, USD/TRY completed the week above 5.90 due to the accelerating tensions between the US and Turkey about the S-400 and F-35 issues. BIST-100 index, which rose more than 3,000 points on the last trading day of previous week, followed a downward trend last week and closed the week with a 3.2% decline. The Treasury and the Ministry of Finance borrowed more than the market's expectations in the last four auctions, while borrowing costs declined. The interest rate of the 2-year benchmark bond also declined by 23 basis points on a weekly basis.

This week's agenda...

This week, investors will focus on Fed's monetary policy meeting, which will end on June 19th. Although the markets do not expect a change in interest rates at this meeting, signals from the Fed administration will be closely monitored. In addition to the Fed meeting, the Central Banks of England and Japan will hold monetary policy meetings this week. Global markets will also follow the intensive data agenda in the US and Euro Area. In domestic markets, relations between Turkey and the US will be at the forefront of the agenda.



Data Releases

		Period	Consensus	Prior
June 17	TR Budget Balance	May	-	-18,3 billion TRY
	TR Unemployment Rate	March	14,1% (A)	14,7%
June 18	TR Treasury Lease Certificate Issuance (2 year)	June	-	-
	TR Industrial Production (annual change, %)	April	-2,5%	-2,2%
	EA CPI Inflation, final (annual)	May	1,2%	1,2%
June 19	TR Domestic Debt Repayment	June	1,393 billion TRY	-
	UK CPI Inflation (annual)	Mayıs	2,0%	2,1%
June 20	US Fed's Monetary Policy Meeting	June	-	-
	TR Consumer Confidence Index	June	-	55,3
	UK CB Monetary Policy Meeting	June	-	-
	Japan CB Monetary Policy Meeting	June	-	-
June 21	EA Consumer Confidence Index, flash	June	-6,7	-6,5
	EA Manufacturing PMI, flash	June	48,0	47,7
	US Manufacturing PMI, flash	June	50,5	50,5

(A) Actual

Source: CBRT, Datastream, Turkstat

Sectoral Developments

The BRSA took steps to revive domestic demand.

BRSA relaxed credit card installment limits for purchases. Accordingly, the installment limits for the furniture and electrical goods purchases are increased to 18 months. Installment upper limits for expenditures of domestic air transportation and accommodation, tax payments and television purchases up to 3.500 TRY are increased to 12 months. The limit for electronic goods purchases is set up to 6 months. In addition, the general installment limit for corporate credit cards is increased to 18 months. Moreover, minimum amount required to be paid is reduced to 30% of the period debt for all credit card limits. Another step taken to support the economic activity is announced by the Ministry of Treasury and Finance. Accordingly, twelve Turkish banks will offer companies a total of 25 billion TRY (\$4.31 billion) as part of a Treasury-backed loan package.

Automotive sales contracted by 54.6% in May.

Despite the ongoing tax cuts, sales of automobiles and light commercial vehicles contracted by 54.6% yoy to 33,016 units in May. Passenger car sales contracted by 52.6%, while light commercial vehicle sales declined by 62.1%. In May, where sales are generally high seasonally, sales were lower than the half of the 10-year average. The Association of Automotive Distributors (ODD) lowered its previous forecast for this year and reported that 350K-400K vehicles is expected to be sold throughout the year.

Overseas contracting services decreased in the first quarter of 2019 in value.

According to the data of the Ministry of Commerce, the total value of 40 projects undertaken by overseas contracting firms in January-March period was 1.3 billion USD. In the same period last year, the value of 32 projects undertaken was 3.4 billion USD. Due to the decline in demand in the main markets of the sector owing to low oil prices, the number of projects undertaken had decreased after 2013. The sector, which has recovered in 2018 with the increase in oil prices and the orientation to new markets, is also crucial in terms of the support it provides for construction material exports.

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