

	28-Jun	5-Jul	Change		28-Jun	5-Jul	Change
BIST-100 Index	96,485	99,635	3.3 % ▲	EUR/USD	1.1368	1.1224	-1.3 % ▼
TRY 2 Year Benchmark Rate	19.68%	18.98%	-70 bp ▼	USD/TRY	5.7873	5.6278	-2.8 % ▼
Turkey 5-Year CDS	397	376	-21 bp ▼	EUR/TRY	6.5857	6.3177	-4.1 % ▼
MSCI EM Equity Index	1,055	1,060	0.5 % ▲	Gold (USD/ounce)	1,409	1,400	-0.7 % ▼
US 10-Year Bond Rate	2.00%	2.04%	4 bp ▲	Brent Oil (USD/barrel)	67.3	64.5	-4.1 % ▼

bp: basis point

Last week, expectations that the Fed would cut interest rates in the near future continued to have a great impact on the markets. Data released during the week in the US pointing to loss of momentum in economic activity supported the expectations for interest rate cuts. However, better-than-expected non-farm payroll data released on Friday ease pressure on such expectations. Annual increase in CPI in Turkey decreased to 15.7% in June, which supported the expectations that CBRT would cut interest rates at this month's meeting. After the markets closed on the last trading day of the week, CBRT Governor was dismissed from his duty. While emerging markets were mainly positive last week due to an increase in risk appetite, domestic markets followed a similar course.

Deceleration in the US economic activity...

Last week's data release pointed out a deceleration in the US economic activity. Although June reading was above the expectations, ISM manufacturing index hit almost 3-year low due to weak exports and ongoing trade disputes with China and Mexico. After reaching 14-year high last August, owing to trade tensions, ISM manufacturing index followed a declining course since then. ISM services index also went down to 55.1 from 56.9, hitting the lowest level since July 2017. Manufacturing industry PMI confirmed weak activity in the sector despite rising slightly from the levels of 10-year low back in May.

Non-farm payrolls rose more than expected.

In June, US non-farm payrolls increased by 224K persons, beating market expectations of 160K. Unemployment rate rose by 0.1 point mom to 3.7% while rise in average hourly earnings came in slightly below the expectations at 0.2%. June readings that indicate a higher rise in employment compared to estimations ease pressure on the expectations that Fed would go fast on rate-cuts.

CBRT Governor Murat Çetinkaya was dismissed.

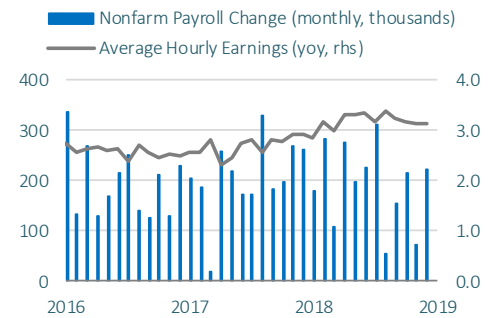
CBRT Governor Murat Çetinkaya whose term of office would expire in 2020 was dismissed by the presidency decree published in last Saturday's Official Gazette. He was replaced by Murat Uysal who was serving as the Deputy Governor of CBRT. Along with this decision, market expectations for a rate cut in the upcoming meeting to be held on 25th of July have strengthened.

Annual CPI inflation declined to 15.72%.

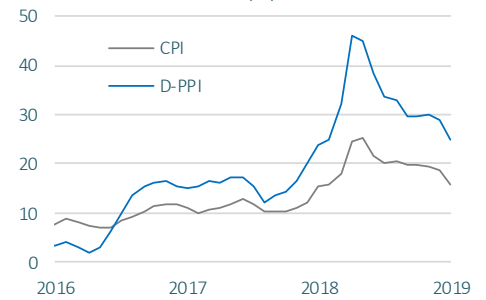
CPI increased in line with market expectations by 0.03% mom in June. Thus, annual CPI inflation came down to 15.72%, the lowest level since June last year. Domestic PPI (D-PPI) also recorded a slight monthly increase with 0.09% in this period, bringing the annual D-PPI inflation down to 25.04%.

Core inflation indicators, B and C indices, which show the underlying trend in inflation, improved in June. While the annual rise in B index slowed down to 16.28%, annual increase in C index became 14.86%. The fall in inflation rates became more evident in June due to seasonal factors. The contraction in domestic demand and the relatively stable Turkish lira since October 2018 also supported the improvement in inflation outlook. In July, on the other hand, the

Labour Market



Annual Inflation (%)



US 10-Year Treasury Yield (%)



Source: Fed, Datastream

rise in electricity, tea and sugar prices as well as the termination of special consumptions tax cuts may drive monthly CPI inflation up ([Our Inflation Report](#)).

CPI-based real effective exchange rate rose in June.

According to the data released by CBRT, CPI-based real effective exchange rate rose to 72.1 in June. Having decreased to record low with 62.5 in September 2018, the index followed an upward trend in the following period, reaching 77.3 in February. However, the index declined again since March. The rise in the index indicates that TRY appreciated in real terms, in other words, the value of Turkish commodities in terms of foreign commodities increased.

Treasury cash balance gave a deficit of 11 billion TRY in June.

According to Treasury and Finance Ministry data, Treasury cash balance posted a deficit of 11 billion TRY in June. Thus, cash deficit reached 77.9 billion TRY in January-June period. In the same period of the previous year, Treasury cash deficit was realized as 38.3 billion TRY.

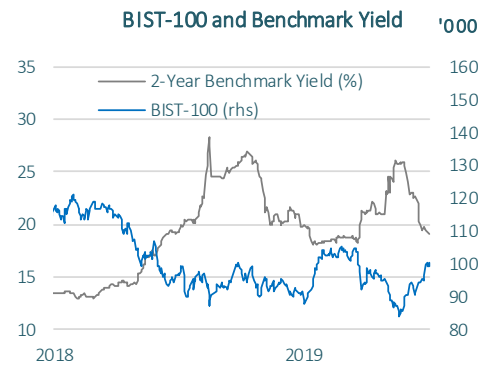
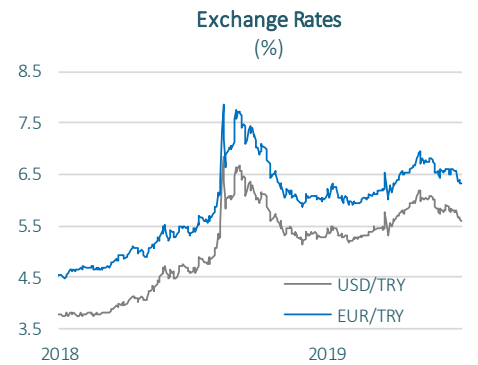
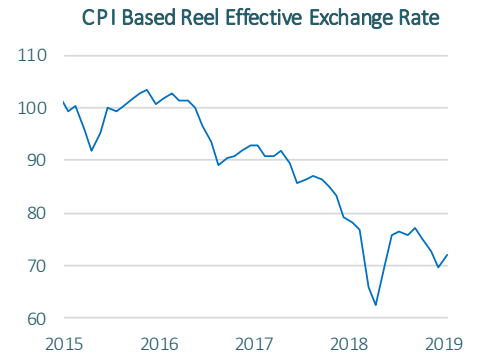
Financial markets...

While growing rate cut expectations of Fed put pressure on US dollar in global markets, 10-year US Treasury yields tested below 2% last week. This led to an increase in the risk appetite towards emerging markets and to a favorable trend in stock market indices. On the other hand, global markets came under pressure after US non-farm payrolls.

Domestic markets displayed a positive outlook due to the rising optimism about US-Turkey relations after G20 summit and increasing risk appetite towards emerging markets. While BIST-100 index rose by 3.3% on a weekly basis, 2-year benchmark bond yield fell by 70 basis points to below 19%. USD/TRY decreased by 2.8% and closed the week at slightly above 5.60, while EUR/TRY declined by 4.1% to 6.32. On the other hand, TRY have been under pressure this week due to the dismissal of CBRT's governor.

This week's agenda...

This week, Fed and ECB's minutes will be closely monitored in global markets. On the domestic front, the balance of payments and industrial production data will be released. Also, Treasury's bond issuances will be followed this week.



Data Releases

		Period	Consensus	Prior
July 8	New Issuance of Zero Coupon Bond with 14M Maturity	July	-	-
	Re-opening of CPI Indexed Bond with 5Y Maturity	July	-	-
July 9	New Issuance of Zero Coupon T-Bill with 3M Maturity	July	-	-
	Re-opening of Fixed Coupon Bond with 2Y Maturity	July	-	-
	Re-opening of Floating Coupon Bond with 6Y Maturity	July	-	-
July 10	China CPI Inflation, annual	June	2.7%	2.7%
	Treasury Debt Redemption	July	17.7 billion TRY	-
July 11	Fed Minutes	June	-	-
	TR Current Account Balance	May	0.2 billion USD	-1.3 billion USD
	USA CPI Inflation, annual	June	1.6%	1.8%
July 12	ECB Minutes	June	-	-
	TR Industrial Production	May	-	-4.0%
	USA PPI Inflation, annual	June	1.7%	1.8%

Source: Datastream

Sectoral Developments

The contraction in domestic automotive sales lost some momentum in June.

In June, domestic automotive sales decreased by 16.4% compared to the same period of the previous year. The contraction in the domestic market came in below 20% for the first time since May 2018, base effect and pulled forward demand due to tax incentives were decisive in this development. In the first half of the year, 195K vehicles were sold and domestic sales fell by 44.8% year-on-year. According to the Automotive Distributors Association (ODD) estimates, total sales in 2019 will be 350K-400K units. Accordingly, the contraction in the domestic market is expected to decelerate to 35% in the second half of the year.

Cement sales decreased by 41% in the first 4 months of 2019.

President of Turkish Cement Manufacturers' Association Nihat Özdemir said that total cement sales in the first four months of the year declined by 41% annually due to slowdown in economic activity and home buildings. On top of the contraction in domestic sales, Özdemir added that decline in cement prices is negatively affecting debt payments of the firms. In the same period, production also decreased by 33%. Sector seems to be trying to be active in foreign markets in order to compensate for the contraction in the domestic market. As a result, cement exports increased by 46% in the first half of the year compared to the same period last year.

Economic Research Division

İzlem Erdem
Chief Economist
izlem.erdem@isbank.com.tr

Hatice Erkiletliođlu
Asst. Manager
hatice.erkiletlioglu@isbank.com.tr

Alper Grler
Unit Manager
alper.gurler@isbank.com.tr

Ahmet Ařarkaya
Economist
ahmet.asarkaya@isbank.com.tr

Our reports are available on our website <https://research.isbank.com.tr>

LEGAL NOTICE

This report has been prepared by Trkiye İř Bankası A.ř. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Trkiye İř Bankası A.ř. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Trkiye İř Bankası A,ř, accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.
