

	5-Jul	12-Jul	Change		5-Jul	12-Jul	Change
BIST-100 Index	99,635	97,098	-2.5 % ▼	EUR/USD	1.1224	1.1269	0.4 % ▲
TRY 2 Year Benchmark Rate	18.98%	18.97%	-1 bp ▼	USD/TRY	5.6278	5.7081	1.4 % ▲
Turkey 5-Year CDS	376	410	34 bp ▲	EUR/TRY	6.3177	6.4455	2.0 % ▲
MSCI EM Equity Index	1,060	1,051	-0.9 % ▼	Gold (USD/ounce)	1,400	1,415	1.1 % ▲
US 10-Year Bond Rate	2.04%	2.11%	6 bp ▲	Brent Oil (USD/barrel)	64.5	66.7	3.3 % ▲

bp: basis point

Last week, Fed Chairman Powell's speech at the US Congress as well as the minutes of the Fed and ECB's June meetings were closely monitored in global markets. Fed minutes and Powell's statements strengthened the market expectations of an interest rate cut by Fed. ECB minutes pointed out that the monetary policy will be more accommodative in the forthcoming period. The 11th 5-year Development Plan submitted to the Turkish Grand National Assembly was put under the scope in domestic markets. According to the data released last week; in May the improvement in the current account balance continued, while industrial production rose on a monthly basis. Recent developments regarding the S-400 and drilling activities in Cyprus were the other main factors dominating the domestic markets last week.

Expectations of a Fed rate-cut are getting stronger.

Minutes of Fed's June meeting were published last week. Accordingly, several members of the FOMC favored for a rate cut so as to ease the negative effects of the trade wars and push up inflation which currently stands below the target. Some of the participants pointed out the need of more data collection before considering the rate cut; anyhow all members agreed on the idea that downside risks have increased substantially. In his speech in the US Congress Fed Chair Jerome Powell also drew attention to the trade war related risks and weak global economic activity, ensuring that Fed is ready for taking the "appropriate actions" in order to support economic growth. As FOMC minutes and Powell's statements supported the expectations for a rate-cut from Fed, US dollar depreciated against other major currencies. On the other hand, last week's data announcements revealed that annual consumer inflation in US became 1.6% in June. Rising by 0.3% mom, core CPI excluding food and energy recorded its highest increase for the last 1.5 years where annual rise in core CPI became 2.1%.

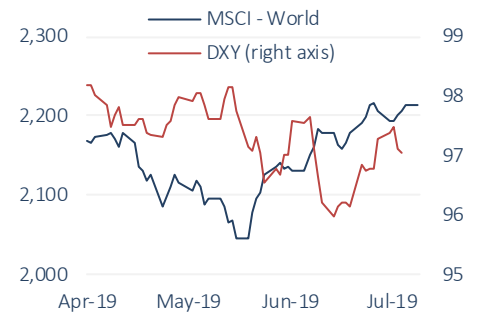
European Commission revised its growth forecast downwards.

European Commission revised its 2020 growth forecast for the Euro Area economy downwards by pointing out the uncertainties caused by the recent US trade policy which is cited as the major risk for the region. The Commission confirmed its growth forecast of 1.2% for this year for EA economies which has expanded by 1.9% last year. Yet growth forecast for 2020 was reduced from 1.5% to 1.4%. The Commission has also cut its inflation forecasts for 2019 and 2020 to the levels of 1.4% and 1.3% respectively. Besides, in several speeches last week, European Central Bank (ECB) officials cited that the Bank is ready to support the economy when needed. Additionally, according to the minutes of ECB's June meeting, all members seemed more willing to ease the monetary policy stance in an environment where uncertainties are rising.

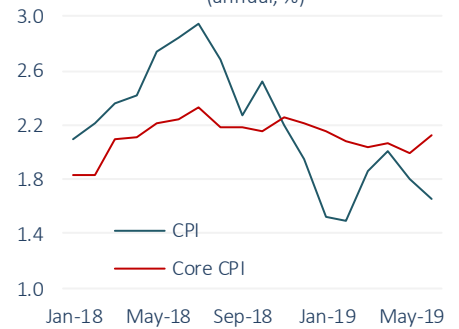
Improvement in current account deficit continues in Turkey.

Current account balance, which registered a deficit of 6.2 billion USD in May 2018, posted a surplus of 151 million USD in the same month of this year. The course of foreign trade balance and the rise in tourism revenues led this development. Continuing to improve 12-month cumulative current account deficit fell to its lowest level since February 2003 with 2,4 billion USD ([Our Balance of Payments Report](#)).

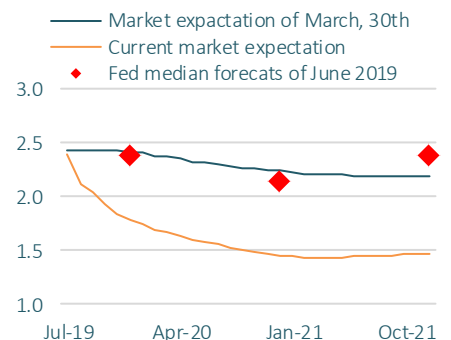
Global Stock Market Index & DXY



US Inflation (annual, %)



Expectations of Fed Funds Rate (%)



Source: Fed, Datastream

Recovery signals in industrial production...

According to the calendar adjusted figures, in May, the industrial production index declined by 1.3% yoy, below expectations. During this period, manufacturing industry and mining&quarrying sub-indices decreased, while the production in electricity, gas and steam industries increased. Thus, the year-on-year decrease of 4.7% in the first quarter of 2019 fell to 2.6% in April-May period. According to the seasonally and calendar adjusted figures, monthly increase of 1.3% in industrial production also supported the view that economic growth will exhibited a better outlook in the second quarter compared to the first one.

Fitch has downgraded Turkey's credit rating.

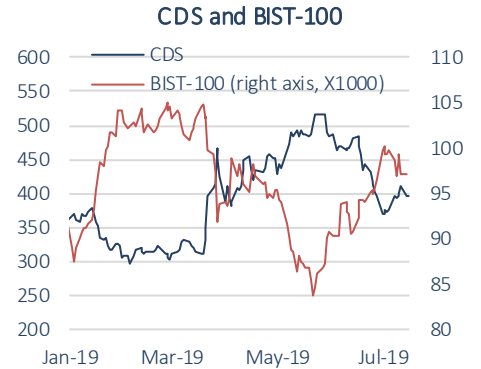
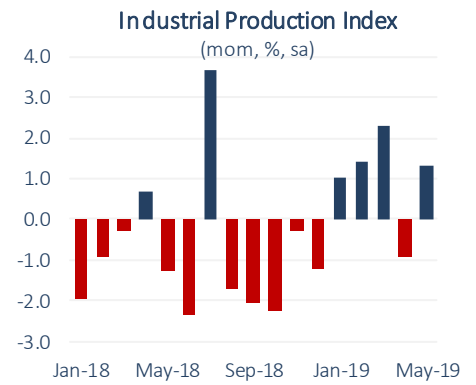
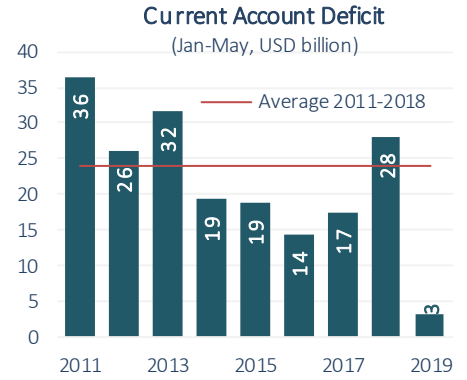
International credit rating agency Fitch has cut Turkey's credit rating by one notch highlighting the reassignment in the CBRT governance. While Turkey's credit rating was downgraded to "BB-", its rating outlook was kept as negative. Pointing out the risks linked to Çetinkaya's dismissal on harming the domestic confidence which is already weak, Fitch also emphasized rising uncertainties related to structural reforms and management of public finance.

Domestic markets...

Domestic markets showed a fluctuating course in the last week. The deposal of CBRT Governor, developments in S-400 and drilling activities in Cyprus came to the forefront as factors affecting the risk perception regarding the domestic markets. The increased risk appetite for developing countries in global markets limited the effects of these negative factors though. BIST-100 index closed the week with a 2.5% drop, while USD/TRY rose by 1.4% wow.

This weeks agenda...

In global markets an intensive data agenda will be followed this week. In US, the leading indicators of the economic activity retail sales and industrial production data come to the forefront. In domestic markets, the focus of investors will be on geopolitical developments.



Data Releases

		Period	Consensus	Prior
15-Jul	US NY Fed Manufacturing Index	July	4.3 (A)	-8.6
	China GDP Growth (annual)	Q2	6.2% (A)	6.4%
16-Jul	TR Unemployment Rate	Nisan	13.0% (A)	14.7%
	TR Budget Balance	June	-12.1 billion TRY (A)	-12.1 billion TRY
	US Retail Sales (mom)	June	0.3%	0.5%
	US Industrial Production Index (mom)	June	0.2%	0.4%
	US Capacity Utilization Rate	June	78.1%	78.1%
	17-Jul	TR Domestic Debt Repayment	July	1.6 billion TRY
17-Jul	EA HICP (annual)	June	1.2%	1.2%
	US Housing Starts	June	1.265 million unit	1.269 million unit
18-Jul	US Jobless Claims	8-13 July	-	209k person
19-Jul	US Michigan Consumer Sentiment Index	July	98	98.2
	TR Domestic Debt Repayment	July	109 million TRY	-

(A) Actual

Source: Datastream

Sectoral Developments

Shopping mall turnover Index rose in May.

Having increased by 23.1 yoy in May, shopping mall turnover index pointed out a recovery in retail sector. Since, annual consumer price inflation was 18.7% in the same period, the inflation adjusted increase in the shopping mall turnover index was 3.7% on annual basis. The highest turnover increases were recorded in clothing and footwear sales. On the other hand, the number of mall visitors decreased by 1.1% in this period.

Automotive exports fell in June.

According to the data of Uludağ Automotive Industry Exporters Association, in June total exports of automotive sector decreased by 14% yoy and became 2.2 billion USD. Thus, total exports of the sector contracted by 6.8% yoy in the first half of the year to 15.3 billion USD. Despite the decline, the sector maintained its position as the “locomotive sector of exports”. Since, European Union is the main export market of the sector, the fluctuations in EUR/USD parity were also influential on the contraction of sectors exports.

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