

	26-Jul	2-Aug	Change		26-Jul	2-Aug	Change
BIST-100 Index	102,837	99,679	-3.1 % ▼	EUR/USD	1.1125	1.1107	-0.2 % ▼
TRY 2 Year Benchmark Rate	16.35%	16.18%	-17 bp ▼	USD/TRY	5.6708	5.5587	-2.0 % ▼
Turkey 5-Year CDS	352	373	22 bp ▲	EUR/TRY	6.3066	6.1743	-2.1 % ▼
MSCI EM Equity Index	1,049	1,004	-4.3 % ▼	Gold (USD/ounce)	1,418	1,440	1.6 % ▲
US 10-Year Bond Rate	2.08%	1.86%	-23 bp ▼	Brent Oil (USD/barrel)	62.7	61.0	-2.7 % ▼

bp: basis point

Despite the resumption of trade negotiations between the US and China, the US administration's decision to impose additional tariffs on Chinese products signaled an escalation in the trade war tensions. Fed cut the policy rate by 25 bps at its July meeting in line with the expectations refrained from signaling further rate cuts. While the foreign trade deficit continued to narrow in Turkey, annual inflation came in at 16.65% in July. CBRT lowered its year-end inflation forecast to 13.9% by revising its expectations for food and energy prices. CBRT also raised FX reserve requirement ratios by 100 bps.

US decision to escalate trade war tensions...

Despite the resumption of talks between the US and Chinese delegations, expectations for an agreement are weakening. US President Trump announced that US would impose 10% tariffs on 300 billion USD of Chinese products on September 1st, 2019. Trump said that China has failed to meet its commitment to purchase large quantities of agricultural products from USA. On the other hand, People's Bank of China allowed the USD/Yuan parity to exceed the 7, strengthening concerns that the currency wars would accompany the trade war.

Fed cut policy rate by 25 basis points.

In its meeting ended on July 31, Fed cut the policy rate by 25 basis points in line with market expectations. Fed also decided to end its balance sheet downsizing operations which was supposed to end in September. Fed Chairman Powell cited signs that global economy is losing momentum and tensions between US and its trading partners as the reasons for the rate cut. Powell added that this rate cut is not the beginning of a long series of rate cuts. While Powell's statements failed to meet market expectations, US dollar appreciated in global markets.

US nonfarm payrolls registered as 164K persons in July. In this period, unemployment rate remained as low as 3.7%. Strong outlook in labor market contributed to the rapid increase in consumer confidence in July, reaching the highest levels of this year. On the other hand, ISM manufacturing PMI declined to 51.2, lowest since August 2016.

Weak economic outlook in Euro Area...

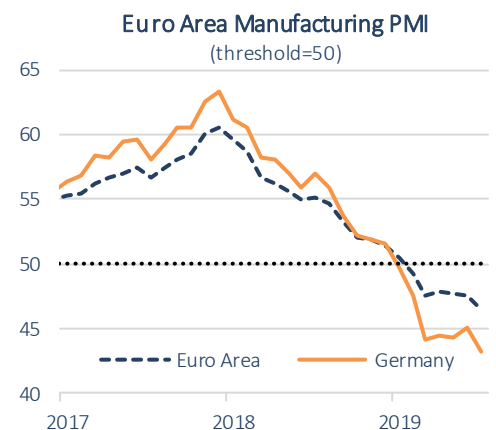
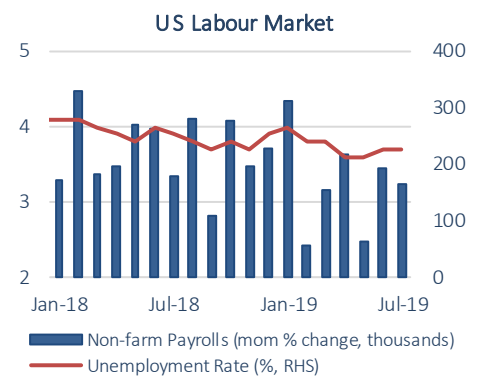
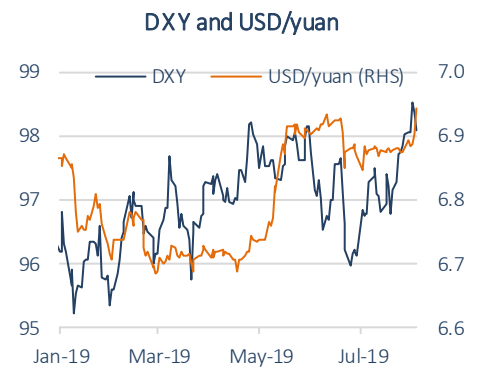
Recent data releases in Euro Area depict a weak economic activity. Manufacturing PMI fell to 46.5 in July, indicating that contraction in the industry is ongoing for six consecutive months. In Germany, the largest economy in the Area, manufacturing PMI continued to fell sharply and came in at 43.2. Slowdown in economic activity was prominent in the second quarter of the year. In this period, according to the preliminary data, economy expanded by 0.2% compared to the first quarter. In addition, core inflation in the Area fell to 0.9% on annual basis, moving away from ECB target.

BoE revised its growth forecasts.

Bank of England (BoE) kept its policy rate unchanged in its meeting on August, 1st. BoE stated that decline in investments due to rising Brexit-related uncertainties and the weakness in trading activity as a result of the slowdown in global growth affected the UK economy negatively. In this context, BoE revised its growth forecasts for 2019 and 2020 downwards by 0.2 and 0.3 points respectively to 1.3% for both years.

Contraction in foreign trade deficit continues.

According to preliminary figures announced by the Ministry of Trade, export volume



Source: Datastream

rose by 8.5% yoy whereas import volume reduced 8.3% yoy in July. Thus the foreign trade deficit continued to shrink in the first month of the third quarter.

Manufacturing PMI remains below threshold.

Manufacturing PMI has declined to 46.7 in July. While positive outlook on new exports orders has been maintained, easing inflationary pressures supported the production in the manufacturing industry. Although contraction in the output continued, a relatively lower rate of reduction in the production sub-index has strengthened the expectations of a slight recovery in the manufacturing sector in the coming period.

CBRT revised its year-end inflation forecast downwards.

In its third Inflation Report of the year, CBRT revised down its year-end inflation forecast for 2019 by 0.7% to 13.9%. This revision was stemmed mainly from the downside revisions in food inflation and oil prices. Besides, CBRT kept its forecast for 2020 unchanged at 8.2%.

CBRT has changed the reserve requirement ratios for FX deposits.

CBRT has announced that reserve requirement ratios for FX deposits/participation funds have been increased by 100 basis points for all maturity brackets. Also, the remuneration rate for USD-denominated required reserves, reserve options and free reserves held at the Central Bank of the Republic of Turkey has been decreased by 100 basis points and set as %1. According to CBRT's announcement, approximately 2.1 billion USD of FX liquidity is planned to be withdrawn from the market as a result of these revisions.

Inflation came in below expectations in July.

CPI increased by 1.36% mom in July, while D-PPI decreased by 0.99%. Thus, annual CPI inflation rose to 16.65%. On the other hand, D-PPI increased by 21.66% yoy.

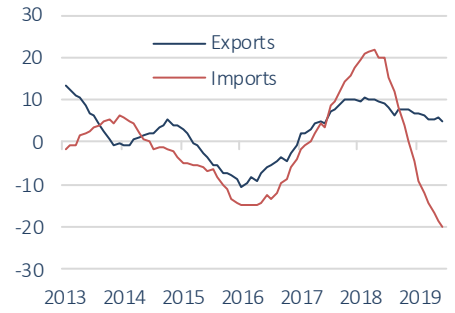
Domestic markets...

Last week, the sell-off in global markets due to rising trade war tensions and Fed's caution to give dovish signals for the upcoming period was reflected also in the domestic markets. BIST-100 index, which started the week with an upward trend, remained under selling pressure in the following days. Turkish lira appreciated against the US dollar and the euro. Even though the interest rate of the 2-year benchmark bond continued to decline and fell below 16% for the first time since May 2018, it completed the week at 16.18%.

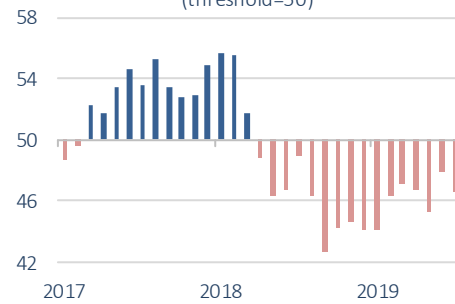
This week's agenda...

Trade wars Developments are expected to be at the forefront of global markets this week. In domestic markets, balance of payments data for June will be closely monitored.

Foreign Trade
(12-month cumulative, yoy% change)



Manufacturing PMI
(threshold=50)



BIST-100 Index
(,000)



Data Releases

		Period	Consensus	Prior
August 05	TR CPI, monthly	July	1.36% (A)	0,03%
	TR D-PPI, monthly	July	-0.99% (A)	0.09%
	USA ISM non-manufacturing Index	July	55.5	55.1
August 07	TR Treasury Cash Balance	July	-	-
	TR Domestic Debt Repayment	August	736 million TRY	-
	Germany Industrial Production, monthly	June	-0,4%	0.3%
August 08	Japan GDP, quarterly	Q2	-	0.6%
August 09	TR Balance of Payments	June	-	151 million USD
	TR Domestic Debt Repayment	August	81 million TRY	
	UK GDP, quarterly	Q2	0.0%	0.5%

(A) Actual

Source: Datastream, CBRT, TURKSTAT

Sectoral Developments

Automotive market continued to contract.

The annual contraction in the automotive market accelerated in July, when tax cuts expired. According to data released by Automotive Distributors' Association, in July, automobiles and light commercial vehicles sales decreased by 66% compared to the same month of the previous year to 17,927. Automobiles sales went down by 63.4% to 15,398 units in this period. In the first half of the year, automobile and light commercial vehicle market contracted by 47.5%.

Limited rise in hotel occupancy rate...

According to a statement made by the Hotel Association of Turkey, hotel occupancy rate in Turkey increased by 1.1% yoy in the first half of this year and reached 63.8%. In this period, the average daily rate for rooms increased by 7.7% to 69.8 euro, while revenue per available room rose by 8.9% to 44.5 euro.

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