

	24-Jul	31-Jul	Change		24-Jul	31-Jul	Change
BIST-100 Index*	1,192	1,127	-5.5% ▼	EUR/USD	1.1654	1.1774	1.0% ▲
TRY 2 Year Benchmark Rate*	10.57%	11.12%	55 bp ▲	USD/TRY	6.8446	6.9702	1.8% ▲
Turkey 5-Year CDS	491	555	64 bp ▲	EUR/TRY	7.9807	8.2345	3.2% ▲
MSCI EM Equity Index	1,060	1,079	1.7% ▲	Gold (USD/ounce)	1,901	1,975	3.9% ▲
US 10-Year Bond Rate	0.59%	0.54%	-5 bp ▼	Brent Oil (USD/barrel)	43.4	43.3	-0.1% ▼

bp: basis point

(*) last data: 30-July

Last week, global markets displayed a volatile outlook with the rise of second wave concerns. Negotiations on the new stimulus package offer of 1 trillion USD in the US, which shrank 32.9% in the second quarter of the year according to preliminary data, were at the forefront. Following the meeting of the Fed in which it did not change its policy rate, Fed Chairman Powell stated that they will continue to support the economy with all instruments at hand. Gold prices, supported by investors' risk aversion trend, continued to rise throughout the week. In Turkey, CPI was announced at 11.76% yoy in July. CBRT, which published the third inflation report of the year, revised its year-end inflation forecasts upwards. While leading indicators gave positive signals regarding economic activity, a negative outlook prevailed in financial markets.

The US economy contracted by 32.9% in the second quarter.

According to preliminary data, the US economy contracted by 32.9% in the second quarter of the year compared to the same period of the previous year. In the same period, core PCE also fell by 1.1%, well above expectations. The consumer confidence index, which was 98.3 in June, remained below market expectations in July and became 92.6. On the other hand, ISM manufacturing index increased to 54.2 in the same period surpassing expectations and indicated that recovery in production has gained speed.

In the US, Republican senators unveiled a 1 trillion USD coronavirus relief funding last week. The offer contains education and health benefits, while it also anticipates the additional weekly unemployment rate, which is currently 600 USD per week, will be reduced by 2/3 to 200 USD. The package also includes providing 190 billion USD loan assistance to small businesses and providing 100 billion USD loans to seasonal businesses or companies in low income regions. While the debate on the package still proceeds, the Fed members pointed to the importance of financial support for the economy in their recent speeches.

The Fed did not change interest rates.

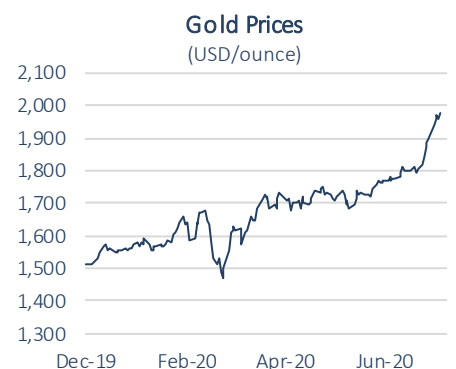
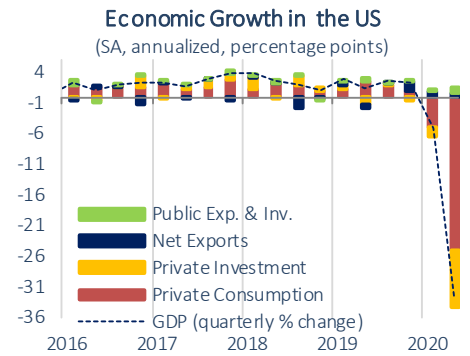
The Fed kept the policy rate at 0-0.25% in its meeting last week. In the statement published after the meeting; it was stated that the path of the economy will depend on the course of the coronavirus pandemic, economic activity and employment have increased somewhat in the last months following the sharp declines, but remained well below the levels seen in the beginning of the year. Fed Chair Powell stated that the Fed will continue to support the economy by "its full range of tools". Last week the Fed also announced that US dollar liquidity swap lines and the temporary repo facilities for foreign central banks (FIMA repo facility) will be extended until March 31, 2021.

Signs of recovery in economic activity in the Euro Area...

Manufacturing PMI in Euro Area came in above market expectations with 51.8 in July. Thus, due to the recovery in production and demand along with the easing of restrictive measures, led to growth in the manufacturing sector for the first time since January 2019. It is also noteworthy that new export orders have increased for the first time since September 2018. According to the preliminary data released last week, Euro Area economy contracted by 15% on an annual basis in the second quarter of the year. The unemployment rate in the region was 7.8% in June.

Global markets fluctuated with increasing second wave concerns.

The total number of coronavirus cases on a global scale surpassed 18 million persons while the number of people who lost their lives exceeded 690K people. A rapid increase has been observed in the number of cases in some states in the US. In Asian countries, restrictions



Source: Datastream, Johns Hopkins

came to the fore again due to second wave fears. In addition to the concerns over the course of the pandemic, the value of the US dollar fell to the lowest levels of the last two years during the week due to the Fed's statements and the fact that the new economic package has not been agreed yet. Global markets followed a volatile course throughout the week. Developments related to the course of the outbreak strengthened the tendency to avoid risk and cause investors to turn to safe haven assets. Gold prices, which were on an upward trend throughout the week, completed the week at 1.975 USD/ounce, increasing by 3.9% w/w.

In Turkey, CPI increased by 11.76% yoy in July.

In July, CPI increased by 0.58% on a monthly basis and 11.76% yoy. In this period, 10 of the 12 main expenditure groups posted monthly rises. Food and non-alcoholic beverages and clothing and footwear were the main groups that dragged down the monthly CPI inflation. In July, domestic PPI (D-PPI) increased by 1.02% mom and 8.33% yoy ([Our Inflation Report](#)).

CBRT published the third Inflation Report of the year.

In the third inflation report of the year 2020, CBRT pointed out that inflation has displayed an upward trend recently and revised the year-end inflation forecasts upwards. The year-end CPI forecast is revised from 7.4% to 8.9% for 2020 and from 5.4% to 6.2% for 2021. CBRT reiterated its forecast that inflation would stabilize at 5% in the medium term. CBRT's food inflation forecast, which was 9.5% for this year in the previous Inflation Report, was revised up to 10.5% in this Report. It was stated that, despite the limiting impact of aggregate demand conditions, the trend in core inflation indicators was upwards due to the rise in unit costs after the outbreak. It was also suggested that the limiting impact of aggregate demand conditions would become more evident in the second half of the year. The assumptions regarding the estimates were based on a scenario that did not include the second wave in the outbreak. In the presentation of the Report, CBRT President Uysal pointed out that the monetary policy stance would be determined in a way that would ensure the continuity of the fall in inflation by considering the indicators affecting the underlying trend. Uysal also stated that they expected a more favorable course for the second half of the year in the current account deficit.

Recovery in leading indicators continues.

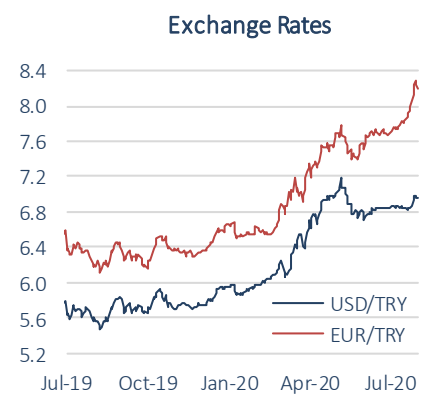
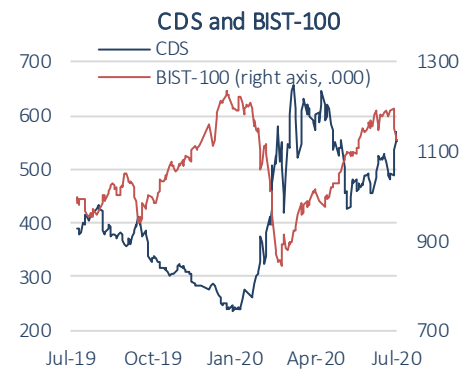
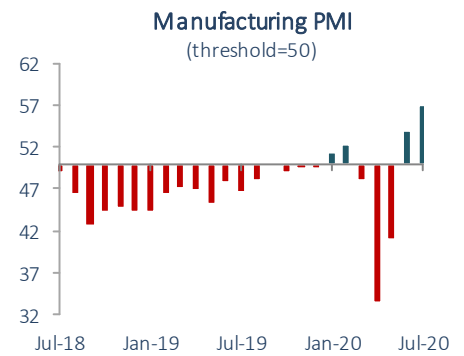
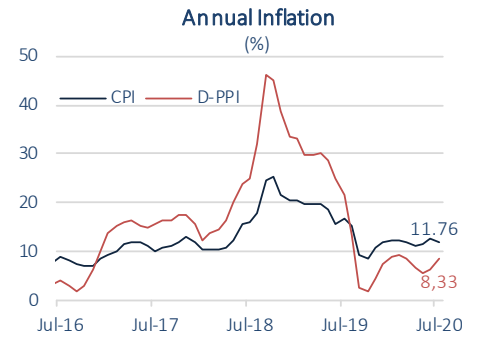
Manufacturing PMI in Turkey, which recovered after falling to 33.4 in April due to the negative impact of the pandemic and exceeded 50 threshold in June, rose 3 points to 56.9 in July. In July, output and new orders sub-indices rose sharply, while the manufacturing PMI index received its highest value since February 2011. The real sector confidence index increased by 8.1 points to 100.7 in July compared to previous month. Thus the index, which was below the threshold level of 100 with the effect of the pandemic in the last four months, rose again above the threshold level in July and gave optimistic signals about economic activity. During the same period, manufacturing capacity utilization rate (CUR) increased by 4.7 points to 70.7%. CUR in April had its lowest level since the 2009 crisis with 61.6%.

According to data released by TURKSTAT, the foreign trade deficit decreased by 17% yoy in June to 2.85 billion USD. Exports increased by 15.7% in June to 13.5 billion USD, while imports rose 8.3% to 16.3 billion USD compared to the same month of the last year. Thus, in the January-June period exports decreased by 15.1% to 75.21 billion USD, while imports decreased by 3.2% to 98.9 billion USD compared to the same period last year. During this period, the foreign trade deficit increased by 73.2% to 23.87 billion USD compared to the same period last year due to rapid expansion in previous months.

Financial markets...

A negative outlook prevailed in the domestic markets last week. BIST 100 declined by 5.5% w/w to 1,127 points. Turkey's CDS premium increased by 64 bps to 555 during the week. TRY depreciated against the US dollar and euro. USD/TRY increased by 1.8% and ended the week at 6.97. EUR/TRY, which recently increased fast due to the recent surge in the EUR/USD parity, also rose by 3.2% w/w to 8.23.

This week, a heavy data agenda will be monitored both in Turkey and global markets.



Data Releases

		Period	Consensus	Prior
3-Aug	US ISM Manufacturing PMI	July	54.2 (A)	52.6
	US Markit Manufacturing PMI, final	July	50.9 (A)	51.3
	Euro Area Markit Manufacturing PMI, final	July	51.8 (A)	51.1
4-Aug	Germany Markit Manufacturing PMI, final	July	51.0 (A)	50.0
	TR CPI, yoy	July	11.76% (A)	12.62%
	TR Manufacturing PMI	July	56.9 (A)	53.9
5-Aug	US Factory Orders, mom	June	5.0%	8.0%
	US Markit Services PMI, final	July	-	49.6
	Euro Area Markit Services PMI, final	July	-	55.1
6-Aug	Euro Area Retail Sales, mom	June	5.9%	17.8%
	Germany Markit Services PMI, final	July	-	56.7
	US Initial Jobless Claims	27-31 July	1.408 million people	1.434 million people
7-Aug	Germany Factory Orders, mom	June	10.1%	10.4%
	US Non Farm Payrolls	July	2.26 million people	4.80 million people
	US Unemployment Rate	July	10.3%	11.1%
	US Average Hourly Earnings, yoy	July	4.2%	5.0%
	Germany Industrial Production, mom	June	8.1%	7.8%

(A) Actual

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