

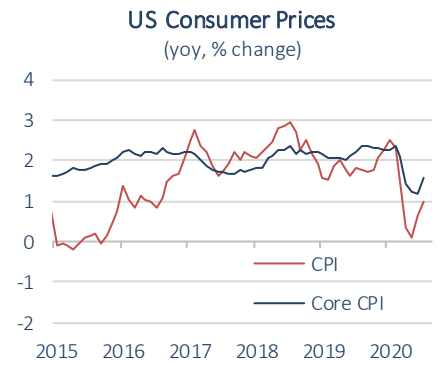
	7-Aug	14-Aug	Change		7-Aug	14-Aug	Change
BIST-100 Index	1,061	1,083	2.2% ▲	EUR/USD	1.1786	1.1841	0.5% ▲
TRY 2 Year Benchmark Rate	12.99%	13.83%	84 bp ▲	USD/TRY	7.2911	7.3664	1.0% ▲
Turkey 5-Year CDS	578	554	-24 bp ▼	EUR/TRY	8.5934	8.7286	1.6% ▲
MSCI EM Equity Index	1,089	1,093	0.4% ▲	Gold (USD/ounce)	2,035	1,944	-4.5% ▼
US 10-Year Bond Rate	0.56%	0.71%	15 bp ▲	Brent Oil (USD/barrel)	44.4	44.7	0.6% ▲

bp: basis point

Last week, while the number of coronavirus cases approached 22 million people worldwide, the death toll exceeded 770 thousand people. While the global economic recovery displayed a fragile outlook, a volatile course was seen in global markets due to concerns regarding the second wave. In Turkey, industrial production increased by 0.1% yoy in June, for the first time since March, according to calendar adjusted data. On the other hand, it is observed that the deterioration in the budget and balance of payments prevails. The tightening steps taken by the CBRT against the volatility in exchange rates were monitored closely during the past week. The CBRT's Monetary Policy Meeting on Thursday stands out on the agenda this week.

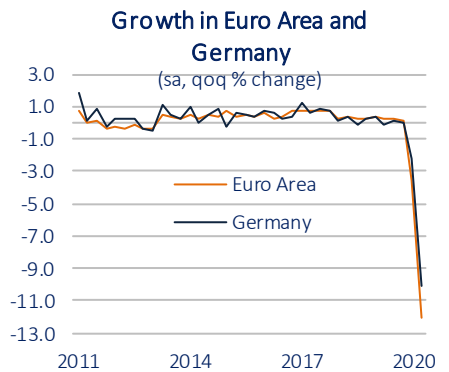
Data releases in the US...

In the US, CPI increased by 0.6% mom and 1.0% yoy in July, above the market expectations. The expectation was 0.3% monthly increase in CPI. Core inflation rose by 0.6% mom and 1.6% yoy. In July, industrial production increased by 3% compared to the previous month, in line with market expectations, while the capacity utilization rate came in at 70.6%. Retail sales, which increased by 8.4% mom in June, came in below expectations with an increase of 1.2% in July. This development was largely driven by the increase in coronavirus cases and high level of unemployment. Initial jobless claims in the country for the week ending on 8 August has dropped below 1 million for the first time since March when the outbreak started, with 963 thousand people.



Sharp contraction in economies in the second quarter of 2020...

According to a flash estimate published by Eurostat, Euro Area contracted by 12.1% qoq in the second quarter of 2020. Compared to the same quarter of the previous year, GDP shrank by 15% in the Euro Area. These were the sharpest declines observed since time series started in 1995. In Germany, ZEW economic sentiment index came in at 71.5 in August, well above the market expectation of 58. On the other hand, it was noteworthy that the current economic situation index became -69.5, remaining below the expectation of -81.3.

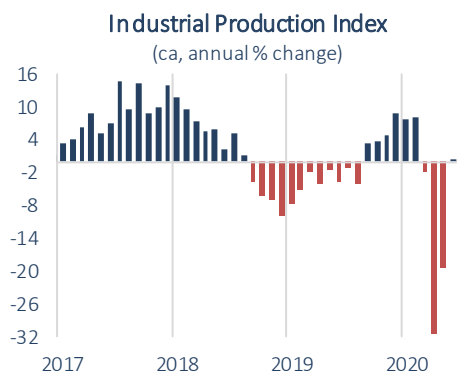


Following the 2.2% contraction in the first quarter, the UK economy shrank by 20.4% qoq in the second quarter of 2020 and entered into recession for the first time in 11 years. The UK economy was expected to contract by 21.2% in the second quarter of the year.

Meanwhile, the Japanese economy contracted more than expected in the second quarter of 2020 with an annualized rate of 27.8%. Thus, Japan economy posted negative growth data for a third straight quarter.

Industrial production increased by 0.1% yoy in June.

Calendar adjusted industrial production increased by 0.1% yoy in June, ending the declining trend started in March. In this period, manufacturing industry expanded by 1% yoy. The seasonally and calendar adjusted industrial production also picked up by 17.6% mom in June. In the second quarter, calendar-adjusted



Source: Datastream, Johns Hopkins

industrial production fell by 16.9% compared to the same period of the previous year.

Current account deficit came in at 2.9 billion USD in June.

Current account deficit widened by 2.8 billion USD yoy and became 2.9 billion USD in June. The decline in net tourism revenues by 2.5 billion USD due to the pandemic as well as 1.2 billion USD decrease in transport revenues played a key role in the expansion of the current account deficit. In the first half of the year, current account deficit reached 19.8 billion USD while reserves fell by 30.1 billion USD. In June, 12-month cumulative current account deficit rose to 11.1 billion USD, the highest level since January 2019 ([Our Balance of Payments report](#)).

Central government budget posted a deficit of 29.7 billion TRY in July.

The negative impact of the measures taken against pandemic on the central government budget continued in July. Central government budget, which gave a surplus of 9.9 billion TRY in July 2019, gave a deficit of 29.7 billion TRY in July 2020. While budget revenues decreased by 7.4% yoy, budget expenditures rose by 39.1%. In January-July period, budget revenues expanded by 9.2% compared to the same month of last year, budget expenditures increased by 20.5% due to the rapid increase in current transfers. Thus, budget deficit, which was 68.7 billion TRY in the first 7 months of the last year, rose to 139.1 billion TRY in the same period of this year, exceeding the full-year budget deficit target ([Our Budget Balance report](#)).

Tightening steps by the CBRT...

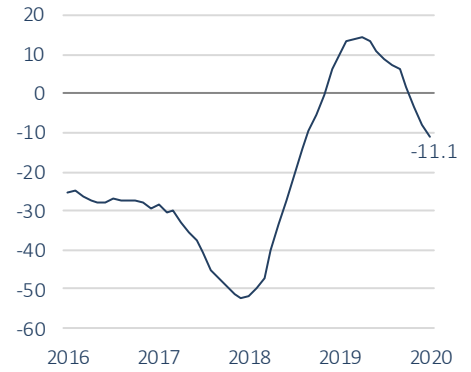
The CBRT announced that it gradually reduced the additional liquidity opportunities against the volatility in the exchange rates. Moreover, the liquidity limits offered to primary dealers within the framework of open market operations was reduced to zero effective from 12 August. After the tightening steps taken by the Central Bank, the weighted average cost of Central Bank funding increased by 100 basis points now to 9.06%. According to the CBRT's Survey of Expectations for August, the CPI expectation for the end of 2020 increased by 60 bps compared to the previous survey period and became 10.82%, while the 2020 GDP growth expectation was -1.6%. The weighted average cost of Central Bank funding expectation for 3 months ahead, which was 7.70% in the previous survey period, rose to 10.13%. The USD/TRY expectation for the end of 2020 increased from 7.02 to 7.34.

Financial markets...

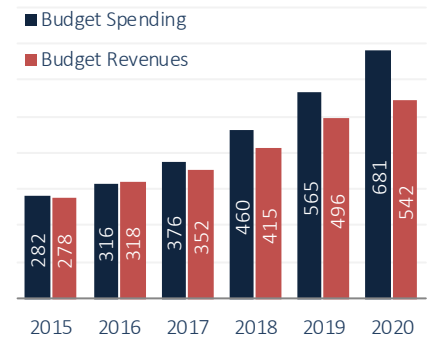
Last week, BIST-100 index closed the week at 1,083 points with a decline of 2.2%. Turkey's 5-year CDS premium decreased by 24 bps and became 554 bps. The compound interest rate of the 2-year benchmark bond, on the other hand, went up by 84 bps now to 13.83%. Although the exchange rates declined somewhat in the middle of the week due to the steps taken by the CBRT, they moved upward again. While USD/TRY increased by 1.0% now to 7.37, EUR/TRY rose by 1.6% now to 8.73.

This week, there is a heavy data agenda both in Turkey and global markets. In the global markets, the PMI data for the US and Euro Area come to the fore. In Turkey, the CBRT's Monetary Policy Committee Meeting on Thursday will be closely monitored.

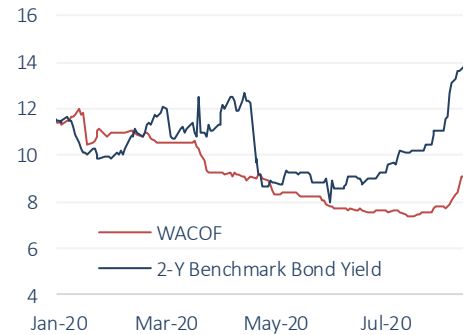
Current Account Balance
(12-month cumulative, billion USD)



Budget Indicators
(January-July period cumulative, billion TRY)



Benchmark Bond Yield and CBRT WACOF
(%)



Exchange Rates



Source: Datastream

Data Releases

		Period	Consensus	Prior
17-Aug	TR Budget Balance	July	-29.7 billion TRY (A)	-19.4 billion TRY
	TR House Sales, units	July	229K (A)	190K
	US New York Fed Manufacturing Index	August	16.5	17.2
18-Aug	US New Housing Starts, units	July	1.230 million	1.186 million
19-Aug	Euro Area CPI, yoy, final	July	0.4%	0.3%
	UK CPI, yoy	July	0.7%	0.6%
	TR Treasury Domestic Redemption (3.9 billion TRY)	August	-	-
20-Aug	CBRT Monetary Policy Committee Meeting	August	-	8.25%
	US Initial Jobless Claims	10-14 August	-	963k
	US Philadelphia Fed Index	August	21.0	24.1
	TR Central Government Debt Stock	July	-	1.641 billion TRY
21-Aug	TR Consumer Confidence Index	August	-	60.9
	US Markit Manufacturing PMI, preliminary	August	51.5	50.9
	US Markit Services PMI, preliminary	August	-	50.0
	US Existing House Sales, units	July	5.10 million	4.72 million
	Euro Area Markit Manufacturing PMI, preliminary	August	52.5	51.8
	Euro Area Markit Services PMI, preliminary	August	54.0	54.7
	Germany Markit Manufacturing PMI, preliminary	August	52.5	51.0
	Germany Markit Services PMI, preliminary	August	55.6	55.6

(A) Actual

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

Kaan Tuncalı
Asst. Specialist
kaan.tuncali@isbank.com.tr

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

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