

	14-Aug	21-Aug	Change		14-Aug	21-Aug	Change
BIST-100 Index	1,084	1,110	2.4% ▲	EUR/USD	1.1841	1.1795	-0.4% ▼
TRY 2 Year Benchmark Rate	13.83%	13.33%	-50 bp ▼	USD/TRY	7.3664	7.3365	-0.4% ▼
Turkey 5-Year CDS	559	546	-13 bp ▼	EUR/TRY	8.7286	8.6551	-0.8% ▼
MSCI EM Equity Index	1,093	1,092	-0.1% ▼	Gold (USD/ounce)	1,944	1,939	-0.2% ▼
US 10-Year Bond Rate	0.71%	0.64%	-7 bp ▼	Brent Oil (USD/barrel)	44.8	44.4	-1.0% ▼

bp: basis point

The data announced last week indicated that the economic recovery has lost momentum in the US and the Euro Area. Initial claims for unemployment benefits in the US during 10-14 August surpassed 1 million people again, exceeding the market expectations of 925 thousand people. On the other hand, US manufacturing PMI became 53.6, reaching the highest level of the last 19 months. Euro Area PMIs declined compared to the previous month, indicating a slowdown in economic recovery. Keeping the policy rate unchanged at the meeting held on August 20, CBRT continued to tighten monetary policy throughout the week. CBRT also increased TL and foreign currency reserve requirement ratios for banks that meet the real credit growth conditions. Fitch revised Turkey's credit rating outlook from stable to negative.

Data releases in the US...

Data released in the US last week presented mixed signals about economic recovery. US housing starts rose 22.6% on a monthly basis in July, the fastest increase since October 2016. In this period, building permits increased by 18.8% and exceeded pre-pandemic levels. Despite the positive data in the construction sector, the number of applicants for unemployment benefits in the period of 10-14 August, which surpassed the market expectations of 925 thousand with 1.1 million people, fed the concerns about the labor market. Manufacturing and services PMI for August, announced on the last trading day of the week, realized as 53.6 and 54.8, respectively.

Last week, the minutes of the FOMC meeting held on July 28-29 were published. It was stated that weak demand and lower oil prices put a downward pressure on inflation, while financial conditions has improved in recent months. It was also stated in the minutes that the pandemic will put pressure on economic activity, employment and inflation in the short term, and it poses considerable risks to the economic outlook in the medium term.

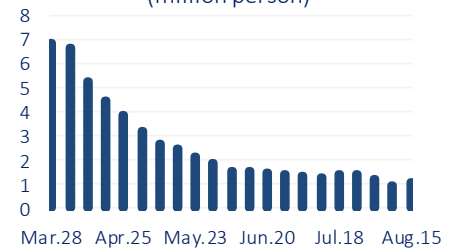
PMI data in the Euro Area came below expectations in August.

The manufacturing PMI in the Euro Area fell below the market expectations of 52.9 to 51.7 in August, declining from the previous month's level. Euro Area services PMI also decreased to 50.1, below the expectations of 54.5. The PMI data pointed out that the recovery in the Euro Area, which took new travel restrictions on the agenda with the increase in the number of cases, was losing momentum.

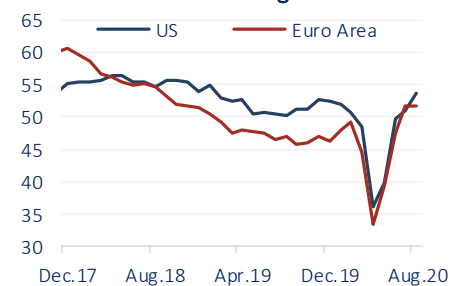
CBRT which kept the policy rate unchanged, continued its tightening steps.

At the Monetary Policy Committee meeting held on August 20, the CBRT decided to keep the policy rate at 8.25% and continued to tighten its monetary policy. In the statement made after the meeting, it was stated that along with the pandemic-related rise in unit costs, the developments in the exchange rate and credits are limiting the demand-side disinflationary effects and the trend of core inflation indicators increased. It was also stated that, the gradual normalization of pandemic-specific financial measures and recent tightening steps taken in liquidity management are evaluated to support macrofinancial stability. Last week, the CBRT conducted a repo auction of 50 billion TRY via the

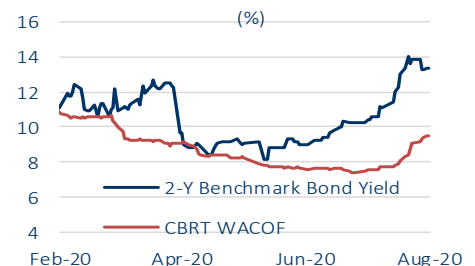
US Initial Jobless Claims
(million person)



Manufacturing PMI



Benchmark Bond Yield and CBRT WACOF
(%)



Source: TURKSTAT, Datastream

traditional auction method in the framework of the tightening steps taken under liquidity management. Thus, weighted average funding cost increased by 46 basis points to 9.52% last week.

CBRT raised reserve requirement ratios.

CBRT announced that FX reserve requirement ratios for banks fulfilling real credit growth conditions have been raised by 700 bps for precious metal deposit accounts and by 200 bps for all other FX liabilities for all maturity brackets. In addition to this, Turkish lira reserve requirement ratios have been increased by 200 bps for all deposits/participation funds liabilities with a maturity up to 6 months and other liabilities with a maturity up to 1 year, and by 150 basis points for other liabilities with a maturity up to 3 years. With these changes that will be effective from the calculation date of 21 August 2020, approximately 17 billion TRY and 8.5 billion USD of FX and gold liquidity is expected to be withdrawn from the market.

Fitch revised Turkey's credit rating outlook to "negative".

Fitch affirmed Turkey's credit rating at "BB-" and announced that the outlook was revised to "negative" from "stable" citing the rise in external financing risks along with the decline in foreign exchange reserves, the fall in credibility due to the weak monetary policy and the increase in current account deficit due to negative real interest rates and strong credit incentives. Fitch forecast that Turkey's economy will contract by 3.9% this year and grow by 5.4% in 2021.

House sales in Turkey at the highest level in July...

Domestic house sales continue to increase. In July, house sales increased by 124% yoy to all-time high by reaching 229,357 units. Mortgaged house sales rose by 901% yoy to 130,721 units, thanks to declining interest rates, while the sales of new and existing houses increased by 75% and 155% yoy, respectively. In January-July period, house sales increased by 41% yoy to 854,126 units.

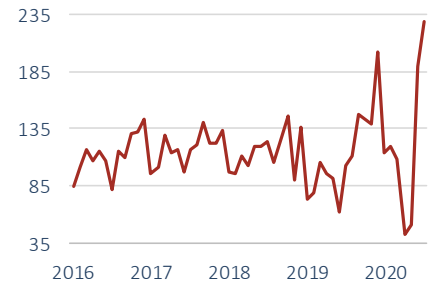
Financial markets...

Global markets, which started the week with the news of the postponement of the US-China trade deal review, followed a volatile course as the tension between two countries remained on the agenda and the mixed data about economic outlook. BIST 100 increased by 2.4% wow to 1,110 points. While Turkey's CDS premium decreased by 13 bps to 546, TL appreciated due to the CBRT's tightening policies. Discovery of the 320 billion cubic meters of natural gas reserves in the Black Sea were also effective in the course of the financial markets. It was announced that the data collected indicated more natural gas reserves could be discovered in the same region and 2023 was aimed for the use of the natural gas. However, at the beginning of this week, it was observed that the downward movement in the exchange rate was not permanent.

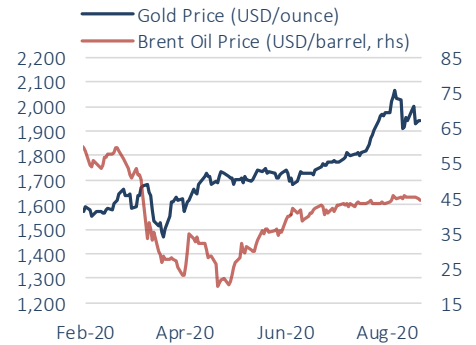
Turkey's Credit Ratings

	Rating	Outlook	Last Change
Fitch	BB-	negative	8/21/2020
Moody's	B1	negative	6/14/2019
S&P	B+	stable	8/17/2018

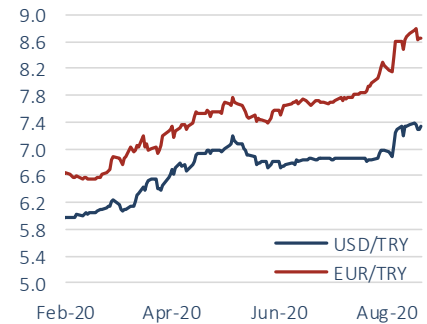
TR Home Sales (thousand units)



Gold & Oil Price



Exchange Rates



Source: CBRT, Datastream

Data Releases

		Period	Consensus	Prior
24 August	TR Foreign Arrivals, yoy	July	-	-96.0%
25 August	US Consumer Confidence Index	August	93.6	92.6
	US New Home Sales, unit	July	750k	776k
	Germany Ifo Business Climate	August	92.0	90.5
	TR Capacity Utilization	August	-	70.7%
	TR Manufacturing Confidence	August	-	100.7
26 August	US Durable Goods Orders, mom	July	3.3%	7.6%
27 August	US GDP	2020 Q2	-32.5%	-32.9%
	US Initial Jobless Claims, person	17-21 August	925k	1.106 million
28 August	US Personal Consumption Expenditures, mom	July	1.5%	5.6%
	US Michigan Consumer Sentiment Index, final	August	72.8	72.8
	Euro Area Consumer Confidence Index, final	August	-15.0	-14.7
	TR Economic Confidence Index	August	-	82.20

Economic Research Division

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

H. Erhan Gül
Asst. Manager
erhan.gul@isbank.com.tr

Alper Gürler
Unit Manager
alper.gurler@isbank.com.tr

İrem Turan Taş
Asst. Economist
irem.turan@isbank.com.tr

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

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. 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 Türkiye İş Bankası A.Ş. 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, Türkiye İş Bankası A.Ş., 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.
