

	7-Jul	14-Jul	Change		7-Jul	14-Jul	Change
BIST-100 Index	6,187	6,438	4.1 % ▲	EUR/USD	1.0967	1.1227	2.4 % ▲
TRY 2 Year Benchmark Rate	8.81 %	9.62 %	81 bp ▲	USD/TRY	26.0552	26.0953	0.2 % ▲
Türkiye 5-Year CDS Premium	495	443	-52 bp ▼	EUR/TRY	28.3656	29.1752	2.9 % ▲
MSCI EM Equity Index	981	1,028	4.9 % ▲	Gold (USD/ounce)	1,924	1,955	1.6 % ▲
US 10-Year Bond Rate	4.05 %	3.82 %	-23 bp ▼	Brent Oil (USD/barrel)	78.5	79.9	1.8 % ▲

bp: basis point

In Türkiye, current account deficit reached 7.9 billion USD in May and 60 billion USD on 12-month cumulative basis. In the same period, industrial production index and retail sales statistics pointed to a monthly recovery. In June, the central government budget posted a deficit of 219.6 billion TRY due to the rapid increase in current transfers. In CBRT's Survey of Market Participants, annual CPI inflation and year-end USD/TRY expectations increased. Last week's lower-than-expected inflation data in the US supported the expectation that the Fed's monetary tightening cycle is drawing to an end. Data releases in the Euro Area also showed that economic activity and investor confidence remained weak. In China, annual CPI inflation followed a flat course, while the downward trend in producer prices continued.

Current account deficit became 7.9 billion USD in May.

In May, current account deficit widened by 36% yoy to 7.9 billion USD, above the market expectations. Thus, the current account deficit in the first 5 months of the year reached 37.7 billion USD whereas 12-month cumulative current account deficit became 60 billion USD. While the uncertainty surrounding the election process limited capital inflows in May, reserve assets came to the fore in financing the current account deficit ([Our Balance of Payments report](#)).

Industrial production recovered slightly in May, while retail sales remained strong.

In May, seasonally and calendar adjusted industrial production index increased by 1.1% compared to April. In this period, production of durable goods and capital goods increased while non-durable goods' production posted a decline. On the other hand, calendar adjusted industrial production contracted by 0.2% yoy.

Despite the contraction in industrial production on an annual basis, strong course in retail sales continued in May. Retail sales volume increased by 28.4% yoy in real terms. In this period food, drinks and tobacco sales increased by 22.6%, non-food sales excluding automotive fuel increased by 36.9% and automotive fuel sales increased by 10.9%.

The contraction in housing sales continues.

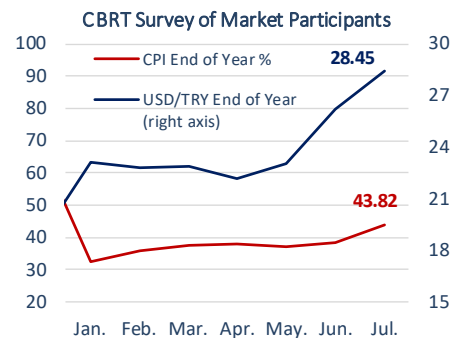
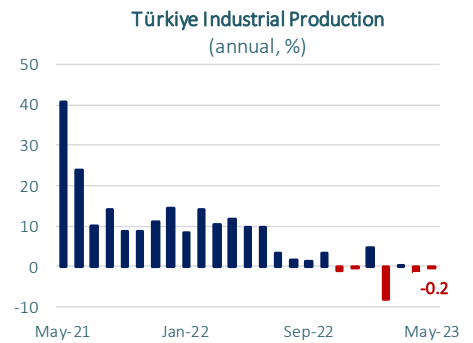
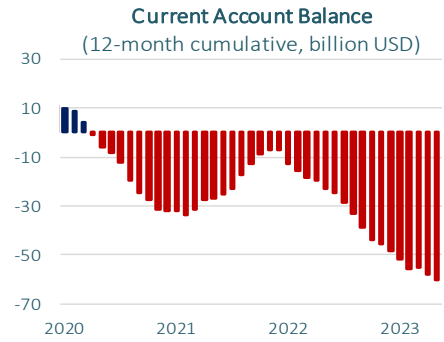
House sales fell by 44.4% yoy in June, recording the fastest decline since July 2021. The annual decline in mortgaged house sales was 66.8% in June. Thus, total sales in the first half of this year contracted by 22.1% yoy.

The SCT rates on fuel and natural gas were increased.

Regulations on raising Special Consumption Tax (SCT) on fuel and natural gas came into force upon being published in the Official Gazette over the weekend. Accordingly, SCT was increased by 5 liras per liter for diesel and gasoline and by 4 liras per liter for LPG. In the statement made by the Ministry of Treasury and Finance it was noted that with the SCT increases, it is aimed to reduce the impact of the additional costs caused by the earthquake on the budget to some extent and the decision will indirectly support the control over the current account deficit.

According to the Survey of Market Participants, inflation expectations continued to deteriorate.

According to the CBRT's Survey of Market Participants, market expectations deteriorated. In the survey, current year-end CPI inflation expectation increased by 527



Source: Datastream

basis points, raising to 43.82%. The year-end USD/TRY exchange rate expectation also rose from 26.18 to 28.45. Market participants' growth expectations for 2023 and 2024 were down to 3.7% and 4.3%, respectively. According to the survey, policy rate expectation for the end of July was announced as 19.17%, indicating an increase of approximately 400 basis points.

Budget deficit was realized as 219.6 billion TRY in June.

In June, central government budget deficit hit all-time high of 219.6 billion TRY, expanding by 607.2% yoy. In June, budget revenues amounted to 268.2 billion TRY, while budget expenditures rose to 487.9 billion TRY in line with the rapid increase in current transfers. In this period, primary budget deficit became 182.3 billion TRY ([Our Budget Balance report](#)).

Inflation continues to slowdown in the US.

In the US, CPI inflation in June was realized as 0.2% mom and 3.0% yoy corresponding to the lowest level in more than two years. In this period, core CPI inflation also declined to 4.8%, confirming the positive outlook. In the same period, PPI inflation was realized as 0.1% on a both monthly and annual basis. Following the recent figures, expectations that the Fed may end its rate hikes after its July meeting gained weight in the markets. In the Beige Book published last week, Fed drew attention to the favourable outlook in the general price level. The report also highlighted that the economic activity is expected to grow slowly in the coming months with a gradual recovery.

Economic activity in the Euro Area remained weak.

Industrial production in the Euro Area expanded by 0.2% mom in May, however it has contracted by 2.2% yoy. The economy of the region, which experiences a technical recession in the first quarter, did not demonstrate any significant recovery signs in the second quarter either. The preliminary data for the third quarter of this year pointed out that the negative outlook might continue further. Sentix investor confidence index fell by 5.5 points to -22.5 in July. The decline in the index was driven by expectations that the contraction in the economy and monetary tightening will continue in the short run.

China's economy grew below expectations in the second quarter.

According to seasonally adjusted figures, China's economy grew by 0.8% qoq and 6.3% yoy in the second quarter of 2023. In June, industrial production expanded by 4.4% yoy, above the expectations, while unemployment rate remained at 5.2%. On the other hand, retail sales rose by 3.1% yoy, below the expectations. While the data signalled a recovery on the supply side, the weakness in demand persisted.

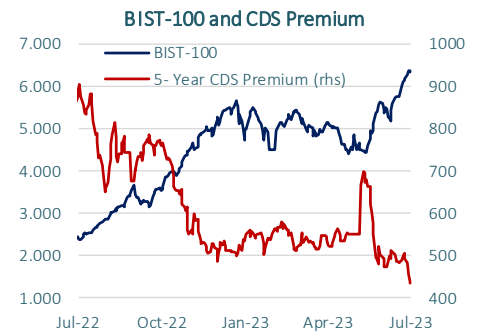
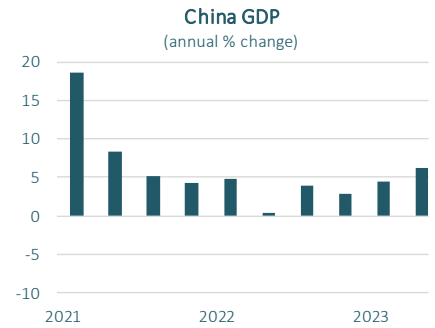
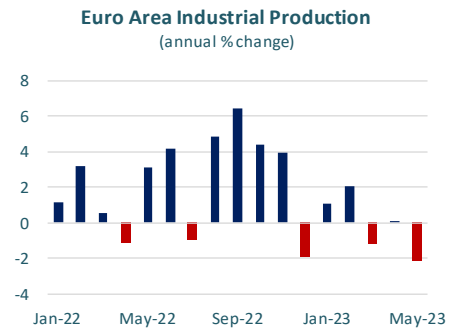
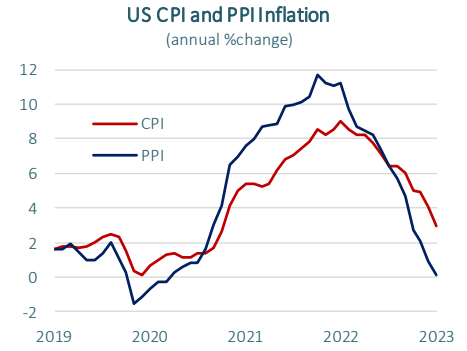
Financial markets...

Strengthening expectations that the end of the monetary tightening cycle is closing to an end, supported the global risk appetite last week. Oil and gold prices closed the week higher by 1.8% and 1.6%, respectively.

The upward trend in BIST-100 index continued last week, in line with the positive developments at the NATO summit. The index closed the week at 6,438. TRY depreciated against USD while EUR/TRY parity increased by 2.9%. Türkiye's 5-year CDS premium declined by 52 basis points. The interest rate of 2-year benchmark bond rose by 81 basis points.

This week's agenda...

Second quarter retail sales and industrial production data in the US as well as inflation figures for June in the Euro Area will come to the fore. In Türkiye, President Erdoğan's visit to Gulf countries and CBRT's Monetary Policy Committee meeting will be closely monitored.



Source: Datastream

Data Releases

		Period	Consensus	Prior
17 July	TR Budget Balance	June	-219.6 bn TRY (A)	118.9 bn TRY
	US NY Fed Manufacturing Index	July	0.0	6.6
18 July	China GDP Growth, yoy	2023 Q2	6.3% (A)	4.5%
	TR Housing Price Index, yoy	May	-	121.3%
19 July	US Philadelphia Fed Manufacturing Index	June	-0.1%	-0.2%
	US Retail Sales, mom	June	0.5%	0.3%
20 July	US Housing Starts, units	June	1.45 million	1.63 million
	Euro Area CPI Inflation, final, yoy	June	5.5%	5.5%
21 July	CBRT Monetary Policy Meeting	July	-	15.0%
	TR Consumer Confidence Index	July	-	85.1
	US Philadelphia Fed Business Index	July	-9.7	-13.7
	US Existing Home Sales, units	June	4.23 million	4.30 million
	Euro Area Consumer Confidence, flash	July	-15.8	-16.1
21 July	Germany PPI Inflation, mom	June	-0.4%	-1.4%
	China Central Bank Meeting	July	-	3.55%
21 July	Japan CPI Inflation, yoy	June	-	3.2%

(A) Actual

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