

The background of the cover features a complex financial market chart. It includes a candlestick chart with green and red bars, overlaid with a red line graph and a blue line graph. The chart is set against a dark blue grid. Various numerical values are scattered across the chart, such as 1.7810, 1.7900, 1.7855, 1.7765, 11.12, 14.56, 19.00, and 08.47. Some areas of the chart are circled in light blue.

FX & Markets Weekly

Week 33/2018

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Lira suffers a Black Monday

Past Friday was already a Black Friday for the lira, Monday got worse. Trigger was the political standoff regarding the U.S. Pastor Brunson, as U.S. President Trump doubled steel and aluminum import tariffs for Turkey. However, the metals trade is not in significant size between Turkey and U.S. Financial markets overreacted and, the lira touched new all-time lows against the euro at 8,1188 (year-to-date -70,84%), and against the U.S. dollar at 7,2362 (year-to-date -80,20%). The Central Bank reacted by not holding the daily 1-week repo auctions at 17,75%, but instead refinanced local banks at 19,25%. (a de-facto rate hike by 150 bps). The late liquidity window lending rate is at 20,75%, and this could be another possible option that would equal another de-facto 150 bps rate hike. Furthermore, the Central Bank has also revised its reserve requirement ratios, and announced measures on TRY and FX liquidity management. Turkey's Banking Regulation and Supervision Agency limited FX swap operations with 25% of a bank's capital. Moreover, the Capital Markets Board imposed leverage regulations into upcoming Bayram holidays. All these measures have led to a TRY squeeze and, by the time of writing EUR/TRY is trading around 6,94; and USD/TRY around 6,05. A negative side effect of the TRY squeeze was that local banks liquidated TRY denominated sovereign debt, and expanded already rising sovereign yields (e.g. 2-years to 23,25%; 5-years to 25,12%) . In midst of the turmoil, 5-year USD credit default swaps for the sovereign touched USD 585, a level not seen since 2008, at the onset of what now is called, the global financial crisis. As a matter of fact, the Turkish lira is currently undervalued by several metrics. The purchasing power parity measured by the BigMac price shows almost 60% of undervalue. According to the OECD's purchasing power parity calculation, TRY is currently even 243% undervalued. From a macroeconomic perspective, should these extreme FX levels persist, the current account deficit of Turkey would decline, and even turn into surplus within a year. A negative side effect would be an even higher inflation and slower real GDP growth. Yesterday, the Finance Minister Albayrak ruled out capital controls and IMF aid. His delivery was solid, reassuring and market friendly.



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Economic Research and Development

Exchange Rates	Price as of 08/17/2018	Change % 5 days	Change % 1 Month	Change % 3 Months
EUR/USD	1,1407	-0,07	-2,14	-3,39
EUR/TRY	6,9917	-4,33	25,40	33,06
EUR/CHF	1,1344	-0,13	-2,64	-3,99
EUR/GBP	0,89626	0,29	0,99	2,61
EUR/JPY	125,92	-0,46	-4,26	-3,58
EUR/RUB	76,8671	-0,59	5,45	4,83
EUR/CNY	7,845	0,40	0,11	4,48
USD/TRY	6,1119	-4,74	27,88	37,52
USD/JPY	110,39	-0,38	-2,19	-0,22
USD/RUB	67,3928	-0,56	7,74	8,48
USD/CNY	6,8775	0,51	2,61	8,08

Sovereign Bonds 10Y	Price as of 08/17/2018	Change % 5 days	Change % 1 Month	Ask YTM
Austria	103,29	-0,00	-0,01	0,33
Belgium	104,71	-0,07	-0,35	0,39
China	100,44	-0,41	-1,07	3,61
EFSF	113,04	-0,00	-0,25	-0,26
ESM	111,14	0,04	-0,07	-0,02
France	98,95	0,06	-0,19	0,38
Germany	99,52	0,16	0,36	0,06
Greece	95,69	-0,87	-3,61	4,26
Japan	100,65	0,09	-0,46	0,01
Portugal	109,83	-0,72	-1,07	1,54
Spain	101,30	-0,16	-0,93	1,13
Russia	98,65	-1,86	-5,81	8,64
Switzerland	112,03	0,13	0,37	-0,31
Turkey	65,35	0,39	-16,68	20,67
UK	102,47	0,14	0,24	1,17
US	93,84	0,17	0,16	2,85

Turkey related	Price as of 08/17/2018	Change % 5 days	Change % 1 Month	Change % 3 Months
TRY Basket	6,5548	-4,57	26,53	35,07
WAC of CBRT (T-1)	18,14	2,20	2,20	34,37
Gold TRY / gram	231,50	-7,22	22,89	25,53
TR Gov. B. 2Y yield	24,61	-0,77	20,11	45,19

Euribor/Eonia	Price as of 08/17/2018	Change % 5 days	Change % 1 Month	Change % 3 Months
Eonia	-0,359	-0,56	1,37	2,71
Euribor 1 Month	-0,370	-0,27	-0,27	0,27
Euribor 3 Month	-0,319	0,00	0,62	2,15
Euribor 6 Month	-0,266	0,38	1,12	1,48
Euribor 12 Month	-0,167	1,18	6,70	11,17

EUR Libor	Price as of 08/17/2018	Change % 5 days	Change % 1 Month	Change % 3 Months
EUR Libor O/N	-0,442	-0,06	1,43	-0,91
EUR Libor 1M	-0,396	1,77	0,18	0,71
EUR Libor 3M	-0,363	-0,43	-1,32	-2,63
EUR Libor 6M	-0,308	0,73	3,01	1,19
EUR Libor 12M	-0,225	1,14	4,09	3,38

Commodities	Price as of 08/17/2018	Change % 5 days	Change % 1 Month	Change % 3 Months
Energy Futures				
WTI crude	66,13	-2,23	-1,55	-6,69
BRENT crude	72,44	-0,59	0,19	-7,73
GAS oil	650,50	-0,95	2,56	-6,84
Heating oil	212,24	-0,88	2,20	-6,71
Natural gas	2,94	-0,34	8,39	1,98
Gold Spot	1 178,12	-2,63	-3,92	-8,73
Silver Spot	14,66	-4,22	-5,94	-11,01
Platinum Spot	778,73	-5,97	-4,82	-12,85
Palladium Spot	896,50	-1,60	-2,24	-8,98
Copper	262,10	-4,36	-4,51	-15,66

Stock Indices	Price as of 08/17/2018	Change % 5 days	Change % 1 Month	Change % 3 Months
ATX	3 250	-3,38	-1,00	-7,41
BIST 100	86 711	-8,72	-5,43	-14,93
CAC 40	5 321	-1,74	-1,88	-5,36
DAX	12 149	-2,26	-4,09	-7,40
Dow Jones (T-1)	25 559	0,19	1,75	3,42
Euro Stoxx 50	3 359	-2,00	-2,89	-6,53
FTSE 100	7 522	-1,94	-1,42	-3,47
HANG SENG	27 213	-4,07	-3,44	-12,05
IBEX 35	9 385	-2,29	-3,47	-8,16
MOEX	2 257	-0,61	-2,16	-2,68
NASDAQ 100 (T-1)	7 374	-1,24	-0,40	6,85
NIKKEI 225	22 270	-0,12	-1,88	-2,49
S&P 500 (T-1)	2 841	-0,45	1,11	4,43

Interest Rate Futures	Price as of 08/17/2018	Change % 5 days	Change % 1 Month	Change % 3 Months
Bobl	132,51	0,12	0,28	1,77
Bund	163,63	0,19	0,49	3,83

Risk Sentiment	Price as of 08/17/2018	Change % 5 days	Change % 1 Month	Change % 3 Months
Baltic Dry Index	1720	1,71	-0,06	31,80
VIX	13,79	4,94	14,51	2,83
Turkey 5Y CDS (T-1)	478,412	9,66	48,10	77,73
MSCI EM Index (T-1)	1 021,57	-3,84	-4,61	-10,71

USD Libor	Price as of 08/17/2018	Change % 5 days	Change % 1 Month	Change % 3 Months
USD Libor O/N	1,917	0,23	-0,07	12,36
USD Libor 1M	2,069	0,13	-0,59	6,24
USD Libor 3M	2,312	-0,32	-1,28	-0,83
USD Libor 6M	2,511	-0,05	-0,49	0,45
USD Libor 12M	2,813	-0,09	0,62	1,68

TRY Libor	Price as of 08/17/2018	Change % 5 days	Change % 1 Month	Change % 3 Months
TRY Libor O/N	19,127	1,84	3,27	35,06
TRY Libor 1M	21,646	5,60	11,13	44,52
TRY Libor 3M	23,100	5,30	15,95	38,43
TRY Libor 6M	24,927	7,91	21,02	39,04
TRY Libor 12M	25,930	5,11	20,47	42,02

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Economic Research and Development

Date	Country	Economic Release	Period	Consensus	Actual	Prior
08/14/2018 12:00	US	NFIB Small Business Optimism	Jul	106.8	107.9	107.2
08/14/2018 14:30	US	Import Price Index MoM	Jul	0.0%	0.0%	-0.4%
08/14/2018 14:30	US	Import Price Index ex Petroleum MoM	Jul	0.1%	-0.1%	-0.3%
08/14/2018 14:30	US	Import Price Index YoY	Jul	4.5%	4.8%	4.3%
08/14/2018 14:30	US	Export Price Index MoM	Jul	0.2%	-0.5%	0.3%
08/14/2018 14:30	US	Export Price Index YoY	Jul	--	4.3%	5.3%
08/15/2018 14:30	US	Empire Manufacturing	Aug	20.0	25.6	22.6
08/15/2018 14:30	US	Nonfarm Productivity	2Q P	2.4%	2.9%	0.4%
08/15/2018 14:30	US	Unit Labor Costs	2Q P	0.0%	-0.9%	2.9%
08/15/2018 14:30	US	Retail Sales Advance MoM	Jul	0.1%	0.5%	0.5%
08/15/2018 14:30	US	Retail Sales Ex Auto MoM	Jul	0.3%	0.6%	0.4%
08/15/2018 14:30	US	Retail Sales Ex Auto and Gas	Jul	0.4%	0.6%	0.3%
08/15/2018 14:30	US	Retail Sales Control Group	Jul	0.4%	0.5%	0.0%
08/15/2018 15:15	US	Industrial Production MoM	Jul	0.3%	0.1%	0.6%
08/15/2018 15:15	US	Capacity Utilization	Jul	78.2%	78.1%	78.0%
08/15/2018 15:15	US	Manufacturing (SIC) Production	Jul	0.3%	0.3%	0.8%
08/15/2018 16:00	US	Business Inventories	Jun	0.1%	0.1%	0.4%
08/16/2018 14:30	US	Initial Jobless Claims	Aug 11	215k	212k	213k
08/16/2018 14:30	US	Continuing Claims	Aug 4	1738k	1721k	1755k
08/16/2018 15:45	US	Bloomberg Economic Expectations	Aug	--	57.0	53.5
08/16/2018 15:45	US	Bloomberg Consumer Comfort	Aug 12	--	58.9	59.3
08/14/2018 11:00	EA	Industrial Production SA MoM	Jun	-0.4%	-0.7%	1.3%
08/14/2018 11:00	EA	Industrial Production WDA YoY	Jun	2.4%	2.5%	2.4%
08/14/2018 11:00	EA	GDP SA QoQ	2Q P	0.3%	0.4%	0.3%
08/14/2018 11:00	EA	GDP SA YoY	2Q P	2.1%	2.2%	2.1%
08/14/2018 11:00	EA	ZEW Survey Expectations	Aug	--	-11.1	-18.7
08/16/2018 11:00	EA	Trade Balance SA	Jun	16.9b	16.7b	16.9b
08/16/2018 11:00	EA	Trade Balance NSA	Jun	--	22.5b	16.5b
08/17/2018 10:00	EA	ECB Current Account SA	Jun	--	23.5b	22.4b
08/17/2018 11:00	EA	CPI Core YoY	Jul F	1.1%	1.1%	1.1%
08/17/2018 11:00	EA	CPI YoY	Jul F	2.1%	2.1%	2.1%
08/17/2018 11:00	EA	CPI MoM	Jul	-0.3%	-0.3%	0.1%
08/15/2018 09:00	TU	Unemployment Rate	May	--	9.7%	9.6%
08/15/2018 09:00	TU	Home Sales	Jul	--	123.9k	119.4k
08/15/2018 09:00	TU	Home Sales (YoY)	Jul	--	6.9%	22.4%
08/15/2018 10:00	TU	Central Gov't Budget Balance	Jul	--	1.1b	-25.6b
08/16/2018 09:00	TU	Industrial Production MoM	Jun	--	-2.0%	-1.6%
08/16/2018 09:00	TU	Industrial Production YoY	Jun	5.0%	3.2%	6.4%
08/16/2018 13:30	TU	House Price Index YoY	Jun	--	10.53%	10.59%
08/16/2018 13:30	TU	House Price Index MoM	Jun	--	0.90%	1.64%
08/16/2018 13:30	TU	Foreigners Net Bond Invest	Aug 10	--	-\$197m	-\$182m
08/16/2018 13:30	TU	Foreigners Net Stock Invest	Aug 10	--	\$46m	\$77m
08/17/2018 09:00	TU	Consumer Confidence Index	Aug	--	68.3	73.1

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Purpose of document: This report summarises the significant developments within the financial markets over the previous week and comments on their underlying background.