

Turkey tells Israeli consul general to leave country

Anadolu Agency, 16.05.2018



The Turkish Foreign Ministry on Wednesday told Israel's consul general in Istanbul Yosef Levi Sfari to leave the country "for a while".

According to diplomatic sources speaking on condition of anonymity, the ministry told Sfari to leave following indiscriminate violence and killings by Israeli soldiers along the Gaza border. Turkey's consul general in Jerusalem was summoned by the Israeli Foreign Ministry on Tuesday and also asked to leave the country for an indefinite period of time. In a statement issued by the Israeli Foreign Ministry, Gurcan Turkoglu was summoned.

And it was asked to return to his country, considering latest development on bilateral relation between Jerusalem and Ankara. At least 62 Palestinians were martyred and thousands more injured by Israeli forces along the Gaza border Monday. Thousands of Palestinians had gathered on Gaza Strip's eastern border Monday to take part in protests aimed to commemorate the Nakba anniversary and protest the relocation of the U.S. Embassy from Tel Aviv to Jerusalem. Since the border rallies began on March 30, more than 100 Palestinian demonstrators have been martyred by cross-border Israeli gunfire, according to the Palestinian Health Ministry. Last week, the Israeli government said the ongoing border protests constituted a "state of war" in which international humanitarian law did not apply.

Turkey's economy is entering a 'slow burning crisis,' analysts warn

CNBC, 16.05.2018



Turkey's economy is overheating and if the government doesn't act then the country is in trouble, according to several analysts.

"The government has no intention of tackling imbalances or overheating," Marcus Chenevix, global political research analyst at TS Lombard, said in a research note this week. "It is this unwillingness to act that leads us to believe that we can now say that Turkey is entering a slow burning crisis." The Turkish lira is at a record low against the dollar, and is ranked among the worst-performing currencies this year.

After comments this week by Turkish President Recep Erdogan promising to lower interest rates after the country's June election, the currency tanked to its lowest point yet against the greenback, hitting 4.4527 on Tuesday mid-afternoon. The dollar has appreciated by around 18 percent against the lira so far this year. The reason? Erdogan has been sitting on interest rates, opting for a monetary policy that prioritizes growth over controlling its double-digit inflation. Turkey's growth rate reached an impressive 7.4 percent for 2017 and leads the G-20, but at the expense of inflation, which has shot up to 10.9 percent. Market sentiment has driven much of the lira's sell-off, as investors worry about government intervention in monetary policy and central bank independence. Investors have been hoping for a rate rise by the bank, but that now appears unlikely.

Erdogan plays an unusually heavy-handed role in deciding his country's monetary policy, and many observers say he keeps the Central Bank of the Republic of Turkey's (TCMB) hands tied. The bank finally raised its rates for the first time in several sessions in late April, moving its late liquidity window rate (which it uses to set policy) up by 75 basis points to 13.5 percent. The lira temporarily jumped on the news. But Erdogan aims to bring the rate back down, saying it must be done to ease pressure on Turkish households and drive the growth needed to create jobs for Turkey's youth. "I'm seriously concerned about the Turkish lira," Piotr Matys, emerging markets FX strategist at Rabobank, told CNBC. "Is Turkey the domino the market expects to fall next? It's got all those problems — high current account deficit, government borrowing in other currencies." Emerging market currencies have been feeling particular pain on the back of a strengthening dollar and higher yields in the U.S. But Erdogan's monetary policy plans, Matys said, has resulted in the continued underperformance of the lira against its other emerging market counterparts. And the fall has been accelerated by geopolitical uncertainty over U.S. and Russian military actions in neighboring Syria.

March saw Turkey's current account deficit — a measurement of the country's trade — widen to \$4.812 billion, compared to \$4.5 billion the month prior and significantly higher than poll forecasts. The February current account deficit was a more than 60 percent increase on the same period in 2017. "Turkish growth is unbalanced, inflation high rising, foreign debt costs ballooning and domestic FX expectations unmoored," Chenevix said. "Downward pressure on Turkish assets will be back very soon." Erdogan in April announced early elections in what was widely viewed as a power grab. Presidential and parliamentary elections slated for November 2019 will now be held in June of this year, with the turbulent economy seen as the main reason for the impromptu switch. A win would allow Erdogan to mitigate the fallout of a worsening economy on his popularity. It would also enable him to eliminate the position of prime minister and weaken parliament, thanks to a constitutional referendum passed last year that would heavily concentrate the president's power.

Turkish Treasury borrows over \$700M through auctions

Anadolu Agency, 15.05.2018



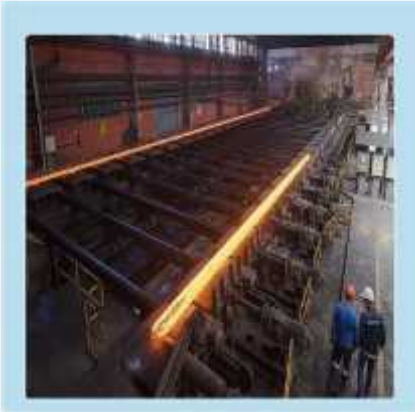
The Turkish Treasury borrowed a total of 3.18 billion Turkish liras (\$715.07 million) from domestic markets on Tuesday, according to an official statement.

The Treasury Undersecretariat reported that 1.52 billion Turkish liras (\$342 million) in two-year fixed coupon government bonds (semiannually, re-open, sixth issue) were sold in an auction. The government bonds will be settled on Wednesday and mature on Nov. 13, 2019. The total tender was 2.11 billion Turkish liras (\$475.96 million) with a 71.9 percent accepted/tendered rate.

The Treasury said the term rate of 546-day government bonds was accepted at 7.99 percent, while annual simple and compound interest rates were 15.97 and 16.61 percent, respectively. In Tuesday's second auction, the Treasury issued five-year fixed coupon government bonds (semiannually, re-open, fifth issue) totaling 1.66 billion Turkish liras (\$373.1 million). The bonds will be settled on Wednesday with a maturity date of Jan. 18, 2023. According to the undersecretariat, the total tender in the second auction was 2.29 billion Turkish liras (\$517.6 million), with a 72.1 percent accepted/tendered rate. The term rate of 1,708-day government bonds was accepted at 7.69 percent, while annual simple and compound interest rates were 15.37 and 15.96 percent.

Turkey: Industrial production rises nearly 10-pct in Q1

Anadolu Agency, 16.05.2018



Turkey's calendar-adjusted industrial production rose 9.8 percent in the first quarter of 2018 compared to the same period last year, the Turkish Statistical Institute (TurkStat) announced.

Industrial output is considered a vital indicator for the economy, as it is seen as a preliminary gauge for GDP growth. The country's industrial production also increased by 7.6 percent in March compared with the same month of the previous year, TurkStat added. Among three main sub-indices, the mining and quarrying index saw the highest annual increase in March, with 10.7 percent.

The manufacturing index rose 7.9 percent while the electricity, gas, steam, and air conditioning supply index was up 2.9 percent during the same period. The data also showed that industrial production climbed slightly 0.2 percent on a monthly basis in March. Among all sub-sectors of the seasonal and calendar-adjusted industrial sector, manufacturing was the only sub-sector to see a rise month-on-month in March with an increase of 0.4 percent. Mining and quarrying index, and electricity, gas, steam and air conditioning supply index decreased by 2.1 percent and 0.4 percent, respectively, in this period. The term "calendar-adjusted" is used to refer to data without calendar and holiday-originated effects.

Turkish solar power production sees near triple boost

CNBC, 14.05.2018



Turkish solar power production increased by 175 percent to 2.8 million megawatt-hours in 2017 compared to the previous year, according to Turkey's Energy Market Regulatory Authority's (EMRA) data.

The installed power capacity of solar power increased from 939 megawatts to 2,978 megawatts year on year, representing a 217 percent rise, official information gathered by state-run Anadolu Agency revealed on May 14. The rate of solar electricity production out of all electricity production, increased to 0.97 percent in 2017 from 0.38 percent in 2016.

In 2017, solar production became the sixth biggest electricity resource after natural gas, coal, hydroelectricity, wind and geothermal power. Turkish wind power production increased by 15.2 percent to 17.9 million megawatt-hours in 2017, the data also revealed. Turkish solar market has further potential. To encourage the deployment of solar electricity production, which lagged behind renewable energy resources such as wind in recent years, Turkey launched Renewable Energy Resource Zone Project (YEKA) tenders for 1,000 megawatts of solar energy capacity in 2017 and eased regulations in January 2018 to promote solar photovoltaics on roof-tops. In accordance with the Turkish EMRA's revised legislation in January, Turkish citizens are allowed to install solar panels with a maximum capacity of 10 kilowatts with less red-tape than previously.

Moreover, as part of the country's policy to diversify towards renewable sources, Turkey's YEKA project inaugurated the country's first integrated solar module, cell and panel production factory at a groundbreaking ceremony in the capital Ankara in December 2017. According to the Turkish branch of the Solar Energy Society (GÜNDER), Turkey holds the potential to increase its currently installed solar power capacity by a further 46,000 megawatts on roof space covering 1.1 billion square meters.

Turkey's Borsa Istanbul flat at open

Anadolu Agency, 16.05.2018



Turkey's stock exchange increased 0.07 percent, or 71.59 points, to open at 101,611.97 points on Wednesday.

Among all sector indices, the information technology index posted the best performance, up 1.05 percent, while the leasing factoring index suffered the worst, down 0.64 percent. The BIST banking indices increased by 0.18 percent, while holding indices decreased by 0.25 percent. On Tuesday, Borsa Istanbul's BIST 100 index closed at 101,540.39, down 1.77 percent, with a 7.1 billion-Turkish lira (nearly \$1.6 billion) trade volume.

The U.S. dollar/Turkish lira exchange rate increased to 4.4680 as of 9.30 a.m. local time (0630GMT) on Wednesday. It was 4.4590 at Tuesday's close. The euro/lira exchange rate increased to 5.2880, compared with Tuesday's close of 5.2740. The price of Brent oil was \$78.27 per barrel as of 10 a.m. local time (0700GMT) Wednesday.

Moody's: Turkish banking system outlook is negative

Anadolu Agency, 15.05.2018



Banking system more susceptible to a loss of investor confidence, says credit rating agency. The outlook for the Turkish banking system is negative due to downside risks related to funding and asset quality, credit rating agency Moody's said.

The operating environment for Turkish banks will also remain challenging due to a combination of factors including slowing economic growth, ineffective monetary policy, currency depreciation and high unemployment, Moody's said in a report published on Tuesday.

"These factors will suppress loan demand and pressure borrowers' capacity to repay debt. Moody's forecasts that Turkey's GDP will slow to 4 percent in 2018 and 3.5 percent in 2019 from 7 percent estimated last year," Moody's added in the report. Noting that the overall picture suggests that the risk of an external shock to Turkey, while still quite low, had increased. "This makes its banking system more susceptible to a loss of investor confidence," Moody's said. "Banks' asset quality will likely deteriorate due to the challenging operating environment, financial difficulties among some large borrowers and the weakening construction sector. Problem loans will likely rise to around 4 percent in 2018, from 3 percent in 2017. Nonetheless, capital levels should remain adequate, even if the Turkish lira continues depreciating and loan growth is above internal capital generation."

Turkey's unemployment rate falls to 10.6 pct in Feb.

Anadolu Agency, 15.05.2018



Turkey's unemployment rate stood at 10.6 percent in February, falling 2 percentage points on a yearly basis.

TurkStat said the number of unemployed persons aged 15 years and over -- 3.35 million last February -- decreased by 546,000, year-on-year. "In the same period, non-agricultural unemployment rate occurred as 12.5 percent with a 2.3-percentage point decrease," TurkStat said. "While youth unemployment rate, including persons aged 15-24 was 19 percent with a 4.3-percentage point decrease, the unemployment rate for persons aged 15-64 occurred as 10.5 percent with a 2-percentage point decrease."

The number of employed people rose by some 1.2 million to nearly 28.2 million over the same period, moving the employment rate to 46.6 percent with a 1.3-percentage point annual increase, the institute added. With regards to distribution of employment by sector; 17.7 percent are employed in agriculture, 20 percent in industry, 7 percent in construction and 55.3 percent in services, TurkStat said. Official data showed that the labor force participation rate (LFPR) was 52.2 percent -- a 0.4-percentage point increase year-on-year -- while the number of people in the labor force reached 31.5 million -- up 665,000.

The male LFPR stood at 71.5 percent -- a 0.2-percentage point decrease -- while the female rate was 33.3 percent - a rise of 1 percentage point on a yearly basis. Meanwhile, the rate of unregistered employment -- people working without social security related to their principal occupation -- stood at 32.2 percent with a 0.6-percentage point decrease year-on-year, TurkStat added. Enver Erkan, an economist at GCM Menkul Kıymetler, told Anadolu Agency that the significant recovery in the unemployment figures came thanks to stimulus measures were put forth by the government.

"The government's goal is 10.5 percent for 2018, according to the country's Medium Term Program, which is also close to our expectation for this year," Erkan said. Erkan stressed that the ongoing volatility seen in the foreign exchange markets bore negative effects to the economy and to the labor market as well. "The depreciation of the Turkish lira could be considered as a risk especially for the private sector," he said. "Because the private sector is more profit-oriented, decision-makers would reduce some labor force in order to sustain profitability."

The U.S. dollar/Turkish lira exchange rate has been subject to harsh fluctuations in recent weeks. The USD/TRY rate stood at nearly 4.40 on Tuesday morning, while the average dollar/lira was 3.65 last year. Economist Bora Tamer Yilmaz also told Anadolu Agency that the seasonally adjusted unemployment rate was 9.8 percent in February -- the strongest figure since the defeated July 15 coup attempt. "In February, 40,000 new jobs [seasonally adjusted figure] were created in the country," Yilmaz said. "Increases in employment and vibrant economic activities resulted from the strong performance of the global economy, domestic practices and incentive systems." "Employment growth in the services sector is also a positive signal for the future," he noted, adding that the Turkish economy would probably grow around 5 percent this year."

Turkey: Central bank monitors money market fluctuations

Anadolu Agency, 16.05.2018



The recent foreign exchange rate fluctuations in Turkish market are being observed carefully, the Central Bank of the Republic of Turkey (CBRT) announced on Wednesday.

"The CBRT is closely monitoring the unhealthy price formations in the markets," the bank said in a statement, following the foreign currencies reached new highs against Turkish lira. "Necessary steps will be taken, also considering the impact of these developments on the inflation outlook," the CBRT added. On Wednesday, the U.S. dollar/Turkish lira rate climbed to nearly 4.50, while the average dollar/lira rate was 3.65 last year.

The euro/lira rate and the British pound/Turkish lira rates also saw their all-time high, reaching above 5.30 and 6.00, respectively.

Turkey's budget posts nearly \$6 billion deficit in first four months of 2018

Hurriyet Daily News, 15.05.2018



Turkey's central government budget balance saw a deficit of 23.2 billion Turkish liras in the January-April period.

According to an official statement, Turkey's budget revenues stood at 232 billion liras from January to April, going up by 17.3 percent on a yearly basis. In the same period, the budget expenses amounted to 255.2 billion liras (\$65.8 billion), marking an 18.3 percent annual rise. Excluding interest payments, the central government budget balance saw a surplus of 2.2 billion liras over the same period.

The budget gave a 2.8 billion lira (\$721 million) deficit in April, down from a 3 billion liras (\$773 million) in the same month of 2017. Excluding interest payments, the central government budget balance saw a surplus of 356 million liras (\$91 million) over the same period. Finance Minister Naci A bal said works continue to realize the budget realizations in line with the targets by the year end. "The April tax income performance has confirmed that our tax incomes would be higher than our targets at the end of the year," he added, as the tax income saw a 21.5 percent year-on-year increase in April.

UK PM May calls on Turkey's Erdogan not to lose sight of democratic values

Reuters, 16.05.2018



Prime Minister Theresa May has called on Turkish President Recep Tayyip Erdo an not to go too far in his crackdown on those believed to be behind a failed 2016 coup attempt, speaking after a meeting in London marked by human rights.

Rights campaigners have accused May of turning a blind eye to human rights abuses in pursuit of trade deals after Brexit. In Turkey's case they point to the jailing tens of thousands of people after the attempted coup. The Turkish government has said its actions are necessary to combat the threat it faces following the coup attempt in July 2016. May said Britain's relationship with Turkey was indispensable.

Praising the impact of security cooperation and the prospect of close post-Brexit trade ties. But she added a diplomatic warning on the need for restraint. “It is right that those who sought to overthrow the democratically elected government are brought to justice,” May said, speaking alongside Erdoğan in her Downing Street office following their meeting. “But it is also important that in the defense of democracy, which has been facing extraordinary pressures from the failed coup, instability across the border from Syria and from Kurdish terrorism, Turkey does not lose sight of the values it is seeking to defend.” She said she had underlined the need for Turkey to uphold democratic values and its human rights obligations. Erdoğan’s visit is part of May’s charm offensive to shore up relations with countries outside the European Union as Britain prepares to leave the bloc and secure at least the promise of future trade deals to bolster her all but stalled Brexit plans.

Last year, May secured a commitment for Britain and Turkey to work on post-Brexit trade. Speaking on May 15, Erdoğan welcomed a transition deal agreed between London and the EU to ease Britain’s departure from the bloc. He said the two leaders had agreed trade could be increased to \$20 billion annually, up from the 2017 level of around 16 billion. Ties between the EU and Turkey are increasingly strained, with Brussels saying that Erdoğan is leading his country away from the path to membership, while some Turkish officials say they feel betrayed by some of the bloc’s leaders.

Trade, Iran disputes hit German investor morale

CNBC, 16.05.2018



The mood among German investors remained unchanged at its lowest level in five and a half years in May, a survey showed yesterday, reflecting persisting concerns that Europe’s biggest economy could be hit by a trade dispute with the United States.

The ZEW research institute said its monthly survey showed a reading for economic sentiment among investors remained unchanged at -8.2, the lowest since November 2012. This was in line with the Reuters consensus forecast. A separate gauge measuring investors’ assessment of the economy’s current conditions edged down to 87.4 from 87.9 last month.

The Reuters consensus forecast was for a reading of 86.2. “The U.S. decision to back out of the nuclear treaty with Iran and fears of a further escalation of the international trade conflict with the U.S., as well as a further rise in crude oil prices, have had an overall negative impact on economic expectations in Germany”, ZEW researcher Achim Wambach said, as quoted by Reuters. Separate data showed yesterday that the German economy grew slower than analysts had forecast in the first three months of 2018 in a result likely to stoke fears of a eurozone slowdown. Europe’s powerhouse expanded by 0.3 percent quarter-on-quarter between January and March, adjusting for price, seasonal and calendar effects, federal statistics authority Destatis said, as reported by AFP.

That was half the pace seen in the previous three months, and analysts surveyed by data company Factset had predicted growth of 0.4 percent. Destatis highlighted “positive impulses” from the domestic economy, as firms increased investments in buildings and equipment and households slightly increased consumer spending. But government outlays fell slightly for the first time in almost five years, slowing growth, while both imports and exports fell back over the quarter compared with October to December. After an unexpectedly strong year for the 19-nation single currency area in 2017, Germany’s weaker first-quarter growth follows a run of economic data suggesting a slowdown could be on the way for the eurozone. Meanwhile, fears linger that the European Union could be headed for a trade showdown with U.S. President Donald Trump.

EU, Iran eye ‘practical solution’ to save nuclear deal

Anadolu Agency, 16.05.2018



EU Foreign Policy Chief Federica Mogherini said Tuesday the bloc is working with Iran to save the 2015 nuclear accord after the U.S. withdrew from the agreement.

Mogherini was speaking at a press conference following talks with her counterparts from Britain, France and Germany, which were signatories to the accord aimed at stopping Iran from developing nuclear weapons. She said they had already launched intensive discussions to rescue the agreement, adding they would find some solutions “within weeks”. “If we want to save this deal”

“We know that the sooner we manage to do it, the better and the easier it will be,” she said. Mogherini underscored that the EU is committed to “full and effective implementation” of all parts of the deal. While she noted that the EU cannot provide legal and economic guarantees to Iran after the U.S. withdrew from the accord, she noted that the EU and the Iranian side would continue to work “seriously and decisively” to keep investment flowing. Under the 2015 nuclear agreement between Iran and six world powers, Tehran was provided billions of dollars in relief from financial sanctions in return for curbing its nuclear program. Earlier this month, President Donald Trump pulled the U.S. out of the accord, repeatedly calling it the “worst deal” he has ever seen. Trump opted not to extend sanctions relief on Iran ahead of a May 12 deadline, vowing instead to re-impose nuclear-related economic penalties. All of the U.S.’ negotiating partners -- the UK, France, Germany, Russia, China and the EU -- agree that maintaining the accord is the best way to reign in Iran’s nuclear program.

Eurozone's industrial production up in March

Anadolu Agency, 15.05.2018



Whistleblowers Seasonally adjusted industrial production rose by 0.5 percent in the euro area (EA19) and by 0.4 percent in the EU28 in March, compared to the previous month, the statistical office of the European Union announced.

In February, industrial production dropped by 0.9 percent in the euro area and by 0.7 percent in the EU28, according to Eurostat's statement. Eurostat underlined that the increase of 0.5 percent in the euro area stemmed from rises in the production of durable consumer goods (1.5 percent), non-durable consumer goods (1.1 percent), and energy.

Meanwhile, production of capital goods and intermediate goods dropped by 0.6 percent and 0.1 percent, respectively, said the statement. The EU28's increase is also due to the rises of production energy (1.3 percent), durable consumer goods (1.3), non-durable consumer goods (0.8); production of intermediate goods and capital goods saw declines of 0.3 percent and 0.2 percent. "Among the Member States for which data are available, the highest increases in industrial production were registered in Estonia (4.1 percent), Portugal (3.7 percent) and Greece (2.6 percent), and the largest decreases in Ireland (7.0 percent), Croatia (4.3 percent) and Latvia (3.5 percent)," the statement said.

Eurostat also said industrial production had increased by 3 percent both in the eurozone and the EU28 in March, compared with the same month of 2017. In the euro area, production of energy rose by 8.1 percent, capital goods by 2.7 percent, durable consumer goods by 2.6 percent, non-durable consumer goods by 1.8 percent and intermediate goods by 1.6 percent, year-on-year in March. Meanwhile, the EU 28's production of energy rose by 7.9 percent, capital goods by 3.5 percent, durable consumer goods by 2.6 percent, intermediate goods by 1.4 percent, and non-durable consumer goods by 1.2 percent. Lithuania, Estonia and Finland registered the highest increases with 11.5 percent, 7.6 percent and 7 percent, respectively, while Ireland, Malta and Slovakia suffered the biggest declines with 14.7 percent, 3.2 percent and 2.3 percent, respectively. GDP up in EA19 and EU28

Eurostat's flash estimate showed that both EA19 and EU28's GDP rose by 0.4 percent in the first quarter of 2018, versus the same quarter of last year, it announced on Tuesday. In the last quarter of 2017, GDP had grown by 0.7 percent in the euro area and by 0.6 percent in the EU28. "Compared with the same quarter of the previous year, seasonally adjusted GDP rose by 2.5 percent in the euro area and by 2.4 percent in the EU28 in the first quarter of 2018, after 2.8 percent and 2.7 percent, respectively, in the previous quarter," Eurostat added.

Japan's economy shrank for the first time in nine quarters

Reuters, 16.05.2018



Japan's economy contracted more than expected at the start of this year, breaking the longest run of growth seen for decades, in a blow to Prime Minister Shinzo Abe's reflationary 'Abenomics' polices.

Wednesday's data marked the end to eight straight quarters of economic expansion, which was the longest sequence of growth since a 12-quarter run between April-June 1986 and January-March 1989 during the asset-inflated bubble economy. The economy shrank by 0.6 percent on an annualized basis, a much more severe contraction than the median estimate for an annualized 0.2 percent.

Fourth quarter growth was revised to an annualized 0.6 percent, down from the 1.6 percent estimated earlier. Economists say the contraction will be temporary, but there is a risk that trade friction with the United States will hurt export demand, meaning a strong recovery is not assured. "Globally, IT-related items have been in an adjustment phase, which weighed down Japan's exports and factory output," said Yoshimasa Maruyama, chief market economist at SMBC Nikko Securities. "The economy is unlikely to continue to contract further. The global economy is performing well and a yen is trading beyond 110 yen against the dollar, so once exports start to grow again, the economy will return to a moderate growth path."

Capital expenditure fell 0.1 percent, down for the first time in six quarters, suggesting corporate investment is not as strong as many economists had forecast. The median estimate was for a 0.4 percent increase. Wednesday's figures may presage data due on Thursday that is forecast to show core machinery orders, a leading indicator of capital expenditure, fell in March for the first time in three months. Compared to the previous quarter, gross domestic product (GDP) fell 0.2 percent, more than the median estimate for GDP to be flat, and following a downwardly revised 0.1 percent quarter-on-quarter expansion in October-December, Cabinet Office data showed on Wednesday. Consumer spending fell marginally, registering a decline of less than one percentage point in the first quarter. The median estimate was for consumer spending to remain unchanged. External demand — or exports minus imports — added 0.1 percentage point to first-quarter GDP, as imports slowed more than exports. However, a breakdown of the data shows export growth is losing momentum, expanding 0.6 percent in the first quarter after growth of 2.2 percent expansion in the fourth quarter. Japan's government is preparing for its annual announcement of guidelines for economic and fiscal policy, but the government has been distracted by allegations of cronyism that have hurt Abe's approval ratings.

UK: Jews deliver message of condemnation to Israel

CNBC, 16.05.2018



The anti-Zionist Neturei Karta organization has delivered a message of support and solidarity to Palestine as well as one of criticism and condemnation to Israel over its treatment of Palestinian civilians.

In a meeting with President Recep Tayyip Erdogan Monday evening, Elahanan Beck, the chief rabbi of Neturei Karta, said “we have to realize and understand -- helping the state of Israel is not in the favor of Jewish people”. “The Zionists say they want to make a safe haven for Jewish people, they want to help Jews... but this is untrue.

The most dangerous place today for Jewish people -- not to speak for Palestinians, but even for Jews -- is in the state of Israel,” Beck said. Praising Erdogan for withdrawing Turkey’s ambassador to Israel after the opening of the new U.S. embassy in Jerusalem, Beck said: “If you want to help the Jewish people, follow the example of what the Turkish president did: withdraw your ambassador from there and come out in the clear”. Tensions have risen in the region after President Donald Trump recognized Jerusalem as the capital of Israel in December and ordered the opening of a new U.S. embassy in the disputed and occupied city, a decision that has earned him global criticism and has broken many agreements regarding Jerusalem’s status.

At least 62 Palestinian demonstrators on the border between the Gaza Strip and Israel who were protesting the embassy’s inauguration were killed Monday by the Israeli Defense Forces. The killings have sparked a global outcry, with many world leaders condemning Israel, which claimed it was in self-defense. “We are against the state of Israel. We are against occupiers, and we have to bring peace to the region,” Beck added.

Pyongyang's U-turn threatens Trump summit

CNBC, 16.05.2018



North Korea threatened Wednesday to pull out of a planned summit between leader Kim Jong-un and U.S. President Donald Trump unless Washington stops pushing Pyongyang to denuclearize.

“We will not be interested in talks anymore if [they] only try to push us unilaterally into a corner and force us to give up nukes,” said the North’s Vice Foreign Minister Kim Kye-gwan, according to Pyongyang’s official KCNA news agency. He criticized American officials for citing Libya’s denuclearization example as a precedent for North Korea to follow, given how advanced Pyongyang’s nukes are.

“The U.S. is saying that it will give us economic compensation and benefits if we abandon our nukes. But we have never sought economic development by pinning expectations on the U.S. and such a deal will never happen going forward either,” Kim added. North Korea also announced early Wednesday that it was “indefinitely” postponing inter-Korean talks planned for later in the day. Pyongyang’s state-run KCNA blamed ongoing military drills being carried out by South Korean and American air forces. “This exercise targeting us, which is being carried out across South Korea, is a flagrant challenge to the Panmunjom Declaration and an intentional military provocation running counter to the positive development on the Korean Peninsula,” the KCNA article stated.

The ‘Panmunjom Declaration’ refers to an April 27 peace agreement reached during the first inter-Korean summit in over a decade -- a Kim-Trump meeting set for June 12 had been expected to flesh out the details of the North’s denuclearization. While the U.S. is not known to have received any notification of a change in that schedule, the KCNA report warned Washington to “undertake careful deliberations about the fate of the planned North Korea-U.S. summit in light of this provocative military ruckus jointly conducted with the South Korean authorities”. Pyongyang had only arranged high-level talks with the South a day before Wednesday’s cancellation, while the allied military exercises in question started last Friday. The Max Thunder drills -- described by the allies as defensive in nature -- are set to last two weeks, including the participation of around 100 military aircraft. North Korea has long condemned such exercises as war preparations, although allied drills earlier this year did not disrupt diplomatic improvements.

Washington was cautious in its initial response, as White House press secretary Sarah Sanders stated that the U.S. “will look at what North Korea has said independently and continue to coordinate closely with our allies”. State Department spokeswoman Heather Nauert also confirmed that the U.S. “will continue to plan” next month’s summit with North Korea in Singapore.

At top of the Fed, a dispute on policy picks up steam

Reuters, 16.05.2018



Federal Reserve Chair Jerome Powell’s top deputies are edging toward a clash that could shape the pace of interest-rate hikes in coming months, as well as how the Fed should prepare for and combat the next economic downturn.

The fault lines are technical as well as philosophical and include a debate over whether the economy has shifted into a higher gear, giving the Fed room for more interest-rate hikes and perhaps reducing the need for controversial tools like bond-buying to fight future recessions. They come as tax cuts and government spending boost growth and inflation.

These are giving policymakers the breathing room to debate whether to retool the Fed’s basic policy approach to give themselves more firepower even if slower future economic growth is unavoidable. San Francisco Fed President John Williams launched a critical salvo in the debate on Tuesday with a speech underscoring his view that the Fed has only a few more rate hikes ahead of it before rates reach a level of borrowing costs that allows the economy to coast along, without stimulating or slowing its progress. This neutral rate, which can only be estimated and not observed, serves as a sort of speed limit on interest-rate hikes and is at the heart of the current policy debate. It’s important to distinguish between the current strong economic conditions and the key longer-run drivers underpinning interest rates,” he said at the Economic Club of Minnesota. Despite economic tailwinds like tax cuts and government spending, “the longer-run drivers still point to a ‘new normal’ of a low (neutral rate) and relatively low interest rates.”

Williams, whose research has helped convince most of his colleagues that the neutral rate of interest is much lower than in the past, stands to become even more influential when he takes over as chief of the New York Fed next month, a position that will make him a permanent voter on the Fed’s policy-setting committee. His view contrasts with recent optimism from some economists and central bankers. Among them is the Fed vice chair for financial supervision, Randal Quarles, a Trump administration appointee who in February said he believed there is a “real possibility” that the economy could shift to a higher growth trajectory.

Quarles' view suggests that the Fed has a bit more room to raise rates without braking the economy, which would, in turn, give it the flexibility to cut rates more deeply in the next downturn, and perhaps avoiding the need for unconventional measures like bond purchases. Fed Board nominee Richard Clarida, at his confirmation hearing on Tuesday, flagged some discomfort with such measures, which began in the depths of the financial crisis to stabilize banks and were later expanded to help bring down high unemployment and lift excessively low inflation. Though the Fed's initial program of so-called quantitative easing "made sense," Clarida said he was not sure how he would have voted on subsequent rounds, and said in response to a question from Republican Senator Pat Toomey that he was "very sympathetic to your view that any discussion and thinking about QE would have to take a serious look at costs as well as benefits." Williams for his part on Tuesday called bond-buying an important part of the policy-easing tools that the Fed "is going to have to turn to" to fight future downturns.

Rate cuts alone, from what will be a relatively low starting point and only able to fall as far as zero, would not provide enough firepower to stimulate the economy, he has said in the past. Williams has also said that "time is pressing" for a rethink of the Fed's 2 percent inflation target. A new policy framework, he has said, conceivably could give the central bank more room for maneuver even with a low neutral rate by allowing it to defer rate hikes after a recession even if inflation pushes up to, or even past, its long-run target. Several other Fed policymakers, including Fed Governor Lael Brainard and Chicago Fed President Charles Evans, have lent support to a debate on the framework. Quarles by contrast has suggested that there is little need to rethink the framework if inflation rises back to the Fed's 2 percent target, as it has lately done. Clarida did not weigh in on that debate on Tuesday, or on his view of the neutral rate. But if he and fellow nominee Michelle Bowman are confirmed it is a topic that will heat up in coming months.

Business inventories fall flat of expectations

CNBC, 15.05.2018



U.S. business inventories saw no improvement in March, falling short of economists' predictions.

The Commerce Department's measure of business production remained flat in March at \$1,929.6 billion. It was expected to gain 0.1 percent, a survey of Reuters economists forecast. Inventories were up 3.8 percent from the prior year. The key technical indicator, based on data from three trade and manufacturing surveys, rose 0.6 percent in February. The ratio of inventories to sales in March was 1.34, short of the 1.38 ratio from the prior year.

The Manufacturing and Trade Inventories and Sales survey adds up the value of trade sales and manufacturers' shipments. The measure helps track and make predictions about near-term business production activity.

US sanctions head of Iran's central bank

Anadolu Agency, 15.05.2018



The U.S. on Tuesday sanctioned the head of Iran's central bank and another senior bank official, claiming they have been key to funneling money to the external operations unit of Iran's Islamic Revolutionary Guards Corps (IRGC) and Lebanese Hezbollah.

Valiollah Seif was blacklisted by the Treasury Department for allegedly moving "millions of dollars through the international financial system" in support of the IRGC's Quds Force (IRGC-QF). "It is appalling, but not surprising, that Iran's senior-most banking official would conspire with the IRGC-QF to facilitate funding of terror groups like Hizballah,

"It undermines any credibility he could claim in protecting the integrity of the institution as a central bank governor," Treasury Secretary Steven Mnuchin said in a statement, using an alternate spelling for Hezbollah. Also sanctioned Monday are an Iraqi bank, its chairman, and Ali Tarzali, who Treasury said is "the assistant director of the International Department at the Central Bank of Iran". Despite Tarzali and Seif's designations, the Central Bank of Iran itself remains unsanctioned, according to the department. It noted, however, that following President Donald Trump's withdrawal from the international accord Iran struck with world powers in 2015, previously existing sanctions will be re-applied to "certain transactions" with Iran's Central Bank, including purchases or acquisition of U.S. dollars by the bank. That will begin Aug. 7 followed by more robust sanctions on individuals who "knowingly" engage in certain "significant transactions" with the central bank starting Nov. 5.

Trump says his push to save ZTE is part of a 'larger trade deal,' contradicting administration stance

CNBC, 16.05.2018



President Donald Trump said Wednesday his reversal on Chinese company ZTE only relates to a “larger trade deal” his administration seeks with Beijing.

Top Trump administration officials such as Commerce Secretary Wilbur Ross had tried to separate the president’s push to boost the telecommunications company from trade talks with China. Ross this week called it an “enforcement” issue, not a trade dispute. Trump’s public statements have muddled that message. In a series of tweets Wednesday morning.

The president said “there has been no folding” on his pledges to crack down on Chinese trade practices. He said high-level meetings on the U.S.-China trade relationship “haven’t even started yet.” Trump also argued that the U.S. “has very little to give” in talks “because it has given so much over the years.” He added: “China has much to give!” Last month, the Trump administration barred U.S. companies from selling to ZTE for seven years. The ban came in response to the company’s shipping of American goods to Iran and North Korea in violation of sanctions. It effectively crippled ZTE. On Sunday, the president said he instructed his Commerce Department to find a way to help the telecommunications equipment maker “get back into business, fast.” “Too many jobs” were lost in China, the president added. Senate Democrats accused Trump of abandoning his pledge to crack down on alleged trade abuses by China. One Senate Republican, Marco Rubio of Florida, also warned of national security risks and said he hoped “this isn’t the beginning of backing down to China.”

Trump’s concessions on ZTE come as the world’s two largest economies undertake trade discussions to avoid a potential trade war. Reports have indicated Trump could ease up on ZTE in exchange for a Chinese pullback on tariffs that threaten to damage the U.S. agricultural industry.

Stock futures flat on rising U.S. yields, North Korea worries

Reuters, 16.05.2018



U.S. stock index futures were little changed on Wednesday as investors assessed the impact of a surge in bond yields, while growing doubts about the U.S.-North Korea summit also weighed.

North Korea threw next month's summit between Kim Jong Un and President Donald Trump into doubt, threatening weeks of diplomatic progress by saying it may reconsider if Washington insists it unilaterally gives up its nuclear weapons. A cancellation of the June 12 summit in Singapore adds to the jitters in the market, which is already dealing with China-U.S. trade tensions and inflation concerns.

The Dow Jones Industrial Average .DJI and the Nasdaq .IXIC recorded their biggest one-day percentage drop in three weeks on Tuesday after strong retail sales data stoked inflation concerns, sending the U.S. 10-year Treasury yield above the 3 percent level, its highest since July 2011. It was last at 3.0742 percent on Wednesday. The latest report comes after markets took comfort from a recent string of data that pointed to softening inflation. Reports on housing starts, industrial production and weekly jobless claims are all due later in the day.

At 7:19 a.m. ET, Dow e-minis 1YMc1 were up 17 points, or 0.07 percent. S&P 500 e-minis ESc1 were up 2.5 points, or 0.09 percent and Nasdaq 100 e-minis NQc1 were up 9.25 points, or 0.13 percent. Among stocks, Micron (MU.O) rose 1.6 percent in premarket trading after RBC Capital Markets began coverage with "outperform" while AMD (AMD.O) gained 1.8 percent after a rating upgrade at Susquehanna.

Circle raises \$110 million, plans to create dollar-pegged cryptocurrency

Reuters, 15.05.2018



Goldman Sachs-backed (GS.N) cryptocurrency startup Circle has raised \$110 million in an investment round led by Chinese virtual coin mining giant Bitmain Technologies.

Boston-based Circle also said it would create a new cryptocurrency pegged to the price of the U.S. dollar, enabling businesses and consumers to transfer value more efficiently. Each token, called Circle USD Coin (USDC), will be backed by reserves of U.S. dollars, Circle said. The effort is set to begin this summer. Cryptocurrencies such as bitcoin have struggled to take hold as viable alternative forms of payments, in part because of their extreme volatility.

However, many businesses are enamored with the underlying technology called blockchain, which they hope can help make transactions faster and cheaper. Circle believes a cryptocurrency whose value is pegged to a stable traditional currency can help drive adoption of blockchain-based systems. "It is difficult to use something like bitcoin if the volatility is so high," Circle Chief Executive Officer Jeremy Allaire said at a media event. "Something like this makes it more possible." The new coin will be initially issued by the startup and run on a network managed by Centre, a wholly owned subsidiary of Circle. The company plans to make Centre independent as other firms join the network, Allaire said. In conjunction with its investment, Bitmain will be involved with Centre and help launch coins linked to other fiat currencies, or legal tender, Circle said. Bitmain is one of the world's largest cryptocurrency mining companies and a leading manufacturer of the hardware needed to mine.

Existing Circle investors including Breyer Capital, General Catalyst and Accel also joined the round. Circle operates an app-based peer-to-peer payment network using blockchain, and is one of the leading players in the over-the-counter market for bitcoin trading. It recently acquired cryptocurrency exchange Poloniex. The new cryptocurrency is set to compete with other virtual coins backed by traditional currencies. "Existing fiat-backed (cryptocurrency) approaches have lacked financial and operational transparency," Circle said in a blog. Allaire said the company would provide quarterly audits on the reserves backing the USDC coin and conduct strict anti-money laundering and other checks on individuals and companies looking to buy and redeem the new coins.



Announcements & Reports

Exploring Transatlantic Responses to Far-right Populism in Europe:

Source : Chatham House

Weblink : <https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2018-05-03-exploring-transatlantic-responses-far-right-populism-europe-parakilas-raines-final.pdf>

Russia's New State Armament Programme

Source : Chatham House

Weblink : <https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2018-05-10-russia-state-armament-programme-connelly-boulegue.pdf>

Upcoming Events

The Politics of Personality in the Middle East

Date : 21 May 2018

Place : London

Website : <https://www.chathamhouse.org/event/politics-personality-middle-east>

Fighting Without Paying: 21st Century Wars and the Decline of Democracy

Date : 22 May 2018

Place : London

Website : <https://www.chathamhouse.org/event/fighting-without-paying-21st-century-wars-and-decline-democracy>

Assessing the Impact of Sanctions on the Russian Defence Sector

Date : 23 May 2018

Place : London

Website : <https://www.chathamhouse.org/event/assessing-impact-sanctions-russian-defence-sector>

Future of Work 2018

Date : 24 May 2018

Place : London

Website : <https://www.chathamhouse.org/event/assessing-impact-sanctions-russian-defence-sector>



Cyber 2018

Date : 28 June 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/cyber-2018>

Fighting Financial Crime 2018

Date : 10 September 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/fighting-financial-crime-2018>

Illicit Financial Flows 2018

Date : 01 October 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/illit-financial-flows-2018>

Climate Change 2018

Date : 15 October 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/climate-change-2018>

Climate Change 2018

Date : 15 October 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/climate-change-2018>

Global Trade 2018

Date : 01 November 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/global-trade-2018>