

WEEKLY OUTLOOK

An agreement was reached at the OPEC meeting.

In the OPEC meeting, which has been on the agenda of the markets for a long time, member countries decided to cut oil production. As the conflicts resolved between Saudi Arabia, Iran and Iraq, which are the three largest producers of the Organization, OPEC will go into production cut for the first time in 8 years. Oil production is planned to be reduced by 1.2 million barrels per day starting from January 2017. Russia is also expected to provide support to the decision by cutting oil production. Following the announcement of the decision to reduce production, oil prices rose rapidly, while stock prices have gone up in energy sector. On the other hand, we anticipate that the expected weakness in global economic activity will limit the upward trend in oil prices supported by the decision.

Unemployment rate in the US dropped to 4.6%.

Data releases last week confirmed that the recovery in US economy is ongoing. Growth in the US was finally revised from 2.9% to 3.2% in the third quarter thanks to the increase in consumer spending. Consumer confidence index (107.1), which reached the highest level since July 2007 in November, pointed out that the recovery in consumer demand will continue. Another important data release of the last week in the US was employment statistics. In November, nonfarm payrolls increased by 178,000, while the unemployment rate dropped to 4.6%, the lowest level since August 2007. While revisions in previous payroll data were notable, decline in average hourly earnings was quite unexpected.

Italy voted "No" in the referendum.

In Italy, the constitutional amendment was rejected in the referendum on Sunday. As Prime Minister Renzi declared that he would leave his post following the result, euro fell to its lowest level against dollar in 20 months as initial reaction. After the resignation of Renzi, it is likely that there will be early elections in Italy in 2017. Recent developments suggest that anti-EU movement in Italy will be popular in the coming period and vulnerabilities in the economy and Italian banking sector will be more visible. On the other hand, the unemployment rate in Euro Area was below market expectations with 9.8% in October. It has been positively perceived that the unemployment rate declined below 10% to its lowest level since 2009. Consumer prices which increased by 0.6% yoy the highest level since April 2014 also supported the positive outlook.

OECD revised its growth forecasts.

OECD increased its global growth forecast for 2017 by 0.1 points to 3.3% in its Economic Outlook Report. In the report, the growth forecast for the Turkish economy for 2016 has been reduced to 2.9% from 3.9% due to geopolitical and political risks. On the other hand, it is predicted that the growth in 2017 will increase to 3.3%, assuming that consumption expenditures will gradually increase under the government's expansionary fiscal practices.

WEEKLY DATA

	25 Nov	2 Dec	Change		25 Nov	2 Dec	Change
BIST-100 Index	74,363	73,391	-1.3 % ▼	EUR/USD	1.0584	1.0670	0.8 % ▲
TRY 2 Year Benchmark Rate	10.89%	10.93%	4 bp ▲	USD/TRY	3.4457	3.5170	2.1 % ▲
US 10 Year Bond Rate	2.37%	2.39%	2 bp ▲	EUR/TRY	3.6499	3.7510	2.8 % ▲
EMBI+ (bps)	381	391	10 bp ▲	Gold (USD/ounce)	1,183	1,177	-0.5 % ▼
EMBI+ Turkey (bps)	375	387	12 bp ▲	Brent Oil (USD/barrel)	45.9	52.6	14.8 % ▲

bp: basis point

According to leading indicators, the manufacturing industry remained weak.

According to the Istanbul Chamber of Industry figures, manufacturing PMI declined to 48.8 in November, indicating that the contraction in the manufacturing industry is continuing. Seasonally adjusted output and new orders indices remained below 50 in November, while the recent sharp depreciation in TRY affected the production negatively by increasing the input costs.

Rapid increase in producer prices in November...

In November, domestic PPI increased by 2% mom and by 6.41% yoy. In this period, producer prices increased by 2.41% mom in industrial sector and decreased by 3.16% mom in electricity and gas sectors. In November, CPI increased by 0.52% mom and by 7% yoy. The fastest monthly increase in consumer prices was in the clothing and footwear group with 3.89%, while the sharpest price decline was in the food and non-alcoholic beverages group with 0.58%.

Foreign trade deficit widened in October.

In October, exports declined by 3% on an annual basis while imports rose by 0.5% according to Turkstat data. Thus, foreign trade deficit widened by 13.2% yoy to 4.2 billion USD. In January-October period, exports decreased by 2.8% compared to the same period of 2015, while imports declined by 5.8% due to the low commodity prices. In the coming period, the recent easing of macroprudential measures might support domestic demand and imports while rapid depreciation of TRY is likely to put downward pressure on imports. We also anticipate that rising oil prices following the OPEC meeting could affect the external deficit negatively (Our [Foreign Trade Balance Report](#)). In November, exports and imports increased by 9.9% and 6.3%, respectively, on an annual basis, according to the unofficial data of the Ministry of Customs and Trade.

CBRT published its MPC meeting minutes.

According to CBRT's MPC meeting minutes, the slowdown in aggregate demand supported the fall in inflation while the recent exchange rate movements curbed the improvement in inflation outlook. MPC pointed out that as the possibility of Fed's December hike gained strength, the volatility in financial markets among developing countries increased and portfolio outflows have accelerated. It was emphasized that CBRT would continue to use required reserves and other liquidity tools to support markets, should financial conditions tighten more than expected. On the other hand, it was also emphasized that the effects of the tax regulations on the inflation outlook would be monitored closely while the simplification in monetary policy would depend on the inflation outlook. CBRT stated that the domestic demand is likely to pick up from the last quarter of the year thanks to the incentives and measures taken.

Domestic markets...

Last week, Turkish lira depreciated sharply against the dollar and euro due to the elevated economic and political tension in the country. On Friday, USD/TRY and EUR/TRY tested above 3.58 and 3.80, respectively. In the second half of the last trading day, on the other hand, TRY erased some of its early losses, while USD/TRY and EUR/TRY closed the week at 3.5170 and 3.7510, respectively. During the last week, BIST-100 declined by 1.3% wow, while the benchmark bond yield rose to 10.93%. Moreover, on Friday, the Economic Coordination Board gathered once again. According to statement published after the meeting, it was said that "the measures to be taken for the public finance, banking and finance sector, real sector and labor market have been decided and they will be shared with the public in the week following completion of the technical studies".

This week, the results of recent Economic Coordination Board meeting and the announcement of "the Monetary and Exchange Rate Policy for 2017" by CBRT Governor Çetinkaya will be followed closely in domestic markets. In addition, decisions to be taken at the European Central Bank meeting and the effects of the constitutional referendum in Italy would be on the top of the agenda.

INDUSTRY NEWS

Rise in special consumption tax on alcoholic drinks and tobacco...

Special Consumption Tax on alcoholic drinks and tobacco was revised in December 2016 instead of January 2017. Hence, STC was raised by 10% in alcoholic drinks and by 27.5% in tobacco. Consequently, alcoholic beverage and tobacco product prices are estimated to increase by 3-4% and by 5-6%, respectively. Tax rises are expected to add 3.24 billion TL to the government budget and 26 basis points to inflation.

Automotive market expanded in November.

According to Automotive Distributors' Association, passenger car and light commercial vehicle sales rose by 44.6% yoy to 122,309 units in November. In the 11-month period, sales increased by 3.7% yoy to 841,808 items. In this period, number of sold light commercial vehicles declined by 3.9% whereas passenger car sales were up by 6.2%. Nevertheless, current rise in special consumption tax on autos and the steep rise in FX rates are expected to affect sales negatively in the coming months.

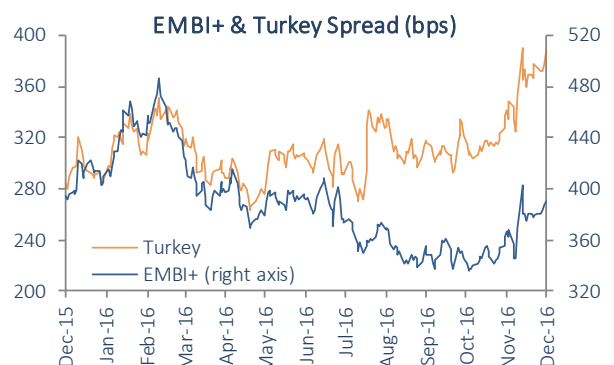
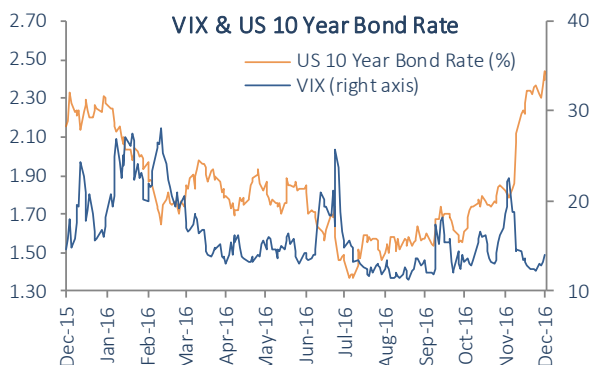
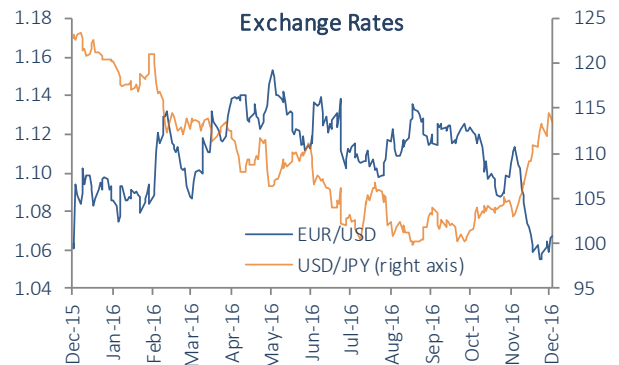
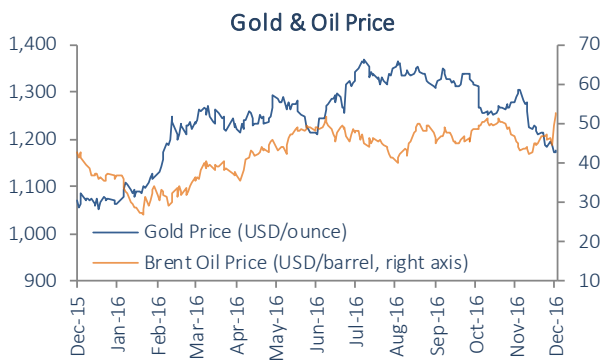
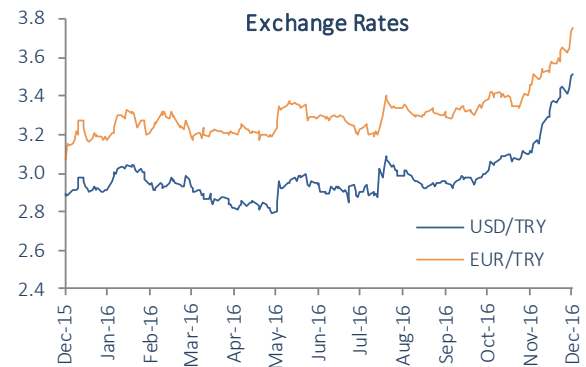
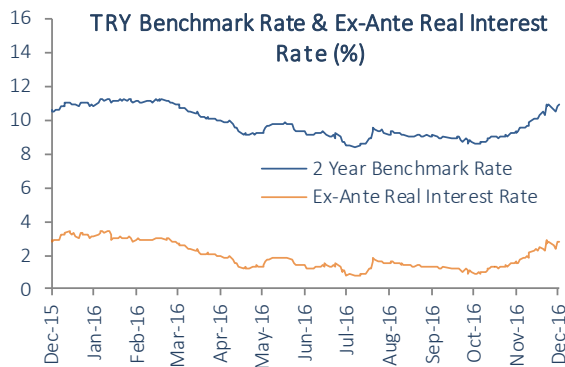
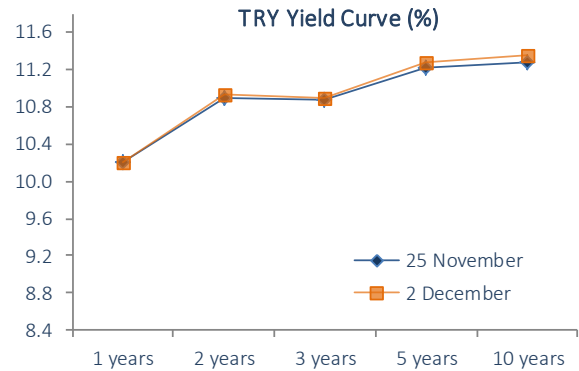
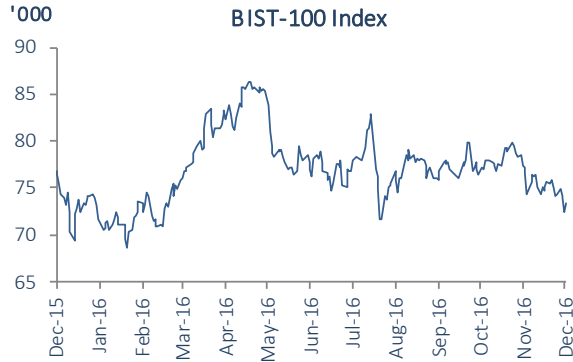
Foreign arrivals continued to decline.

Foreign arrivals to Turkey decreased by 25.8% yoy in October and fell by 31.4% yoy in the 10-month period according to the data released by Ministry of Culture and Tourism. Analysing the figures of visitors by nationalities, 78% yoy decline in arrivals from Russia in January-October 2016 was quite notable. During this period, according to foreign arrivals, top 3 countries were Germany, Georgia and the UK.

TL usage in public procurements became mandatory.

According to the new regulation, public sector institutions have been obligated to accept TL-based offers and make contracts only in the procurements under the Public Procurement Law-No. 4734. Previously, they were allowed to use foreign currencies in the procurement processes.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
5 December	Turkstat CPI	November	0.52% mom (A)
	Turkstat D-PPI	November	2% mom (A)
	US ISM Non-Manufacturing PMI	November	55.3
	Eurozone Markit Services PMI	November	53.8 (A)
	Eurozone Retail Sales	October	1.1% mom (A)
6 December	CBRT Monetary and Exchange Rate Policy for 2017	-	-
	US Factory Orders	October	-
	Eurozone GDP Growth Rate	2016 Q3	-
7 December	Germany Industrial Production	October	-
	Japan GDP Growth Rate	2016 Q3	-
8 December	Turkstat Industrial Production Index	October	-
	ECB Policy Meeting and Interest Rate Decision	December	-
	China Exports	November	-
9 December	US Michigan Consumer Sentiment Index (Preliminary)	December	-
	China PPI	November	-
	China CPI	November	-

(A) Actual

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