

WEEKLY OUTLOOK

US GDP growth revised up to 3.5% in Q3.

The revision of US GDP growth in Q3 up to 3.5% indicated the strongest growth in 2 years. Upward revision on consumption expenditures, representing almost 70% of the GDP, was mostly effective on the revision of GDP growth. Leading indicators on US economy were also followed by the markets last week. Personal income and consumer spending, leading indicators for consumption expenditure, sent weak signals in November while durable goods orders dropped by 4.6% mom. Despite the sharp contraction in durable goods orders, orders excluding transportation were up by 0.5% pointing uptrend in demand for basic products. Housing market, on the other hand, gained momentum in November. Existing home sales better-than-expected surged by 15.4% yoy to 5.61 million while new home sales grew by 16.5% yoy to 592,000 confirming the ongoing recovery in the housing sector. However, we foresee a deceleration in home sales due to rising interest rates.

EU economy...

European Central Bank (ECB) published its Economic Bulletin and evaluated the recent developments in both the global and Euro Area economy. ECB emphasized that global economic activity has improved and will keep strengthening in the medium term while balancing Chinese economy, low commodity prices and uncertainty about US economic outlook will put pressure on the global economic growth. ECB also estimates that headline inflation rate will rise above 1% in 2017 in tandem with the recovering economic activity.

According to the positive assessment made by Deutsche Bundesbank in Germany, growth is expected to accelerate in the last quarter thanks to recovery in industrial production, strong course of construction activity and expected increase in consumption expenditures. The Business Climate Index IFO also supported this expectation with the value of 111 in December, reaching its highest level since February 2014. Another development from Euro Area was the Italian government's decision to provide 20 billion euros to Monte dei Paschi di Siena, which has been unable to raise funds in capital on the market.

UK economy grew by 0.6% in the third quarter suggesting that the Brexit decision did not hit the economy hard. In addition, last week British Prime Minister May reiterated that the Brexit process would start officially at the end of March 2017.

BoJ kept its monetary policy unchanged.

At its meeting last week, the Bank of Japan (BoJ) kept its policy rate unchanged as -%0.1, as well as its other monetary policy practices. After the meeting, BoJ stated that the moderate recovery of Japanese economy is continuing, and that Fed's future policy implementations would significantly affect global markets, especially developing countries.

WEEKLY DATA

	16 Dec	23 Dec	Change		16 Dec	23 Dec	Change
BIST-100 Index	77,590	76,972	-0.8 % ▼	EUR/USD	1.0447	1.0454	0.1 % ▲
TRY 2 Year Benchmark Rate	10.84%	10.58%	-26 bp ▼	USD/TRY	3.5058	3.5159	0.3 % ▲
US 10 Year Bond Rate	2.60%	2.54%	-6 bp ▼	EUR/TRY	3.6602	3.6742	0.4 % ▲
EMBI+ (bps)	366	362	-4 bp ▼	Gold (USD/ounce)	1,134	1,133	-0.1 % ▼
EMBI+ Turkey (bps)	365	356	-9 bp ▼	Brent Oil (USD/barrel)	54.3	54.0	-0.6 % ▼

bp: basis point

CBRT didn't change interest rates.

CBRT left policy interest rate (8%), lower and upper bands of the interest rate corridor (7.25% and 8.5% respectively) unchanged in its Monetary Policy Committee (MPC) meeting last week. CBRT was expected to raise the policy rate and upper band of the interest rate corridor. According to the announcement made after the meeting, the rise in exchange rates due to increasing global uncertainties and surge in oil prices pose an upside risk regarding the inflation outlook, while demand outlook in domestic and non-domestic markets limited the effects of these risks. On the other hand, it was stated that the economic activity has partially recovered in the last quarter, thanks to the measures taken recently. While it is emphasized that it will be useful to closely monitor the developments in order to evaluate the net effect of all factors properly, it is underlined that monetary policy decisions will depend on the inflation outlook in the coming period. Following the decision of the CBRT, the exchange rate expectations for the year-end rose.

Rapid rise in home sales...

According to TURKSTAT, home sales increased by 25.1% yoy in November and reached 132,655. It is noteworthy that the mortgage home sales increased by 71.4% in this period. Thus, the share of mortgage sales in total sales, which was 27% in November last year, increased to 37% in November 2016. While new and existing home sales rose by 25% annually, home sales to non-residents decreased by 16.3%. Arab countries such as Iraq, Saudi Arabia and Kuwait were the main foreign customers in Turkish housing market. We think that the recent increase in home sales is influenced by the demand that is pulled forward as a result of declining mortgage interest rates.

Deterioration in consumer confidence...

Consumer confidence index, which declined by 8% mom to 63.4 in December, signaled that household spending will slow down in the coming period. Analyzing the sub-groups of the index revealed that households' expectations regarding the financial situation and the general economic situation deteriorated significantly while the confidence to the labor market also weakened. Furthermore, the probability of buying a home in the next 12 months and the probability of purchasing a car dropped sharply by 18.2% and 9.4%, respectively.

Rating agencies announced their review schedules for 2017.

Credit rating agencies Fitch and S&P announced their schedule for assessing Turkey's credit note for 2017, while Moody's did not include Turkey in its announced schedule. S&P will publish its assessments for Turkey in May and November while Fitch's assessments will be announced in January and July. Fitch currently holds Turkey's sovereign rating at BBB- with a negative outlook, the lowest level of investment grade and S&P graded Turkey at BB with a stable outlook. Rating agencies' assessments are crucial in terms of pricing the recent risks in economic and political agenda.

Low trading volume before the Christmas holiday...

The trading volume in the domestic stock market remained low due to approaching year end and Christmas holiday in international markets. While the BİST-100 closed the week at 76,972 points with a weekly decrease of 0.8%, the benchmark bond yield declined 26 basis points to 10.58%. USD/TL parity turned upward as CBRT kept the policy rate unchanged contrary to market expectations. The dollar index reached its highest level in the last 14 years with 103.65 in the middle of the week. Gold prices, which fluctuated throughout the week, declined on weekly basis amid the appreciation of the dollar.

INDUSTRY NEWS

New tax for consumer electronics bought overseas...

One-off tax to be collected from consumer electronics such as mobile phones, computers, TVs, satellite receivers that are bought from abroad have been specified. In this respect, fees to be implemented by 2017 have been determined as €20 for mobile phones, €18 for video players and €10 for computers and tablets. Besides, 51 to 148 cm TVs will be charged €10-80 based on their screen size.

Auto-participation into Private Pension System is on the way.

According to Turkish Treasury, automatic participation into the Private Pension System will start on January 1st, 2017. New regulation which covers employees from both public and private sector suggests a gradual integration for existing employees and newly hired workers who are under age 45. 25% of public sector contribution that is already in use will also be applicable for the new participants. Additionally, people who stay in the system after the completion of retraction period will be supported by additional 1.000 TL as an incentive from the government.

BOTAŞ cut natural gas supply...

BOTAŞ has had to cut natural gas supply provided to cycle plants by 90% as a result of increased household demand for heating purposes. Cold weather conditions led daily gas consumption to surge above 200 million cubic meters and left BOTAŞ struggling in terms of meeting the demand. This substantial supply cut brought up issues like potential disruptions in electricity production for the coming period.

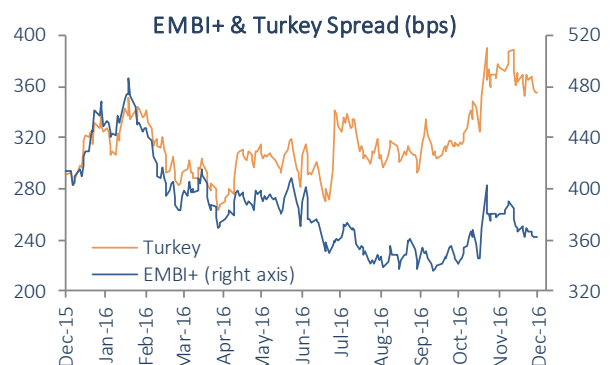
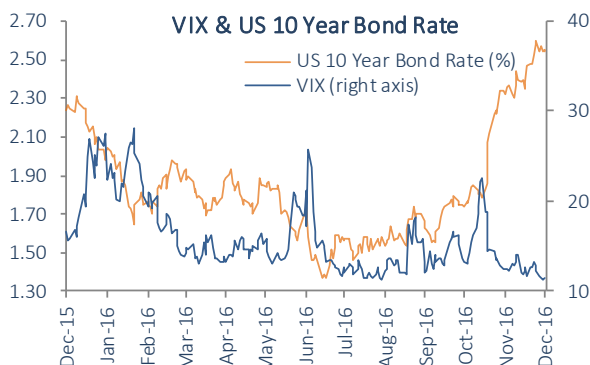
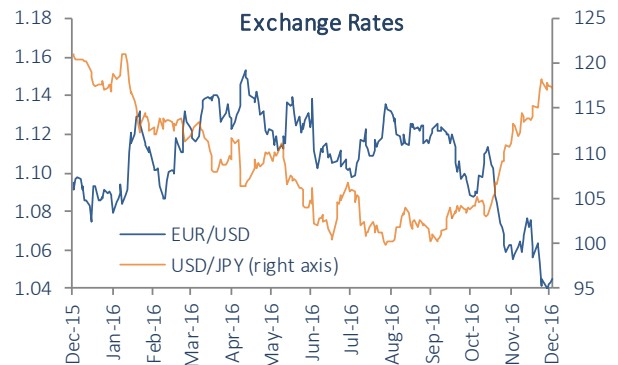
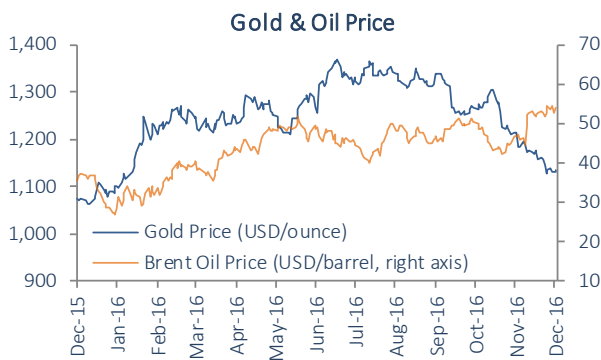
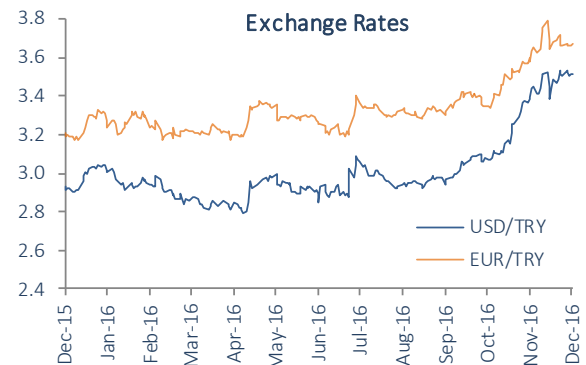
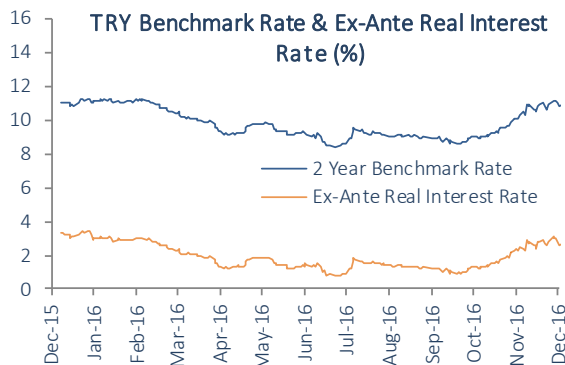
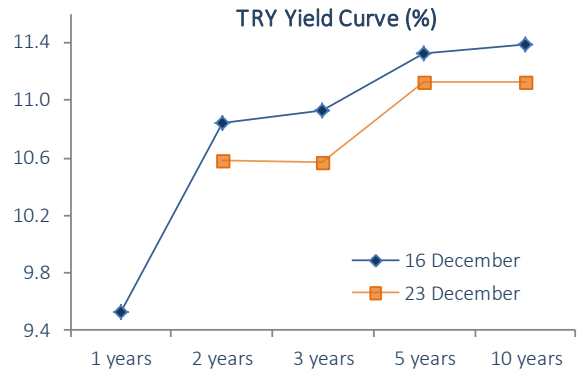
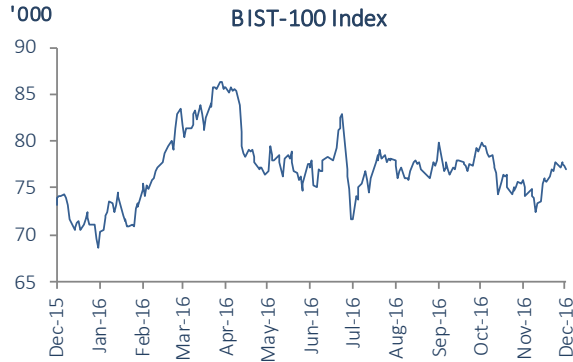
Worsening appetite for shopping mall investments...

Recent volatility in the FX market, increasing uncertainties and extended periods of investment returns led to a decline in foreign investors' appetite towards shopping malls. Council of Shopping Centers (AYD) Chairman said relatively bad investment outlook, rising geopolitical risks and weakening consumer spending caused a decline in expected investments in 2017. AYD Chairman emphasized the possibility that some of the future projects might be postponed as a result of the deteriorating market conditions and added that shopping mall earnings have already declined in line with the recent fall in occupancy rates.

White goods sales rose in November.

Figures released by White Goods Manufacturers' Association of Turkey showed that in November white goods sales in the domestic market rose by 20% yoy to 658,610 where exports increased by 12% to 1.91 million. In this period, total production in the sector increased by 14% to 2.53 million. Yearly growth rates recorded in January-November 2016 were 5% in domestic sales and 8% in exports. Recent policy moves that are designed to boost domestic demand along with the recovery in the housing market seem to affect white goods sales positively.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
26 December	CBRT Capacity Utilization Rate of Manufacturing Industry	December	76.5% (A)
	CBRT Business Tendency Survey and Real Sector Confidence Index	December	98.4 (A)
	Japan National CPI	November	-
27 December	USA Consumer Confidence	December	108.5
	Japan Industrial Production	November	-
28 December	CBRT House Price Index	October	-
	USA Pending Home Sales	November	mom 0.5%
29 December	Turkstat Consumer Confidence Index	December	-
	Ministry of Culture and Tourism Arriving-Departing Visitors	November	-
30 December	Turkstat Foreign Trade Statistics	November	-
	USA Chicago PMI	December	57

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