

## WEEKLY OUTLOOK

**Positive economic data in global markets...**

Global markets, which started the week quietly since US and Asian markets were closed on the first trading day, focused on PMIs, US non-agricultural employment data and Fed meeting minutes during the week.

US Manufacturing PMI rose to 54.3 in December thanks to the strong production, rising new orders and manufacturing industry employment which reached the highest level for the last 1.5 years. The higher-than-expected services PMI also supported positive signals for the US economy. Non-farm payrolls, which were announced on the last trading day of the week, indicated an increase of 156 thousand persons, while the unemployment rate became 4.7%. The annual rise in average hourly earnings (2.9%), the highest level since the global crisis, also confirmed positive outlook in the US labor market.

According to the minutes of the last FOMC meeting of 2016, Fed officials agreed that there are uncertainties on the size, timing and content of Trump's expansionary fiscal policies, which will begin after his inauguration on January 20th. It is noted that Fed officials considered the expansionary policies such as tax cuts or spending increases in deciding their projections. Fed, which raised its interest rate hike expectations to three times for 2017, is expected to wait for Trump's fiscal policies to become clearer before the next interest rate hike.

**Growth signals in Euro Area...**

While the global markets were focused on the leading indicators announced in different countries last week, Euro Area data gave positive signals about the region's economy. In December, the manufacturing PMI reached its highest level since April 2011 thanks to the increase in new orders. On the other hand, Euro Area annual inflation was realized as 1.1%, which is the highest level since September 2013. The uptrend in inflation is causing uncertainties on the monetary policy implementations of ECB which plans asset purchases of 780 billion euros in total until March 2017.

**Positive economic outlook in UK...**

PMI in UK came in above expectations at 56.1, highest since July 2014. While consumer credit growth in November which is at the highest level of 11 years confirmed the economic growth, it is expected that the pound will depreciate and the inflation will increase in parallel with the Brexit negotiations which will start in March.

**China's manufacturing PMI was realized well above expectations.**

China's Caixin manufacturing PMI for December was well above the expectations with 51.9. The factory activity rose to the highest level in the last four years indicating that the index has gained momentum in line with the increase in credit volume and the recent enlivening in construction sector. On the other hand, the news on Chinese public finance were closely monitored. It was seen that Chinese government may cut its growth target in the coming period in order to control the increase in its debt stock. Thanks to the positive data from China and the Fed's minutes supporting the positive economic growth expectations in the US, the MSCI world index increased to its highest level in the past 1.5 years.

## WEEKLY DATA

	30 Dec	6 Jan	Change		30 Dec	6 Jan	Change
BIST-100 Index	78,139	77,107	-1.3 % ▼	EUR/USD	1.0513	1.0530	0.2 % ▲
TRY 2 Year Benchmark Rate	10.63%	10.78%	15 bp ▲	USD/TRY	3.5267	3.6425	3.3 % ▲
US 10 Year Bond Rate	2.43%	2.42%	-1 bp ▼	EUR/TRY	3.7116	3.8407	3.5 % ▲
EMBI+ (bps)	363	348	-15 bp ▼	Gold (USD/ounce)	1,151	1,173	1.8 % ▲
EMBI+ Turkey (bps)	360	351	-9 bp ▼	Brent Oil (USD/barrel)	55.2	56.1	1.6 % ▲

bp: basis point

***Oil prices were up as markets closed.***

Upon Organization of the Petroleum Exporting Countries (OPEC)'s decision to cut production starting from January 1<sup>st</sup>, 2017, organization's second biggest producer Iraq announced that production cut was started to be implemented already. Along with Iraq's commitment of reducing oil production by 200,000 barrel a day, rapid fall in US crude oil stocks' caused Brent oil prices' to rise by 1.9% wow.

***Sharp increase in consumer inflation...***

Consumer inflation came in 1.64% monthly and 8.53% annually in December. Domestic producer price index rose by 2.98% monthly and annual producer price inflation reached 9.94%. Consumer inflation is hovering quite above the CBRT's forecast of 7.5% in 2016. Special consumption tax increase in alcoholic beverages and tobacco products as well as transportation prices were the main contributors to the increase in consumer inflation. In domestic producer inflation, the highest increases on an annual basis were observed in the production of coke and refined petroleum products (52.1%) and base metal industry (30.6%).

The upward trend in inflation is expected to continue due to recent sharp rise in exchange rates, continuing increase in food and energy prices and the increase in the toll rate of motorways and bridges starting from the beginning of the year. Deterioration in inflation outlook brings more pressure on CBRT's interest rate decision on its next Monetary Policy Committee meeting on January 24<sup>th</sup> ([Our Inflation Report](#)).

***Domestic markets...***

BIST-100 index which followed a flat course in parallel to the low transaction volume in the global markets before the New Year was down by 1.3% last week, due to higher-than-expected inflation data and rising security concerns. While the average compound interest rate in the four Treasury auctions was realized above 11%, USD/TL diverged from other emerging market currencies negatively and reached to a new-record high as 3.6425. EUR/TL also surged to historic highs as a result of weakening of the Turkish Lira. Besides, manufacturing PMI that followed a moderate course in October, declined to 47.7 in December after November's realization of 48.8, raising the concerns over expectations for last quarter's growth.

***Decline in reserves...***

CBRT's total reserves declined by 4.4 billion dollar compared to the end of 2015 to 106.1 billion dollar. Gross FX reserves of CBRT declined to the lowest level since September 2012 at the week ending December 30<sup>th</sup>. It is thought that the steps taken in reserve option mechanism and in reserve requirements in order to support FX liquidity were crucial in this development.

## INDUSTRY NEWS

***Regulations on electricity prices...***

Rising natural gas consumption of households due to cold weather conditions caused BOTAŞ to cut some of its gas supply to combined cycle plants. After BOTAŞ's announcement of an upcoming 50% cut in the supplies provided to the power plants, EPDK set minimum (OTL/ MWh) and maximum price (500 TL/MWh) limits that would be applicable until 1 March 2017. EPDK aims to prevent the spikes in electricity prices which rose as high as 1,900TL/ MWh in December after the natural gas outages. Moreover, electricity cuts occurred in the previous weeks as a result of a breakdown in the transmission system due to bad weather conditions, affects industrial production negatively. Besides, despite rising costs stemming from the problems in supplying natural gas as well as the recent hike in USD/TL, an increase in retail prices of both electricity and natural gas is not expected in 2017.

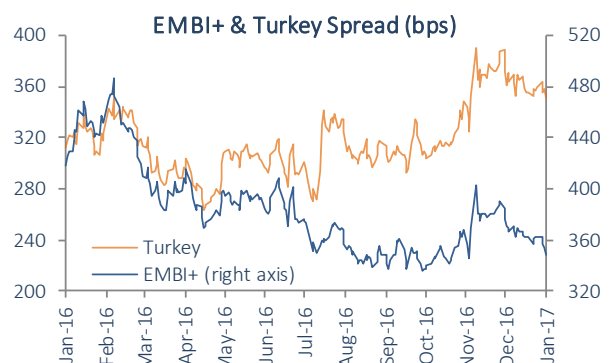
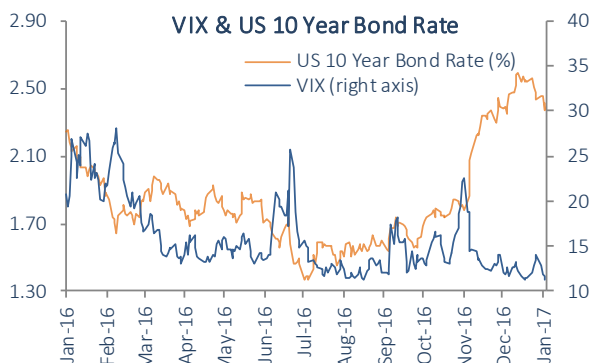
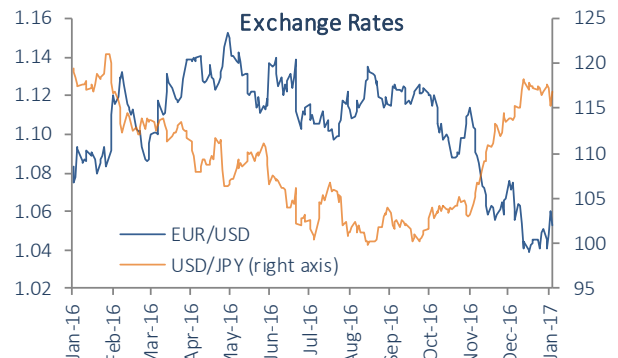
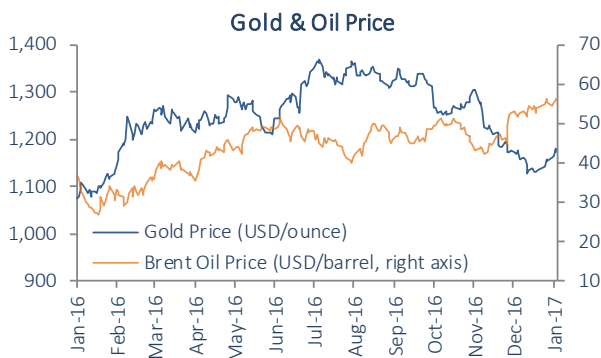
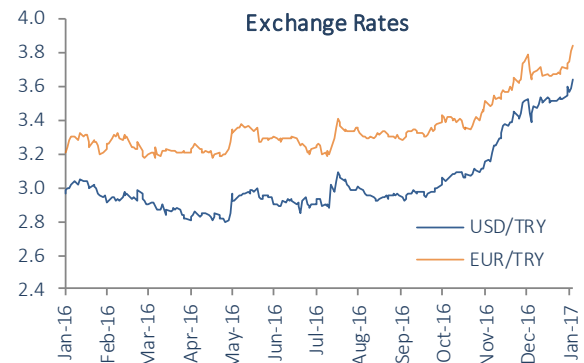
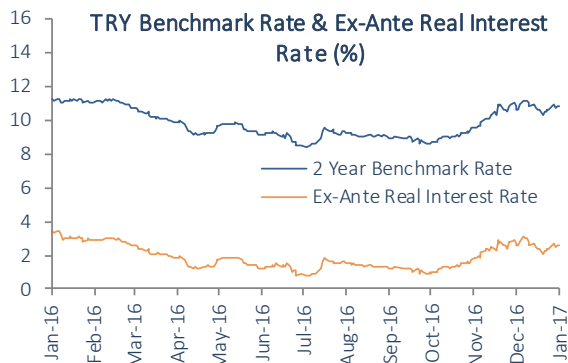
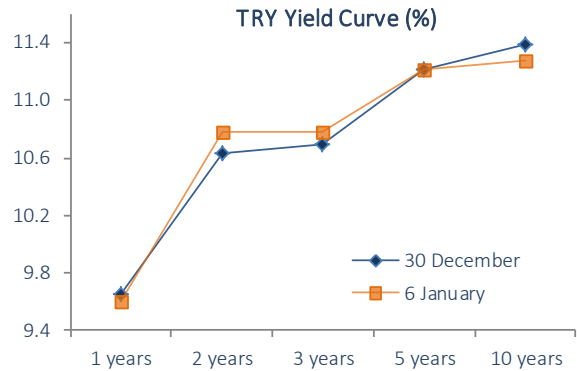
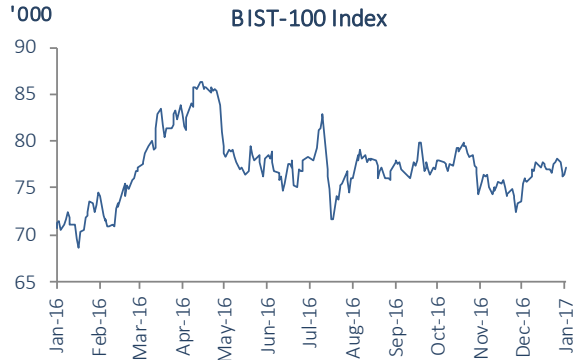
***Automotive sector failed to meet record expectations.***

According to data compiled by the Turkish Exporters' Assembly (TEA), exports of the automotive industry increased by 12.9% yoy to 23.9 billion dollar in 2016. The share of automotive exports which rose to its highest level with 24.7 billion dollar in 2008 rose from 14.7% in 2015 to 16.8% in 2016. The largest export markets of the industry were Germany, Italy and France, while automotive exports constituted 28.7%, 37.6% and 41.7% of total exports to those countries, respectively. Total sales in automotive sector increased by 1.62% yoy in 2016 and reached 983,720 units, however the sector did not meet its 1 million-vehicle sales target. Domestic automotive sales, dominated by imported vehicles, are expected to shrink by more than 10% due to recent the depreciation in TRY and the increase in SCT rates.

***Import duty on livestock dropped to 10%.***

Import duty rate applied to imported livestock of the private sector was reduced from 60% to 10% last week following the authorization given to the Meat and Milk Board for the import of 500k livestock with 0% import duty. While new measures is aiming to halt inflated meat prices, tax advantage provided to Meat and Milk Board will play a balancing factor in the market in case of a sudden increase in meat prices. In addition, the General Directorate of Agricultural Affairs is expected to be authorized to import breeding livestock with import duty exemption. Meat prices tend to increase because of rising production costs and the lack of supply-demand balance. Although red meat producers' costs are expected to decline somewhat with the import duty incentive, we anticipate in the medium term that livestock producers will be adversely affected.

FINANCIAL MARKETS



## WEEKLY DATA RELEASES

		Period	Consensus
9 January	Eurozone Unemployment Rate	November	
	TURKSTAT Industrial Production Index	November	
10 January	Re-Issuance of CPI-Indexed Bond with February 11th, 2026 maturity		
11 January	Treasury Domestic Debt Redemption (1.853 billion TRY)		
	CBRT Balance of Payments Statistics	November	
12 January	Eurozone Industrial Production Index	November	
13 January	USA Producer Price Index	December	
	USA Retail Sales	December	
	USA The University of Michigan's Consumer Sentiment Index	January	

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