

WEEKLY OUTLOOK

Donald Trump officially becomes president.

Statements by Trump, who officially began his presidency on January 20th, were closely monitored last week. Trump criticized China for keeping yuan undervalued, which is eventually hurting the competitive advantage of US producers. Speaking at the inauguration ceremony, Trump said that US has been suffering from loss of welfare and power in recent years and they will introduce new measures to revert these losses. President expressed that the domestic production and employment will be their primary focus, while not giving any details regarding the new tax practices. Trump also said he would open negotiations for a possible revision of the North American Free Trade Agreement (NAFTA). Unlike the pre-election political messages, the President's speeches did not include clear information on the steps to be taken in the upcoming period, leading to an increase in uncertainty and the dollar's decline in the international money markets.

Fed to raise interest rate until 2019...

Fed Chairman Yellen said in his speech in San Francisco that the activity in US economy is increasingly close to the Fed's targets. Noting that the economy is nearing full employment and inflation is approaching the 2% target, Yellen said that it is reasonable to gradually raise interest rates. The Fed Chair stated that it would be appropriate to approach the policy interest rate to 3% with the increases to be made several times a year until 2019. Yellen also underlined that lagging monetary tightening might result in faster rate hikes and a recession. In addition to this development, last week there was news regarding the expectations of a reduction in Fed's 4.5 trillion dollar balance sheet in 2017. Data releases last week supported the Fed's claim that the economy is on an appropriate path. While industrial production and capacity utilization in December came in above expectations, annual inflation at the same month was realized at 2.1%, highest level for the last 30 months. Housing starts also rose higher than expected in December.

Brexit roadmap is ready.

British Prime Minister Theresa May announced the highly anticipated exit plan from the European Union (EU) last week. May detailed that UK will leave the single market and seek a new and comprehensive free trade agreement with the EU afterwards. PM set out that they will work for a fully independent UK to make it a great global power and also to take the immigration policies under control. She added that Brexit-related decisions will be presented to the British parliament. May's emphasis that they designed a nondestructive and smooth exit process was received positively by the markets. On the other hand, the new trade standards with the EU and the impacts of Brexit on financial sector still remain uncertain. As most of the trade relations between UK and the EU are based on the services trade (especially financial services), complex "non-tariff barriers" need to be reorganized. Moreover, it is still a hot topic that London, one of the world's leading financial centers, could lose its key position as a consequence of Brexit. The exit process will officially be initiated at the end of March and is estimated to last 2 years right after the negotiation talks.

WEEKLY DATA

	13 Jan	20 Jan	Change		13 Jan	20 Jan	Change
BIST-100 Index	81,524	83,067	1.9 % ▲	EUR/USD	1.0641	1.0699	0.5 % ▲
TRY 2 Year Benchmark Rate	11.21%	11.34%	13 bp ▲	USD/TRY	3.7210	3.7640	1.2 % ▲
US 10 Year Bond Rate	2.38%	2.47%	9 bp ▲	EUR/TRY	3.9608	4.0294	1.7 % ▲
EMBI+ (bps)	351	351	0 bp ●	Gold (USD/ounce)	1,197	1,210	1.0 % ▲
EMBI+ Turkey (bps)	373	364	-9 bp ▼	Brent Oil (USD/barrel)	54.3	55.7	2.6 % ▲

bp: basis point

ECB didn't alter its policy rate.

ECB left the policy rate at 0% at its meeting last week. On the announcement made after the meeting, it was explained that risks to the global economy are rising and ECB will keep supporting the economy when necessary. Economic activity in the Euro Area continued to strengthen while inflation excluding energy prices doesn't indicate a stable outlook yet. According to data published last week, CPI was realized as 1.7% in Germany and 1.1% yoy in the Euro Area in December 2016.

Chinese economy grew by 6.7% in 2016.

In 2016 Chinese economy grew by 6.7% in line with expectations thanks to the expansionary monetary and fiscal policies. The difficulties for the Chinese economy are expected to continue in 2017 as well. In case of deterioration in trade relations with US under Trump's political stance, fall in export revenues could cause losses in employment and new investments in the Chinese economy. On the other hand, Chinese President Xi Jinping, speaking at the World Economic Forum in Davos, made positive evaluations on globalization and free trade adding that the yuan will not be devalued and they will not launch a trade war. In addition, a reform plan has been announced in the country last week, which aims to lift many restrictions on foreign investors in the financial sector.

IMF's World Economic Outlook report has been updated.

In its updated World Economic Outlook report, IMF revised up developed countries' growth estimates for 2017 and 2018 by 0.1 and 0.2 percentage points, leaving its global growth forecasts unchanged. In the report, forecasts for the US economic growth have also been revised upwards, with the assumption that Trump will focus on growth-oriented politics. It is predicted that the UK economy, which has performed beyond the expectations following the Brexit vote, will also grow faster than the previous forecasts in 2017. While China's 2017 growth forecast has been raised from 6.2% to 6.5% due to expected policy stimulus, it is stated that the economic outlook in developing countries has deteriorated somewhat. Temporary interruption of consumption expenditures with the "cash shortages" in India came to the fore as the main cause of this development.

CBRT's new regulation on money markets...

CBRT, which recently took measures due to increased volatility in domestic markets, added a new one to its steps last week. On last Tuesday, Central Bank introduced an FX swap facility. Besides, the domestic banks used "the late liquidity window borrowing facility" at a 10% interest rate during the week due to the CBRT's limitation of repo funding. Thus, the average funding cost of CBRT exceeded 9% during the week. On the other hand, market expectations deteriorated considerably due to the recent depreciation in TRY. In fact, according to the CBRT's January Survey of Expectations, markets annual CPI expectation for the next 12 months reached the highest level since 2009 and that of for the next 24 months rose to historic high level. Considering the recent turmoil in domestic markets, we anticipate that CBRT would increase the interest rates at its meeting that will be held this week.

The depreciation in TRY continued...

Despite the CBRT's unorthodox tools, TRY continued to depreciate last week and underperformed its peers. On weekly basis, Turkish lira depreciated by 1.2% against dollar and 1.7% against euro. BIST-100 index rose by 1.9% w/w, while the benchmark bond yield also increased by 13 bps to 11.34%. This week, the domestic markets will focus on the central bank meeting and Fitch's report on Turkey's credit rating.

Budget deficit was realized as 29.3 billion TRY in 2016.

In 2016 central government budget deficit was 29.3 billion TL, 27 billion TL of which was realized in December. Thus, budget deficit grew by 24.4% yoy standing 400 million TL below the year-end target. While privatization revenues affected the budget balance positively in 2016, tax revenues were recorded lower than expected due to the slowdown in the economic activity. On the expenditures' side, rise in current transfers which mainly stemmed from social assistance expenditures were noteworthy; while interest payments declined yoy ([Our Budget Balance report](#)).

Unemployment rate increased to 11.8%.

Unemployment rate in October period rose by 1.3 points yoy to 11.8% which was the highest rate since March 2010. In this period, unemployment rate in non-agricultural sector became 14.1% whereas youth unemployment increased to 21.2%. As for the seasonally adjusted figures by sectors, number of unemployed persons decreased in construction and agriculture sectors while increased slightly in industry and services sectors mom.



INDUSTRY NEWS

Pharmaceutical prices rose...

Last week, authorities decided to increase EUR/TRY exchange rate that is used for determining pharmaceutical prices from 2.1166 to 2.3421. Consequently, it is announced that pharmaceutical prices would rise by 10.6% and new prices would started to be implemented from 20 February 2017. While price increases are expected to affect all kinds of products in the market, it is announced that Social Security Institution (SGK) has been working on a plan to keep the prices of products that are given under prescription intact.

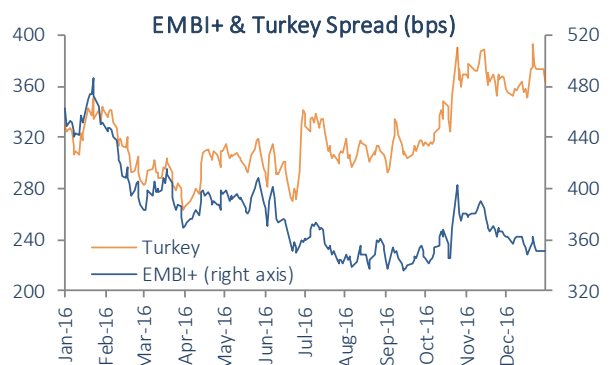
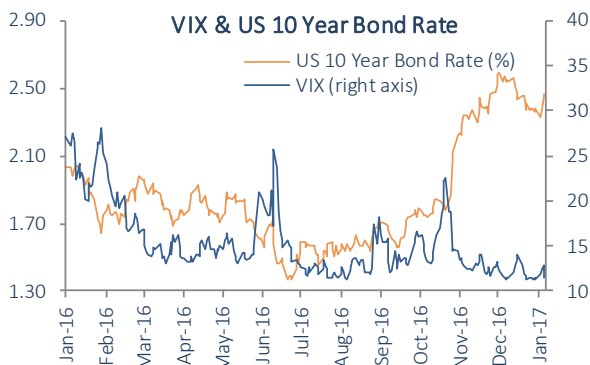
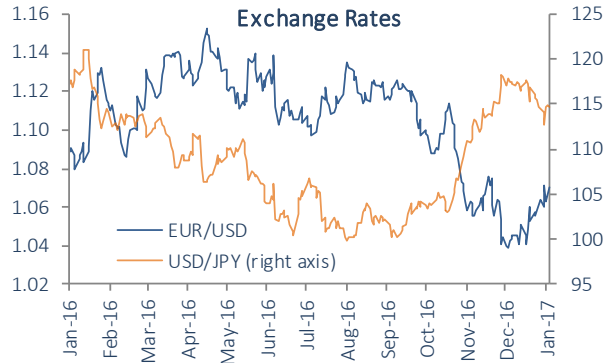
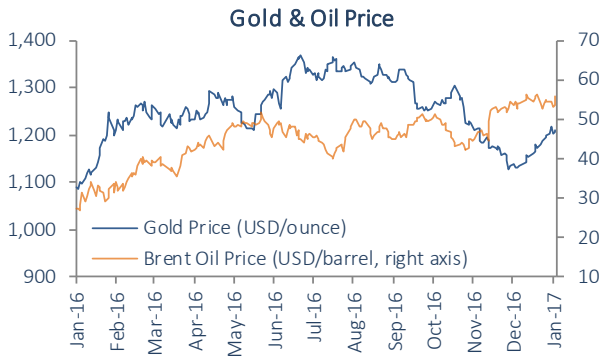
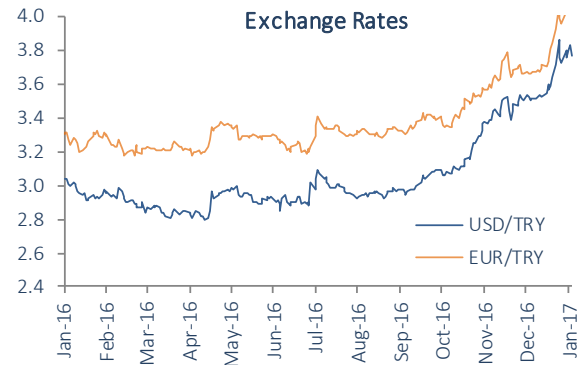
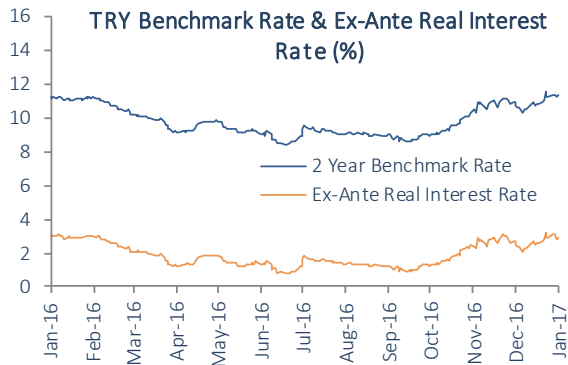
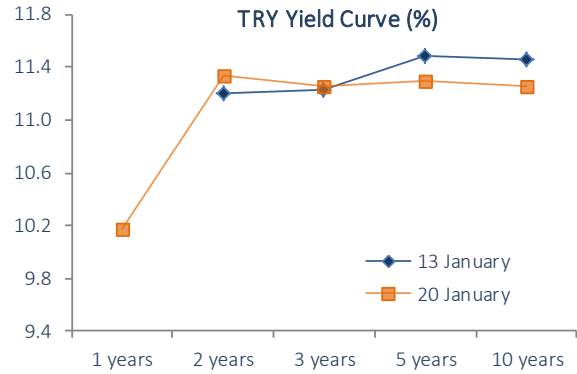
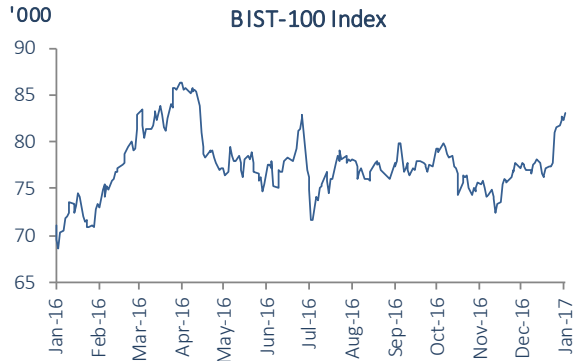
The number of newly established and closed companies declined.

According to the figures of The Union of Chambers and Commodity Exchanges of Turkey (TOBB), the number of newly established companies in Turkey declined by 4.5% yoy to 63,709 in 2016. In this period, 4,523 companies with foreign partners were established and most of them have Syrian, Iranian and Iraqi partners. These companies were mainly operating in construction, wholesale trade and real estate. Besides, the number of closed companies was down by 8.9% to 11,038 in 2016. In this period, highest establishment occurred in wholesale and retail trade, construction and manufacturing industries respectively. Most closings, on the other hand, were observed in construction and education sectors.

White goods production increased.

White Goods Manufacturers' Association of Turkey (TURKBESD) figures revealed that white goods production rose by 7% to 26.2 million units in 2016. In this period, domestic sales were up by 5% reaching 7.5 million and exports also rose by 8% to 19.6 million units. In 2017, domestic sales are projected to lose pace whereas exports are likely to be the major stimulator for the growth of the sector.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
23 January	Turkstat Consumer Confidence Index	January	66.9 (A)
	Euro Area Consumer Confidence Index (Preliminary)	January	-5.0
24 January	CBRT Monetary Policy Committee Meeting	January	-
	US PMI Manufacturing Index (Preliminary)	January	54.5
	US Existing Home Sales	Dec-16	5.54 million
	Euro Area Markit Manufacturing PMI (Preliminary)	January	54.9
25 January	Turkstat Sectoral Confidence Indices	January	-
	CBRT Real Sector Confidence Index	January	-
	CBRT Capacity Utilization Rate (CUR)	January	-
	Treasury Domestic Debt Payment (573 million TL)	January	-
	Germany IFO - Business Climate	January	111.3
26 January	US New Home Sales	Dec-16	590K
	UK GDP Growth (Preliminary)	2016 Q4	0.5% qoq
	Japan National CPI	Dec-16	-
27 January	CBRT House Price Index	Nov-16	-
	US GDP Growth (Preliminary)	2016 Q4	2.2% qoq
	US Consumer Confidence Index	January	98.2
	US Durable Goods Orders	Dec-16	3.0% mom

(A) Actual

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