

WEEKLY OUTLOOK

Fed didn't raise interest rates, nonfarm payrolls exceeded expectations.

Global markets followed the central banks' meetings closely last week. At its first meeting after Trump's inauguration, Fed maintained the federal funds rate in a target range of 0.50-0.75% and signaled that monetary policy tightening will continue referring to the positive outlook in the US economy. Statements after the FOMC meeting showed that labor market has continued to strengthen; consumer and business sentiment have improved and inflation has recently been rising though still below Fed's long-term objective level of 2%. FOMC minutes to be published on Feb 22nd are expected to hint clearer message towards the timing of Fed's upcoming interest rate hikes.

Employment data announced last week in the US was also watched closely. ADP employment report indicated a better than expected private payrolls in January while nonfarm payrolls beating the market estimate. On the other hand, unemployment rate climbed to 4.8% and rise in average hourly earnings did not meet the expectations in January. Trump's new policies on the US economy are considered to be more influential on Fed's monetary policies in the near future rather than labor market developments, though remaining an important indicator for Fed's decision of interest rate rise.

Central bank meetings were watched.

Bank of Japan (BoJ) last week kept interest rates on hold at -0.10% as predicted earlier. BoJ estimates that inflation target of 2% will be reached till March 2019, remaining positive on the inflation outlook. BoJ argued that the inflation target is achievable without further stimulus and did not change the scope of the loan programme.

Bank of England (BoE) also kept its monetary policy unchanged. BoE gave the message that it remained comfortable about the low interest rates, raising its growth rate forecast from 1.4% to 2% for 2017.

People's Bank of China (PBoC) signaled further tightening in its monetary policy by raising interest rates on reverse repurchase agreements by 10 basis points. PBoC aims to control overheating in the housing market. Future outcomes of these measures on economic growth will be watched closely.

Inflation in Euro Area is on the rise...

In Euro Area, consumer inflation in January rose to 1.8% yoy and was realized above the expectations due to the increase in energy prices. Thus, annual consumer inflation, which was 1.1% in December, converged to the European Central Bank's 2% inflation target.

In the last quarter of 2016, Euro Area economy grew by 0.5% compared to the previous quarter, while the growth rate for 2016 was recorded as 1.7%. Besides, the manufacturing PMI reading for January indicated that growth will accelerate in the first quarter of 2017.

WEEKLY DATA

	27 Jan	3 Feb	Change		27 Jan	3 Feb	Change
BIST-100 Index	83,827	88,390	5.4 % ▲	EUR/USD	1.0694	1.0781	0.8 % ▲
TRY 2 Year Benchmark Rate	11.37%	11.30%	-7 bp ▼	USD/TRY	3.8770	3.6966	-4.7 % ▼
US 10 Year Bond Rate	2.48%	2.49%	1 bp ▲	EUR/TRY	4.1320	3.9865	-3.5 % ▼
EMBI+ (bps)	347	333	-14 bp ▼	Gold (USD/ounce)	1,191	1,220	2.4 % ▲
EMBI+ Turkey (bps)	355	324	-31 bp ▼	Brent Oil (USD/barrel)	54.9	55.8	1.6 % ▲

bp: basis point

The first Inflation Report of the year was published.

CBRT published the first Inflation Report of the year. In the report, inflation forecast was raised from 6.5% to 8% for 2017 and from 5% to 6% for 2018, while the inflation is expected to stabilize at 5% in 2019. CBRT President Murat Çetinkaya, who made assessments about inflation outlook in 2017 at the press conference, stated that there are some upside risks underlining the base effect of food prices. Çetinkaya added that the tight monetary policy stance would affect inflation expectations positively. Çetinkaya also signaled that CBRT would stick with its unorthodox measures while hinting CBRT may introduce additional monetary tightening, if needed. CBRT has recently applied a monetary policy mix with wide interest rate corridor, while funding the market via late liquidity window facility.

Inflation was higher than expected in January...

In January, consumer inflation was realized well above expectations by 2.46% mom, while producer price index recorded its fastest monthly rise in almost 9 years by 3.98%. Hence, annually consumer inflation reached 9.22% and producer prices climbed 13.69% yoy. While price increases in food and non-alcoholic beverages as well as transportation group contributed the rise in consumer prices, depreciation of TL along with the recovery in commodity prices triggered the surge in producer prices. We expect that CPI will probably reach up to 11% in the first quarter of 2017 as a result of low base-effect of the same period of last year ([Our Inflation Report](#)).

Foreign trade deficit narrowed in 2016.

Turkey's exports have gained momentum in recent months thanks to the depreciation in TRY. After increasing 9.5% yoy in November, exports rose by 9% in December. Thus, the contraction of exports in 2016 was limited to 0.9%. The volume of imports, which is limited somewhat due to the increase in FX rates, has risen with the recent rise in energy and commodity prices. Import volume increased by 2.3% in December and fell by 4.2% in the whole year. In 2016, foreign trade deficit narrowed by 11.7% to 56 billion USD ([Our Foreign Trade Balance Report](#)).

According to the preliminary figures released by Ministry of Customs and Trade, TL depreciation and rise in energy prices continue to affect imports. In January, while energy bill were up by 35%, imports and exports rose by 14.7% and 18.1%, respectively.

World Bank revised growth forecast for Turkish economy.

In its economy note published last week, World Bank estimated that Turkey grew 2.1% in 2016, while decreasing its growth forecast for 2017 by 0.3 points to 2.7%. The Bank has not changed its growth forecasts for 2018 and 2019. Stating that there are headwinds preventing a strong economic recovery, World Bank noted that growth in 2017 will be driven by net exports and public spending.

In its Article IV Consultation, IMF estimated that the Turkish economy grew by 2.7% in 2016 and will grow 2.9% and 3.3% in 2017 and 2018, respectively. It is emphasized that the progress on structural reforms has been slow and the inflation is above the target.

Recent downward revisions in the growth forecasts draw the attention. As a matter of fact, manufacturing PMI data which increased to 48.7 in January remains below 50 for 11 months pointing out that the manufacturing industry is still stagnant.

INDUSTRY NEWS

Number of foreign tourists declined in 2016.

In 2016, the number of foreign visitors to Turkey decreased by 30% yoy to 25.4 million, while tourism revenues declined by 29.7%. Following the crisis with Russia, the number of Russian tourists decreased by 76% in 2016 compared to 2015. Although we expect some increase in the number of visitors from Russia in 2017, we estimate that it will take time to reach the levels seen in previous years. We also think that security concerns will adversely affect the number of tourists coming from Europe. In this context, it is expected that the tourism sector will recover in 2017 after a difficult year; however, some problems are expected to remain in this period.

Tax cut in domestic appliances, furniture and housing sectors...

According to the decisions of the Council of Ministers published in the Official Gazette, tax rates applied to many products were changed.

Special consumption tax (SCT) for domestic electric appliances and small electric appliances was reduced to 0% until April 30th. After the tax reduction, prices are expected to decline by 6.7%, while total sales in 2017 are expected to remain flat. While, value added tax (VAT) rate applied to wood and plastic furniture and office furniture is determined as 8%, the prices in the sector are expected to decrease as much as 10%. In domestic appliances and furniture sectors, it is predicted that the demand will be pulled forward from the summer months when the sales significantly increase in general, and total sales will increase at a higher rate than the discount.

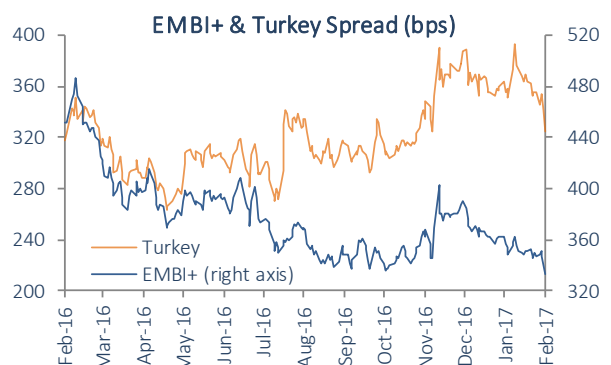
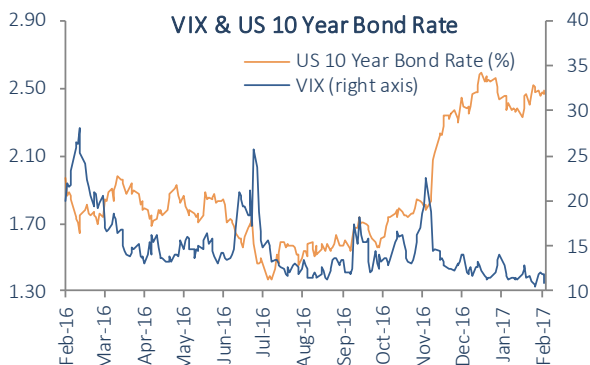
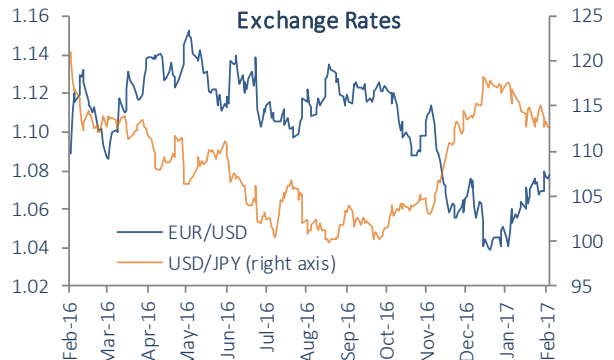
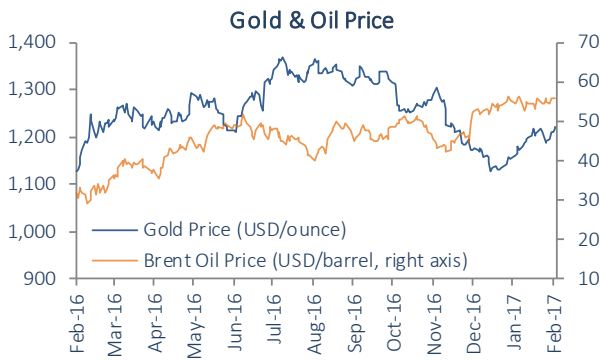
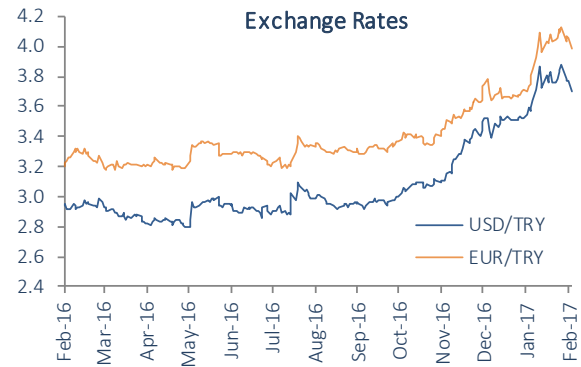
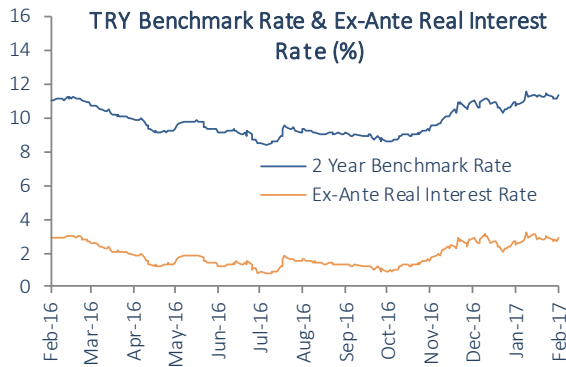
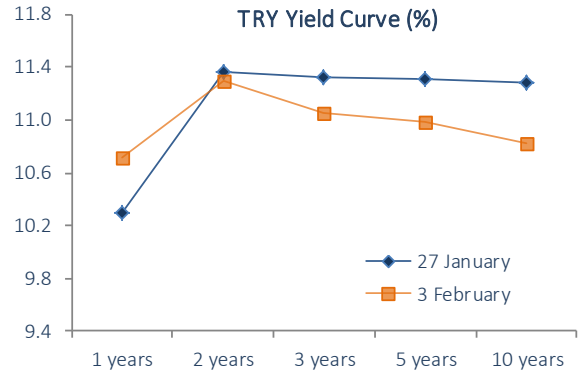
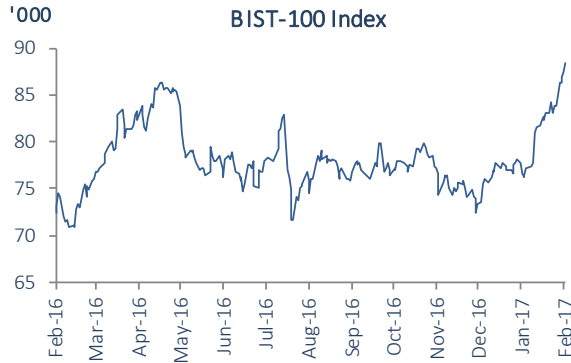
VAT rate has been reduced to 8% for housing projects, whose building licenses are taken after January 1st and public tender for the housing construction projects to be carried out from January 1st with square meter tax value between 1,000 TL and 2,000 TL. VAT rate for dwellings with square meter tax value over 2,000 TL has been set at 18%. It is expected that the price of new homes will decline as much as 10%, hence existing home prices will also be under pressure as well because of this development. Furthermore, the stamp duty applied to the housing contracts was set as 0% with this decision.

Animal import bill reached 4.4 billion USD...

In 2008, a livestock crisis started with the dairy sector affecting the red meat market in the following period. As a result of this crisis, sudden increases in red meat prices were observed. Due to rising meat prices both meat industry and meat consumption of household were adversely affected forcing the policy makers to import livestock. As the imports started in the sector, between 2010 and 2016, more than 4 million livestock worth of 3.4 billion USD and 216k tons of carcass meat worth of 1 billion USD were imported. While it is stated that imports will continue in 2017, it is estimated that 550 million USD will be spent for 500k livestock.

It is observed that the problems in the animal production sector, which started in 2008, continue to multiply every year, and it is expressed that imports cannot simply solve the problems in the sector. Within the scope of the National Agricultural Project, productivity increase in the sector was aimed and improvement of the grasslands was also found in the project. While the problems in the sector are expected to continue in the medium term, it is expected that the long term performance of the industry will be determined by the policies in the sector.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
7 February	New Issuance of Zero Coupon Bond with 18.04.2018 Maturity Date		
	USA Trade Statistics	December	
8 February	TURKSTAT Industrial Production Index	December	
	Treasury Domestic Debt Redemption (664 million TRY)		
	China Trade Statistics	January	
10 February	CBRT Balance of Payments Statistics	December	
	USA The University of Michigan's Consumer Sentiment Index (Preliminary)	February	

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