

WEEKLY OUTLOOK

Jobless claims are declining in the US.

In US, last week's data showed that the 4-week average jobless claims fell to its lowest since 1973 in the week ended Feb 4th and indicated that the country is close to full employment. Additionally, US foreign trade deficit was announced as 44.3 billion USD in December below market expectations. Exports were the highest since April 2015 while imports were the strongest since March 2015 in December, pointing to recovery in global demand international trade. It is important to note that US foreign trade deficit with China and Mexico narrowed mom in December. On the other hand, US president Trump, who met executives of aviation companies last week, expressed that he will set forth important details about the tax reform to lower companies' current tax burden at upcoming weeks. Trump's decisions on fiscal policies are expected to remain on the markets' agenda for a while.

Japan's current account surplus hit 10-year high...

Japan's economy grew by 1% in Q4 2016. Rising investment and net export contributed to the growth while private consumption expenditures were flat. The country's current account surplus of 20.6 trillion yen (183.6 billion USD) in 2016 was at its highest level since 2007. Direct and portfolio investments abroad accounted for 18.1 trillion Yen of the overall surplus. Japan gave a foreign trade deficit of 630 billion Yen in 2015 while that turned to be a surplus of 5.6 trillion Yen in 2016. PPI in Japan rose by 0.6% mom and 0.5% yoy in January. Hence, yearly PPI increased for the first time after about 2 years of decline.

Foreign trade data published in China also supported the views on improvements in global trade. Foreign trade volume in January grew by 19.6% to 482.2 billion USD. Exports recorded an increase of 15.9% while imports climbed by 25.2% at the same period.

Future of the EU and Draghi's speech were discussed last week.

Britain's House of Commons passed the legislation by 498-114 margin to allow government to officially begin the Brexit process. The bill will now go to the House of Lords and it should become law in a few weeks. 2-year Brexit process is expected to start by late March. It was also noteworthy last week that France's presidential candidate Le Pen said that a referendum will be held to abandon EU and euro, should she wins in the upcoming election in France. Other than France, the elections to be held in Germany and the Netherlands this year are important for the future of the Union.

ECB President Draghi said last week that although inflation figures show improvement in the recent months due to increasing energy prices, ECB will continue to follow expansionary policies because they think that surge in inflation is temporary. Draghi iterated that ECB may increase the amount of asset purchase programme or extend its period, should financial indicators begin to deteriorate. ECB, which currently has a negative deposit facility interest rate, plans to purchase 80 billion worth of assets until the end of March and 60 billion until the end of year. Despite the measures, increasing inflation figures is worried to cause stagnation in the economy via affecting consumers' buying tendencies.

WEEKLY DATA

	3 Feb	10 Feb	Change		3 Feb	10 Feb	Change
BIST-100 Index	88,390	87,473	-1.0 % ▼	EUR/USD	1.0781	1.0638	-1.3 % ▼
TRY 2 Year Benchmark Rate	11.30%	11.39%	9 bp ▲	USD/TRY	3.6966	3.6943	-0.1 % ▼
US 10 Year Bond Rate	2.49%	2.41%	-8 bp ▼	EUR/TRY	3.9865	3.9290	-1.4 % ▼
EMBI+ (bps)	333	334	1 bp ▲	Gold (USD/ounce)	1,220	1,234	1.2 % ▲
EMBI+ Turkey (bps)	324	331	7 bp ▲	Brent Oil (USD/barrel)	55.8	55.1	-1.3 % ▼

bp: basis point

Global markets...

Global stock markets posted gains last week. While positive outlook in labor market might be indicating a higher growth rate, Trump's comments on tax reforms supported the gains. Furthermore, increasing producers prices in Japan for the first time in 2 years and better-than-expected export figures in China contributed to the increase in global markets.

Recent developments in the US led the USD to appreciate against its counterparts. The DXY index, which had fallen below the 100 level at the end of January due to Trump's protectionist tone regarding the economic policy, recovered some of its early losses and finished the week at 100.93. Last week euro depreciated against other currencies due to the global developments and the concerns over the future of the EU. Gold prices, which hit to their highest level since November 2016 intraweek, were realized as 1,234 dollar/ounce on Friday. Oil prices were under pressure due to the increase in US oil inventories.

Limited increase in industrial production...

According to the calendar adjusted data, industrial production in Turkey increased by 1.3% yoy in December, following a moderate recovery in October and November. It was seen that the increase in the automotive production was crucial in this development. Besides, the production of basic pharmaceutical products increased by around 50% in December. The sluggish performance in other sectors, on the other hand, limited the increase in industrial production. Thus, calendar adjusted industrial production index increased by 2.1% in the last quarter of 2016 compared to the same period of the previous year. Industrial production increased by 1.9% in 2016, while calendar adjusted figures indicated 1.8% growth.

According to Turkstat data, export and import volume index increased by 3.7% and 3.9%, respectively in 2016. In this period, export and import unit value index declined by 4.2% and 7.8%, respectively. The weakening in export unit value index was mainly due to the depreciation in euro, as that of imports declined due to the low course of commodity and energy prices.

Real Effective Exchange Rate at historic lows.

Consumer Price Index (CPI) based real effective exchange rate (REER) declined to historic lows. REER which was following a decreasing path since October 2016 was realized as 88.2 in January 2017, thus hitting historic lows since 2003 when the index first started to be calculated. According to the basket which covers Turkey's major trading partner currencies, index level below 100-threshold means TL has depreciated against those currencies. Besides, during last week's presentation in London, Murat Çetinkaya emphasized that a broad and strong monetary tightening was placed in order to limit the negative effects of the recent volatility in FX markets on pricing behaviour. Mr Çetinkaya stated that tight monetary policy stance would be maintained until a clear improvement in inflation dynamics was observed. Liquidity policy implementations by CBRT led weighted average cost of funding to fluctuate between 10.36%-10.38% last week.

INDUSTRY NEWS

Turkish Wealth Fund...

Last week, state-owned shares of Ziraat Bank, Turkish Airlines, Halkbank, Borsa Istanbul, BOTAŞ and TPAO were transferred to the Turkish Wealth Fund. The aim of the fund, which was established in August 2016, is to contribute to the diversity and depth in the capital markets, to bring the public assets in the economy, to provide foreign funds and to participate in strategic large scale investments.

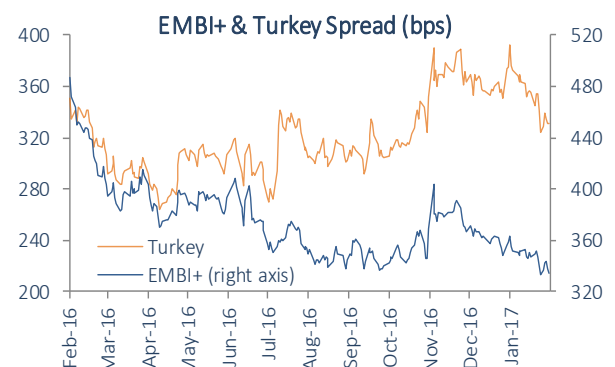
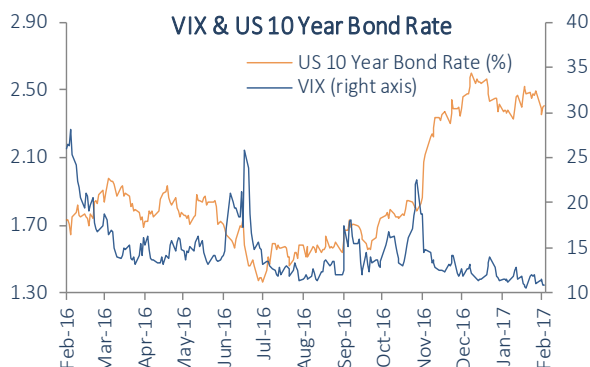
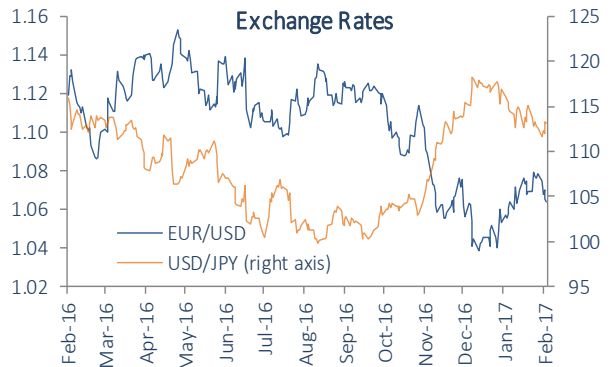
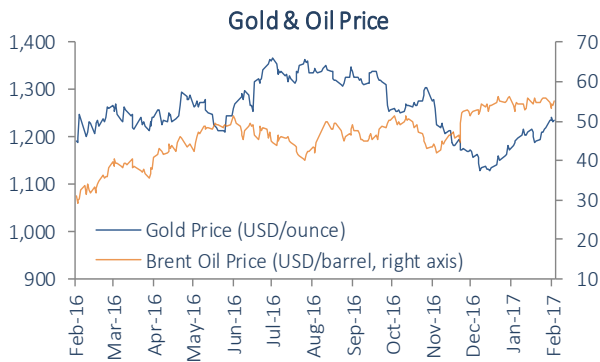
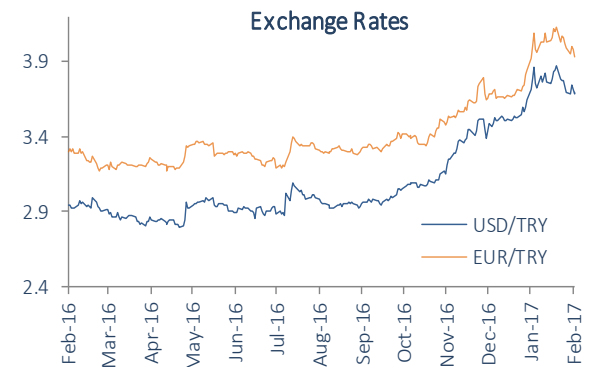
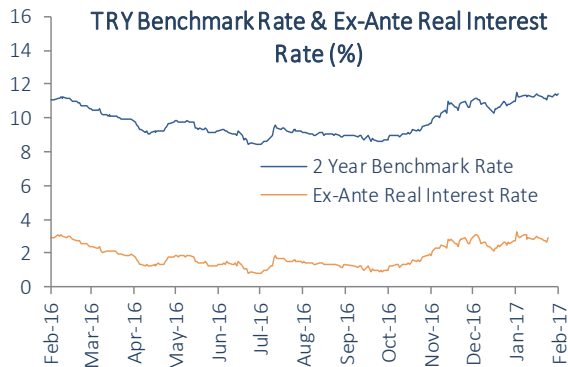
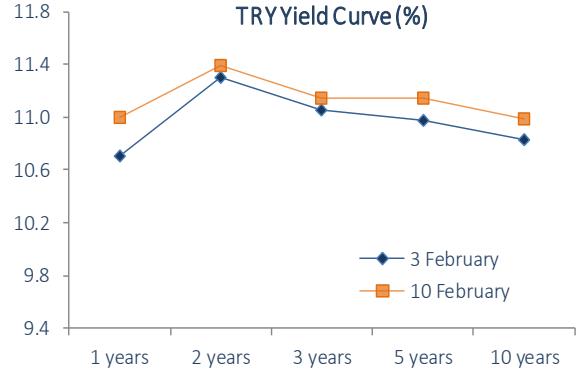
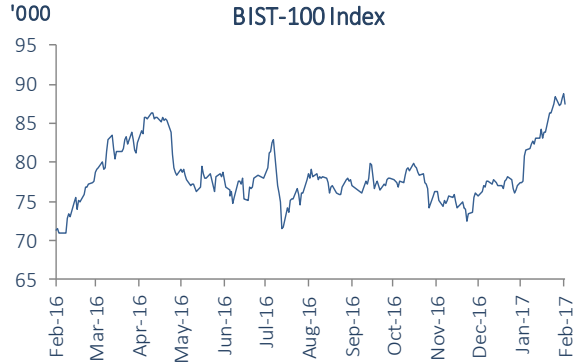
Rapid increase in automotive production...

According to the Automotive Manufacturers Association (OSD), in January, total automotive production increased by 31% yoy and reached a total of 128,121, driven by the rapid increase in automobile production. Thus, total production reached its highest level among January productions. In this period, automobile production increased by 61% yoy, while the commercial vehicle group contracted by 13%. While the rapid increase in production stemmed from high exports, domestic automobile and total automotive markets grew by 10% and 7%, respectively.

New storage facility in natural gas...

Turkey, which is almost entirely dependent on imports in natural gas, continues to invest in storage within the scope of providing supply security. It is foreseen that the storage capacity of the Tuz Gölü facility of BOTAŞ, which was opened last week, will eventually reach 1.2 billion m3. Currently, BOTAŞ has gas storage facilities in Silivri and in Marmara Ereğli with capacities of 2.7 billion m3 and 255k m3, respectively. Furthermore, the private sector company Ege Gas plant is working on increasing its storage capacity of 280k m3 in Aliğa. It is stated that BOTAŞ is going to invest floating LNG terminal in the coming period. The developments in the Trans Anatolian Natural Gas Pipeline (TANAP) project launched by Turkey in order to diversify the gas imports, 55% of which is bought from Russia in 2015, are also closely monitored. Other than the World Bank, which lent 400 million USD to TANAP last week, it is said that other international institutions also granted 2.4 billion USD loan to the Project.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
13 February	CBRT Expectations Survey	February	
	Japan GDP Growth	2016 Q4	1% annually(A)
14 February	CBRT Balance of Payments	December	
	US PPI	January	0.3% monthly
	Euro Area GDP (Preliminary)	2016 Q4	0.5%
	Euro Area Manufacturing Industry Production	December	-1.5%
	Germany GDP Growth (Preliminary)	2016 Q4	0.5%
	Germany CPI (Final)	January	1.9%
	UK CPI (Final)	January	1.9%
	China CPI	January	
	China PPI	January	
	Japan Industrial Production	January	
15 February	Turkstat Unemployment Data	November	
	Government Budget Realisations	February	
	US CPI	January	0.3%
	US Retail Sales	January	0.1%
	US Industrial Production	January	0%
16 February	US Housing Starts	January	1.2 million

(A) Actual

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