

WEEKLY OUTLOOK

Fed is expected to raise interest rates in March.

Fed governors' statements last week were watched closely in the global markets. In the first half of the week, several board members stated that Fed funds rate should be raised in the near future; referring the strengthening US employment outlook. This development led to an increase in US bond rates by raising the expectations of an upcoming rate hike in next FOMC meeting. Besides, DXY index which measuring the value of USD against other developed currencies tested its highest levels for the last 7 weeks. In her speech on last Friday, Fed Chair Yellen emphasized the declining risks in the global markets and expressed that the US economy had been performing well indeed. Yellen also highlighted that it would be more convenient to expect Fed to raise policy rates more in 2017 compared to the previous years. Besides, US labour market statistics will be high on the agenda this week. Whereas the US economy is approximating to full employment, rise in non-farm payrolls is estimated to lose pace in February. It is important for Fed to measure to what degree this anticipated slowdown in payrolls might affect the average hourly wages in order to decide policy actions.

Another topic of the last week was US President Trump's speech where he announced that the regulations related to the 1 trillion USD worth investment plan would be presented to the Congress for approval. Furthermore, the President's avoidance from mentioning of the protectionist policies in his speech appreciated by the global markets. Consequently, US stocks hit historic highs again thanks to boosted investors' appetite.

Euro Area economies are recovering.

Consumer prices in Euro Area rose by 2% yoy in February. CPI excluding energy prices also increased by 1.2% during this period. ECB is not expected to change the monetary policy in this week's meeting nevertheless evaluations on rising inflation will be watched closely. Besides, composite PMI which was confirmed as 56 in February indicated that the economic activity in Euro Area is at its best since April 2011. This recovery in the economic activity also led to a better employment outlook. In addition, Euro's rather weak performance in the global markets for the last couple of months has been supporting the expectations of a rise in Euro Area exports.

Gold prices decreased last week.

Last week, statements regarding the timing of Fed's interest rate hike caused US 10-year Treasury bond interest rates to increase, which eventually led to a decline in gold prices. Gold prices fell by 1.8% weekly to 1,234 USD/ounce on Friday. Brent oil price declined following Nigeria's surprising decision to increase daily oil production to 2.1 million barrel. Nigeria had been exempted from OPEC's oil production agreement. However, oil prices restored most of the losses after the reports that OPEC significantly cut the oil production further in February. OPEC fulfilled 94% of its commitment to cut oil production by 1.2 million barrels per day, which was decided in its meeting in November. Brent oil price remained relatively flat weekly at 54 USD/barrel.

WEEKLY DATA

	24 Feb	3 Mar	Change		24 Feb	3 Mar	Change
BIST-100 Index	88,258	89,722	1.7 % ▲	EUR/USD	1.0560	1.0620	0.6 % ▲
TRY 2 Year Benchmark Rate	11.15%	11.34%	19 bp ▲	USD/TRY	3.6055	3.7019	2.7 % ▲
US 10 Year Bond Rate	2.32%	2.49%	18 bp ▲	EUR/TRY	3.7990	3.9302	3.5 % ▲
EMBI+ (bps)	336	331	-5 bp ▼	Gold (USD/ounce)	1,257	1,234	-1.8 % ▼
EMBI+ Turkey (bps)	331	337	6 bp ▲	Brent Oil (USD/barrel)	54.6	54.4	-0.3 % ▼

bp: basis point

Exports made a strong start to 2017.

Robust economic activity in Euro Area has been positively affecting the trade performance of Turkey. In January, exports increased by 18.1% to 11.3 billion USD compared to the same period of the previous year. Export in automotive industry surged by 37% annually thanks to the new models introduced in the market. As the exports of metal industry increased by 47% due to increasing commodity prices, gold exports have also contributed to the increase in total exports. In January, Turkey's imports increased by 15.9% yoy to 15.6 billion USD. Increase in oil prices were the main driver of this development ([Our Foreign Trade Balance report](#)).

According to flash data published by the Ministry of Customs and Trade Flash, the recovery in foreign trade continued also in February. During this period, exports and imports rose to 12.1 billion USD and 15.8 billion USD, respectively. Hence, import coverage ratio rose to 76.6%, the highest in a year.

Recovery in manufacturing industry...

In February, manufacturing industry PMI became 49.7, confirming the recovery in economic activity. During this period, production and employment sub-indices increased significantly, while the rapid rise in new orders due to the recovery in external demand attracted attention. On the other hand, the input costs of the manufacturing sector are seen to increase due to the depreciation of the TRY in recent months. This development limited the increase in the general index in February.

Inflation continued to rise.

Inflation kept its rising course in February as well. CPI increased by 0.81% mom, well above the expectations while annual consumer inflation was 10.13%, reaching double-digit for the first time since April 2012. Prices in transportation subgroup contributed 48 basis points to inflation growing by 2.8% mom in February. The rapid increase in automobile prices due to seasonal factors was effective in this development. On the other hand, appreciation of TRY limited the increase in fuel and transportation prices. Unprocessed food prices, which increased considerably in January due to the unfavorable weather conditions, were mostly flat in February. Processed food prices were up by 1.33% mom while seasonal factors pushed clothing and footwear down by 3.35% mom curbing the rise in CPI in February. Domestic PPI (D-PPI), more sensitive to changes in foreign currencies levels and commodity prices surged in February by 1.26% mom. Thus, D-PPI rose by 15.36% yoy, the highest level since July 2008, keeping upside risks on the inflation ([Our Inflation report](#)).

TRY depreciated last week.

Turkish lira, which followed a strong course in previous weeks thanks to the improvement in risk perception towards Turkey, depreciated against dollar and euro last week. While the upward trend of dollar in the global markets as a result of the hawkish statements of the Fed officials was effective in this development, TRY diverged from other developing countries' currencies negatively due to the increasing geopolitical risks. Last week, the risk premium of Turkish Eurobonds also rose by 6 points to 337 base points. While the yield curve moved upward due to the declining demand for TRY assets, the compound interest rate of the 2-year benchmark bond increased by 19 basis points now to 11.34%. BIST-100 increased by 1.7% now as led by banking stocks.

This week, Treasury's domestic auctions will be closely monitored. The Treasury, which is expected to borrow on Monday and Tuesday via four auctions, has a heavy domestic debt repayment on Wednesday with 13.5 billion TRY. Risks on price stability are expected to be effective in the course of domestic markets before the CBRT meeting next week.

INDUSTRY NEWS

The increase in house prices slowed down.

The upward trend in Turkish house prices lost some momentum recently as the housing market seems more balanced and consumers displayed a cautious stance. According to the data released by the CBRT, in December, house prices in Turkey recorded the lowest annual increase in the last 44 months with 12.2%. In this development, the cool down in Istanbul housing market was crucial, as the prices in Kilis, Adiyaman and Gaziantep region declined due to the security concerns. On the other hand, house prices in İzmir, where the construction sector followed a relatively vivid course, increased by 17.6% yoy.

Automotive market shrank in February.

According to the Automotive Distributors' Association data, automotive sales fell by 11.1% in February yoy to 46,965 units. Due the impact of the regulation on SCT rates, automobile sales declined by 14.6% in this period, while light commercial vehicle sales increased slightly by 0.6%.

Electricity production increased in February.

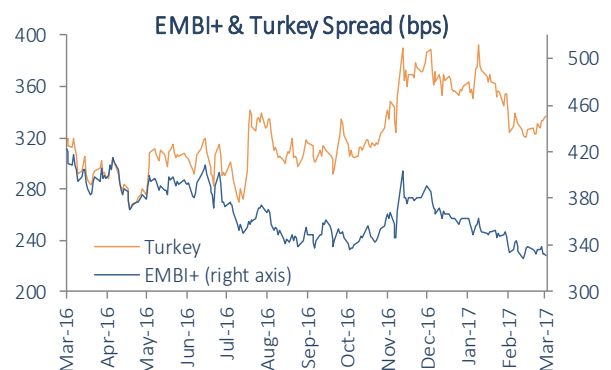
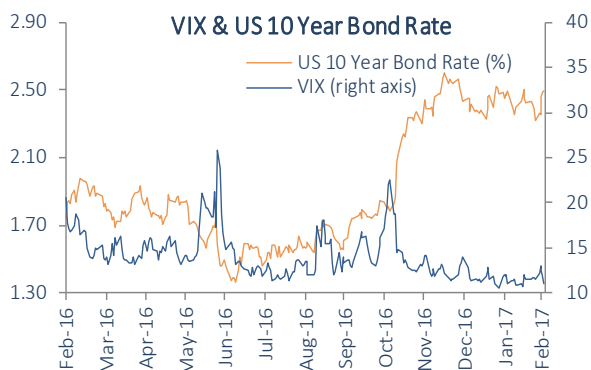
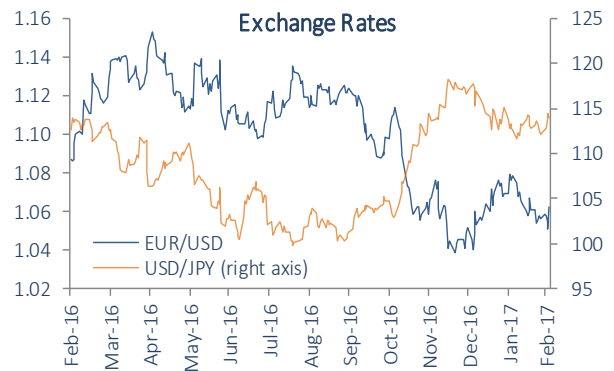
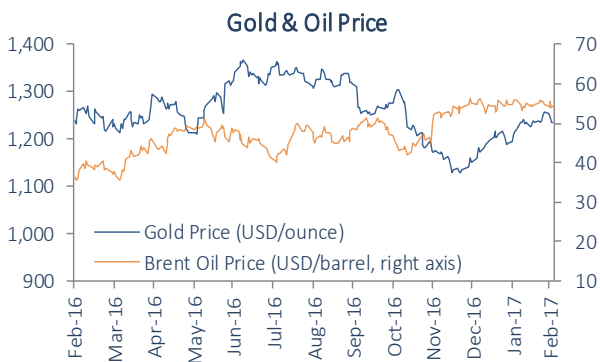
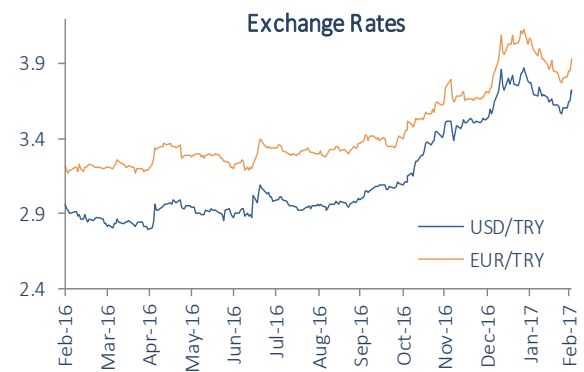
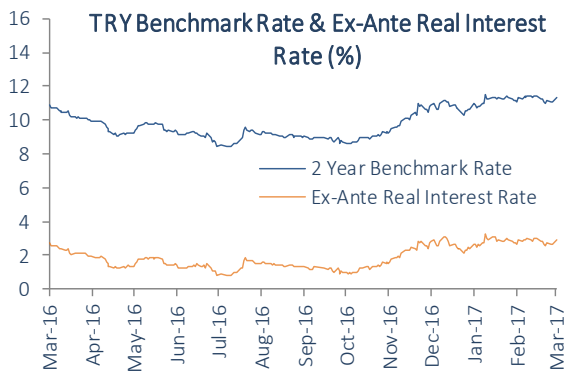
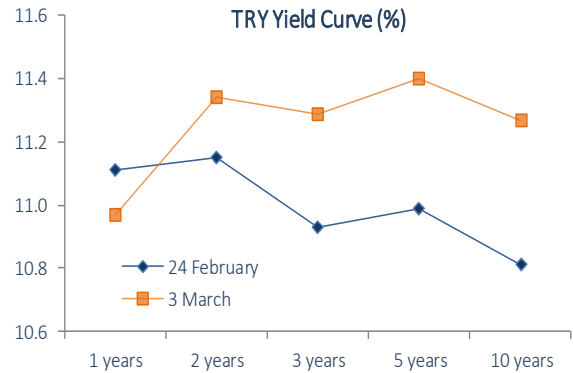
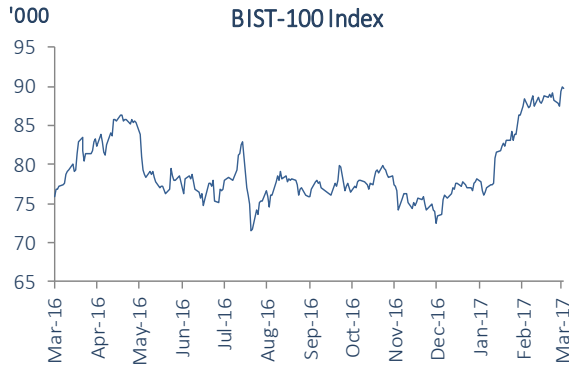
According to the data compiled by TEIAS, in February, electricity production in Turkey increased by 8.7% yoy rose to 22,500 GWh. The share natural gas plants in the electricity production was 37%, while shares of hydraulic power plants and imported coal power plants are 18.9% and 18%, respectively. In addition, activity in the lignite-fired power plants and wind farms gained momentum in line with the policies aimed at supporting the usage of domestic source in electricity generation. These plants increased their share in total production by nearly 1 percentage point and constituted 15% and 6.9% of electricity generation in Turkey, respectively.

Increase in the number of tourists from Russia...

In January, the number of tourists visiting Turkey decreased by 9.8% compared to the same period of the previous year and came in at 1.1 million people. In this period, due to the elevated security concerns, the number of tourists coming from Europe decreased by 24.3% to 364k persons. On the other hand, improving relations with Russia have begun to affect the tourism sector positively. In this period, the number of visitors from Russia increased by 81.5% yoy to 40k persons.

According to the statistics published by the Hotel Association of Turkey, the hotel occupancy rate in January stood at 47.2%. This rate in Istanbul, which is the most preferred destination of tourists, decreased to 45.7%, as the discounts in the accommodation prices are eye-catching. The average accommodation price in İstanbul, which stood at 96 euro in January 2016, declined to 67 euro in the same month of this year.

FINANCIAL MARKETS



WEEKLY DATA RELEASES

		Period	Consensus
6 March	CBRT Reel Effective FX Index	February	
	Reissuance of Treasury Bill with 5 Year Maturity		
	Issuance of Treasury Bill with 9 Year Maturity		
7 March	US Factory Orders	January	
	Reissuance of Treasury Bill with 2 Year Maturity		
	Issuance of Treasury Bill with 10 Year Maturity		
8 March	US Foreign Trade Statistics	January	
	Euro Area GDP (final)	4th Quarter	1.7%
	Turkstat Industrial Production	January	
	Treasury Domestic Debt Redemption (13.5 billion TRY)		
	US ADP Employment Report	February	183k persons
	Japan GDP (final)	4th Quarter	1.6%
9 March	Germany Industrial Production	January	-0.5%
	China Foreign Trade Statistics	February	
	China CPI	February	1.8%
	China PPI	February	7.5%
10 March	ECB Meeting	March	
	US Non-farm Payrolls	February	195k persons
	US Unemployment	February	4.7%
	US Average Hourly Earnings	February	

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